

Personal File

1918

Denver, Colorado,  
January 4, 1917.

Dear Warburg:

Yours of the 20th came while I was in the mountains. Unfortunately I caught cold while there which settled in my left antrum so I have been going to the doctor's twice a day since returning for a very unpleasant irrigating treatment, and besides that have had an avalanche of letters from the office, as well as no end of family letters to write longhand and the preoccupation of seeing those boys off to school, so I have let a good deal of the mail slide.

About the Bank of England matter. I am delighted that the Board has taken final action and has decided to consent to the appointment. Of course the Board should be fully informed of our policy and everything that we do in this important matter, particularly as this is one of those classes of transactions where we don't act for ourselves alone but for the other Reserve banks as well. It would not, however, be satisfactory to have too definite an agreement as to specific transactions. As a practical banker, you know that banking business cannot be conducted in that way, but the necessity for complete information being in the hands of the Board can be fully met without anything quite so formal as a regulation to definitely control specific business conducted from Washington. There will be no difficulty about this, however, for there is no desire, nor has there ever been, to be otherwise than frank with the Board in all of these matters.

It has never been in my mind that we should conduct extensive transactions with the Bank of England at the present time. I am only

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stating personal views, but this is about as I felt. The first thing to do would be to ask each Reserve Bank to name a limit for its participation under present conditions. We would then name a limit for our own share and I have no doubt that the total would at first appear to you and possibly to many to be larger than at present justified, but that we would consider to be the ultimate limit for normal operations under present conditions, except in emergencies. Having this limit fixed, it is quite probable that the first we would operate only to a nominal extent, the plan being to buy exchange only on those occasions where the market really broke, and the measure of the level at which we would buy exchange would be the best information that we could get as to the gold point under present conditions. Personally, I would not advocate any operations except at levels of exchange below the rates at which gold could be imported without loss and which today would probably be not above 4.76.

But the above view would be modified if as I expect is possible, we were able to confine our purchases of bills largely to those of American origin, such as bills drawn and accepted in London by <sup>prime</sup> acceptors covering our exports of meat, grain, cotton, copper and other goods which are financed by long bills. The portfolio consisting of these bills could be larger than those of purely foreign origin.

Now of course you know that I am pleased at the action of the Board in approving of this appointment, but I am sure you are equally aware of the shock it gave me to learn of the announcement. The matter is being dealt with from New York so I will not refer to it here further than to say to you privately that had I been in New York and on the job when this

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happened, I certainly would have resigned at once, but I am not going to allow this to interfere with the larger consideration, which is concluding the work which you and I really undertook in partnership and which is of vastly more importance to me than any personal consideration. Just the same it was a pretty stiff blow that I would not have taken without a stiff counter for a minute, even from the closest friends and associates.

Now for the rest of your letter. You are all dead wrong about any understanding at all in regard to my trip to Europe. There was no understanding. As I stated at the Governors' Conference just before I sailed and to the members of the Reserve Board, I had no plan beyond an investigation of conditions and an inquiry as to the character of arrangements which we should endeavor to effect and when they should be undertaken. This was as clearly understood as was possible for language to make it and following explanations to the governors, a committee was appointed, of which Kains was chairman, and which was to work up a report on this subject for submission to the governors and to the Reserve Board. This was subsequently done. The Bank of England plan was the one which you and I had originally discussed, by which I mean that two years ago, or more, we had considered carefully the desirability of associating the Reserve Banks with the great central banks of Europe. This had, of course, always been in my mind as it had been in yours, but I left for Europe under the firm conviction that no such arrangement would be possible with the Bank of England or Bank of France on account of their hide-bound traditions and particularly on account of their unapproachability (at least according to my information) of both Cunliffe and

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Pallain.

It was, in fact, in my mind that the only way to deal with our business in London and Paris would be through our own representative there and I was considerably surprised on pursuing my inquiries in London and Paris to learn that negotiations would be welcomed by both institutions and upon terms so favorable that they could not be ignored.

The difficulty of communication on account of the censorship made it practically impossible for me to convey word of this situation to the office during my stay abroad, except by using the Embassy pouch, which I was aware was a very reluctantly accorded privilege and one that I did not care to employ except in emergency.

There was never any occasion for embarrassment to you nor anybody as a result of my negotiations. If you will read my memoranda, you will see that it specifically did not contemplate in form any transactions during the period of the war, but I was personally so convinced of the desirability of concluding the arrangement now rather than later that I urged and still would urge without reservation acting at once and not later.

Do not misunderstand me in this or in any other matter in regard to the management of the bank in New York. I have had no secrets from the Board, and during the last week or so I have had occasion to bitterly repent the complete and unreserved frankness with which I have always dealt with these matters, just as though we were one family.

Don't for a minute think that I am so stupid as not to realize that the Reserve Banks are not Atlases and that we will be quite unable to cope with the exchange situation under present abnormal conditions; that is

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elementary and really kindergarten stuff. As I have repeatedly urged, the advantage growing out of this arrangement lies in the friendly feeling that will develop as a basis of future operations when the war is over and abnormal conditions begin to readjust to normal again. Personally, I regard arrangements of this character as necessary with England, France and Germany and as one of the most important steps that the Reserve System can take for the country's protection and for our own prestige and advantage, and I have no feeling of timidity about possible political complications or financial loss, or anything of that sort. You really must not let this counsel of timidity influence your judgment, as I am sure it has done to some extent, by the tone of your letter. Don't let you and me get into any dispute about this matter, but reserve it for discussion when we can sit down together sometime for a good chat.

You speak of New York liquidating its investments after the New Year. I don't think it is necessary at all as yet. We have over \$170,000,000 cash reserve and over \$100,000,000 <sup>our</sup> behind/notes and only about \$45,000,000 invested. The New York bank should run along right now with about \$60,000,000 invested. It can afford to carry that amount so long as it is not loaded up with long time government bonds, as some of the other banks are and should not be, and I think receding at the present time from the strong position we have taken in the acceptance market would be very poor policy indeed. Don't for a minute think that this acceptance business is here to stay as yet. The whole volume of bills in this country, bank and trade both, cannot exceed \$200,000,000 today. The normal volume in London in peace times is about 500,000,000 sterling. We have not scratched the surface yet and for the Reserve Bank

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to permit our acceptance rate to follow the call money rate, which is the way it would be interpreted, would be a terrible exhibition of weakness that I would certainly regret. My anxiety about a broad open market for bills is nil; that will come with a rush just as soon as the volume develops, and any day that we withdrew from the market so that rates ran up a bit, you would see these bills sell all over the United States. You don't realize I am afraid that now bills are being distributed in very large volume to interior banks by the New York brokers and the reason why the New York banks don't buy them in greater volume is because they stick to the call money habit.

Now about these renewal credits. I would vastly prefer to see them all converted into regular commercial credits, but you know as well as I that it cannot be done just now. Conditions are abnormal, we have to use the machinery that is possible and workable under abnormal conditions. Suppose there are sixty or seventy-five millions of these renewal bills in the market, which you naturally would claim as "finance paper". You realize that out of a normal volume of say \$2,500,000,000 of bills in the English market in normal times, about \$1,000,000,000 are estimated to be bills of approximately this character, such for instance as bills drawn by first rate New York institutions and firms with the privilege of 1, 2 and 3 renewals and secured by deposit of New York City revenue bills, or stock exchange collateral loans, or even in some cases commercial paper. Such bills are drawn on London from all over the world and in the case of those drawn in New York in the spring of the year when exchange is generally high in anticipation of the flood of cotton bills, they are always regarded in London as prime bills and are freely taken by the Bank of England when bearing two good English obligations.

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The Governor of the Bank of France and M. Robino, the head of their discount department, told me that the same was true of the American finance bills in Paris. Those bills are not even drawn directly for exports. Why, therefore, should we balk at a volume of say \$40,000,000 of bills of this character in these unusual times when every effort must be made to finance our commerce.

You say that I and the Federal Reserve Bank of New York ought to have a definite policy and keep you informed of it. I think you overlook the record, which briefly is as follows: At the time I sailed for Europe the only bills of that character that we had purchased were possibly a couple of million, issued under the Brown credit and at that time our total holdings of bills of all kinds did not exceed eight, nine or ten million. I informed you that I had told Jim Brown that we would <sup>not</sup> deal directly with him in any bill purchases; we did not commit ourselves to do more than say that the bills were eligible and, in point of fact, all of our purchases of those bills were made through brokers and most of the bills were sold in the market through brokers without reaching us. The Brown credit and the first Bonbright credit were the only ones of this character which had then been arranged. The day before I sailed Mr. Kent of the Bankers Trust Co. offered us some of the Bonbright bills - I think less than half a million - and I told him that he overlooked my caution that we would not deal directly with the bankers who were handling these credits, and advised them to pursue Brown's policy, so that the bills would find a normal market. Of all of this I think you are advised, except possibly this last occurrence, which was the day before I sailed.

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Since that time, while I have kept fairly closely informed of what the Bank was doing, I have not been getting the daily reports of transactions that you get, but periodically I do get a list of what the bank holds and two or three times have been sent an analysis of the account, showing how many of the bills were issued under renewal credits. Considering the vastness of the problem of financing our exports, the high character of the acceptors, the thoroughly legitimate character of this business and the care which has been exercised to keep the total holdings of the New York bank and of the whole system at a moderate figure, I must say that I have no criticism to make of the policy they have pursued. There was a large purchase of bills at the time of the money bulge, but that struck me as being an admirable policy and one which we must always pursue in similar situations. What I do object to and always have objected to is the policy of the New York banks in buying their own bills instead of letting them go to the market through brokers, but I really cannot feel that these credits are in any way unsound, at any rate in the present volume, nor that our policy has been over liberal in buying them.

You know as well as I do that the evidence of distrust to which I referred was not distrust of our judgment, which it strikes me becomes apparent whenever anything like an emergency, such as the one in December, develops. You also know that there is not the slightest desire on the part of New York to run the whole system. What part of it we have been running has been at a personal sacrifice of earnings, of our own position in our own market and, frequently, of our own feelings and self respect, and until this recent development about renewal bills I had felt that we were pursuing a policy of liberality and disinterestedness which was more particularly to



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the advantage of the whole system than to ourselves, and which was very greatly in the interest of the kind of progress which you and your associates want the System to make.

How can there be any more frank and constant exchange of views than has taken place between you and me ever since we got into harness together? The most difficult questions which we have had to face, those which involved your own political views about the war, we have stood up squarely and faced without reservation from each other and without hard feeling, even on these finance credits the utmost frankness has prevailed between us - the same in the Bank of England matter and, so far as I am concerned, they will continue until I find it is not justified and when it is not justified you can be sure I will resign.

Don't you think yourself that some part of this difficulty is due to your own feelings, which the circumstances may thoroughly justify, that it is sort of a one sided arrangement while the war continues and that you are human enough to let this subconsciously affect your view a little?

One thing you say in your letter is absolutely true and hits the nail right on the head. If I had been in New York a lot of things might not have happened just as they have. The intimacy of our relations and our ability to deal frankly with each other was a bond between our office and your Board which, looking over the past, I think has solved many a difficult and puzzling situation.

Concluding this part of my letter, let me say that we must both agree to avoid on the one hand an attempt to run the Reserve Bank of New York from Washington and on the other hand, an attempt to run the whole system from New York. This you and I will always be able to avoid by discussion and

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exchange of views. Unfortunately, the others, either in your Board or possibly in the New York office, don't seem to get that fact as squarely in mind as you and I have.

Now as to Chicago. I notice their earnings for the past year are just about equal to ours. It is due to three things: One is the unfair distribution of our purchases, another is an absolutely unjustified investment account in long time United States bonds and a third is a narrow policy in avoiding the expense of issuing Federal Reserve notes. I would not refer to this again were it not that I want to point out to you what you may have lost sight of for a minute and that is that the New York bank has been the goat in this system from the start. I could point to similar situations in other of the Reserve Banks, such as the way the exchange accounts are handled, etc. Don't think that I blame those fellows as much as this might imply; they are all human, they are all trained in money making establishments and they all think that they have got to make a showing. I frankly think that your energetic criticism of some of our performances in New York are much less justified than they would be if directed at some of the other banks. We have got a greater responsibility than any of the others, but we have a closer relationship with you than any of the others, and what you want to accomplish in our establishment can be brought about across the table very easily, while with some of the others different methods may be justified.

I really hope you study those suggestions about the amendments that I recently sent. The most serious consideration of all will <sup>be</sup> the charge of inflation and my best suggestion is to prepare for that in advance, have all the figures ready for the congressional committees and

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be sure and point out that the change in reserve requirements will not reduce reserves, but will only change their character. I agree with you that some of the amendments have some dangers in them but think they can be avoided with care.

Now I know perfectly well that you are tired and I hear from New York that you have been laid up with the 'grippe and gone south. I do wish that you could get out here so that we could have a visit, and if you say the word, I will arrange later this month to go down to a beautiful hotel outside of Phoenix, Ariz. where the climate is balmy and the accommodations are good, and spend a week or more there with you; it would do us both good.

I will prepare a separate memorandum about the new greenback plan and try and send it tomorrow. I hope you persuade Mr. McAdoo to help push it through, or at any rate some plan which the Board can approve.

I am interested tremendously in what you say about Starek, but of course know none of the circumstances. The only thing I feel that I have ever withheld from you about the bank has been the last - that is to say the most annoying details of my unfortunate relations with him. It amuses me now to recall having told him in the bank one day that there was a steam roller coming down the road and that he appeared to be foolish enough to try and push it back, but that it was going to roll over him just as sure as he did not get around and help push it on, but if he showed the right spirit and the comptrollers office was reorganized so that we had charge of examinations ultimately, we would naturally want a good man in charge and he would be the natural choice, but his behavior was convincing me that he was a poor examiner and an impossible associate unless he changed his course, he need never anticipate having any permanent connection

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It looks as though the roller had rolled.

Now I don't need to say that there is nothing personal in this letter. It is the same old process of grinding new bearings that at first are a little rough and don't fit. The best solution of most of them will be for me to get back on the job..

I have had a number of letters from you marked to be destroyed and these have been promptly destroyed except a recent one about amendments which I had to keep until I hear from you in reply to recent comments, but I will tear it up as soon as I get your reply. Please destroy this.

Faithfully yours,

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

B. S. - CC.

Denver, Colorado,  
January 5, 1917.

Dear Warburg:

We seem to have difficulty in agreeing on this greenback plan. I enclose a memorandum similar to the others, commenting on the last one you sent me, which I really don't like at all. The effect of the plan as I view it will be to make the Reserve Banks the instruments for paying out \$153,000,000 of gold to redeem a like amount of greenbacks and to make them the instruments for issuing \$196,000,000 of National Bank notes with a 5% reserve for the retirement of the balance of the greenbacks and the United States notes. It does not affect the consolidation of the currency, it fails to protect the Reserve Banks, either in the expense of the operation or against becoming overloaded with long time government bonds, with possibility of loss thereon, and I am sorry to say that I do not like it at all. Lets face this question squarely and ask Congress to make an honest and sound disposition of the matter, or not try it at all.

The Reserve Banks own too many long time government bonds already and I don't understand the complacency with which the Board views that situation.

Very sincerely yours,

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

BS/CC

Enc.

Denver, Colorado,  
January 9, 1917.

Dear Warburg:

The various memoranda which I recently sent you commenting on the proposed amendments to the Federal Reserve Act were, as you know, prepared rather hastily as reply to your letter had been delayed for over a week by my absence in the mountains.

It has not been possible for me to go over them once more and I want to supplement what you have already received by the following comments:

FEDERAL RESERVE BOARD MEMORANDUM 904, AMENDING SECTION 19  
RESPECTING RESERVES.

Has the Board given consideration to the four following matters?

Banks in remote sections of the country which are distant more than one night's mail time from a Federal Reserve Bank, and particularly small country banks, cannot very well take advantage of the proposed change in reserve requirements without the possibility of loss by reason of increased reserves, as many of them must be prepared with sufficient till money at all times to meet emergency demands at times when railroad communication may be interrupted or slow. Two occurrences will illustrate this point: At the time of the threatened railroad strike I am informed that the banks in the Texas District which were then engaged in preparations to move the cotton crops, became uneasy about possible interruption of railroad communication and at once began to stock up small bills. If such a situation developed at a time when from motives of economy they had permitted their till money to run down to the minimum in compliance with this revised

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reserve requirement, much embarrassment might have resulted, had railroad communications actually been interrupted even for a short period. This development took a little different form in Colorado. Most of the small country banks surrounding Denver keep their principal reserve accounts with Denver banks. The Cashier of the bank at Estes Park, which is a State bank, asked me this summer when the strike was threatened whether I did not think it would be prudent for him to bring up from Denver a large supply of currency because he feared that his Denver correspondent might be unable to get shipments of currency from the east sufficient to supply all of its correspondents in this territory. His bank, which ordinarily has deposits of \$75,000 throughout about eight or nine months of the year, runs up its deposits to about \$200,000 during the summer months when visitors are crowding the Park and late in the summer he must be prepared to pay back in cash possibly \$125,000 of deposits to the summer people who are leaving. Developments of this kind will occur in a great many different forms in different sections and at different seasons, which leads to the second suggestion of means of meeting this situation.

In each of the Federal Reserve Districts where distances might make it necessary arrangements might be made to carry a supply of Federal Reserve notes in escrow at points where there are either assay offices or mints, or possibly where the Federal Reserve Bank would be represented by a director who is an officer of an important National bank. My suggestion would be to establish these reservoirs wherever possible under the joint control of the Superintendent of an assay office or mint and a director of a Reserve Bank, and if necessary a third nominee who would act as a local agency board for the Reserve Bank of the district whose functions would normally be dormant,

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but in time of emergency become active. They would have no duties to perform but would nevertheless be the nucleus for a little organization in time of trouble. To illustrate, in our district we might establish such a fund in Buffalo under the joint control of Mr. Locke and possibly the local ranking officer of the Treasury Department in the Custom service or even in the Internal Revenue service. In Seattle, another distant point, there is a United States assay office where the superintendent would be associated with some responsible banker at that city, the Federal Reserve bank of San Francisco at present having no Seattle director; the same could be done at Los Angeles. In this district there is a well organized mint as well as a Federal Reserve bank directors. The superintendent of the Mint could be associated with Mr. John Mitchell, President of the Denver National Bank and a director of the Kansas City Reserve Bank, and in addition Mr. Malone of this city, the other Denver director. After inquiry, I believe similar arrangements can be made at Helena, Boise City and Salt Lake City. I have no doubt that every Federal Reserve District can be furnished with facilities for establishing depots of currency under this plan, so that member banks would feel complete assurance of being able to get supplies on short notice under any emergency. In many cases currency could be delivered even by automobile if railroad communication was interrupted. This suggestion is somewhat in conformity with the recent unanimous recommendation of the governors that a system of agencies for Reserve Banks be authorized as much more economical and just as effective as the present provision for branches. The expense for the safe custody of notes and compensation would be negligible in comparison with the expense of a branch. I regard the above suggestion as an essential part of the plan for readjusting reserve require-



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The third point relates to the effect upon the reserve position of member banks in cities where Federal Reserve banks are established. They are so readily accessible to Reserve banks that they will have no fear of being unable to get supplies of currency under all conditions and it opens the door to a possible reduction in cash reserves and a constant expansion of loans at these points corresponding with the total reduction of reserve requirements at those centers. This I feel is a dangerous feature of the plan unless it is properly safeguarded.

The fourth point to consider is whether the new plan by which the only required reserve is that carried with the Reserve Bank, may not generally develop a tendency for all banks to conduct their business on a narrow margin of till money and result in a very constant shipment of currency, in some cases almost daily, between Reserve banks and member banks. The elasticity of the present reserve provision consists of the amount of optional reserve which may be carried, either in vault or with Reserve banks. Eliminating optional reserves may lead country banks to trim their cash as close as possible and result in an increased volume of currency shipments, which would be uneconomical.

MEMORANDUM NO. 909, RETIREMENT OF GREENBACKS.

Since writing you in regard to the amended plan, I notice that the conference of governors has made a unanimous recommendation to the effect that any plan proposed for the retirement of greenbacks should be accomplished by issues of Federal Reserve notes. Further thought on this subject convinces me that it would be a serious mistake to adopt the plan proposed and one which unfortunately could not be remedied by a later legislation without an admission to Congress that the first plan was a mistake. I think

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most of the arguments have already been covered in my other two memorandums. I am convinced that the net result of the proposed plan would be to put the entire trust fund of gold into circulation and to retire the balance of greenbacks by an issue of bond secured notes having only a 5% reserve.

MEMORANDUM NO. 906, REDUCTION OF CAPITAL STOCK.

When I wrote you on this subject I had in mind the figures as to capital and deposits before recent transfers of reserve deposits had been made. On looking over the statements, I find that practically all of the Reserve Banks now have deposits exceeding ten times the paid in capital; all Reserve Banks are paying dividends; the outlook for earnings due to the larger volume of bills available for purchase and to the inevitable increase in holdings of government bonds, as well as gradually increasing interest rates, is certainly better than it has been at any time. Even if the proposed amendment was passed, I doubt if on careful consideration the Board would feel willing to authorize re-payments in any specific case. Furthermore, the amendment is inconsistent with the proposed change in reserve requirements which would result in a very large increase in deposits with Reserve banks, and, on further consideration, I would regret to see this amendment passed. It must be borne in mind that if opportunity is afforded to a lot of small country banks to take advantage of permissive provisions of the statute, they are almost certain to do it from selfish motives and the amendment would be adopted at a time when they are all complaining about reductions in earnings due to the establishment of the Reserve System. The pressure on the Board might be severe and embarrassing.

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and would be avoided if the Board was not in position to exercise any discretion in the matter.

MEMORANDUM NO. 907, RETIREMENT OF NATIONAL BANK NOTES.

My former memorandum failed to make clear the argument respecting prices of government bonds. At the present time the 2's are selling at par and the conversion 3's, which have no circulation privileges, are selling at about 101-1/2, notwithstanding a difference of 1% in the return. Consequently, an increase in interest rates in this country, which would tend to bring government bonds, which fall on an investment basis, in line with other investment securities, would cause a greater decline in the 3's which have no circulation privilege, than in the 2's which have a special value in the hands of National banks. This differential of 1-1/2% in favor of the 3's might conceivably be changed into a differential of possibly 5% at a guess, in favor of the 2's. With the Federal Reserve Banks obligated to buy at least \$25,000,000 of 2's per annum at par, we might see the Reserve banks in the unfortunate position of being obliged to write off one and a quarter million every year in their investment account. This would all be cured if discretion was vested in the Secretary of the Treasury to fix a rate of interest on the conversion 3's which would conform reasonably to the investment basis at which government 3's without the circulation privilege were selling.

This danger would, of course, be reduced - possibly eliminated - if amendment No. 912 is passed so that Reserve Banks need not buy the minimum of \$25,000,000 a year, in which case the unfortunate effect of the two amendments would be to entirely nullify all provisions of the Federal Reserve Act for prompt retirement of National Bank notes.

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These amendments providing for prompt retirement of National Bank notes may prove to be dangerous so far as they are mandatory, but most advantageous if they are discretionary. No one can tell what developments are in store for us as a result of the war and I hope the Board may consider it prudent to ask for greater discretion in dealing with this subject, rather than to ask congress to pass amendments which would impose heavy obligations on the Reserve Banks in this time of great uncertainty.

ABRADED GOLD COIN.

The Board does not seem to have proposed any amendment for dealing with the great mass of gold coin in circulation, particularly in the West, much of which is abraded below the limit of tolerance. The banks in this section of the country are very much in the position of an unfortunate individual who has received a plugged quarter in change. -He cannot do anything with it unless he is able to work it off on some unsuspecting neighbor. Inquiry of one of the banks in Denver disclosed the fact that they held a considerable excess stock of gold coin which they wished to ship east for conversion into gold certificates and discovered that it would cost them \$500.00 on account of abrasion, and they abandoned doing so. I am informed that this situation is much more acute on the Pacific Coast. Some months ago in conference with Mr. Malburn, Assistant Secretary of the Treasury, he informed me that he had already recommended the enactment of the law which would provide that for a limited period of time the government would receive and recoin all of this abraded coinage and absorb the abrasion loss rather than have the matter dealt with directly by the Treasury Department, might it not be wise to provide for the surrender of this abraded coinage through the Reserve Banks, giving say one year in which it

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might be assembled, as under such a plan the Reserve Banks could pay for the coin by issues of Federal Reserve notes, and I have no doubt it would add from \$50,000,000 to \$100,000,000 to their gold holdings.

DENOMINATIONS OF GOLD CERTIFICATES.

The present law provides that not less than 25% of the total amount of gold certificates in circulation shall consist of denominations of \$50 and less. This limits the discretion of the Secretary of the Treasury to such an extent that only \$20 and \$10 gold certificates can be withdrawn from circulation. I hope the Board will determine to recommend to Congress that this law be amended so as to divest discretion either in the Secretary of the Treasury or the Federal Reserve Board, or both, to readjust these denominations in such a way that ultimately the greater part of the small denomination certificates can be entirely withdrawn, but nevertheless leave authority so that issue can be resumed again if the result should be too great an accumulation of gold in bank reserves.

For facilitating transfers between Reserve Banks I hope the Board will ask Congress to authorize issues of gold certificates in denominations of \$100,000, payable to order.

TAXES AND PROFITS PAID BY RESERVE BANKS.

Certain of the tax provisions of the Federal Reserve Act require that taxes paid to the government shall be added to the trust fund of gold held for retirement of greenbacks. If the greenback amendment is passed, it will leave the Federal Reserve Act without any provision for disposition of these taxes, unless, of course, it might be held that they go back to the Reserve Banks as a credit in the greenback operation, thereby reducing the amount of government bonds provided to be issued. It leave the law in an

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uncertain condition and I take the liberty of making the following suggestions on this point:

The provision for retirement of greenbacks, as well as the general enlargement of the note issuing functions of the Reserve Banks, relieves the government of a very considerable present expense and if the plan is successful, the burden of expense to be carried by the Reserve banks will be very large. I fully appreciate the desire of the Board to avoid any danger of a control resting in Congress as a result of their powers to withhold necessary appropriations upon which Reserve Banks might be accustomed to rely. Could not this point be met by an amendment providing that an appropriation shall be made by Congress to cover the cost of issues of Federal Reserve notes and of Federal Reserve bank notes, that the amount of such appropriation shall be carried in the Department as a separate account, all advances to Federal Reserve banks to be repaid by the Reserve Banks in the form of all taxes now levied against Reserve Banks by the law and of all profits hereafter to be paid to the government. In this form properly worded the plan for an appropriation would conform to the facts which are that Congress while temporarily making an advance to the Reserve Banks is nevertheless saving at once a present expense and ultimately will even recover the amount of the advance.

The more expense that is loaded upon the Reserve Banks, the greater will be the tendency to expand their loans. I notice that the Federal Reserve Bank of Dallas has increased its force from 28 employes at the close of 1915 to 72 at the present time. The Federal Reserve Bank of New York a year ago had about 80 employes and at present about 175. The same is true

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of every other Reserve Bank and results largely from the increase in the collection departments which produce no net revenue. This amendment is in the direction of a conservative policy by the Reserve Banks.

A more comprehensive plan and in some ways much more attractive from the government's standpoint, would be to have the Treasurer open an account to which would be charged all of the expense of retirement of greenbacks, issues of Federal Reserve notes and interest on bonds issued for retirement of greenbacks. To this account might be credited all taxes collected from the Reserve Banks, all profits paid to the government and such tax as was imposed on bonds issued to retire greenbacks and on bonds held as security for Federal Reserve Bank notes. Under this plan the tax imposed on bonds issued to retire greenbacks might be considerably less than proposed and the plan could be submitted to Congress as carrying its own evidence that all of the cost of these operations would eventually be met out of the earnings of the System.

In conclusion let me again urge the necessity of considering the inter-dependence of some of the proposed amendments, their relation to each other being so important that it might be inadvisable to attempt to secure the enactment of some of them unless the others were assured of passage.

Very sincerely yours,

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

BS/CC

January 12, 1917.

Dear Mr. Warburg:

Governor Harding has written to Mr. Jay suggesting that the Federal Reserve Bank of New York should establish relations with the Bank of Spain and that we "look particularly into the Argentine situation" to determine whether it would be desirable for this bank to effect an arrangement with the Banco de la Nacion of Buenos Ayres.

In conformity with this suggestion, I am writing to ask you, inasmuch as you visited the Argentine last year, if you will not advise as to the method of procedure and the proper person to address, together with any other suggestions concerning our entering into reciprocal relations with the Banco de la Nacion..

Awaiting your suggestions which I could then bring to the attention of our directors on Tuesday next, I remain,

Very truly yours,

Deputy Governor.

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

RHT/VCM



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Denver, Colorado,  
January 26, 1917.

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JAN 11 1917

FEDERAL RESERVE BANK

PERSONAL.

Dear Warburg:

Many thanks for yours of the 19th. Of course I had read Dr. Riesser's book, but your quotation, which refreshes my memory, simply bears out what my last letter stated - that we are really discussing two very different things.

I hope that Jay got the Annual Report in your hands in good time and I am also encouraged by what you say to believe that the amendment program will make some progress.

The Committee on a new Deputy Governor very courteously asked to breach the matter to Aiken, on account of our close personal relations, and I have written him today on the subject. If he considers the matter seriously, I hope he will come out here to see me; it will be important for us to have at least one heart to heart talk.

About the Argentine and Spanish suggestions, - as you know, I managed to burst up the Dutch Exchange difficulty and would gladly do the same as to Argentine and Spain. I am writing the office about the former, but as to the latter, don't you think that some of these importers who are having so much trouble should be told to take the matter up with the Spanish Ambassador, as the Reserve Banks would gladly entertain a suggestion from the Bank of Spain similar to the one arranged with the Bank of the Netherlands. I will get a letter off tomorrow to the office which will put things in train.

You don't expect me to tell you what I wrote Lawson, but I really

To - Mr. Warburg.

January 26, 1917.

think it was unkind of him to violate a confidence the way he did by dragging your name into it. You know, of course, what a close friend of mine he must be; send him out to Denver and I will come home.

Jay is better I am sure from the way he writes me and Curtis is on his way out here to make me a visit of a few days and I will be mightly glad to see him.

It looks as though your exchange with Vanderlip was fifty-fifty. I will take it out of his hide about those renewal credits, but then you know as I do that he is one of our best friends, gives us unlimited support and is entitled to criticise.

Answering your last questions, I have just seen Dr. Sewall, who tells me that I am getting in a very fit shape. He says that I can work toward returning in June, but with the reservation that my ability to do so depends on how I behave entirely. The doctor is quite willing to see me a bit more active, thinks a trip with Vanderlip after the worst of the rainy season is over will be a good thing, and is altogether most encouraging. I am really most hopeful of getting pack in June, but have not said so yet to my associates as it would be unwise to make any very definite statements.

I was glad to get a letter from Mrs. Warburg this morning, telling me the home news, expressing her usual dissatisfaction with you and your behavior, but best of all telling me that I am missed now and then over there in Washington. Please give her my love and my best to you as always.

Faithfully yours,

P. S. The last Governors' conference resulted in the appointment of

To - Mr. Warburg.

January 26, 1917.

seventeen committees, or thereabouts, largely composed of the same men. We all want to accomplish the same objects and I propose that you soften the blow to your colleagues and indicate that no objection will arise if an informal working sub-committee of the conference, call it if you please, a program committee, be authorized to deal with these subjects requiring committee development.

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

BS/CC

COPY

Denver, Colorado,  
January 27, 1917.

Dear Warburg:

I don't often exhibit plain, unvarnished curiosity, but I have just received a copy of the Comptroller's press statement, announcing Mr. Malburn's appointment as Chief Examiner in our District in place of Charles Starek, removed ! ! ! ! ! How have the mighty fallen, or, for my information, why have the mighty fallen?

You may, if you desire, say confidentially to some of my good friends of your Board that had this occurred before, I certainly would never have been taken sick and now I expect promptly to get well. You cannot imagine my delight, which is shared by all at the office.

With best regards,

Faithfully yours,

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

BS/CC

198

Denver, Colorado,  
February 15, 1917.

Dear Warburg:

I am just back from Arizona and on general principles the doctor has told me to take a day or two in bed, as the change of altitude - nearly a mile - sometimes disturbs one's circulation a bit and he does not want me to run any risk. I will be rather slow in catching up with mail on that account, but want to write you about two matters having to do with amendments, in the meantime deferring reply to your last letter.

In the proposed amendment of Sec. 22 of the Federal Reserve Act, the effect of the language employed will be to put any attorney or counsel of a member bank in the same category as to prohibitions, etc., as any other officer of such member bank.

This strikes me as being quite a serious mistake because the business of the bank is not conducted by its counsel as it is by its officers and bank's counsel or attorneys should not be subject to the restrictions which apply to the officers and directors who actually conduct its business.

The thing that particularly impresses me is the unfortunate effect it will have in the case of Trust Companies. The big trust companies employ countless attorneys and counsel in connection not only with their bank business, but particularly their trust business. Such Trust Companies such as the Guaranty, Bankers, Farmers Loan, Central, etc., have counsel in a great many states and these counsel are frequently men of large affairs who have business relations with the Trust Companies that they represent. The effect of the prohibition as the amendment now reads will be simply to deprive the Trust Companies that may join the Federal Reserve System of freedom in employing counsel which they should enjoy without restriction.

To - Mr. Warburg.

February 15, 1917.

I hope the Board can arrange to have this changed in this respect as I do not think the counsel or attorney of a bank should be subject to the same limitations that apply to the officers of a bank and I doubt if the Board itself, upon consideration, would insist upon this view.

Another matter has to do with the amendment to Sec. 14. The bill which you send me omitted the provision in regard to days of grace in paragraph (e.) and I took the liberty of telegraphing Governor Harding about it as soon as I discovered it, but it also includes a clause to the effect that the Board may require a Federal Reserve Bank to appoint correspondents in foreign countries. This amendment not appearing in those printed in the February bulletin as being recommended by the Reserve Board, I assume was added by the House or Senate committee. It is a most extraordinary provision and did the Federal Reserve Board attempt to exercise it, I doubt if the effect would be other than to force resignations, which I am sure is not what the Reserve Board is after.

The appointment of a correspondent is one thing and the conduct of the business is quite another. This provision in order to be effective would really necessitate the Reserve Board requiring a Reserve Bank not only to make an appointment but actually to do business, which is ridiculous and absurd. I feel very sure that neither you nor any of your associates could possibly have fathered this proposal, which would seem to be directed against the New York Reserve bank, and I am wondering whether your influence cannot be exerted to its elimination.

Let me also endorse the criticism of the Advisory counsel - that the powers of an assistant Federal Reserve agent should not be circumscribed so that they are only exercised when the Reserve Agent is absent; that is

To - Mr. Warburg.

February 15, 1917.

a very indefinite term. It could be made to apply to the lunch hour or even to absence from one's desk, or it might be on the other hand construed only to apply to absences formerly granted by the Board. No such limitation should appear in a statute and the best evidence I can give you of that is the attitude of banks generally and their counsel towards powers of attorney and by-laws which extend rights to officers of corporations to act in the absence of superior officers. I think without exception banks have learned as a result of experience that they must not base any dealings with the officers of corporations whose powers can only be exercised in the absence of a superior officer, because there is never proof available to determine whether the absence exists and the burden of obtaining proof should not rest upon parties who are dealing with an officer of the bank who is acting under any such indefinite powers..

I am delighted that you and your associates are going to try and stick it out on the note amendment and convince congress of the wisdom of what has been proposed. With the country on the verge of a possible war with Germany, the least the Reserve Board can do is to hammer away and try and convince its committeemen that this is a necessary measure for preparedness, as well as to give us a normal banking situation.

Best regards.

Faithfully yours,

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

BS/CC

Denver, Colorado,  
February 21, 1917.

Dear Warburg:

Yours of January 30th should have been answered before, but I know you understood my neglect of correspondence during my absence.

You will be surprised to know that while my Arizona trip did me a lot of good, nevertheless I was obliged to go to bed immediately on my return and have only now gotten about again. What happened, so far as I can gather from Dr. Sewall, was to be expected but was rather disconcerting. I got a little bronchial cold coming back on the train, which started me coughing and the change from the low altitude of Phoenix to this high altitude ran my blood pressure up so that I started one or two little leaks, which could only be dealt with by absolute quiet. Sewall tells me that such examination as he has made indicates that it is evidence of improvement rather than the reverse; it means a stronger circulation in my lungs, but of course necessitated absolute rest. I think he is still figuring on my being able to return this summer. I lost no weight by the episode; in fact, gained some.

Will you tell Mrs. Warburg that I expect to write her in a few days a discreet and yet frank answer to her letter just received, which I appreciated very much indeed.

About the Stakek episode, it was mighty good of you to write me quite frankly and I think I am justified in asking you to whisper to a few of your associates at the proper opportunity that I am refraining from using that time-honored expression - "I told you so". He has written a very nice letter of resignation to the Bank, but I do not think that he has any love for me.



To - Hon. Paul M. Warburg.

February 21, 1917.

The Malburn appointment is a dandy. We are all rejoicing and let me say that the same feeling pervades the whole New York banking atmosphere.

As to our correspondence about bills, don't lets worry about it. If I were back home you and I could agree upon a policy in no time, and I guess no harm will be done in the meantime because matters seem to be whipping along in such a way that none of us can exercise very much control for the time being.

Where we made the mistake in rates was in advancing them too soon, without good cause. The time has now come where I think the open market rate, which you call the private rate, established last December, is probably at about the right level and had I alone been determining the policy of the bank, I would have "set tight" as to rates until just about the present time, or say around the first week of February, and would then have made some small advance.

I do wish that you and the others would distinguish between the position of the New York bank, with its immense reserve, as compared with others, and with its holdings of \$127,000,000 of gold behind its note issue, with those banks which are not in a strong position and which have tied up too much money in unliquid stuff.

I am proud that we have sold all of our government bonds, except the one year notes, and that our decks are clear; in fact, the New York bank is in such shape that we could liquidate and convert everything into cash inside of 90 days, except the one year notes. I believe the bank's policy has been correct and that you in the bottom of your heart feel more confidence in that institution than in all the others put together.

To - Hon. Paul M. Warburg.

February 21, 1917.

Thank you for your memorandum. I agree that some of the Banks might have been justified in reducing, but New York has done really most of the reducing, has all along been the strongest and, with one exception, has had the smallest earnings.

Aiken has written me of his decision not to come to New York. I am writing him a strong personal letter today which still may influence him, but I fear not. If it does, I will telegraph you and ask you to have a talk with the officers in New York and see if additional pressure wont bring him around.

Best regards to you, old man. Don't work too hard and keep me posted as to what is going on.

Faithfully yours,

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

BS/CC

Denver, Colorado,  
February 23, 1917.

Dear Warburg:

No thanks for sending me that effusion of Mr. C. D. Gurley's. I glanced through it and passed it into the waste basket; in fact, recognized the style which is distinctive, as this fellow Gurley has already addressed me about one or two matters in much the same vein as my address to my friend Cass Herrington, who is a prominent lawyer here, counsel for the Colorado Fuel & Iron Company and President of the Civic Association.

I was amazed and troubled to get advices from the office that the Senate Committee, or the House Committee, I forget which, had reported the proposed amendment in regard to member bank reserves after a reduction of 2% in the amount required to be carried with the Reserve Banks and 1% in the amount to be carried in vault.

Here we are living in a period of the greatest expansion ever known, the wildest speculation ever known, both in stocks and commodities, and when we should be strengthening our Reserve foundation, Congress is proposing to weaken it.

When I read things like this, as well as Senator Thomas's proposal to issue 500,000,000 of greenbacks, and a few other similar episodes, I begin to get sick of the whole game and thoroughly understand your discouragement. The country wont blow up if you take two or three weeks off and come out here to see me. I think it will do you good; it certainly would do me a lot of good and I wish you would try and do it.

If you say so, I will find some nice, warm place down in Arizona where we can meet and play golf.

Yours faithfully

Denver, Colorado,  
February 23, 1917.

Dear Warburg:

A letter just received from mother advises me that she expects to visit Washington for a short time, with my sister Jane, and asks me whether it is possible for me to arrange sometime for them to get seats in the Senate and House galleries. The public galleries, as you know, are rather promiscuous, and I am writing her to say I am sure you can arrange it for them and to call you up at the Treasury or at your house sometime.

I hope you don't mind this bit of bother.

Very sincerely yours,

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

BS/CC

Denver, Colorado,  
February 23, 1917.

Dear Warburg:

A letter just received from mother advises me that she expects to visit Washington for a short time, with my sister Jane, and asks me whether it is possible for me to arrange sometime for them to get seats in the Senate and House galleries. The public galleries, as you know, are rather promiscuous, and I am writing her to say I am sure you can arrange it for them and to call you up at the Treasury or at your house sometime.

I hope you don't mind this bit of bother.

Very sincerely yours,

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

BS/CC

Denver, Colorado,  
February 26, 1917.

Dear Warburg:

Thanks for your nice letter of the 20th. I hope the Bank of France matter does not develop another fiasco like the Bank of England matter. Please give me credit for the restraint which I have exercised in my correspondence on this subject.

I am still putting on fat and feeling first rate in every way. Thanks for your advices about amendments; it looks as though there was no chance for them at this session, unless, of course, it is extended on call of the President.

I could not believe that the suggested amendment in Paragraph (e) of Section 14, about foreign correspondents, had originated with the Reserve Board; it was too altogether extraordinary. It is a terrible deprivation for me to be away when these matters of foreign correspondents are being considered, but I am sure they can be worked out satisfactorily, if you and your associates are willing, as I feel you should be, to see sufficient time devoted to the subject to have all arrangements carefully and scientifically worked out. I am all against conducting these negotiations in any offhand way, with a lot left to the imagination, particularly when we come to deal with South America. I am in correspondence with the bank on that subject now and feel sure that we all agree in desiring to make progress and will do so as soon as a well considered basis for our negotiations is thoroughly understood among ourselves.

The suggestion to have joint control by the Reserve Agent and the

To - Hon. Paul M. Warburg.

February 26, 1917.

bank is an excellent plan. Unfortunately, the amendments you send me appear to suggest that the Board will appoint an Assistant Federal Reserve Agent, but nevertheless hold the Reserve Agent responsible for the performance of his duties, his honesty, etc., etc. This is a most extraordinary plan. The Federal Reserve Agent should select his own assistant if he is to be responsible for him, and if the Board selects him, they should be responsible and protect themselves by a bond similar to the one given by the Reserve Agent. The Congressional committees should be educated in matters of this sort. I would never be willing to hold Mr. Jay's job under such conditions as suggested by this amendment. See what the Board did in the first instance in appointing Starek. Certainly you would not want Mr. Jay and all the other Reserve Agents to be subject to the hazards imposed upon him by the Board, when they make such appointments as that one. Now I know only too well all the difficulties that you encounter in dealing with Congress and the apparent necessity for endless compromises and bargains. Where I think the Board could vastly strengthen its position, as I have repeatedly written you, is not to rely so completely upon their own arguments and representations, but to get good banking support behind them in advocating these amendments.

I am amazed that Mr. Thralls is behind the movement to authorize exchange charges. The whole business is sickening and I can only send you sympathy but I fear little encouragement and no help. Get the note issue amendment through and I don't care much about the other points.

Another letter from Aiken has given me an excuse to wire him again, also to write him. I believe if you would send him a wire, telling him

To - Hon. Paul M. Warburg.

February 26, 1917.

to pack his bag and come out here to see me, or even to meet me say in Chicago, that I could do the trick with him. Upon receipt of this letter, if you feel like giving the matter another push, send him a wire to the effect that you don't think it would be well to make his decision final in so important a matter without first talking with me and to try and arrange to get out here; then I will do the fishing and believe I can land the fish.

Best regards to you and good luck with your amendments.

Faithfully yours,

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

BS/CC



Denver, Colorado,  
March 4, 1917.

Dear Warburg:

Thanks for yours of the 27th and particularly for looking after the family. Mother already knows Mrs. Warburg and I know they will be glad to have a visit together, but in these busy days don't let the Strong family be a burden or impose on you.

I have given up hope about the amendments and, frankly, I feel doubly sorry that you have had all this work for nothing. It must be a terrible discouragement to you fellows who are on the ground and particularly to you whose energy is always behind these things; lets hope that better days are coming.

I was glad to learn of the action taken by the Board in the Banque de France matter. It is going to take a good deal of correspondence to get the details of those arrangements worked out and I am terribly sorry to learn that Mr. Cann (who is the best posted man in the office in New York on foreign business) is leaving us and we are now certainly forced to go outside for a new man.

I judge by your postscript that from being a luke warm Republican you have become a red hot Democrat, whereas I born a red hot Republican have become a lukewarm Mugwamp. Things go along with me as usual -- a little work, with a lot of fresh air every day. I have entirely recovered from that recent set-back. My best to you, old man; don't get discouraged.

Faithfully yours,

Hon. Paul M. Warburg,  
Federal Reserve Board,

Denver, Colorado,  
March 6, 1917.

Dear Warburg:

It is mighty good of you to find time to drop me a line now and then, for I know how busy you have been but hope things let up.

I am glad to be wrong about the Federal Reserve Agent amendment; the copies sent me read both ways but I could not tell which was the last one. Mr. Perine I hope will not influence the Board as he is a great fellow for putting the onus on the other chap.

A good lick from you with Aiken will help. I have not finally abandoned hope of getting him and it really is important; if I could only get him out here, possibly I could land him.

Glad to hear about the Bank of France memorandum. I did not want to butt in on their program in New York and wrote to ask whether it had been submitted or not, but have not yet heard. Had I been at home, I would have preferred to discuss this with the Board informally but at some length, so as to get their views of the principles underlying the scheme and, particularly, your views as to the various provisions for safeguarding our interests. Personally, I think they are as complete as they can be made but I would like to have your own in detail, if you can find time to drop me a line.

Many thanks for looking after the folks from home and my best to you.

Denver, Colorado,  
March 8, 1917.

Dear Warburg:

I have just been studying the statement of March 3d, showing three hundred seventeen and a half millions of gold held by Federal Reserve Agents, which makes the total of the whole System no less than \$836,000,000. What an astounding result of two and a half years' work and how little you and I realized when we were hauled over the coals by our associates at the Metropolitan Club upon returning from White Sulphur Springs, that "the pump" would produce any such result! It is going to be a wonderful protection to the country, as I am sure we both realize.

I am led to inquire whether a suggestion which I asked them to submit from the office in New York has been followed up. Did the Board's original ruling that this gold held <sup>behind</sup> by notes could not count as an asset originate from opinion of counsel, or was it simply a bookkeeping formula developed by the Board's accountants? If the latter, may it not still be possible to accomplish our objects by changing bookkeeping methods? I recognize that this would not be justified if there is any doubt, except in an emergency, but we may have such an emergency and I am wondering whether the subject has been so thoroughly canvassed as to lead your associates to a final conclusion.

We are running on 83% reserve in New York, with \$140,000,000 of gold tucked away. I feel very strongly that we should build our investment account up to not less than \$50,000,000, which is justified by our position

To - Hon. Paul M. Warburg.

March 8, 1917.

and which will protect our net earnings against the depletion caused by vigorous prosecution of our campaign to accumulate gold by issues of Federal Reserve notes. We owe about one and a quarter millions in back dividends and are today earning only at the rate of about \$600,000 a year, which is less than our current dividend.

I have arranged to meet Aiken in Chicago on Monday and will advise you of what transpires.

Best regards,

Very sincerely yours,

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

BS/CC

Denver, Colorado,  
March 8, 1917.

Dear Warburg:

For some weeks past I have been studying over the question of our possible banking relations in the Argentine Republic; that I know being one matter in which the members of the Reserve Board are just now particularly interested, and I presume would like to see progress made. Please consider this letter as a preliminary inquiry in order to develop chiefly your own views, you having had the advantage of conferences on the ground with the officers of the Banco de la Nacion Argentina.

The powers of the Reserve Banks to conduct a business in foreign countries are set out in sub-sections (a), (b) and (e) of Section 14 of the Federal Reserve Act. Sub-sections (a) and (b) simply relate to transactions in gold and the purchase and sale of short obligations of the United States Government. Sub-section (e) I construe as meaning that Reserve Banks may do the following described business in foreign countries:

1. Appoint correspondents and agents.
2. Maintain mutual checking accounts with such correspondents and agents.
3. Purchase, sell and collect commercial bills of exchange having 90 days to run, exclusive of days of grace, which bear two obligations and are payable in those foreign countries.
4. Purchase and sell in those foreign countries bills of exchange of the same character which are payable in other foreign countries or in the United States.

These four powers, with the addition of the power to deal in gold abroad, comprise the total of our functions and I understand that the purpose

To - Hon. Paul M. Warburg.

March 8, 1917.

of the law was to enable the Reserve Banks to accumulate funds in foreign countries when exchanges were in our favor, invest them there in prime bills so that they might be profitably employed, and then when the exchanges became adverse, liquidate the bills and accounts in order to furnish exchange to the market and moderate demands for gold. The evidence of the statute is almost conclusive in this regard because, as you realize, foreign banking as ordinarily understood covers a wide field of activities other than those above listed, such as receiving deposits in foreign countries on which interest is allowed, opening commercial, financial and travelers credits, executing orders for securities, financing shipments of goods, dealing in securities, etc., etc.

Before writing to your friends in Buenos Aires, I am anxious to get an expression of your own views as to the scope of the arrangement to be proposed and in order to save time want to roughly outline my own views, subject to modification when I hear from you.

1st. We should establish an understanding that accounts are to be liquidated in gold, with a careful definition of the basis upon which the gold is to be dealt with, as in the case of our proposals in London and Paris.

2nd. We should agree to hold gold in pension for each other.

3rd. We should arrange for cable transfer transactions.

4th. We should arrange for the purchase of bills for our account which are payable in the Argentine, and make purchases in New York for account of our Argentine correspondent, mutually guaranteeing the payment of the bills at maturity.

To - Hon. Paul M. Warburg.

March 8, 1917.

5th. We should arrange to handle collection items for each other.

6th. We should have an emergency arrangement which would permit the Banco de la Nacion Argentina to purchase eligible long bills, payable in this country (and a similar arrangement reversed), whenever circumstances caused the exchanges between the two countries to become so disturbed, for any reason, that our own member banks were unable to take all of the dollar bills drawn in the Argentine and vice versa, such bills in both cases, of course, to be endorsed.

7th. We should also possibly (on this point I am a little uncertain) have an arrangement for the purchase of similar long bills drawn in sterling and payable in London.

As to the first five points there can be no debate. As to the sixth I have a good deal of uncertainty. If we undertake to purchase long bills as a regular matter, quoting discount rates to arrive, etc., I fear we will drive our own member banks out of business in that country. The National City Bank is opening branches there at great expense and without hope of substantial profit for some years. A Boston member bank is about to do the same thing. You are aware that the purchase of American bills is now, and for a long time will be, the most profitable business that they are able to conduct. We have such tremendous advantages over these member banks that I fear our entrance into the field will greatly discourage and retard, if not absolutely block, the development of a foreign banking system by American banks generally.

Our principal advantages are:

To - Hon. Paul M. Warburg.

March 8, 1917.

1. The enormous prestige enjoyed by a so-called Federal or Government Bank over any private bank, no matter how strong the latter may be.
2. Our ability to avoid all expense of a local organization by employing correspondents as against the very heavy expense of branches established by other American banks.
3. The enormous resources of the Federal Reserve System on which no interest is paid, as against the heavy interest charges of member banks.
4. The more intimate relationship and cooperation of Government Departments in support of our arrangements, which naturally are not at the disposal of member banks quite so generally or actively.

To illustrate my point, an American Bank, with one or two branches in Argentina depends upon its relations with various bill buying banks in that country for the accumulation of American bills. This is the net, so to speak, which they must create in order to gather in American paper. If we establish intimate relations with the Banco de la Nacion Argentina, we would at once secure the services of a correspondent having no less than 155 branches and agencies in active operation and, presumably, with our cheaper money and lower rates, we would sweep in all of this business to the exclusion of the American branches with which we were competing.

I think probably every bank in the Argentine Republic which handles foreign bills has now established intimate working relations with various American institutions, and a great volume of bills is now coming through these channels, on which American banks are making profits<sup>and</sup> to the extent that if we succeeded in gathering up such bills, we would by so much render our own members' foreign business unprofitable.

There are, however, two possibilities which might make a close working bill arrangement advisable, or necessary. One is that the Banco



To - Hon. Paul M. Warburg.

March 8, 1917.

de la Nacion Argentina, either by reason of legal restrictions or as a matter of policy, has not and will not establish connections of this character with any American bank except a Federal Reserve Bank; and the other is as described in paragraph 6. above, where conditions caused a suspension of the normal flow of bills as when the war broke out, in which case we could step in to relieve the congestion.

The first possibility is mentioned, because that is exactly the situation that existed in London with the Bank of England, which, as a matter of policy, would not undertake relations such as we propose with any other than a Federal Reserve Bank.

I also want to ask your views about one or two other matters. To what extent do you think we should have special safeguards, either by way of treaty or otherwise, in case of the Argentine or other South American countries, which would not apply to our more advanced European correspondents? We must not overlook experiences in Mexico. I do not consider that Argentine, Chile, Brazil or Uruguay are necessarily comparable to Mexico as to political<sup>in-</sup>stability. Nevertheless, believe you will agree with me that there are uncertainties in South America which must be recognized and guarded against.

Another question is in regard to the gold status of the Banco de la Nacion Argentina. As I understand their statement, they have x liabilities of approximately \$600,000,000 currency and only hold about \$28,000,000 or \$30,000,000 in their general gold reserve. To what extent do you think that our arrangement would require special safeguard in that particular?

As to point 7. above described, I am in considerable uncertainty. As you know, throughout the East many bills, in fact the great bulk of

To - Hon. Paul M. Warburg.

March 8, 1917.

all the bills drawn, are still drawn on London in sterling, although to some extent, when the exchanges are favorable, these bills may be transmitted through New York, in order to get New York credit, the New York buyer remitting them to London for London credit. The volume of these transactions is definitely determined by the rate of exchange figured in connection with the transit time. Just now these are very difficult operations to conduct, because it is almost impossible to quote close rates, with all of the uncertainties of the mails and with the possibility always confronting us of sudden sharp breaks in exchange. Nevertheless, in normal times it might be quite an advantage to us to be able to accumulate sterling through an arrangement of this character, and I would like to have an expression of your views as to the advisability of proposing it. Did you discuss this when you were in South America?

From the above you will gather that I am still strongly of the view that we should not and, in fact, cannot under the limited powers which we now enjoy, expect to do a commercial banking business in the ordinary sense of the word, through any of our foreign agencies, not to have the power to open commercial credits absolutely precludes that. Excluding commercial banking, do you now feel that we should make an alliance with the Banco de la Nacion Argentina and to what extent to you agree with the views I have expressed as to the scope of that arrangement?

I await your reply with a good deal of interest.

Faithfully yours,

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

Denver, Colorado,  
March 19, 1917.

Dear Warburg:

I am more than grateful to you for your nice letter of March 12th and for what you and Mrs. Warburg have done to make the family comfortable and enjoy their visit in Washington. Mother has written me of your hospitality which is characteristic of the Warburg family and has given me a great deal of pleasure, as it has her.

This is a slack mail day and I want to write you about two or three things, but quite in confidence:

1. I realize your objections to the proposed relations with the Bank of France and the Bank of England, but after meeting and dealing with those people personally, I am satisfied that you are going to be agreeably disappointed, but the most important consideration lies in the fact that if we don't make our arrangements with those two banks, we can do no business whatever either in London or Paris probably for a long time. Through no other channel could we get the absolute security that is offered by this arrangement and it would be necessary to abandon the whole scheme as impracticable.
2. Amendments. I am confident that you are going to do much better at the special session of Congress, but I do wish the Board would invite the cooperation and support of bankers and of the Reserve Bank Managers themselves. It will not only impress Congress, but I am confident that it will make an excellent feeling in the management of the Reserve banks themselves, which is surely a desirable purpose.
3. Sometimes I wonder whether I am not a German. I suppose you know that my mother's family were Germans and it may be on that account that I

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have an insatiable hanker to do a job thoroughly and not by piece-work. It seems to me that we are simply flirting with this great matter and not dealing with it decisively and thoroughly. I have kept hammering at them at the bank to press negotiations with McAdoo in order that we might control all imported gold at the New York bank and in order that we may convert a good part of our reserve fund into standard bars. You are so well acquainted with this matter that I do not need to explain the reasons, but it seems to me that the whole subject of our Mint and Assay Office practice in its relations with the work of the Reserve banks should be made the subject of a great deal of study and a definite policy adopted upon which we can all count. Inquiry has been made of the Reserve Bank of New York if we can store some gold for the Assay Office or the Sub-Treasury. I thought Mr. Jay wrote rather too indefinitely on that matter and if you have opportunity, I wish you would tell the Secretary that so far as I am personally concerned, I will do everything in my power, to the extent of returning to New York, to see that accommodations are made to whatever extent they require them and in the promptest possible time, so that we can return some of the many favors that they have shown us in the past.

I do not fully grasp your references to the way our policy works in accumulating gold. As you say, the operation of the exchanges should increase the amount of our gold holdings and correspondingly increase the note issue, if the law was all right and if our currency laws were right, but, unfortunately, the first tendency is <sup>not</sup> to increase our holdings of gold but all other kinds of currency, and our ability to convert that into gold at the present time is the direct consequence of the heavy gold imports.

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Don't lets any of us fool ourselves by thinking that we have yet gotten control of the movement of gold -- we are a long way from it and the amount of gold we have accumulated behind our notes has only been possible by reason of these imports and by the Reserve Banks in effect paying a premium for it by issuing their notes, that is to say new bills that are always desired by member banks, without charge, whereas ordinarily the banks have to pay shipping charges from Washington.

You and I must not be blind to the real underlying facts in this situation. We are the beneficiaries of unusual conditions, and we as yet have no control and won't get it until the law is right.

4. About the investment account, I am terribly sorry to disagree with you and I fear with my own associates in New York. The bank now holds in round figures \$220,000,000 of gold in its general reserve and \$154,000,000 behind its notes - say \$350,000,000 - and its reserve last week was over 86%. If the Reserve amendments pass at the special session, I figure it will add a little over \$100,000,000 to our gold, and if the note provisions are amended, I think we can guarantee to add \$100,000,000 more to our reserve inside of two months, so that by say June 1st the New York bank would have a gold reserve minimum \$450,000,000 and maximum \$550,000,000, or even more. Our reserve would be 90% or more of all of our liabilities. With our condition so strong as at present and with the possibility of these further additions to our strength, there is no excuse for our not earning our dividends and we would be derelict to our duty if we failed to do so. Furthermore, it would not weaken the bank to buy say \$15,000,000 more of short bills which can now be used for security of Federal Reserve notes,

4.

so as to protect our gold. The supply of bills in the market is now sufficient so that we could accumulate them gradually without material change in rates, and it would have the added advantage of giving us more freedom to incur expense in our note issue and would replace the reserves which we lose by a very much larger sum of accumulated gold.

And I hope you are not feeling disturbed at all at the prospect of any emergency situation. If Congress declared war tomorrow, it would not make a flurry.

Let me suggest and urge that it will be helpful in many ways if you could have a quiet talk with Treman and agree with him upon a policy of building up our investment account somewhat.

5. All that you say about government bonds is, of course, conservative and true; the Reserve banks must avoid getting hung up with too large an investment in governments. I hope that hereafter our annual commitment to buy governments will be so handled that we will get them at prices which will enable them to be immediately converted and resold. Apply the doctrine which you gentlemen have preached in connection with foreign securities to those of our own government and make our investors be the ones to take the government's securities and let us do the clearing and handle the government's balances that result from bond sales, then we will be doing the banking business and the government will be doing the financial business on the basis that you and I have so frequently discussed.

6. My visit to Chicago was exceedingly satisfactory in every respect, except as to Aiken's plans. We had a fine visit, lunch with McDougal and McKay and had a little chat with Broderick. Later Palmer, who happened to be in Chicago, joined us for dinner.

to - Hon. P. M. Warburg.

March 19, 1917.

Without going into detail, some of which Aiken gave me in personal confidence, I think the situation is about as follows: He would like to come to New York; in an emergency, such for instance as my inability to return, I think he might do so as a matter of duty. He cannot see his way to do so with the prospect of my being able to return in the comparatively near future. If I should be obliged to retire after a short spell at New York, I still think it might be possible to arrange for Aiken to come over and work with me there for a period of months, and then take my place. But I doubt if he would feel justified in making certain very serious sacrifices of a personal rather than a business character, so as to come over and take second place in the bank. This does not mean that pride stands in the way, but merely that the emergency would not be sufficiently serious with me there to justify his pulling out and rearranging all of his domestic and personal affairs.

The trip did me no harm; in fact, it did me good for I am feeling better than at any time since I came out here. I am also continuing to put on weight.

7. Rates. The experience of the last month or two has I believe demonstrated beyond question the accuracy of the statement I made to you sometime ago -- that there would never be any difficulty in developing a nation wide market for bills and at very acceptable rates, whenever the Reserve Banks withdrew; they are being purchased by banks all over the United States. On the other hand, this is just the time when commerce is being disarranged and when bankers the world over are feeling uneasiness about remitting bills to London; in fact feeling uneasiness about remitt-

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March 19, 1917.

ing cash items to London, for us to make our inducements as strong as possible to have this business directed to this country. I think we should advertise our rates as being the lowest in the world, as being the steadiest in the world, and make the New York market so attractive that the business will come willy nilly. For once in this matter take the old man's advice and encourage those fellows in New York to get into the market a little more actively and to develop a little stronger policy in both buying bills and holding the rates a trifle below 3%, if possible. There is much in the present situation which will reconcile our English competitors to the loss of some of this business and I really think we are making a mistake in maintaining rates quite as high as we are.

Best regards and again many thanks for your letter.

Faithfully yours,

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

BS/CC



Denver, Colorado,  
March 27, 1917.

Dear Warburg:

Replying to yours of the 19th concerning the Banco de la Nacion Argentina, I am anxious that we should agree on the one or two important points you make and regret that it is impossible for us to discuss matters personally instead of attempting to deal with them by correspondence.

As to item 4, your general observation as to the purposes to be accomplished by foreign relations to be established by Federal Reserve Banks is quite my own view. The objects are undoubtedly:-

- (1) To facilitate gold transactions.
- (2) To steady exchanges so as to avoid sudden and heavy gold movements.

Facilities for this are chiefly needed in London, to a somewhat less extent in France and Germany, and possibly in South America at times. Where I differ from you, however, is in your application of these rules to such a country as Argentina. If we are to accomplish anything in these two respects in the Argentine, it must be by employing our funds in the purchase of Argentine exchange when it is depressed, which will necessitate the accumulation of considerable balances there. Otherwise we will have nothing to work on when exchange turns, and the account will be no more than a complimentary relationship which will be of no value to anybody. If, however, you desire the account to be of value, we must, according to your theory, leave idle balances without interest with the Banco de la Nacion Argentina, but according to my theory, if we are to really do the business in a large enough way to amount to anything, we would be justified in employing such balances in buying good bills, provided our correspondent

To - Hon. Paul M. Warburg.

March 26, 1917.

would guarantee them. As a practical matter, our account with the Banco de la Nacion Argentina would accomplish nothing, either in the matter of gold transactions or in stabilizing exchange, unless it was an account of some proportions, provided, of course, we were not purchasing commercial bills on this country, to which I will refer later.

On the whole, I can see no object whatever in opening an account in the Argentine unless we are prepared to do an amount of business there commensurate in volume and importance with the volume of trade between the two countries and with our aspirations to be a factor in the exchange and gold markets. A nominal and complimentary account might, in fact, give rise to dissatisfaction, leading as it would to expectations of considerable business which would never materialize.

What you say, however, about the history of Argentine is exactly what I have written to my associates in New York and in an earlier letter to you. Their gold reserves are nominal compared to their liabilities. Their extravagances and their less stable political institutions must be taken into consideration. I would be quite willing, in the case of Argentina, in fact rather more than less well satisfied, to have an arrangement of this kind based upon a treaty, along the lines suggested by you and Professor John Bassett Moore, should that be the desire of the Federal Reserve Board. Therefore, in conclusion as to item 4, my belief is that if we are to open an account in Argentina, it should be of sufficient proportions to accomplish the objects of the Federal Reserve Act, and such an account in order not to be dormant, should include in its scope an arrangement for the purchase of local bills so that we might employ sufficient

To - Hon. Paul M. Warburg.

March 27, 1917.

funds to exert some influence upon exchange and gold movements, when desirable.

As to No. 6, I am quite unable to grasp your own views after reading your letter. Let me refer to the various points by number:

1. A conditional arrangement for the purchase of bills drawn on this country, such as was contemplated in the letter I drafted, would cover the situation described by your letter and would not do an injury to our member banks, and this is particularly true of the Argentine where, as you say, competition for American bills is now rapidly developing and where the necessity for our appearing in the market is probably less than anywhere else in South America. May you not have been misled when you say there is no market for dollar drafts in South America? A year ago I was informed that bills were coming forward to New York on bids of rates made to South American banks, within a  $1/4$  or  $1/2$  of  $1\%$  of our New York rate. What I suggested on this point was to make careful inquiry among New York bankers to get their point of view in New York (and possibly Boston) so that we would not be working in the dark or at cross purposes. I was led to make that suggestion because we were organized to assist and cooperate so as to promote the extension of the business of American banks into foreign countries, and I fear that the development of competition rather than cooperation might injure them. How could we make rates there at which bills could be actually accumulated, without either competing or making a present of a profit to our agent? They will be just as keen to make profits on this business as will the National City Bank, and, unless

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March 27, 1917.

we make a strong effort to publicly control the rates in the Argentine for U. S. bills by an aggressive campaign, I do not see how any good will be accomplished. In other words, our rate would either be competitive or it would not. To be competitive, we would necessarily buy bills in some quantity and so make our rate effective, and then we would certainly hear from our own members.

2. Your letter refers entirely to the business of one or two American banks. I had in mind not only the business now being done or contemplated through American branches, but also the business of those American banks that are now dealing through correspondents in the Argentine and gradually working up a valuable business. No one can avoid the conclusion, after looking over the bills now coming to New York, that American institutions are doing an important and growing business there through the German and other South American banks, which might be disturbed by our appearance in the market.

3. Our objection to acceptors handling their own bills can hardly, at any rate for the present, extend to banks which have agencies or branches in foreign countries, so long as those banks market their bills, once they reach this country and are accepted. That is a common enough practice everywhere and can hardly be otherwise with us just now because an institution like the National City Bank which is blazing the way abroad must naturally make the market for its own bills at the point where they originate. The objection to this practice really exists in this country after the bill is accepted rather than in the foreign market where the bill is drawn. The National City Bank in fact has been distributing its own bills through the

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City Company and is not particularly liable to this charge. As there will soon be two or more branches of American banks in Buenos Aires, the situation will be materially improved, unless I am very much mistaken.

4. What you say about drafts coming to New York with only one foreign name is not quite the case, even at present, unless conditions have changed since I was in New York. Most of the bills that we get already bear the obligation of the Argentine drawer and the obligation of at least one bank in the Argentine, together with the endorsement of one American bank which is acting as the correspondent of the Argentine bank. This is about all the endorsements that foreign bills can be expected to accumulate before reaching the point of acceptance. A typical case in England to illustrate this would be about as follows: Take a bill drawn in Calcutta by an Indian exporter on such a firm as Frederick Huth & Co., London, covering export of jute. The bill would be drawn by the exporter to his own order and the first endorsement would be the exporter's, with immediately below that an exemplification endorsement in English. The next endorsement would be by say the Hong Kong & Shanghai Bank which had purchased the bill and which guaranteed the exemplification. The Hong Kong Bank would obtain the acceptance of Huth in London and would immediately sell the bill, say to the National Discount Company. The National Discount Company, in the rare case of its discounting the bill with the Bank of England, would furnish its obligation in a general letter. I have seen a great many bills in London of just this character and they are almost identical with those which are now being received in New York, which would bear the following obligations, say on a hide bill:

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- (1) The Argentine Hide exporter as drawer and endorser.
- (2) The British Bank of South America.
- (3) The American acceptor (which might be a bank or hide importer).
- (4) The endorsement of the Guaranty Trust Co. or Bank of New York.
- (5) The broker as to statutory liability.

Were this bill drawn on the National City Bank and purchased by its agency in Buenos Aires, we would lose the endorsement of the South American Bank. Nor do I see how that could be controlled by our endeavoring to buy bills through the Banco de la Nacion Argentina, unless we under-bid the National City Bank for bills of this character, through the Banco de la Nacion Argentina, and that is just what we ought to avoid at the present stage of development, as I view it.

If your observations in South America convince you that it is necessary for us to buy such bills down there in order to introduce dollar credits, I am convinced that a safer way for us to introduce ourselves into the situation would be by first discussing the arrangement with those American banks that have displayed enough enterprise and public spirit to spend the money and take the risks of opening offices in the Argentine. You say you think it might be a welcome facility for us to be there quoting rates, etc. It will be easy to ascertain that by conferring with them.

5. I feel very sure that I am not exaggerating the ability of the Reserve System to drive our competitors out of business abroad, so far as purchasing bills is concerned, if we develop these facilities and use them to establish lower rates than theirs. To get at the facts in this matter it would be necessary for us to investigate the whole subject of rates, not those at which we could buy bills but those at which these various South

To - Hon. Paul M. Warburg.

March 27, 1917.

American banks are now buying bills. That I would strongly urge my associates to do at once.

6. If the Banco de la Nacion Argentina agrees to buy bills for us at market rates (instead of at forward rates which we would quote), we would in effect have a branch or agency in every town and city of importance in the Argentine. There is no escaping this conclusion because our agent would be bidding for bills at market rates whenever bills originated in the Republic. I am sure that our own member banks would be greatly discouraged by any such development.

7. As to special safeguards, I would be quite willing to see our Argentine arrangements based upon a treaty, if you feel willing to defer this matter until such treaty can be prepared and negotiated.

8. You are mistaken in regard to my anxiety in regard to the contracts with the Bank of England and the Bank of France causing me to overlook the treaty matter. The question was not overlooked, but, so far as I was concerned, as I explained to you long ago, the suggestion as to a treaty basis for these arrangements was abandoned as thoroughly impracticable during the period of the war, my own conclusion being that a better arrangement could be negotiated at the present time rather than later, so far as terms, etc., were concerned, and that such an arrangement as we might now establish would not in any way interfere with the later negotiation of a treaty.

9. My suggestion about the purchase of sterling bills was based upon a desire to give real life to such relations as we established with the Banco de la Nacion Argentina. It would give the South American drawer opportunity to convert sterling bills into dollars in order to have bal-

To - Hon. Paul M. Warburg.

March 27, 1917.

ances available to pay for his imports from this country out of the proceeds of sales of goods in England. We would expect the Banco de la Nacion Argentina to endorse or guarantee such bill but, of course, it would involve some special arrangement with the Bank of England as to their handling. We could not expect the Bank of England to make any guarantees on such bills, and would have to rely upon the Banco de la Nacion Argentina to reimburse us in case for any reason such bills, or their proceeds, became unavailable to us in England. I see no reason for your conclusion that nothing can be done in that connection at this time because such bills are undoubtedly being drawn in considerable quantity, and the only real practical difficulty would be in mechanical arrangements, such as mail time, etc., all of which would have to be studied.

Now in conclusion let me say that I look at the whole matter in this way. The arrangement should be made with the idea of doing business and not merely to have a dormant and sterile account. To make the account active and of value in its relations to exchange rates we certainly must contemplate carrying considerable balances in the Argentine, which would be a dead loss to us unless we purchased bills there. We are forced to purchase bills there in order to employ our money unless we are willing to consume our balances by buying bills drawn on New York. Should we decide to buy bills drawn on New York, we will to a greater or less extent compete with our own banks. If we deliberately intend to compete with our own banks, we should first make an effort to enter into such arrangements with them in that regard as would avoid doing them an injury and likewise doing ourselves an injury at home.



To - Hon. Paul M. Warburg.

March 27, 1917.

The suggestion that our arrangement might be confined to the custodianship of gold, etc., would be found impracticable because such arrangements are already in operation successfully with other American banks which undoubtedly give facilities which we cannot give, such as allowing interest on balances, extending credit, opening commercial credits, buying Argentine securities, etc.

I would like exceedingly well to discuss this subject with you before final steps are taken, but meantime don't forget that this is a matter in which I am most interested, almost more than any other development of the Reserve System, and want to see constructive progress made.

Faithfully yours,

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

BS/CC

Denver, Colorado,  
March 27, 1917.

Dear Warburg:

I have just had a delightful visit from Delano and it was hard to let him go. I won't recount in detail what we did for he will be in Washington almost as soon as this letter and tell you himself, but I am sure that the report he got from Dr. Sewall was satisfactory to him and hope it will be to you and the others.

Mother writes me of your doings and I am so glad that she and Mrs. Warburg have had opportunity to get better acquainted.

Every time I look at our statement from New York I want to go home. Our reserve is up to nearly 89%, for which I am blaming you a good deal because you are the determined, consistent, irreconcilable reactionary and, if I do say it, you have been able to buffalo those partners of mine in a way that you could never buffalo me were I on the job. You had better get lots of exercise and fresh air and strengthen up before I get home for then you are going to be in for it.

My best to the family. Please tell Mrs. Warburg I will be writing her soon with all the latest personal news.

Best regards to you old man,

Faithfully yours,

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

Denver, Colorado,  
April 9, 1917.

Dear Warburg:

Many thanks for sending me a copy of your address on "Government in Business", which I enjoyed reading very much indeed, but why didn't you give me advance notice that you expected to be in Chicago on the 7th, for I would certainly have arranged to have a visit with you there and hear you deliver the speech.

The thing that delighted me most was your unqualified statement about citizenship. Your friends will be delighted, all of them, to read of your having made this plain statement publicly and I predict that you will be more comfortable and contented in your own mind for having done so.

I suppose you are all exceedingly busy, but I would like right well to have a line now and then, telling me of your plans.

Best regards,

Faithfully yours,

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

BS/CC

Denver, Colorado,  
April 17, 1917.

Dear Warburg:

Many thanks for yours of the 10th. I have not been writing you much lately because I know how busy you are and then I have been putting in considerable time on the links and have made one short trip with friends to Southern Colorado. Mother has written me of her visits with you and Mrs. Warburg and I am delighted to feel that you know each other better and, personally, am exceedingly grateful to both of you for the many hospitable attentions which you showed mother during her visit in Washington.

Of course you understand my anxiety to return. It is going to keep me pretty unhappy to remain here very much longer and I really think that the call of duty is getting too strong. This quiet period at the bank is just the time when the last finishing touches should be put on the organization and in those matters I regret to confess that I think the boys at the office are not at their best. A few weeks' punching I think would do the trick, if I could get back for the purpose, and then again I am most anxious to see Lord Cunliffe during his visit in this country.

I hear that your Chicago address was a great success and that you were received with enthusiasm; this is most gratifying. Also I learn that the State banks and Trust companies, both in Chicago and New York, are again beginning to take notice and we may before the year is out see the solution of that most puzzling problem well under way; let us hope so any way.

To - Hon. P. M. Warburg.

April 17, 1917.

About Argentina, we will have opportunity to discuss matters long before final arrangements are possible. Meantime a letter has gone forward which I really think will open the door to everything that you have in mind in the way of banking arrangements and if not, let's you and I get busy when I return and see that everything is done. Thank you for sending me copy of Mr. Davis' letter.

Mother writes me that Jimmy wants to go into the submarine service. Don't let him do it. Personally, I think a boy of Jimmy's very unusual ability can be of greater service to his country by avoiding those branches of the service that require long technical training such as the navy, and that his real place is in the infantry or possibly the artillery, because there the ability to manage men is of the greatest value. Ben is in Company L. of the 2nd New Jersey Regiment, and has been mustered into the Federal service. He is now stationed at Camden, N. J. and I want to see him pass his examinations and get a commission as soon as possible.

Best luck to you, old man, and don't work too hard.

Faithfully yours,

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

BS/CC

Denver, Colorado,  
April 23, 1917.

Dear Warburg:

A great many thanks to you for your newsy letter of April 20th. I am so delighted that Jimmy is in training that I really cannot express my feelings strongly enough, although I know what a very severe shock it must have given you and Nina.

About my return, I have almost decided to make a flying trip to New York and then return here at once, provided arrangements are made in regard to a brief meeting with Lord Cunliffe, and to have a little chat with the men at the bank. It would only take a week or ten days and as a matter of fact I am perfectly fit to come back now.

What you say about the financial plans is just exactly what I have been gathering out here from various reports that reach me. Both the \$50,000,000 and \$200,000,000 loans were badly handled - rather on a cheese paring basis, than a good, broad basis of statesmanship. I was grievously disappointed about it.

What you write about temporary borrowings is exactly my own thought and I have been writing almost daily to the boys at the bank, asking them to urge this policy of short borrowings whenever their views were asked. It is the one way in which these large Government borrowings can be safely conducted without disturbance to the money market. The Treasury should have bills on sale at the Reserve banks all the time, the rates to be fixed by the Secretary from time to time to meet the market. Then when permanent loans are placed, one hand will wash the other and no

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disturbance result, the money will be disbursed as rapidly as it is borrowed and the machinery will work smoothly. Any other course will be the height of folly and will lead to a <sup>g</sup>astly disorganization of our country's business and finance.

You always amaze me in your comments about Jack Morgan. He's got a heart as kind as any humanbeing can have, but just the same is a good bit of a chip off the old block superficially. In any event, Jack was not to blame personally for the faux pas and as that is all past history, it should all be forgotten and everybody play the game.

I do not fully agree with you about a two billion loan. You are looking at that matter from the standpoint of New York. A 3-1/2% bond is absolutely unattractive to banks, institutions and investors in all sections of the country west of the Alleghenies, or one might say outside of New England and New York and Philadelphia, with the sole exception possibly of Chicago, and would have to be sold purely on patriotism rather than on an investment basis. My feeling is that one billion would go very successfully and then sell at a premium. To crowd beyond that is to risk the possibility of a premium which is the absolute essential of subsequent success.

About the Guaranty and Bankers, I have been writing some of my friends, punching them up a bit and hope that between your efforts and my own, we may get action. The whole state bank situation is coming along fine, but these miserable little country state banks are still raising Cain about check collections and seem to be particularly active in our district. I am afraid Thrawls is largely responsible. Notwithstanding

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To - Hon. P. M. Warburg.

April 23, 1917.

their activity, I have urged Mr. Treman to pursue our policy relentlessly for the time has now come to get this miserable question behind us once and for all. If you can only keep Congress in line, we can get these New York state bankers in line, I think. If I were you and your associates I would put the issue squarely up to Congress, urge them to have enacted a law which contemplates par collections and tell them that it is a very small percentage of the banks that want to charge exchange and legislation legalizing it would now make it universal instead of as in the past, confined to those few banks that were willing to charge all the traffic at par, and Congress should decide and decide at once whether we are to have universal par collections or universal exchange charges.

Once more about Jimmy, I cannot tell you how delighted I am. You and Nina have done a very wise thing, as always, and no one rejoices more than I do.

Best regards to you and the family,

Faithfully yours,

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

BS/CC



Denver, Colorado,  
April 22, 1917.

Dear Warburg:

Many thanks for sending me the printed copy of your Chicago address. I have just been going through it again and once more I am impressed with the skill and thoroughness with which you do that sort of thing. I cannot tell you with what extreme delight I have read the first part of it.

Now that the development of the Reserve System has resolved itself to only one or two sharp and well defined problems, the rest of the development work practically being complete, I can understand the great satisfaction that you get in looking at our balance sheet. Little did any of us realize that two and a half years could accomplish such great results. Beyond everything else now we need to have the Secretary of the Treasury show his confidence in the System by turning over to the Reserve banks as large a share of the fiscal agency business of the Government as is possible under present conditions - our prestige will then be fixed for all times.

I am still hanging on here, playing golf every day, with a feeling nevertheless that I should be home. I can really leave at any time, but will stay on awaiting word that I am really needed. I hate to miss the opportunity of having some part in our financial arrangements with the allies because the Bank of England and the Bank of France understandings fit into that situation so perfectly. I hope that you and your associates

To - Hon. Paul M. Warburg.

April 22, 1917.

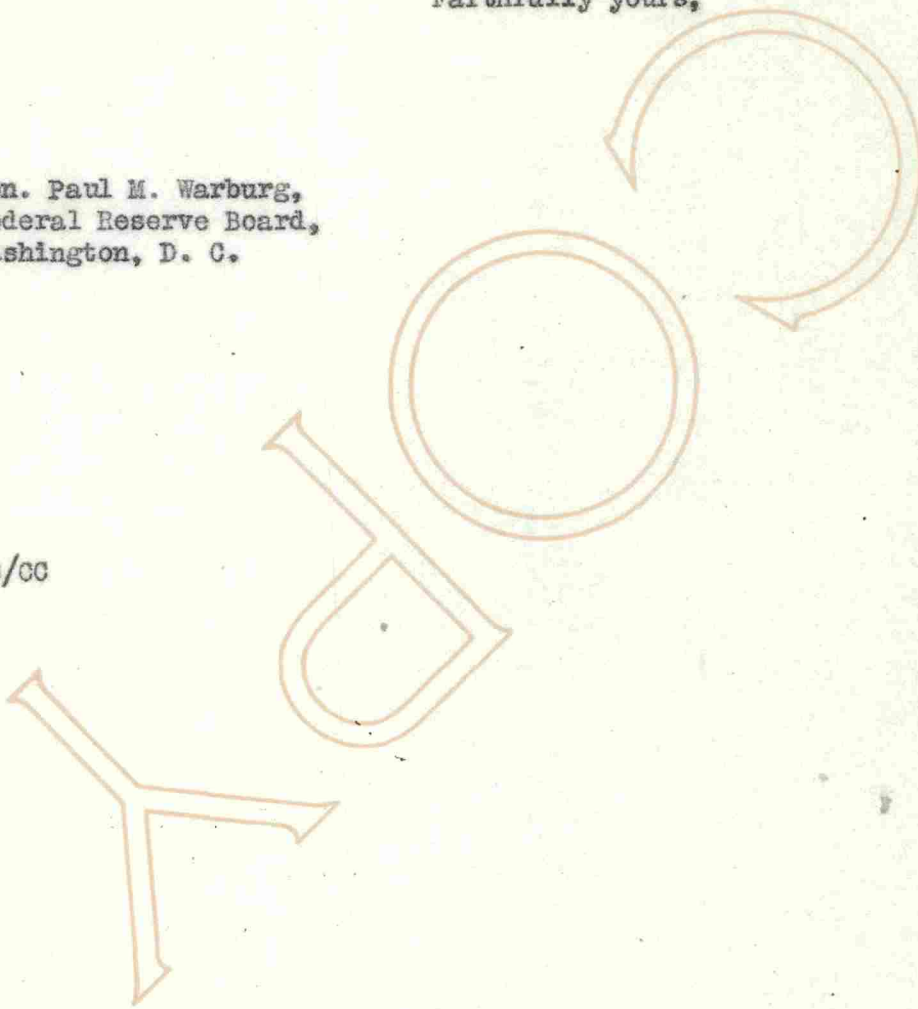
will not deprive me of the opportunity of completing that important work.

Best regards to you all.

Faithfully yours,

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

BS/CC



Denver, Colorado,  
April 24, 1917.

Dear Warburg:

I had a talk by telephone with Mr. Jay last night and he explained to me very roughly the scheme for handling the proceeds of the short loans now being made for England. My understanding is that the money raised from each Reserve District is to be placed to the credit of the Bank of England at the respective Reserve banks. From this I gather that the Bank of England will draw on all twelve of the Reserve banks.

The principle of having the money deposited in the District where it is raised is, of course, thoroughly sound but I would greatly regret to see an arrangement made which would result in the Bank of England drawing on twelve depositories in this country. New York is the exchange center and, of course New York under the proposed banking arrangements abroad is the place where these drafts should be cashed and the account normally would be run. Could not this plan be modified so that pro-rata withdrawals would be arranged through the exchange accounts which we now carry with the other Reserve banks and as rapidly as the Bank of England draws on the Federal Reserve Bank of New York, we, in turn, would apportion the withdrawals from the other eleven and exact a weekly settlement through the gold settlement fund?

I cannot help but feel that any other arrangement indicates a certain regard for political and sectional considerations, rather than

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To - Hon. P.M. Warburg.

April 24, 1917.

response to sound business judgment. If you can have the arrangement worked out roughly as I suggest, it will be much more satisfactory I am sure to everybody and save a lot of bother.

Faithfully yours,

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

BS/CC

610  
X L.H.  
TREASURY DEPT.  
MAY 11 1917  
FEDERAL RESERVE BOARD

May 9, 1917.

My dear Warburg:

Don't think me overinsistent in certain matters which are really of great importance to us just now. I shall refer to them by subjects:

FEDERAL RESERVE NOTES:

The amendment which would permit member banks to count Federal reserve notes as part of their cash reserve, is absolutely vital to a successful handling of the bond issue. This was emphasized at a meeting of the clearing house committee yesterday which is meeting to-day to discuss what the attitude of the clearing house should be. I have recommended that instantly the amendment passes (if it does), the clearing house should adopt a resolution authorizing the use of Federal reserve notes in settling balances and in any event should extend the arrangement by which balances are settled on our books. There should be no misunderstanding, however, that an arrangement for settling balances on our books will not entirely accomplish the purpose we seek, because it does not give us the means to issue notes freely against gold and keep them in circulation.

GOLD:

This amendment is interdependent with the last named

and I hope that you and your associates are not going to permit any stone to remain unturned in your efforts to secure its passage.

SAVINGS BANKS:

I have written Governor Harding on this subject. Mr. Hine tells me that there is some uneasiness among some of the savings banks that no means exist by which their securities are available for the purpose of furnishing currency in case heavy withdrawals result from the offering of the loan. Most of the savings banks in this district pay  $3\frac{1}{2}\%$ , some 4%. Those which pay  $3\frac{1}{2}\%$  may lose deposits heavily as our campaign for selling the bonds will extend into every nook and cranny of the district in order to get small subscriptions.

INTEREST RATES:

One of our directors made a suggestion at to-day's meeting which strikes me as valuable. Both State and national banks throughout the upper part of New York State allow 4% on deposits of certain character. The State banks say that if the national banks will discontinue these high rates they also will discontinue. It will be mighty difficult to get people of small means throughout that territory to subscribe largely to the new loan when they can get 4% on small balances in commercial banks. The suggestion is that the Comptroller or the Federal Reserve Board take steps to bring about a discontinuance of this practice.

PUBLICITY:

I am frank to say that the general feeling in this district is almost unanimously expressed in condemnation of the present program of publicity conducted in Washington. Statements

in regard to the amounts of subscriptions being received are regarded as dangerous and possibly misleading and it is having a tendency to discourage people from taking an interest in the loan and, in some cases, has caused possible subscribers to delay subscriptions which otherwise might be made. I do not feel competent to make any definite suggestion on this point, but if experienced men are of this view it seems to me that it should be regarded by the department.

LOANS ON GOVERNMENT BONDS:

Mr. Kenzel hands me the enclosed memorandum of a conversation with Mr. Ickelheimer. There is much in his suggestion, but I would not dare recommend until the amendments relating to our Federal reserve note issue and gold reserve have been passed. If they are passed I think I would be inclined to recommend that Federal reserve banks be authorized, during the period of the war only and for a limited period after the conclusion of the war, to make loans up to 50% of the par value of war loan bonds and certificates of indebtedness; but such privilege should be exercised with the utmost discretion.

COORDINATION OF RESERVE DISTRICTS:

Members of our committee have suggested to me that it is highly important in the early days of the campaign that the right kind of cooperation exist among the reserve districts, so as to avoid publication of important decisions or news in one district in advance of another; so that effort may not be duplicated, and so that the handling of the funds resulting from the subscriptions will be worked out so as to avoid disturbance of the money market. If you desire

memoranda describing the points to be covered, it will be prepared and forwarded to you.

SHORT LOANS:

It is regarded as highly important here that all short borrowings by the Government in this market shall hereafter be effected by invitations for tenders for bonds.

MONEY MARKET:

Renewals to-day were mostly at  $2\frac{1}{2}\%$  and money later loaned at  $2\frac{1}{2}\%$ . This is the result principally of the disbursement which we are making to the Allied Nations and I do not expect to see any change in the immediate future if such payments as the one to be made tomorrow can be arranged so that the money is at once returned to the Street by the Allied Governments. The fiscal agency arrangement will effect that if the representatives of Great Britain, France, Italy, etc., carry out the plan which has been discussed with them.

Very truly yours,

Governor.

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

BS/HAB  
Enc.



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

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

# WESTERN UNION TELEGRAM

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

Receiver's No.
Check
Time Filed

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

Denver, Colorado,  
 May 16, 1917.

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

Just arrived in first rate order after a very comfortable trip.  
 Your good care of me seems to have been effective for I never felt better.  
 Love to you and Paul and Bettina.

Benjamin Strong.

Chg. Benj. Strong,  
 4100 Montview.

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

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for comparison. One-half the un-repeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM AND NO REPEATED TELEGRAM IS TO BE TAKEN INTO CONSIDERATION WHEREOF IT IS AGREED BETWEEN THE SENDER OF THE TELEGRAM AND THIS COMPANY AS FOLLOWS:

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

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

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

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

7. Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to the foregoing terms.

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

THE WESTERN UNION TELEGRAPH COMPANY

INCORPORATED

NEWCOMB CARLTON, PRESIDENT

## CLASSES OF SERVICE

### FAST DAY MESSAGES

A full-rate expedited service.

### NIGHT MESSAGES

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

### DAY LETTERS

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

#### SPECIAL TERMS APPLYING TO DAY LETTERS:

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

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

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

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

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

Letter shall be delivered on the day of its date absolutely and without delay, except in case of extraordinary events; but that the Company's obligation in this respect is subject to the condition that there shall remain sufficient time for the transmission and delivery of such Day Letter on the day of its date outside of regular office hours, subject to the priority of the transmission of regular telegrams under the conditions named above.

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

### NIGHT LETTERS

Accepted up to midnight for delivery on the morning of the ensuing business day, at rates still lower than standard night message rates, as follows: The standard day rate for 10 words shall be charged for the transmission of 50 words or less, and one-fifth of such standard day rate for 10 words shall be charged for each additional 10 words or less.

#### SPECIAL TERMS APPLYING TO NIGHT LETTERS:

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

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

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

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

Denver, Colorado,  
May 17, 1917.

Dear Warburg:

I had a fine trip west and after submitting an account of my performances to Dr. Sewall, he and I are both satisfied that no harm resulted from my visit. I put on another six pounds in the two weeks and now weigh 162; this is really the barometer.

I am writing particularly to thank you for everything that you did to make my trip satisfactory and particularly to make it safe - you and Nina certainly know how to do those things and I feel everlastingly grateful.

Just a word about your own work. My visit to Washington opened my eyes a bit as to the many difficult and trying features in the present situation which at times have caused you worse than annoyance. Don't let it influence your attitude a particle; you are doing a grand piece of work in a noble cause and later on when the dust and fog blows away, the country will wake up to the fact that you were big enough to recognize your citizenship as coming above everything. Meantime these annoyances which are trifling in comparison with the great end to be accomplished simply add value to your work and I do hope that you will not permit yourself to be disheartened or discouraged in the slightest degree.

I shall see you by about the first of June for I am perfectly satisfied after my short trip east that for a month at least my duty is in New York. After that I may take your suggestion and move down to the country, where I will be in striking distance of both New York and Washington.

To - Mr. Warburg.

May 17, 1917.

I spent Monday in Chicago, met the Liberty Loan Committee and the officers of the Reserve banks and tried to give the situation there a little punch. They are making good progress, displaying great energy and I am convinced have a good committee. Their organization had not progressed quite as far as ours in New York, but was moving ahead rapidly. I am writing you separately with one or two suggestions about the great problem of clearing the loan when payments are made.

With best regards,

Faithfully yours,

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

BS/CC

Denver, Colorado,  
May 17, 1917.

My dear Warburg:

I have been spending all of my leisure moments considering just what is going to happen in connection with clearing the payments for the big loan, and want to give you the best views that I can express right now because I think some action will be required by the Reserve Board to insure a successful operation:

There would be little need for concern if payments were to be made only in installments on the schedule provided in the prospectus, but the provision for anticipating payment in full presents the possibility of a very large payment within a short period. The total might be one billion dollars, or even more. In that event considerable strain will result and I think the course of development is likely to be about as follows:

Preliminary to payment being made, interior banks will begin to withdraw balances from New York in preparation. Those balances now exceed \$1,000,000,000 and the withdrawal may force the big New York banks to re-discount heavily with the New York Reserve bank. The adoption of the amendments to the Reserve Act will serve to protect our reserves to some extent, but the rediscounting may be so heavy as to force New York to put some of the load on the other Reserve banks, who will grow correspondingly strong as we grow weaker. It seems to me, therefore, necessary that arrangements be made at once by which the New York Reserve bank can rediscount upon an agreed schedule of division among the other eleven banks and at a rate to be fixed

To - Hon. P. M. Warburg.

May 17, 1917.

now in advance and without the possibility of any demur or delay on the part of the lending banks. It seems to me the Reserve Board should anticipate this situation by sending notice to each Reserve bank and by taking appropriate procedure to fix the rates. When the payment is made in each of the twelve districts, the strain will begin to turn the other way and as rapidly as money is moved to New York for the purpose of loans to allies and payment of existing obligations, withdrawals from the interior Reserve banks will be heavy and at the same time the member banks throughout the country will doubtless find it necessary to rediscount heavily with their Reserve banks. We, at the same time, in New York will grow correspondingly stronger, consequently we will take up the loans made by the other Reserve banks and gradually as the strain increases as our resources grow, we should rediscount for the other Reserve banks just as they did in the first instance for us. This leads me to the conclusion that the real problem is the reserve problem of the Reserve banks themselves and instead of shifting immense masses of gold through the gold settlement fund, with a resulting distortion of our statements that will not look good, it would be much better to effect the shift between ourselves by a liberal policy of rediscounting, each bank, of course, holding the paper on pension for the bank which makes the advance. I spoke of this to the Executive Committee of the Chicago Reserve bank and they seemed to hold much the views that I expressed and were entirely willing to do everything necessary when the time arrived.

One thing that puzzles me in our situation is the means for protecting our gold reserves. I do not see how it can be done effectively without a definite understanding with member banks that they will settle their

3.

To - Hon. P. M. Warburg.

May 17, 1917.

debits and credits on our books, in addition to the adoption of a plan by which Federal Reserve notes may be used for settling balances at the Clearing House, particularly in New York. To facilitate these matters I believe it would be most desirable to provide for the issue of Federal Reserve notes for use by Clearing Houses in large denominations. Could not such an act be passed by this congress?

Has the Secretary of the Treasury accepted the doctrine that the government must pay exchange on checks drawn on country banks in payment for the new loan? I do not see any other way of handling the matter as the Hardwick amendment stands, and the amount will be very large, as you realize.

Won't you write me your views about these matters?

Yours very sincerely,

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

BS/CC

Denver, Colorado,  
May 22, 1917.

Dear Warburg:

Many thanks for yours of the 18th. Of course I realize how exceedingly busy you have been and recognize your handiwork in much of the material that is now coming forward from the New York office. These are great days and I am glad that you are permitted to be on hand during the yeomans' services. What you say about the Hardwick amendment is exceedingly interesting. It was a vicious, selfish and unpatriotic manouver, to which I am sorry that Hardwick allowed himself to be persuaded, but let me once more repeat what I know you are conscious of more than any others in Washington, - that those amendments must pass if we are going to see our ship in good shape for stormy weather.

I shall be in New York on Wednesday of next week, ready for another bout of a few weeks and then hope to get away again. It goes without saying that I will see you in Washington. Don't bother to write when you are so exceedingly pressed, unless there is something important in which I can be of help.

I am leaving in a few minutes to act as one of the committee to meet Secretary McAdoo, who is to make an address here this afternoon and attend a dinner. He will have an immense audience I am glad to say and an enthusiastic welcome. Denver seems to be stirred up with real war enthusiasm.

Faithfully yours,

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



SERVICE DESIRED	
Fast Day Message	<input type="checkbox"/>
Day Letter	<input checked="" type="checkbox"/>
Night Message	<input type="checkbox"/>
<small>Mark an X opposite of service desired; OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.</small>	

# WESTERN UNION TELEGRAM



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

Receiver's No.
Check
Time Filed

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

Denver, Colorado,  
 May 24, 1917.

*copy*

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

Many thanks for telegram. Vital importance of passing amendments cannot be too strongly emphasized stop. Secretary's reception enthusiastic and his visit did immense good. This and other western districts badly need stimulation if loan is to succeed stop. Hope Board acts favorably on suggestion I am making through office to establish in advance rates for discounts between Reserve banks. Reach New York Wednesday of next week and hope to see you soon. Best wishes.

Benjamin Strong.

Chg. Benj. Strong,  
 4100 Montview.

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

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for comparison. One-half the unrepeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM AND PAID FOR AT THE TIME OF TRANSMISSION. In consideration whereof it is agreed between the sender of the telegram and this Company as follows:

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyond the amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED telegram, beyond the amount received for sending the same, unless specially valued; nor in any case for delays arising from unavoidable interruption in the working of its lines; nor for errors in transmission.
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, beyond the sum of FIFTY DOLLARS, at which amount this telegram is hereby valued, unless a greater value is stated on the telegram. In the event of a claim for damages exceeding the amount stated in the telegram, the sender shall be liable for the amount of such claim, plus interest thereon at the rate of six 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. 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 make delivery 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, 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 received by the Company for transmission.
7. Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to the foregoing terms.
8. No employee of the Company is authorized to vary the foregoing.

THE WESTERN UNION TELEGRAPH COMPANY  
INCORPORATED  
NEWCOMB CARLTON, PRESIDENT

## CLASSES OF SERVICE

### DAY MESSAGES

A full-rate expedited service.

### NIGHT MESSAGES

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

### DAY LETTERS

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

#### SPECIAL TERMS APPLYING TO DAY LETTERS:

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

A. Day Letters may be forwarded by the Telegraph Company as a deferred service and the transmission and delivery of such Day Letters 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 not permissible.

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

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

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

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

### NIGHT LETTERS

Accepted up to midnight for delivery on the morning of the next ensuing business day, at rates still lower than standard night message rates, as follows: The standard day rate for 10 words shall be charged for the transmission of 50 words or less, and one-fifth of such standard day rate for 10 words shall be charged for each additional 10 words or less.

#### SPECIAL TERMS APPLYING TO NIGHT LETTERS:

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

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

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

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

Message	
Day Letter	
Night Message	
Day Letter	<input checked="" type="checkbox"/>
<small>Patrons should specify the class of message desired; OTHERWISE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.</small>	

# WESTERN UNION TELEGRAM



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

Check
Time Filed

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

Denver, Colorado,  
 May 24, 1917.

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

Telegram received. Am expecting to go away again shortly after return and just as soon as circumstances permit and I am satisfied that clearing arrangements are completed and understood.

Benjamin Strong.

Chg. Benj. Strong,  
 4100 Montview.

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

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for comparison. One-half the unrepeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM AND PAID FOR A REASONABLE CONSIDERATION WHEREOF IT IS AGREED BETWEEN THE SENDER OF THE TELEGRAM AND THIS COMPANY AS FOLLOWS:

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyond the 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.
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 any telegram, when caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, at which amount this telegram is hereby valued, unless a greater value is stated in writing hereon at the time the telegram is offered to the Company for transmission, and an additional sum paid or agreed to be paid based on such value equal to one-tenth of one per cent. thereof.
3. The Company is hereby made the agent of the sender, without liability, to forward this telegram over the lines of any other Company when necessary to reach 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 and 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 make delivery for him for such delivery at a reasonable price.
5. No responsibility attaches to this Company concerning telegrams until the same are accepted at one of its transmitting offices; and if a telegram is sent to such office by one of the Company's messengers, he acts for that purpose as the agent of the sender.
6. The Company will not be liable for damages or statutory penalties in any case where the claim is not presented in writing within sixty days after the telegram is filed with the Company for transmission.
7. Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to the foregoing terms.
8. No employee of the Company is authorized to vary the foregoing.

THE WESTERN UNION TELEGRAPH COMPANY  
INCORPORATED  
NEWCOMB CARLTON, PRESIDENT

### CLASSES OF SERVICE

#### FAST DAY MESSAGES

A full-rate expedited service.

#### NIGHT MESSAGES

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

#### DAY LETTERS

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

#### SPECIAL TERMS APPLYING TO DAY LETTERS:

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

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

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

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

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

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

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

#### NIGHT LETTERS

Accepted up to midnight for delivery on the morning of the ensuing business day, at rates still lower than standard night message rates, as follows: The standard day rate for 10 words shall be charged for the transmission of 50 words or less, and one-fifth of such standard day rate for 10 words shall be charged for each additional 10 words or less.

#### SPECIAL TERMS APPLYING TO NIGHT LETTERS:

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

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

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

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

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FEDERAL RESERVE BOARD

JUN - 1 1917

FEDERAL RESERVE BOARD

May 31st, 1917.

Dear Mr. Warburg:

5/22

Mr. Jay has shown me your official letter in regard to rate for one day loans and I am writing to inquire whether the 4% maximum limitation cannot be eliminated. Surely, with your wide experience of the money market in New York, you will appreciate that the maximum rate as determined by the Board has no relation whatever to conditions which may have to be met and that the conditions in this matter may be such as to make it exceedingly unwise to surround our dealings with the money market in such condition.

Sincerely yours,

Governor.

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

BS/VCM

FEDERAL RESERVE BANK  
OF NEW YORK

Sent by BS:VCM  
NIGHT LETTER

(SEND TO FILES)

FILING DEPT.

JUN - 7 1917

FEDERAL RESERVE BANK

COPY OF TELEGRAM

401

June 6th, 1917.

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

MEMORANDUM  
BOND

A ruling that discounts for member banks for benefit of state banks must be accompanied by notes of customers of state banks given for purchasing or carrying Liberty Bonds would seriously impair the ability of national banks to assist state banks and their customers for following reasons: First, Savings banks would borrow for own account and could not furnish customers notes. Second, Trust companies frequently take general liability agreements instead of notes from customers and many may need to borrow for their own account. Third. Many state banks doubtless willing to borrow for their own account secured by their own bonds in order to accomodate customers but will be unable to obtain customers assent to repledge their notes. Stop. Hope that ruling will be broad enough to include notes made by nonmember banks without deposit of customers.

B-5

July 16, 1917.

My dear Mr. Warburg:

We are again experiencing heavy demands for loans, an increase of \$27,000,000 having taken place to-day, as shown in the following list:

<u>Bank</u>	<u>Location</u>	<u>Paid</u>	<u>Made</u>	
Ballston Spa Nat'l Bk.,	Ballston Spa, N. Y.	\$	\$ 50,000	15 days
Merchants National Bk.,	New York, N. Y.	900,000	1,000,000	
Nat'l Bk. of Ogdensburg,	Ogdensburg, N. Y.		50,000	
Chase National Bank,	New York, N. Y.		10,000,000	
American Exchange N. B.,	New York, N. Y.		6,000,000	
National City Bank,	New York, N. Y.	15,000,000	20,000,000	
Second Nat'l Bank,	New York, N. Y.	250,000	250,000	
Nat'l Park Bank,	New York, N. Y.	2,500,000	2,500,000	
First National Bank,	New York, N. Y.	5,000,000	15,000,000	
First National Bank,	Greenwich, N. Y.		20,000	10 days
First National Bank,	Silver Creek, N. Y.		10,060.50	Rediscounts
Dundee Nat'l Bank,	Dundee, N. Y.		1,513.75	
Port Jervis Nat'l Bk.,	Port Jervis, N. Y.		18,000.00	"
Port Jervis Nat'l Bk.,	Port Jervis, N. Y.		11,000.00	Coll. Note
Washington Co. N. B.,	Grenville, N. Y.		2,634.00	Rediscounts
First National Bank,	Forestville, N. Y.		8,830.70	Rediscounts
Monroe National Bank,	Monroe, N. Y.		24,000.00	
		<u>\$23,650,000</u>	<u>\$57,946,043.95</u>	

Our purchases of acceptances amounted to \$10,692,000, but we had \$7,667,000 running off our own account and \$6,168,000 for other Federal reserve banks.

Our balance at the clearing house this morning was \$39,538,000, with a resulting net credit of \$10,900,000.

There is a very general interest in the changes which have been made in the New York Clearing House bank statement, and, in calling on commercial paper brokers to-day, I was asked several times to explain the change. The high call money rates have practically stopped the sale of commercial paper for the moment at least and the brokers are eager seekers for light as to the why and wherefore.

Call money opened and renewed at 6%, touched 10% and closed at 6%. The major portion of the loans were made at 6% though about \$10,000,000 is reported to have loaned at the higher figures. Bankers here ascribe the high call rate to the

COPY

to the withdrawal of Government deposits. The heavy increases in our loan account show that they are taking steps to handle the situation.

We transferred about \$6,000,000 of our gold bars to the assay office today and expect to forward more during the week.

Very truly yours,



Assistant Federal Reserve Agent.

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

1220/222



July 17, 1917.

Dear Mr. Warburg:

Our loan account has been diminished to-day by approximately \$21,000,000 with the following transactions:

	<u>PAID</u>	<u>MADE</u>
Chemical Nat'l Bank		\$ 4,000,000
First National Bank	\$15,000,000	10,000,000
National City Bank	20,000,000	
National Park	2,500,000	2,500,000
American Exchange Nat'l Bank	3,000,000	3,000,000
Second National Bank, Elmira, N.Y.		66,000
Somerset Nat'l Bank, Barker, N. Y.		5,460
Canandaigua Nat'l Bank, Canandaigua, N.Y.	25,000	10,000
	<u>\$40,525,000</u>	<u>\$19,601,460</u>

We purchased acceptances amounting to \$1,750,000 as against our own and other banks' maturing bills of \$978,000.

The call money market was easier to-day, the opening and renewal rate being 6%, 1c5 3%, average and close 5%. There was money enough to take care of all requirements but no time money. The opinion here is that the worst of this flurry is over and that we may expect reasonable ease for the next few days. We paid certificates of indebtedness due to-day to the amount of \$40,000,000 and this, no doubt, had an important part in bringing about easier call money.

Our credit at the Clearing House was \$27,662,000 gross, \$2,405,000 net. The commercial paper market was a little firmer with sales at 4 1/2 to 5 1/4% but it is thought that the rate by to-morrow will have eased back to 4 1/2 to 5%. Banks rates to customers are around 5%.

Very truly yours,

*Lu Giney*  
Assistant Federal Reserve Agent

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

WALLS

The Federal Reserve system was established.

July 18, 1917.

Dear Mr. Warburg:

Our loans show a gain of approximately \$2,650,000 with the following transactions:

<u>Bank</u>	<u>Paid</u>	<u>Made</u>
American Exchange National Bank, New York, N. Y.	\$ 3,000,000	\$ 3,000,000.00
First National Bank, New York,	10,000,000	10,000,000.00
Chemical National Bank, New York, N. Y.	4,000,000	
Chatham and Phoenix National Bank, New York, N. Y.		2,000,000.00
National Park Bank, New York, N. Y.,	2,500,000	2,500,000.00
National Park Bank, " " "		1,126,318.81
Liberty Nat'l Bank, " " "		3,500,000.00
First Nat'l Bank, Silver Creek,"		3,665.25
Dundee " " Dundee, "		2,779.31
Nat'l Bank of Westfield, N. J.		1,167.82
Lambertville National Bank, Lambertville, N. Y.		10,000.00
First Nat'l Bank, Greenwich, N. Y.,		2,865.00

*Note of Bank  
of New York  
received  
Liberty  
bond*

Our purchases of acceptances to-day amounted to \$9,250,000, while our maturities were only \$236,000 for our own account and \$571,000 for other Federal reserve banks.

The commercial paper market is reported quiet with rates at 4½ to 5%. Call money opened and renewed at 6%; low 5%; average 5½%; close 3%.

We were debtor at the clearing house to-day to the amount of \$8,833,000 and our member banks' debits brought the total up to \$19,146,000 debit. This is probably, in large part, a reflection of our payments of certificates of indebtedness which, for yesterday and to-day, totaled \$42,500,000.

The flow of money from New York has been heavy this week, our balance due to other Federal reserve banks running up to well over \$100,000,000. Under instructions from Atlanta, we yesterday charged them and credited the Treasurer

COPY

\$6,000,000 and made like transfer from Minneapolis to-day for \$4,000,000. Withholding of funds from settlement in anticipation of the transfers to be made by the Treasurer to-morrow have been authorized by Boston, \$25,000,000, Chicago, \$26,000,000, Philadelphia, \$13,000,000, Richmond, \$9,000,000, making a total of \$74,000,000. Our debit on the weekly statement will, therefore, probably be somewhere between \$25,000,000 and \$35,000,000.

We discounted to-day for the first time the note of a nonmember bank, secured by Liberty Bonds. It was the obligation of the Bankers Trust Company for \$5,500,000, indorsed by the Liberty National Bank.

Very truly yours,

Assistant Federal Reserve Agent.

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

HHS/MSB

July 19, 1917.

Dear Mr. Warburg:

Renewal notes were given to-day by the National Park Bank, \$2,500,000., Chase National Bank, \$10,000,000., First National Bank, \$10,000,000., and Second National Bank, \$250,000.

New loans, or rediscounts, were as follows:

Herkimer National Bank, Herkimer, N. Y.	\$22,350.
Florida National Bank, Florida, N. Y.	12,003.
North Creek National Bank, North Creek, N. Y.	8,129.
Second National Bank, Elmira, N. Y.	50,476.
	<u>\$92,958.</u>

Our purchases of acceptances to-day amounted to \$1,878,000., including \$550,000., which were taken late yesterday afternoon and not reported in yesterday's letter.

Commercial paper rates are at  $4\frac{1}{2}$ % to 5%, and brokers report a good demand for short paper at  $4\frac{1}{8}$ %, with little available. A large member bank reports purchasing some very choice six months' paper at  $4\frac{1}{8}$ %, but regards this as an exception. Call money opened and renewed at 6%, average 5%, low and close 4%.

Our gross credit at the clearing house was \$15,995,000., but practically all of this was against member banks, so that our net credit was only \$23,000. We had a debit of \$29,600,000. in the gold settlement fund, having withheld from settlement a total of \$74,000,000. Transfers to the Treasurer of the United States have been made to-day either through the gold settlement fund or on our books to a total of \$87,000,000, which with \$10,000,000. transferred in the last two days makes a total of \$97,000,000. which we have received, and from which we expect to


pay \$85,000,000. to the British Government to-morrow, the transfers being from the following banks:

Philadelphia -----	\$15,000,000.
Cleveland -----	22,000,000.
Atlanta -----	6,000,000.
Chicago -----	26,000,000.
St. Louis -----	5,000,000.
Minneapolis -----	4,000,000.
Kansas City -----	5,000,000.
Dallas -----	3,000,000.
San Francisco -----	13,000,000.

We are beginning to receive interim certificates from the Liberty Loan Committee to be held in custody for our member banks, the total thus far amounting to around \$3,000,000. This is done pursuant to our circular letter sent out some-time ago.

The Assay Office will take two hundred boxes of gold to-morrow morning, and, so far as we are aware, will be able to handle next week an amount approximately equal to that taken this week, or five hundred boxes, so that the congestion in our vault will soon be materially relieved.

Very truly yours,



Assistant Federal Reserve Agent.

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

RMG/LMH

*Personal*

*1918  
Fed. Res. Bank of St. Louis*

August 8th, 1917.

PERSONAL.

Dear Warburg:

Thank you for yours of the 3rd enclosing copy of your letter to Mr. Treman in regard to certain transactions in bills which had been recently effected by the Federal Reserve Bank of New York.

I agree with everything you say in your letter with only one exception. I would not only not sell bills in the market (which was done without my knowledge), but would not even sell any of our portfolio to the other reserve banks.

Before leaving New York last month, I wrote Mr. Treman urging him to adopt the policy of maintaining our rates at the levels then prevailing, anticipating that money would then ease off and that our portfolio would automatically liquidate itself. I further urged him in case this development did not take place after a reasonable time to consider raising our rates for bills in order to ensure prompt liquidation of our portfolio. In his anxiety to carry out this policy, I agree with you that he has gone too far, but once the matter is discussed with him I am sure that all phases of the matter will be understood and we will be in agreement as to our policy in that respect.

As to sales to the other reserve banks, the reason why I think that is a mistake is because in my opinion the other reserve banks are

8/8/17.

not liquidating fast enough. There still seems to be some lingering disposition on the part of the management of some of the reserve banks to "make money". To the extent that we are contributing to that development by supplying them with bills, I think we are making a mistake and shall hope to see all twelve of the banks reduce their bills and investments to a minimum within the next 30 days or 60 days.

Of course, we must not overlook the fact that the policy of the Treasury in placing certificates of indebtedness will have a greater effect at first upon the New York money market than upon any other section of the country. We have the cheapest money and that money will flow into treasury certificates before the rest of the country will begin to contribute and then only as the Treasury raises its rate. Therefore, there might, to that extent be justification for hastening our liquidation by sales of bills a little in advance of similar liquidation by the other reserve banks.

We had just a word about this matter Monday night and I expressed this view to Mr. Treman and find that Mr. Jay agrees with it.

Sincerely yours,

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

BS/VCM

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*Copy*

August 24, 1917.

Dear Mr. Warburg:

I understand from Governor Strong that you have received a telegram from Mr. Jay of similar import to the one received by us. In this connection I want to report that our telegram was read to the board of directors of the bank at their meeting held last Wednesday.

The directors passed a resolution expressing their opinion that in the best interests of the bank Mr. Jay ought to stay away until October 15th at the earliest, and as much longer as necessary. They also expressed the view that in so far as the bank was concerned, and, of course, without trespassing in any way upon the jurisdiction of the Federal Reserve Board, the directors felt that in behalf of the bank they would be pleased to have Mr. Jay receive a leave of absence with full pay for the necessary period.

Our directors, of course, realize that this matter lies within the discretion of the Federal Reserve Board and their opinion goes only to the extent of indicating the view that the bank should pay full compensation to Mr. Jay for whatever period the leave of absence is granted.

Very truly yours,

Secretary.

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



Conf.

August 26, 1917.

Dear Mr. Warburg:

I understand from Governor Strong that you have received a telegram from Mr. Jay of similar import to the one received by me. In this connection I want to report that our balance was sent to the board of directors of the bank at their meeting held last Wednesday.

The directors passed a resolution expressing their opinion that in the best interests of the bank Mr. Jay ought to stay away until October 15th at the earliest, and no such longer as necessary. They also expressed the view that in as far as the bank was concerned, and of course, without loss resulting in any way upon the jurisdiction of the Federal Reserve Board, the directors felt that in behalf of the bank they would be pleased to have Mr. Jay receive a leave of absence with full pay for the necessary period.

Our directors, of course, realize that this matter lies within the discretion of the Federal Reserve Board and their opinion was only to the extent of indicating the view that the bank should pay full compensation to Mr. Jay for whatever period the leave of absence is granted.

Very truly yours,

Secretary.

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

August 24, 1917.

My dear Nina:

This is a business letter, consequently dictated and typewritten.

Some friends of mine have told me of the work that Miss Knowles, <sup>X</sup>  
Joe Seligman's sister-in-law, is doing, and I have been a good deal attracted  
by the accounts of her ability and qualities as a prospective business woman.

It happens that we are badly in need of help at the bank in various  
of our departments, and it might be that we can find a good position for her  
with a good future to it if she happened to have just the qualifications.  
Can you tell me something about her work, her capacity, her health, her edu-  
cation, her general point of view with regard to a woman's business career,  
and, more particularly than anything else, if we find a respo<sup>n</sup>sible position  
for her, has she poise and character to exert an  
influence on the  
welfare, behavior and affairs generally of some two hundred or more young  
women who are now working in this bank.

I am sending a copy of this letter to "Paul, the Bold," and asking  
him to also write me on the subject.

Sincerely yours,

Governor.

Mrs. P. M. Warburg,

Hartsdale, New York.

DS/RAH

Dictated by Mr. Strong  
but signed in his absence.

August 24, 1917.

Dear G. K. W.:

Enclosed is a copy of a letter which I am addressing to Nina, which explains itself.

What can you tell me about this young lady, and would she be good material for our organization?

Confidentially, I might want to train her for a rather important position, if she is equal to it, and I should want to see her and have a good frank heart-to-heart talk with her before putting her in training.

Very truly yours,

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

BS/RAH

Dictated by Mr. Strong  
but signed in his absence.

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August 28th, 1917.

PERSONAL.

Dear Warburg:

Thank you for your confidential letter of the 27th regarding Miss Knowles, which I appreciated very much. We have decided to do nothing further just at present in this connection, so it will be unnecessary to carry the matter further.

Sincerely yours,

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

VCM

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FILING DEPT.

PRIVATE AND CONFIDENTIAL  
SEP 18 1917

September 15, 1917.

FEDERAL RESERVE BANK

Dear Warburg:

I am obliged to send you this line for your personal use only, although it is a matter of great importance to all of us.

Aiken has been offered the choice of the presidency of two of the largest banks in Boston. In one case I suppose he would receive a salary of possibly \$40,000. or \$50,000. a year; in the other case he has been offered \$50,000. and they have expressed their willingness to pay \$60,000. if he feels justified in asking it.

Now I want you to consider this in contrast with the action taken by the Board in regard to the increase in his salary and similar actions in other cases. When his directors proposed to increase his salary \$5,000. a year a short time ago, the Board granted it, making it effective next January. This, of course, is none of my business, but that policy, if pursued with Aiken and, in fact, with others in the System like Curtis, is going to result in the loss of the best men we have. I feel the same way about Mr. Jay's salary. An increase of \$2,000. a year is ridiculously inadequate.

The demand for banking talent is far beyond the supply. Particularly with the big banks we need high priced men. I am going to do my best to persuade Aiken not to accept either of these offers, but just as sure as fate he and others like him are going with other banks if the Federal reserve bank positions are not made more attractive by paying adequate salaries. Aiken is the head of about the largest bank in New England, and his salary is only one third of that received by other bank presidents in

9/15/17.

Boston who are the heads of smaller institutions. I do not mean by this that he should receive as large salaries as they do, nor that that policy should prevail generally among the Reserve banks, but it certainly should be measurably nearer what bank presidents get. I am in dread all the time of the possible loss of our own good men in New York.

Aiken, I am sure, will write or see you about this, and tells me that he would have spoken of it in Washington yesterday had there been opportunity. Please do not write him or mention this until you hear from him.

Yours very truly,

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

BS/RAH

PERSONAL

September 22, 1917.

Dear Warburg:

You will recall that we were doubtful of the wisdom of accepting the application of a certain state bank in this district for membership in the Federal Reserve System. They were, however, accepted by changing to a national bank. I now enclose translations of advertisements which are appearing in some of the Jewish papers in this city, which I know you will read with interest. I am told that the advertisements are printed in Yiddish.

Very truly yours,

Governor.

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

BS/RAH  
Encs.

FEDERAL RESERVE BANK  
OF NEW YORK

Sent by

W/R  
Postal  
2:30 p.m.

(SEND TO FILES)

198

# COPY OF TELEGRAM

September 29, 1917.

Honorable Paul M. Warburg  
Hotel Ritz  
Philadelphia, Pa.

Delighted to have you dine with me on Monday Will meet you at Plaza any  
time after six oclock

Benjamin Strong.

Chgo. Fed. Res. Bank  
120 Broadway

FILING DEPT.  
OCT 1 1917  
FEDERAL RESERVE BANK  
ST. LOUIS



198

November 13, 1917.

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

*Nov. 5th*

FILING DEPT.

DEC 6 - 1917

FEDERAL RESERVE BOARD

Dear Warburg:

Many thanks for yours of the 7th. I am not going to answer it just now as I want to study the memoranda you sent me and I assume that the matter may be kept waiting a few days or will go ahead anyway.

I am loafing here, exactly as you would advise me to do, and while I have spent this morning cleaning up routine mail, I have put aside everything that needs any continuous study, including your letter, and will write you fully just as soon as I feel like doing some serious work.

My game of golf has improved and very soon I am going to write that you and Nina come down here and cheer me up a bit.

With warmest regards to all of you, including the other Federal Reserve Boarders, I am

Faithfully yours

*Virginia Hot Springs*

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Warburg

January 11th, 1918.

PERSONAL AND CONFIDENTIAL

My dear Warburg:

I am exceedingly anxious not to have questions of precedent and authority come up any more than necessary, but I do feel that a serious mistake is being made in the way some of these foreign negotiations are being handled and must rely upon you to straighten it out personally if we are to avoid the necessity of formal representations on the subject.

It seems that negotiations of which I was some time ago <sup>in</sup> formally advised were actually and finally concluded through the State Department with the Argentine Government, which have the effect of imposing upon this bank a possible gold liability to a maximum of \$80,000,000. Similar negotiations are being conducted with other foreign countries.

Mr. Kent and I have kept in touch with these plans as closely as possible and I understand that the Federal Reserve Board is working on them with the Treasury Department officials but, of course, it would be most unfortunate to have them concluded without our Board having opportunity to act in the matter and then have them disapproved by our Directors.

In a measure, a somewhat similar situation arose with the negotiations with Baron Megata.

Our Board of Directors has delegated and, in fact, the by-laws provide, powers to the Executive Committee which meets every day, which will enable prompt action to be taken in any of these matters prior to definite understandings being arrived at, and I hope that you can arrange without possibility of misunderstanding that these negotiations can be so conducted that our Directors will not be entirely ignored.

I have stated this to Dr. Rowe verbally as it struck me that he was assuming that nothing further was required beyond the knowledge of the Federal Reserve Board of what was being done and that implied that the approval of the Federal Reserve Bank was complete.

Very truly yours,

Governor.

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

BS\*VCM

February 15, 1918.

Dear Governor Warburg:

Replying to your favor of the 12th instant, enclosing a statement of the estimates of the amount of advances expected to be made by the various reserve banks on Liberty Loan bonds, it seems to me that the assumption that these estimates were misleading is not quite justified. After the first Liberty Loan was placed the discounts and investments of this bank were reduced to considerably below \$100,000,000, at one time getting down as low as \$70,000,000 in August. From that time on until large issues of certificates of indebtedness were outstanding, the bank was called upon to purchase a large amount of bills and to make a large amount of loans on Liberty Loan bonds and certificates of indebtedness and to discount large amounts of paper. On November 26th, we were advancing a total of \$308,000,000 upon the security of certificates of indebtedness and Liberty Loan bonds. The amount of these advances fluctuated between November 21st, \$253,000,000, to a maximum November 30th, \$46,000,000, being reduced as low as \$23,000,000 on December 15th and now standing at \$47,000,000 with the addition of \$42,000,000 of certificates actually purchased under contract of resale, which is the equivalent of a loan, making the advances at this date in round figures \$100,000,000. It should be observed, however, that as the amount of advances of this character decreased, the volume of discounts on purchases of bills increased so that I think we may say that as a result of loans and advances have been made by this bank directly on Government securities or indirectly on other securities which will average roughly around \$300,000,000, all brought about by the Government's borrowings. I should say that in general the estimate which was made of from \$200,000,000 to \$300,000,000 was about as close as is possible considering the enormous fluctuations in our trans-

2/15/18

actions.

On the date given for the actual advances, January 18th, our books show that we were lending directly \$90,000,000 on the security of Liberty Loan bonds and certificates of indebtedness and had purchased under contract of resale \$44,000,000, making the total on that date \$134,000,000, but, in addition to that, we had \$280,000,000 of bills discounted and acceptances purchased.

Very truly yours,

Governor.

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

BS/MSB

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FILING DEPT

FEB 27 1918

FEDERAL RESERVE BANK

February 26, 1918.

Dear Mr. Warburg:

Your favor of the 20th instant is received. I think Mr. Treman's statement of the possible calls on the Reserve bank in connection with the last Liberty Loan was a reflection of the estimate which I had already made in the office of \$300,000,000., which turned out to be substantially accurate.

In regard to the matter of interest rates, concerning which Governor Harding telegraphed last week, this matter had already been taken up by our clearing house committee and a discussion had started along the general lines of Governor Harding's telegram. I am not at all hopeful of any agreement being reached by the clearing house committee, or the members of the clearing house or the banks of New York generally. Some of the difficulties seem to be insuperable. Trust companies have always allowed higher rates than national banks, and both trust companies and national banks allow varying rates of interest on different classes of business, but the lines of distinction are so indefinite as to involve a whole revision of banking methods in New York if the allowance of interest on deposits is to be governed by some fixed ruling. Another difficulty would be indirect violations of the rule or simply failure to observe it. Experience has shown that agreements of a general and indefinite character among the banks in these matters are ineffective unless penalties may be imposed upon those who violate them.

After discussing the matter with a good many bankers, I believe the wisest course in New York would be to permit this discussion to proceed without any intervention at this time, as that might involve us in a controversial discussion and in a partisan attitude towards one or another group.

see 950  
As soon as we are satisfied, as I think will be the case, that no agreement can be reached, then possibly our intervention with a definite plan, if one can be devised, will be more effective than to join the debate now.

The Enclosed is a copy of a letter which I have sent to Mr. Frew, Chairman of the Clearing House Committee, and which I hope will facilitate the discussion.

Very truly yours,

Governor.

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

EE/RAH  
Enc.

1918

May 28, 1918.

Dear Paul:

I enjoyed my visit with you Tuesday very much and only wish it could have been longer.

You may get a note from Dean West of Princeton, asking something about my work for the Government for use in connection with the conferring of a degree. Don't give me too bad a character.

Do you know anything about the publication referred to in the attached letter. I see your name mentioned. Would you mind returning it with your reply.

Faithfully yours,

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

AS/MSB



19  
May 31, 1918.

Dear Paul:

Thanks for your note <sup>(in writing derelict)</sup> of the twenty-ninth. I found great difficulty in writing Dr. West because it seemed more than egotistical to write such a letter oneself so I had to call upon you for help.

I have not yet seen the doctor again and will give you a report when I hear from him. My plans for the summer are not yet materialized. I go to Woods Hole the first of next week; will come back for Grandin's commencement and for the Princeton affair and then make plans permanently for a long summer's holiday.

I had a bully letter from McAdoo this morning and am delighted that he approved of your letter to the President.

With best regards to you and the family, I am,

Faithfully yours,

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

BS/MSB

# HOLIDAY GREETING



## WESTERN UNION



## TELEGRAM

194

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

RECEIVED AT *915-919 Seventeenth Street, Denver, Colo.*

4ND SU 21 3EXTRA

DUPLICATE OF TELEPHONED TELEGRAM

K NEW YORK NY 11A VIA LOVELAND COLO JAN 1 1916

BENJ STRONG JR

581

*4100 Montview Blvd - Va*

FONE YORK 1308 DENVER COLO

*yfb 1308  
Strong Jr  
1025  
made*

2 MILES HIGH PROSPERITY HEALTH AND CHEER IN 1917

ARE THE FOND WISHES OF THE

G K W FAMILY

10 18 AM

Correspondence between  
Hon. Paul M. Warburg  
and  
H. R. Ickelheimer, Esq.

in re

Requirements of Euro-  
pean discount markets  
with reference to min-  
imum life of bankers'  
acceptances for good  
delivery

and

character of indorsers.

Copy for Mr.

*Strong*

January 2, 1917.

Dear Henry:

The discount market is developing very well in New York, except that the habit exists too much for acceptors to hold their own paper. This leads to unsound practices and I am sure you, who know European methods, will be in full sympathy with what we are trying to develop.

My object in writing today is to ask you to tell me exactly what are the rules of the European discount markets with respect to the minimum length of bankers' acceptances. What I mean is this: paper, in order to be good delivery as bankers' acceptances at the rate for private discounts must not be longer than ninety days and must have at least a minimum maturity of a given number of days. I remember that in Germany it was forty-five days. I do not recall exactly what is the minimum in France and England, but, so far as I can recall, it was about the same maturity. I have been trying to encourage a similar habit in New York, but it has been claimed by some of my critics that in England and France there does not exist any such rule. I am perfectly sure that when, in years gone by, when I still was in the exchange business, that it was the habit that when you agreed with an English discount firm to send £100,000 for discount or a million Francs to the Credit Lyonnais in Paris, the paper you sent could not be shorter than a certain number of days or you would have received a pretty lively kick. I should like to have my views confirmed and would be glad if you would write me fully about the subject, or about anything else that might be of interest.

\* \* \* \*

Very truly yours,

(Signed) Paul M. Warburg.

Henry R. Ickelheimer, Esq.,  
Forty Nine Wall Street,  
New York.

New York, January 4th, 1917.

Dear Paul:

\* \* \* \*

I quite agree with you that a pernicious habit has crept into the New York market from the first of having acceptors take and hold too much of their own paper. Investigation has led me to the conclusion that this was due to ignorance in certain quarters rather than to the anxiety of being the possessors of their own acceptances. Once having become a custom others like ourselves were reluctantly forced into the unbusinesslike procedure of offering to take their own bills in foreign countries, as a refusal to do so might reflect on the strength of a firm as compared to the large banks so eager to buy their own signatures. As you and I are agreed on that there is no purpose in my taking up your time in discussing that question.

The minimum length of bankers' acceptances that can be sent to London or Paris as a good delivery, except by prearrangement, is sixty days, the maximum ninety days. Occasionally if a bill has from forty five to fifty days to run they will take it at the regular rate but generally speaking the market expects a delivery with a minimum length of time of sixty days. On this point the rules governing the two markets are practically identical. Your memory with regard to sending bills to London and Paris is therefore quite correct and it is probable that what your critics may have meant was that there is no rule governing the minimum number of days excepting so far as the rate is concerned. The position you take is entirely correct.

It seems to me that possibly one of the remedies for bringing about a discontinuance of the purchase by acceptors of their own paper would be a rule similar to that existing among the leading European banks requiring two signatures of the country where the draft is accepted. Such signatures however should not include the endorsements of foreign banks having agencies or branches in New York: in other words there should be two signatures of concerns whose capital is in this country, for we all know that agencies and branches are practically doing their business with deposits or credit and going a step further another reason would be that it would not be wise to accept as an endorsement to which one might have recourse an institution in a foreign nation that might at some future date be an enemy of the United States.

\* \* \* \*

Sincerely yours,

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

(Signed) Henry R. Ickelheimer.

January 5, 1917.

Dear Henry:

I have your letter of January fourth, and thank you very much for your prompt and most satisfactory reply.

I should like to get your views quite clear, and would, therefore, ask you to make it quite plain to me what you mean when you speak of "two signatures" on the second page of your letter. I suppose you mean two signatures not including the acceptor. In other words, one signature - that of the drawer - and another - that of an American indorser. "Two signatures of the country where the draft is accepted", as you put it, would not do the trick in case the drawer were located in the United States.

very sincerely yours,

(signed) Paul M. Warburg.

Henry R. Ickelheimer, Esq.,  
Forty Nine Wall Street,  
New York.

January 8, 1917.

Dear Paul:

\* \* \* \*

What I meant by two signatures calls for an endorser other than the acceptor, such endorser to be either a member bank, an insitution or private banker whose signatures are eligible. This would cover the case of the drawer being located in the United States unless it were that an eligible name drew on another eligible name in connection with a commercial transaction, as, for instance, Brown Bros. & Co. might have received an order to ship coal for the Italian Government and as reimbursement were asked to draw on the National City Bank. Such a case of course is imaginative and you would have to deal with that as you saw fit.

I understand that the Bank of England has a list of names whose endorsement they take in connection with the acceptors' but that bills drawn by one British concern on another are only taken with great reluctance. The Banque de France likewise requires two French names known to them.

Trusting that I have now made myself clear as I really should have in the first instance I remain

Yours very sincerely,

(signed) Henry Ickelheimer.

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

*Personal*  
*Confidential*

*R. Warburg*

FEDERAL RESERVE BOARD

WASHINGTON

*R.A.W.*

January 19, 1917.

JAN 26 1917

Dear Strong:

Just by chance I ran across the enclosed excerpt from Dr. Riesser's book bearing on the subject of bankers' acceptances. This bears out my statement of the other day and the statement of Mr. Ickelheimer.

We are working at present on our annual report, for which the Governor will this year take the responsibility. It is coming along and I hope in a week or two we shall be through with it.

Governor Harding went before the Banking & Currency Committee yesterday <sup>and today</sup> and had a session with them today, from which it looks as if our amendments had a fair chance of being passed in the House. If they get through the House, I do not think we need expect much trouble in the Senate. However, I do not want to be over-sanguine before we are that far.

Harding and Delano went to New York day before yesterday and came back very well pleased with what they saw in the bank, and particularly the new vaults. I think their visit has had the effect of removing whatever there may have remained of irritation or bad feeling on both sides since the last intermezzo.

Jay writes me that Woodward at last has reported favorably concerning Aiken and that he is to write you to take it up with



(2)

Aiken. I am much pleased that this matter is now in a fair way of being disposed of.

We are much importuned just now by importers - particularly from the Argentine and Spain - owing to the fact that England has put so many obstacles against our shipping gold to those countries, which is rather a high handed proceeding. It is somewhat difficult for some of our importers to understand why England should find it possible to fill us with gold - and force us, if you please, to inflate our deposit structure - while refusing to let this gold which is due us flow to Spain or the Argentine, so that they are keeping us out of those markets with the very banking strength that we are giving them with our loans. There is one company here that kicks up a pretty bad row about these things, and its president has appeared before the Committee on Banking and Currency. I do not know what the outcome will be, but hope it will not mean another row. I am doing all I can to avoid it.

What did you say to Lawson? There is a fine bird for you! Can't you find him a job in Denver? The investigation itself has become so ludicrous that I do not think that anybody takes it seriously any more. With all that, it is a mighty unpleasant thing to have one's name drawn into the mire as has happened to some of my friends here. I have been thrown into this thing too, but in such a perfectly unwarranted way that I do not

(3)

think that anybody has had more than a smile for the thing. However, all these nuisances take up one's time and thought and that is the worst of it. In addition, as the old Latins cite, "something always sticks".

Jay appears to be all right again. His voice sounds good over the telephone.

I hear that Jimmie Curtis was in Washington a few days ago, though with a bandaged ankle.

The peace outlook is bad again, and I am mighty sorry about it.

Vanderlip was here day before yesterday, having been subpoenaed, and we had a long and quite interesting talk. He is expected back in a few days. He shot into me on account of the British treasury bills, whereupon I launched a torpedo into his ever-growing "tummy" (he is getting terribly fat) and I think the end of the conversation was that we both were satisfied that ~~we were right~~ <sup>the other fellow was wrong</sup> - nobody having changed his view. I believe, however, between you and me, that I gave him a new aspect of the case, even though he did not want to concede it. He said that the gravest blunder that we had made (he called it "phenomenal") was that we had permitted these "renewal credits" to creep into the system. You would not say that he says that because he entertains pro-German views! However, it will please you to have me say that I think that Vanderlip goes

(4)

too far in his views, and if we only manage to keep this thing within reasonable limits I think no harm has been done - quite the contrary, we may have done some good.

How would it be for you to write me how you are getting along with respect to your health? Vanderlip said that he expected to go out to California in the spring and that he hoped you would go with him. What does the doctor say?

Jimmie is at present handling freight in a B & O freight yard, and I envy him the opportunity of kicking things around.

The "vimmens" are well and good natured as always. So am I - but not always.

With warmest regards,

Always cordially yours,



Benj. Strong, jr., Esq.,  
4100 Montview Boulevard,  
Danver, Colorado.

Senate Document  
No. 593.  
61st Congress  
Second Session.

National Monetary Commission.

-----  
THE GERMAN GREAT BANKS AND THEIR CON-  
CENTRATION

in connection with

THE ECONOMIC DEVELOPMENT OF GERMANY.

by

DR. J. RIESSER.

Pages 289-290-291:

"The first rank in this line of investment is held by those bills that are regarded as prime discount bills throughout the German discount market. Such are the acceptances of the six foremost Berlin banks \* \* \*. According to the regulations of the Berlin Bourse (similar ones prevail in Frankfurt-on-the-Main), these prime bills (or private discounts) must be payable in Berlin or at a place where there is a branch of the Reichsbank, must be at least 5,000 marks in amount, and run not less than two months nor more than three months. However, in fixing and quoting actual market rates of private discount, no difference is made between sixty-day and ninety-day bills \* \* \*. The Reichsbank, however, does not buy bills in Berlin below the Reichsbank rate of discount." (The Reichsbank rate of discount is the bank rate - not the private discount rate.)

COPY.

Draft of letter drawn by  
Mr. Warburg for the F.R.B.  
of N.Y., addressed to Mr.  
Manuel M. De Ariondo, Pres.,  
Banco de la Nacion Argentina.  
15/1/17.

My dear Sir:

Upon his return from his trip to the Argentine, Mr. Warburg informed us of the conversations which he had had the pleasure of having with you during his stay at Buenos Aires, and we have ever since been waiting for an opportunity of entering into a correspondence with you for the purpose of establishing reciprocal relations between the Banco de la Nacion Argentina and the Federal Reserve Bank of New York.

The amendments to the Federal Reserve Act passed by our Congress in the fall of 1916 permit Federal Reserve Banks now not only to establish agencies in foreign countries, with the approval of the Federal Reserve Board, but also to open reciprocal accounts for those institutions that will act as agents for the Federal Reserve Banks.

We are therefore now in a position to enter with you upon negotiations upon a basis of reciprocity.

There would appear to be two ways in which our banks might be useful to each other and of service to our respective countries:

One is, our placing at your disposal our discount facilities. American bankers' acceptances drawn in dollars on our national banks, trust companies, or private bankers, are being used freely now to finance our own trade with your country and to a certain extent, our acceptances are being used also for the financing of the trade of other nations.

We should be happy to enter into an arrangement with you under which we should secure for you a discount rate good for bills on arrival of the mail, within a given time; and we should be happy to stipulate these discount rates

as low as possible to encourage the free use of our acceptance facilities in the Argentine. We would cable you our rate and it would remain good until countermanded. You could draw on us by the same mail by which would be sent these remittances to us, or we could, no doubt, arrange to remit to you against these remittances to England or France or other points where you might desire to direct remittances against your balance with us. If you should wish to draw on us by cable pending the remittances of acceptances, we could probably find some method by which this could be done, adopting such way as would enable us in doing so to remain within the limits of the legal powers given us by Congress.

The account would be free of commissions; on the other hand, we regret to say that we are unable to pay interest on balances.

We should be glad to hear from you as to whether facilities of this kind would be of service to you, and upon what conditions you would open for us an account with your bank.

The other way in which our banks might be of service to each other is in dealing with gold.

At the present time the remittance of gold from here to South America is rendered difficult both by extraordinarily high insurance rates and by the limited amounts that can be sent, in view of the insufficient number of ships sailing from here to South America, and by the limited amount of gold that can be taken by each individual steamer.

It has occurred to us that we might be of great help to the importers purchasing goods in the Argentine if we could make mutually satisfactory arrangements by which we could undertake to accept gold for you (in gold certificates or in actual gold) and keep it for you ear-marked under lock and key as your property. We have made similar arrangements for another Government bank and we are charging this bank at the rate of    % per annum for this service. We would

undertake to safe guard this gold with the same care as our own, without being liable, however, for acts of superior force or consequences of fire or burglary. We might mention, however, that our vaults are the newest and the strongest that human ability can devise, and that they were finished only last week and are now holding \_\_\_\_\_ hundred million dollars of lawful money. As a matter of fact, we have been waiting for the completion of these vaults of our own before writing you. The arrangements for the safeguarding of this gold as your own undoubted property could be made to suit yourself. We could, if you preferred it, put the gold under a double combination, which could be opened only by us in conjunction with another party, representing yourself - a trust company or a representative of the Argentine Government designated by you.

We believe that if gold could be handled in this manner it would not only be a great help to the development of commercial transactions with your country, but in addition, it might be a profitable transaction for yourself. Because the present high charges offer so large a margin that if the gold were kept in New York until normal conditions were reestablished on the ocean and until normal freight and insurance rates were reestablished, it would ultimately be shipped at a much lower expense and you could count for yourself on the corresponding profit ultimately coming to you.

If there are any other ways in which we can serve you, we should be glad to receive any suggestions from you and we assure you in advance that it would be a pleasure for us to do anything within our power to establish with you relations mutually agreeable and profitable.

I beg to remain, dear sir,

With assurances of high esteem,

Very truly yours,

Mr. Manuel M. De Iriondo,  
President, Banco de la Nacion Argentina,  
Buenos Aires, The Argentine.

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FEDERAL RESERVE BOARD

WASHINGTON  
FEB 21 1917

January 30, 1917.

Dear Strong:

I have your various letters of January 26th and 27th and am delighted to see from them that Dr. Sewall is so much pleased with your condition. That is the best news that I have received in a long while.

I am inclined to think that the Starek dope acted as a stimulant in your case. That experiment proved, anyhow, that if a man is a scoundrel, you need only give him rope enough and he will hang himself. What really happened is best summed up in this: Apparently he got interested in some mining stock; that he got his financial affairs apparently balled up; that he introduced some friends to some of the National banks, which made loans in their own names, but the suspicion is that they were only dummies - at least that he was interest in these loans. He did not attend to business, came late, and was not in a condition to attend to his job while he was there. He appears physically to be in bad shape and highly nervous. I give you this story as we received it. He got a leave of absence and it was suggested to him that he would better resign, but he insisted in delaying and so finally was removed. Whether or not some of his Republican friends



(2)

will not try to raise a hue and cry that he was removed for political reasons or to create room for Malburn, remains to be seen. Some indications to that effect have been in the papers. We have not yet acted upon his directorship because we want to give him a chance to resign. If he does not we shall have to remove him. It is a shame that that was not done a year ago. Much good might have been done in between; but there is no good in crying over spilt milk—rather be glad that the end has come.

I am glad to learn that you feel like coming back. But do not get it into your mind to come too soon. Get Aiken here so you will feel certain that matters are being attended to as they should, and then take your time. Half a year more or less may make all the difference in the future. If you take your time and go easy, there is lots of fun ahead of you. I say this even though nobody wishes more than I that you could be back at your old desk *today!*

As to our correspondence, I really think we ought to drop the argument, because I do not think we are getting very far with it. We are not talking about the same thing, although we appear to be very near together.

(3)

The difference is this: At the official bank rate everything is being taken that the bank takes at all; at the private bank rate the same rules apply to Government banks as to private banks. I cannot see the difference that you are drawing between transactions on the street and with the street in that respect, because when Government banks buy at the private bank rate they are dealing on the street every bit as much as every other bank. You overlook the point that I made and that is, that there were years in Europe when some of the Central banks had a private discount rate; and the minute they have that they are observing the same rules. The difference between a private bank rate and a bank rate is that the private rate is the one at which banks do not buy broadly. We are now developing the rules for the street and should not simply take the course of the least resistance and let things go at sixes and sevens. Everything you say about the bill brokers that melt their bills at the Bank of England, etc., is done at the bank rate, not at the private rate. You have in mind mainly the volume of bills and you do not want to do anything that interferes with the development of the bill market. But what I want to do does not interfere with that a bit. When ~~their~~ <sup>from South America</sup> bills are being sent for

(4)

discount they are ninety days long. The people who are affected by this are only the New York houses and the acceptance firms who hold on to their bills and do not sell them when they begin to run down. It is these fellows that I want to get at. If there is anything that hurts our discount business, it is that the bulk of our acceptances just now is being discounted in Europe at rates which amount to, in some cases, over six per cent, by your New York friends. <sup>Unfortunately</sup> The European drawer has no interest at all in our discount rates and he does not worry about it whether we make it a rule that our private discount rate shall apply to paper that has to run between forty-five and ninety days. <sup>¶</sup> I think it is a mistake to want to keep the private acceptance rate pegged at one point. If you do that the dealers lose interest entirely. Our acceptance rate has moved between  $2\frac{1}{2}$  and  $3\frac{1}{4}$  for current acceptances. It is just now back to  $2\frac{1}{4}$  and  $2\frac{1}{2}$ , even though we have not bought anything these last weeks and have consistently permitted our holdings to run down. This is a pretty large order for our poor Federal Reserve Banks at this time; but they are doing their part nobly - except your old friends at Chicago, where there is again an indication of getting nervous and buying some acceptances, at least, in order not to lose their beloved earnings.

(5)

You might be interested in a memorandum which I wrote today for the Board and of which I inclose a copy - which please tear up with the rest of my correspondence.

I believe that very shortly we shall have an issue of short U. S. Treasury bills, and that will both bring steadier rates and at the same time an opportunity for the Federal Reserve Banks to invest some money.

I am sending you a copy of the amendments as they passed the House Committee. The reserve requirement amendment makes Federal Reserve notes reserve money, and so you see - if the Senate will only pass the same amendment, as I hope they will - we will have won out on that point. I told you that we were moving in that direction, but you, old skeptic, did not believe me, as usual.

On the other hand, I am mortified that our gold note issue amendment was again knocked out. But having gone as far as we have now, it is only a question of patience and perseverance and that will fall into our lap, too. Pending that, we have to get on accumulating gold through the round-about present process.

Section 22, as amended by the Committee is bad. I wrote Glass a stiff letter this morning about it and he came in just now and said that they would fix that up to suit the Board. That will be a great help.

(6)

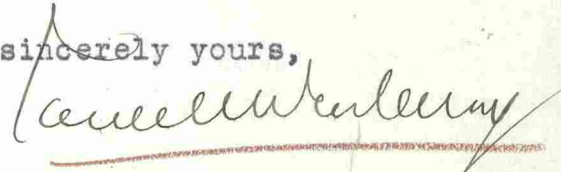
On the whole, if we can get what is on their cards now, I think we shall be very lucky. However, I am afraid that by the time the bills go through the House and the Senate Committee and the Senate, there will be some more shaving.

The foreign exchange situation is very bewildering. On the one hand England does not permit us to send gold where we want to; on the other hand, with a country like Spain we cannot get any cooperation because they are glad to have dollars stand at premium because they think that is good business for them. They apparently do not see that that reduces their exports. We asked the Spanish ~~Ambassador~~ to send a cable and they did not want to do it; but we have cabled through the State Department, though we have not yet heard from the other side in reply.

As soon as I get time I shall write a chatty letter in long hand. *Have lots to tell you.*

With no more for today, I am

Always sincerely yours,



Benjamin Strong, Jr., Esq.,  
4100 Montview Boulevard,  
Denver, Colorado.

\*Inc.

REPORT - P.M.W.  
Jan. 29, 1917.

Subject: \_\_\_\_\_

On January 19th the Governor addressed the Federal Reserve Banks as follows:

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

<u>Total Earning Assets.</u>		
January 18th		\$192,000,000
26th		<u>181,000,000</u>
	Decrease	11,000,000
 <u>Rediscounts and Acceptances</u>		
	Decrease	12,500,000
 <u>Warrants</u>		
	Increase	1,250,000

Since Dec. 29th

<u>Rediscounts and Acceptances</u>		
	Decrease	44,000,000

Of which:		Almost
New York	lost	20,000,000
Phila.		7,000,000
Chicago		5,000,000
Cleveland		3,000,000
San Francisco		3,000,000
Boston		2,000,000
St. Louis		2,000,000
New York	lost	41% (about)
Phila.		44% "
Chicago		36% "

Bills and Acceptances maturing

Within next 15 days	about	29,000,000
Bet. 16 & 30 days	"	19,000,000

The question is, shall the Federal reserve banks continue their present policy for another week or two of letting the open market absorb the acceptances at the prevailing market rate of \_\_\_%; or shall they invest their money at this low rate in order to secure earnings?

For the sake of protecting the development of the accepting business their purchases are not required at this time. For the sake of developing an open market and the practice of member banks to invest in acceptances, it would be better that they should stay out and not depress the rate for acceptances by comprehensive purchases on their part. From the point of view of carrying into effect the policy which the Board has championed publicly, it would be consistent for the Federal Reserve Banks to do their share in preventing gold from being absorbed too rapidly or too extensively as the enlarged basis of an enlarged credit structure. It would appear that, for a week or two, the Federal Reserve Banks could well afford to continue their present policy of not following down the low money rates buying acceptances at  $2\frac{1}{2}$  or even  $2\frac{1}{2}\%$ , and, by doing so, increasing the downward tendency of money. The mere fact that the banks would be withdrawing about \$30,000,000 during the next two weeks would have some effect, and, moreover, it is generally expected that time money rates will after a short while show a little stronger tendency.

We ought to consider, too, that plans of the Treasury in issuing a large amount of short term notes will, in due course, have a strong effect upon the money market, and that, with the hoped for cooperation of the Secretary of the Treasury, the Federal Reserve Banks would then become important factors as a balance wheel, which would mean temporary large transactions for them. Incidentally, the money withdrawn could be employed, to a certain extent, in buying short term Government notes.



It follows, therefore, that a consistent policy of Federal Reserve Banks would make for a continuance for a week or two of the plan at present in force. It is obvious, however, that a plan of this kind, which is based upon the public interest rather than that of the stockholders, should be followed as far as possible by all banks alike. It would hardly be fair if nine or ten banks carried it out and two or three banks would continue to buy at no matter what low rates in order to keep their funds invested.

It is suggested that the Governor place himself in communication with those banks which do not cooperate on these lines and explain to them the Board's point of view in this connection, inviting their cooperation.

Respectfully submitted:

(Signed) PAUL M. WARBURG.

.....

FEDERAL RESERVE BOARD

WASHINGTON

February 15, 1917.

Dear Strong:

The enclosed memorandum came to me from Denver.

I have not read it, but it looks to me that it was written in a pretty high altitude and ought to go back to it. It is beyond my plane.

Sincerely,

*Lucille D. Strong*

Hope you got back safely from your Arizona spree. Don't worry about conditions out here and don't think of coming back now! (It is snowing like mad today.) Things are quieter for the time being, but it is only post-poning the evil day. We are preparing for the worst and, if our amendments should pass as I hope they will, we are pretty well equipped for all eventualities. We got the bulk of them through both committees, but we are somewhat in doubt as to how the men up the hill are going to find the time to push these amendments through. They have such a lot to do, and there is no leadership. These are disgusting and disheartening times; but they have to be borne best we can. The family is well and cheerful. We all enjoyed your little note from the hot desert - it must be a good preparation for the hereafter.

*Y's sincerely  
lilled.*

FEDERAL RESERVE BOARD

*D.A.W.* WASHINGTON

FEB 26 1917

February 20, 1917.

Dear Strong:

Mr. Jay has just left me, having come here for a short and, I hope, satisfactory discussion concerning Banque de France affairs.

I was delighted to hear through him about the good news that Mr. Curtis brought back concerning your health. Those 150 pounds that you tip the scales with now look pretty good to me. Keep it up, old man! You will have to put on quite a number more before you will be able to complain about an overdose of fat.

I have your letter of February fifteenth, and have read it with a great deal of attention. There was a misprint in Section 22 of the amendment as you received it. The section now permits "a reasonable fee" for an attorney, at the same time permitting an attorney to borrow from his bank upon the normal terms that any other borrower may enjoy. He also gets the same interest. You may remember that, under the old section, the language was such that an attorney-director could not even receive a fee. The expression "reasonable" is, I believe, flexible enough. You certainly would not argue that he should receive an "unreasonable" fee. Of course, anybody can bring business to a bank and get any kind of compen-

(2)

sation he pleases if he does not act as attorney for the bank, or if he is not a director. I do not believe that Section 22, as amended, will give us much trouble even though the language, as it now stands, is not that proposed by the Board. It has the great advantage now that it frankly permits directors to contract for loans with their own banks, a condition which hitherto, under the language of the old Act, was not provided for, but was permitted to slip through by the Comptroller wherever he thought well of it. In country banks it was considered as a pardonable thing, while with the big banks it was considered a crime. The law now creates definite and clear conditions in this respect, which is great progress.

The days of grace were also omitted through oversight on the part of the <sup>banking committee's</sup> printer, and I think Governor Harding telegraphed you that this had been remedied some time ago.

The clause requiring the Federal Reserve Bank to appoint correspondents in foreign countries was not suggested by the Board. personally I disapprove of it, but inasmuch as the power extends only to requiring a board to appoint correspondents and the board cannot force the bank to operate after the correspondent has been appointed, I do not see that there is much harm done by it. Mr. Glass brought in this amendment at his own suggestion (and it wont take you long to guess from where the inspiration came.)

(3)

As to the Assistant Federal Reserve Agent, I am in accord with your criticism. We hope in conference to get in an entirely different clause, of which I enclose a copy, which would create a joint control by the Federal reserve Agent and the Bank and would enable us to re-shape the power of the assistant. We tried to secure the other changes that you suggest, making the bond run to the Board and the Agent responsible to the Board, but, strange to say, the <sup>Congressional</sup> committees did not approve of that. They wish the Federal Reserve Agent to assume full responsibility.

It is easy for you, being one mile high, to take a bird's eye view and suggest what should be done, but it is a very different thing to get what you want. At present we are trying as hard as we can to put some steam behind the two committees, and behind the Rules Committee of the House, in order to get the amendments considered and acted upon before Congress adjourns, which is less than two weeks off. The devil of it is that the country bankers, under the leadership of Mr. Thralls, have gotten behind some members <sup>in the House</sup> and tried to tack on an amendment which would permit the country banks to charge 1/10th of 1% for exchange. Glass is absolutely opposed to this. So far there is some danger of a deadlock. The Kitchin faction, trying to block legislation, wants such an amendment to be added, and Glass swearing by all the saints that he would rather let the amendments go to pieces than to permit such an

addition. The Board has taken the point of view that, while it sympathizes with the Glass attitude, this exchange charge is not important enough one way or the other to block the amendments, and that, while the Board does not approve of this charge, still it would not feel that the granting of it would be fatal; but that it would be fatal, however, to lose the amendments at this juncture.

I am less worried about the House than I am about the Senate. In the latter there is no leadership at all and it would take quite some strategy to get the amendments on the calendar. We are doing all we can in this respect. The final work will have to be done at the conference. If we can get the amendments through we shall have to see to it that the finishing touches are put on there, and we ought then to bring pressure to bear to get the note issue amendment through in some form which will permit the issue of notes 'against gold or paper.' I am holding my breath in this respect and in many others. The next fortnight will bring interesting developments in many ways, and I wish sometimes that we had those two weeks behind us. However, there is nothing to do but to wait, as far as we have to, and to push, as far as we have to.

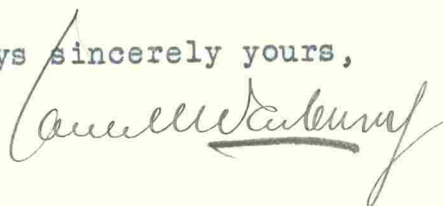
Aiken was here for a day last week but it did not look to me as if he were reacting favorably upon the New York proposition. I am frank to say that I am much disappointed and that I still hope that somehow or other a way can be

(5)

found to solve this problem. He said he had written you and that he would let me know his final conclusions when he heard again from you.

With warmest regards and best wishes, in which the entire family joins me, I am

Always sincerely yours,

A handwritten signature in cursive script, appearing to read "C. M. DeBary". The signature is written in dark ink and is positioned below the typed phrase "Always sincerely yours,".

Benj. Strong, jr., Esq.,  
4100 Montview Boulevard,  
Denver, Colorado.

(Suggested substitute for the last paragraph of H.R.20661)

Upon the recommendation of the Federal Reserve Agent, the Federal Reserve Board shall appoint one or more assistant Federal Reserve Agents. Such assistants, who shall be persons of tested banking experience, shall perform such duties as may be assigned to them by the Federal Reserve Agent and shall also have power to perform the duties of the Federal Reserve Agent in the absence or disability of the Federal Reserve Agent. Assistant Federal Reserve Agents shall receive an annual compensation to be fixed and paid in the same manner as that of the Federal Reserve Agent and shall give such bonds as the Federal Reserve Board may require.



Substitute for the last paragraph of Section 1  
of House Bill 20661

Upon recommendation of the Federal Reserve Agent the Federal Reserve Board shall appoint one or more assistant Federal reserve agents. Such assistants, who shall be persons of tested banking experience, shall perform such duties as may be assigned to them by the Federal reserve agent and in the absence or disability of the federal reserve agent may be designated by the Board as Federal reserve agent, in which case he shall be vested with all powers and shall assume all the duties of Federal reserve agent during the period designated.

Assistant Federal reserve agents shall receive an annual compensation to be fixed and paid in the same manner as that of the Federal reserve agent and shall give such bonds as the Federal Reserve Board may require.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED,

That all Federal reserve notes and all gold, gold certificates, lawful money and eligible collateral security issued to or deposited with any Federal reserve agent under the provisions of the Federal Reserve Act shall hereafter be held by such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. Such agent and such Federal reserve bank shall be jointly liable for the safe-keeping of such Federal reserve notes, gold, gold certificates, lawful money, and eligible collateral security. Nothing herein contained, however, shall be construed to prohibit a Federal reserve agent from depositing gold, or gold certificates, with the Federal Reserve Board to be held by such Board subject to his order or with the Treasurer of the United States for the purposes authorized by law.

2/14/17

FEDERAL RESERVE BOARD

*R. A. W.* WASHINGTON

MAR 3 1917

February 27, 1917.

Dear Strong:

I have your letter of February twenty-third, and notice that your mother and your sister will be coming here. It will give me the greatest pleasure to make them comfortable, not only in the gallery of the Senate, but also at my house if they will let me. I expect they will come before Congress adjourns although it looks just now as if an extra session were mighty possible.

Today is our critical day. While I am dictating these lines it is hoped that our amendments will be passed in the Senate. If they do not pass this morning, I think our chances are gone unless we get an extra session, and there I believe we will have almost a harder time to get the thing discussed than we are having now.

I was glad to receive your letter of the twenty-first telling me of your trip to Arizona, but I was sorry that on your return you had some little trouble which I hope by now has been completely removed.

We telegraphed New York yesterday that the Board approved their application for establishing an agency with the Banque de France and the public announcement will be made Thursday. Jay telephoned expressing his pleasure at having the matter

(2)

arranged in this manner.

With kindest regards,

Sincerely yours,

*Amelluarney*

*Chances for amendments are bummer! Going up to  
the Capitol myself now, but Republicans want Carter senior  
\* block everything.*

Benj. Strong, jr., Esq.,  
4100 Montview Boulevard,  
Denver, Colorado.

FEDERAL RESERVE BOARD

WASHINGTON

*D.A. W.*

March 2, 1917.

MAR 5 1917

Dear Strong:

I have your letter of February twenty-sixth and have read it with much interest.

You are wrong about the Assistant Federal Reserve Agent. The amendment reads now that the Federal Reserve Agent shall appoint his assistant with the approval of the Board and that the Agent shall be responsible for his assistant.

We have had no end of telegrams and letters from Mr. Perrin, who does not want this responsibility. He wants the whole responsibility of appointing the assistant thrown on the Board, so you see that the Board is subject to very divergent views expressed just as emphatically as your own.

I have been communicating with Aiken and I hope that he will come over here Monday or Tuesday, although he has not definitely said so. I want to try my luck with him and urge him to go out to see you.

The amendments appear to have lost their chance of being passed upon. There is a complete lack of leadership *at the Capital* ~~up there~~. Several attempts were made to bring them up but there appears no doubt now that an extra session will be necessary because Congress cannot get through at the rate at which it is moving now, and the matters still pending

(2)

are of too great importance to be disposed of in a jiffy.

Very truly yours,

*Benjamin Strong, Jr.*

The trouble is that Senator Owen has lost so much in standing that he is not able to pull the matter through at this time.

The Beue de France memorandum has been circulated informally amongst us and no fault has been found. I return it today so far with informal o. k.

Benj. Strong, jr., Esq.,  
4100 Montview Boulevard,  
Denver, Colorado.

FEDERAL RESERVE BOARD

WASHINGTON

*R.A.W.*

March 12, 1917.

MAR 16 1917

Dear Strong:

Saturday (day before yesterday) your dear Mother and your sister lunched with us. We had a very good time together and talked, as you may guess, quite a little about the truant in Colorado.

Your Mother is looking very well and appears to be interested in everything that is going on. I secured for her two seats in the Senate gallery for today, but that august body has adjourned for today and I suppose your good Mother will have to wait for a few days.

Unfortunately, it has become necessary for the <sup>Congress</sup> House to come back soon. I say "unfortunately" because it does not augur well for general conditions. On the other hand, for our amendments it is distinctly advantageous for we now have again a fair chance of seeing them passed in the near future.

Thank you for your two letters of March fourth and eighth.

You want to have my judgment about the proposed contract with the Banque de France. I think it is in excellent shape and have nothing to suggest. You know my general feelings about the matter which I have not changed; that is, while I believe that the mutual gold arrangements are admir-

(2)

able and will probably be of benefit in the future when normal conditions prevail, I do not believe that for investments in bank paper the two government banks - theirs and ours - will work out to be the best instruments. But that remains to be seen after peace will have been established and after we get going. I am glad enough anyhow that the thing has sufficiently advanced to get out of the frying pan and out of your mind.

I am glad that you are pleased with the growing amount of gold controlled by the system. To me it is very interesting to see this illustration - which for you and myself is not necessary - that we increase our gold holdings at a time of general unrest when people normally think that they should be reduced. But the fact of the matter is that if we handle our problem right there should be an increase of gold whenever there is a movement by depositors from one bank to another; that is to say, Bank A needs currency and asks for Federal Reserve notes because depositors withdraw and Bank B receives the money withdrawn and deposits the excess cash by an indirect process in the Federal Reserve System.

You ask if the Board's original ruling that gold held behind notes could not count as an asset originated from an opinion of counsel. We have had no formal opinion, but in-



formally I have asked and they only confirmed my own view that that could not be done. Quite recently, when the amendments were being discussed, there was quite a stir in Congress when some of them tried to create a big row because they claimed that the Federal Reserve Banks were doing something illegal in locking up this gold which, to their minds, ought to be in the hands of the people. They saw in this whole process a conspiracy to bring about contraction. We were glad enough to get these fellows quieted down and I would not dare to go much further without authority in law. But I am hopeful that the amendments sanctioning our note issue may now pass. Mr. Glass expressed himself the other day as much more mildly inclined toward the same and the Senate is strongly for it.

Don't you fuss about your investment account. These are extraordinary times full of possibilities which nobody can foretell. Whether or not you have a few million dollars more or less invested does not frighten me one way or the other. I would not object to a \$50,000,000 investment if it came to the bank as the result of a proper policy. It is difficult to make it clear, but what I mean is that it is not the investment that counts just now but the proper policy. We have during the last quarter very successfully maintained the policy that we are in the market when we are needed but that we are not in the market when we are not

needed. That has had the effect of smoothing over the rough places and that is the very thing we want to do. We have kept the rate at about 3% for acceptances. We have discouraged buying warrants, which I think is correct in times like these. Inasmuch as the <sup>member</sup> banks have been going into the market pretty heavily and absorbed all the floating acceptance material, our investments have reduced a little during the last week, but you will have noticed that while our reserve position has been strengthened during that period the position of the New York Clearing House members has been weakened by \$34,000,000, so you will probably see that in the coming week the position <sup>may</sup> will again be reversed. ~~We shall probably be given a million and they will take the loss.~~ *Of course the gold imports interfere at this time interfere with the thing working out just that way.* But, be that as it may, what I expect is this, that the United States Government will have to appeal to the market pretty substantially in the future by an issue of one-year bonds <sup>or</sup> and by the sale of long term bonds. The Treasury is at present at its lowest ebb. In the present banking situation some hundred millions of dollars will have to be paid in to the Treasury in payment of Government bonds or notes and no doubt it will affect the position of the member banks, particularly in New York. At the time when these payments will be made, it will be necessary for the Federal Reserve Banks to have a low rate for acceptances and a low rate for fifteen day paper so that

(5)

whatever goes into the Federal Reserve Banks in excess of what the banking situation can stand will have to be returned by way of discount transactions. I have no doubt at all that that will result in very welcome and ample earnings for the New York Bank. I do not think that we want to be guilty at this time of encouraging too low rates, and it looks to me as if at present, with the 3% rate, we were occupying a pretty good strategic position. We are getting in and out according to the relation between member bank reserves and our own banking strength just as we should. Furthermore, if by the first of June our amendments should have been passed and reserve agent balances will have finally gone out of existence, and if by the end of June large demands for income tax will have to be met, you will find that there will be enough requirements to keep us busy.

Very truly yours,

*Adell W.*

*Sorry to hear from Fay that the Aiken negotiation did not succeed. Hope the trip did you no harm; I did not dare to tell your mother about it. She does not want you to come back in*

Benj. Strong, jr., Esq.,  
4100 Montview Boulevard,  
Denver, Colorado.

*June and - frankly - I agree with her not to take any chances too soon. Well, let's wait*

*and see.*

*Yours always*

*Adell W.*

FEDERAL RESERVE BOARD

WASHINGTON

*R.A.W.*

MAR 27 1917

March 19, 1917.

Dear Strong:

I have your letter of March eighth, concerning the Banco de la Nacion Argentina, and when in New York last Thursday and Friday I had occasion to discuss its contents with Messrs. Jay, Treman, Woodward and Peabody.

The points in your memorandum which need discussion are item 4, on page 2, and item 6, on page 3.

As to 4: I do not think that, speaking quite generally, it is advisable for Federal Reserve Banks to keep accounts in foreign countries in foreign currency and to *for investment purposes* buy paper payable in such foreign currency except in England and possibly France and later on Germany. To my mind, these foreign accounts ought to be for two purposes: one, for the mutual gold facilities that we can afford each other and about which I need not go into details; and, two, the protection of our *own* gold situation by maintaining portfolios of foreign bills of strong gold countries or such countries as are likely to draw upon us for gold in case of adverse trade balances. But only such countries can be taken into consideration where the financial strength and the obligation to pay in gold is of undoubted character. While it may be necessary or advisable to keep very small accounts in foreign countries in order to accommodate our

(2)

customers, I do not think that we want to operate very extensively in foreign exchanges and maintain large portfolios in foreign exchanges in what I might call the minor countries. The history of Argentina is not sufficiently free from doubt as to make me think that it is necessary or advisable for us to put large amounts into Argentine currency even though I am strongly convinced that Argentina will be one of the creditor countries of the future. ~~But~~ *that* will depend, however, upon their ability to keep in leash their extravagances which, in the past, have been their one great danger and which, in case of continued prosperity, might easily again gain the upper hand.

As to No. 6: You fear that we drive our own banks out of business by permitting the Banco de la Nacion to buy American dollar bills for us in Buenos Aires. I have given this question very careful consideration and I have reached the conclusion that such fear is unwarranted. First of all, you control the thing absolutely by the rate which you offer for prompt <sup>or</sup> forward delivery to the Banco de la Nacion. Your apprehensions would be justified only in case you would offer quite unreasonably <sup>low</sup> rates to your correspondent. It is, however, of the greatest importance that in foreign countries there be established a reliable dollar exchange market. I have been in South America and <sup>everywhere</sup> ~~all over~~ the one thing that was quoted to me as obstructing the larger development of

the use of American acceptances was that the market for these acceptances was nil; that if the City Bank did not buy its own acceptances other purchasers were not reliable, and, frankly, between you and me, in some cases I found that the discount rate that the City Bank offered was so high that the natural advantage which the dollar exchange should have, with <sup>our</sup> a 3% acceptance discount rate as against 5% in London, was almost completely wiped out. It has been different in Buenos Aires, where at least one of the British Banks, the British Bank of South America, is in the market buying these bills for account of Mr. ~~Herbert L. Griggs~~ (The Bank of New York, N. B. A.). Furthermore, the German banks in South America were buying our acceptances and remitting them to their North American correspondents. But if we want to develop a real acceptance market and if we want to get away from the rotten habit of acceptors handling their own acceptances there must be purchasers in the market. The City Bank is not likely to assist its own customers to rediscount their paper with the branch of the First National Bank of Boston, and, vice versa, the latter would not welcome the paper of its customers going to the City Bank's branch; so they both would rather be likely to buy their own acceptances, and the consequence of it is that the drafts come to New York and Boston with only one foreign name in addition to that of the acceptor, and if ever anything should happen

(4)

to our American accepting banks we would have a nice how do you do in trying to recover in the Argentine (and a similar condition exists with respect to our French credits!). It is a much better and healthier growth ~~that will develop~~ if the drawer in South America can through a broker sell his paper to the Banco de la Nacion and the latter remit it to New York. Incidentally, the broader ~~the~~ basis for the American dollar exchange would help the City Bank and the First National of Boston to introduce dollar acceptances as against Sterling *and they could open more credits (where Sterling now is insisted upon.)*

There are <sup>at least</sup> three or four banks in all these South American cities competing for Sterling paper and the acceptors rarely buy it themselves, and I am very anxious to see similar conditions developed with the <sup>American</sup> Argentine banks. The discount of dollar acceptances is not the main revenue for these South American branches. They all get commissions for accepting and they make advances on local loans. But I am not ~~at~~ all sure that it would not at times be quite a welcome facility for them that their customers would be able to dispose of the acceptance in other quarters than with the accepting banks. You appear to have in mind that this arrangement should work only as an emergency measure. It is in your hands by fixing the rate to make this arrangement an emergency one or a regular one. I would hope very much that you would make it so that, without unduly beating down the branch banks,

there should in effect be an active market with the Banco de la Nacion. It is by far the most important concern of the country and it would greatly help the prestige of American banking if this bank would be as regular a buyer for dollar exchange as for Sterling. Inasmuch as we could not accept for the Banco de la Nacion it could not compete with two branch banks in the granting of commercial <sup>dollar</sup> facilities, and that is the one thing where I think competition on our part would be justly resented.

As to making the enormous resources of the Federal Reserve System available for the competitors of these two branch banks, I think you exaggerate the point. You would probably limit the amount of acceptances that might be on the water from time to time.

As to the 153 branches and agencies, some of them are in wee bits of places and would not have very much of a bearing on this business, which is done primarily in the few big cities of the country.

The Banco de la Nacion has connections with the Guaranty Trust Company and other banks and has large balances with some on which it receives interest.

As to special safeguards, you know my views about these. Before I would leave large amounts of gold ear-marked in any foreign country I would want to see ratified the treaties about which I have written you quite frequently. That is



(6)

one of the reasons why I regret that, in your anxiety to perfect the contracts with the Bank of England and the Banque de France, this phase of the question was completely overlooked. I do believe that we ought to have international treaties in which quite a number of nations would be the joint contractors and become the joint trustees for gold kept by one country in another.

As to buying Sterling bills in South America, I doubt whether you want to do this at this time, seeing the point of view that you have taken that you would buy Sterling bills only when guaranteed by the Bank of England. When normal conditions again prevail I think that it may be necessary for us (and at times may also suit our book) to permit the Banco de la Nacion to send us Sterling bills. I would say, <sup>that</sup> as a matter of principle, ~~however,~~ that I would not exclude this possibility but I think nothing can be done in that connection, at this time.

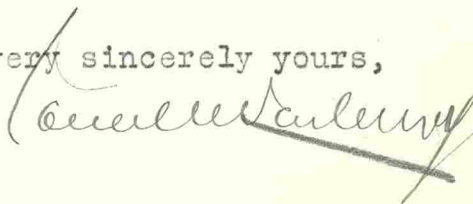
I hope that I have answered all your questions. If there is anything else that you want to know, please advise me.

I am delighted to hear from Aiken that you are looking so well and have again increased your weight. Bully news! Keep it up, old man.

With kindest regards,

Always very sincerely yours,

Benj. Strong, jr., Esq.,  
4100 Montview Boulevard,  
Denver, Colorado.



TELEGRAM

DAVIS & COMPANY, LTD.  
Brokers.

CALLE SAN MARTIN 66

BUENOS AIRES.

Argentine Republic.

March 14th, 1917.

Dear Mr. Warburg:

During a conversation I had with Senor Corneille, he brought up the question of the Federal Reserve Bank having asked the Banks of England and France to act as its Agents, in their respective countries, and asked if it might be possible that the Banco de la Nacion be appointed in the same capacity for this country.

Evidently the matter had been mentioned at a Board Meeting, and the Directors of the Banco de la Nacion seemed to hope that the same courtesy would be extended to them.

If such a move should be made it would undoubtedly cause an excellent impression in this country and would no doubt assist greatly in creating more friendly relations. Furthermore, the Banco de la Nacion are desirous of making an arrangement by which their gold reserves in the United States could be held in custody by the Federal Reserve Bank.

I am taking up this matter with you, at the indication of Senor Corneille, in view of the fact that delicacy does not permit him to do so direct.

Trusting that you will do what you can in the matter.

With kindest regards,

Yours very truly,

J. R. DAVIS.

Paul M. Warburg, Esq.,  
1704 - 18th Street, N. W.  
Washington, D. C.

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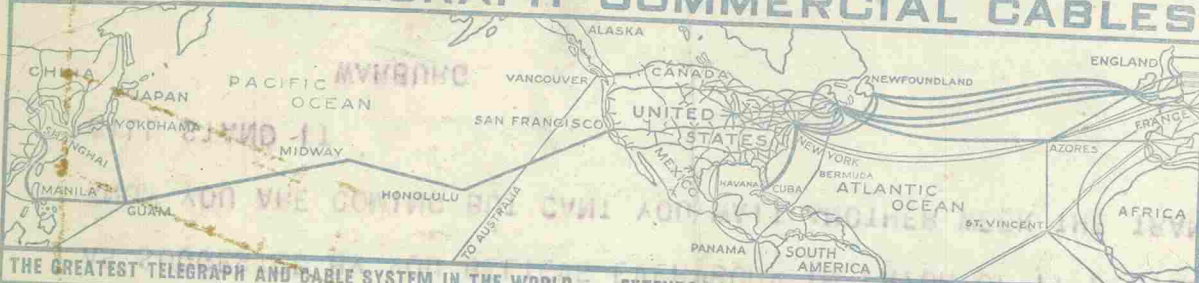
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1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyond the amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED telegram, beyond fifty times the sum received for sending the same, UNLESS SPECIALLY VALUED; nor in any case for delays arising from unavoidable interruption in the working of its lines; NOR FOR ERRORS IN CIPHER OR OBSCURE TELEGRAMS.
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3. The Company is hereby made the agent of the sender, without liability, to forward this telegram over the lines of any other Company when necessary to reach its destination.
4. Messages will be delivered free within the established free delivery limits of the terminal office. For delivery at a greater distance a special charge will be made to cover the cost of such delivery.
5. No responsibility regarding messages attaches to this Company until the same are presented and accepted at one of its transmitting offices; and if any message is sent to such office by one of this Company's messengers, he acts as the agent of the sender for the purpose of delivering the message and any notice or instructions regarding it to the Company's agent in its said office.
6. The Company shall not be liable for damages or statutory penalties in any case where the claim is not presented in writing within sixty days after the telegram is filed with the Company for transmission.
7. The above terms and conditions shall be binding upon the receiver as well as the sender of this telegram.
8. AN EMPLOYEE OF THIS COMPANY IS AUTHORIZED TO VARY THE FOREGOING.

CHARLES C. ADAMS,  
VICE-PRESIDENT.

CLARENCE H. MACKAY, PRESIDENT.  
EDWARD REYNOLDS, VICE-PREST. AND GENERAL MANAGER.

CHARLES P. BRUCH,  
VICE-PRESIDENT.

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FEDERAL RESERVE BOARD

WASHINGTON

*R.A.W.*

APR 5 1917

March 29, 1917.

*Speech*

*The Warburg - FRS  
Vol II pp 487-503*

Dear Strong:

I am in the throes of a speech and send you an advance copy herewith.

Of course, whatever I say about the issuing of Government bonds and our entering the war is entirely tentative and I shall have to fix up this speech in that respect at the last minute to suit the occasion according to what the President will finally say on April second.

Very sincerely yours,

*Carroll*

*Had to hear such good news about you from T.A.D.*

Benj. Strong, jr., Esq.,  
4100 Montview Boulevard,  
Denver, Colorado.

Enc.

MINUTES  
FEDERAL RESERVE BOARD

Third Draft  
Mar. 27, 1917

GOVERNMENT AND BUSINESS

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Address by

HON. PAUL M. WARBURG

before the

COMMERCIAL CLUB  
of  
CHICAGO

April 7, 1917.

Third Draft  
Mar. 27, 1917

## GOVERNMENT AND BUSINESS

It is just about twenty-five years ago that I came to the United States for the first time, and, taking things in the sequence of their true importance, I came to see Chicago first and New York afterwards, incidentally coming from Japan. I have since been a frequent visitor to this wonderful city, and every time I came back I have admired its continued growth as one of the most important centers of this country, not only in commerce and trade, but as a leader in civic thought. One of my visits here stands out with particular clearness in my memory. That is when I came here in 1907, as a member of a commission delegated by a convention of Chambers of Commerce and Boards of Trade, in order to assist in the formation of a Business Men's League for the promotion of better understanding of financial reform, a movement at that time still in its swaddling clothes.

This work was taken up by a group of your leading citizens with that intelligence and energy which are characteristic of your city, and if our country was able to pass through the last three years without any financial disturbance *strong enough* able to meet the phenomenal requirements made upon us, and if today we find ourselves fully prepared to carry still greater burdens, these men may feel that they have done their full share in bringing about this happy result. For without the comprehensive campaign of

education that preceded the enactment of the Federal Reserve Act so far-reaching a reform could not have been carried out in proper time. I am particularly grateful for <sup>being accorded</sup> the great privilege of addressing the business men of Chicago, <sup>because</sup> ~~for~~ it gives me a welcome opportunity of paying tribute to the part <sup>played by</sup> ~~that~~ your citizens ~~have played~~ in this great work of monetary reform.

Those of us who know the Bible remember the chapter on the Tower of Babel. The story of the world's first skyscraper is the parable of the conceit and downfall of mankind. Confident in his ability to overcome any difficulty, man undertook to build a tower that would reach <sup>to</sup> the skies - and the world fell into general confusion, so that people ceased to be able to understand one another any longer. That is the world's condition today.

And those of us who know their old Greek tragedians cannot help feeling that three hundred million people, individually <sup>the thought of</sup> abhorring <sup>to maiming and killing</sup> ~~to maiming and kill~~, were driven into this world contest by powers stronger than they themselves; by something even more powerful than the will of their leaders, something ~~xxxxxxxx~~ akin to the Fate that the Greeks held to be superior even to the gods; by the cumulative effects and consequences of political and racial feuds of generations, of economic developments, and of crimes and mistakes, to which all nations have contributed their full share, and for which none alone is entirely to be held responsible.



The great calamity that has befallen Europe would, indeed, awaken in us nothing but a feeling of abject despair of the ultimate ability of the human race to rise from its aboriginal level, were it not for the confidence that out of this struggle there will come to the world a greater liberty to man and a loftier understanding of human rights; and furthermore for the redeeming thought that it is the profound belief in the sacred historic mission of their respective races that makes gentle and peaceful individuals willing, for the greater glory and advantage of their tribes, to endure and to inflict untold hardships and cruel suffering.

In the latter respect our own problem and ideals differ from those of Europe. The race thought is foreign to our country as a motive for making war. The United States is not a one race country; all the races of the world have brought to these shores the most characteristic that is in their strain, and merged in it into the composite type of the citizen of the new world. When the United States is forced into a war, it can never be a race war; it must be a war for a principle, for liberty or for human rights. It cannot be a war by a race against a race, but a war by people holding to one principle against people holding to another. Our greatest contribution to the world's development is that we are giving the living proof that

common aims and ideals can be stronger than racial differences. When the die is cast there can be only one duty for any citizen of any country, and that is to stand loyally by his flag. But that duty is doubly strong with us, where any hesitation in that respect would shake the fundamental thought of the Union - which is: that its citizen must shake off the smaller racial or sectional thought, and subordinate it to the larger duty of loyalty and allegiance to the United States. That does not mean that we should cease to love the people who were near and dear to us in the old countries where our ancestors', or even our own, cradle stood, or that we should forget that every one of these old races has given us some great contribution towards the higher development of our own country. During our Civil War many a brave man continued to love his brother, even though he found himself forced to fight him on the field of battle. But this tragic conflict of affections could not shake his loyalty to the cause he had espoused. And so it must and will be with us. When our country is forced to go to war it has a right to expect and demand of all its citizens a willingness to serve and to suffer and to die. No matter what that may entail for any of us, about our whole-hearted and unquestioning allegiance to our flag, about our unhesitating readiness to do our duty, there cannot be any possible doubt.

This duty may be performed in many ways. It may be personal service with the colors, or in branches directly allied therewith. It may be organized organizing and placing at the disposal of the Government the various industries of the country or ~~by~~ the investors' prompt response to offerings of loans issued in the interest of the cause.

In the particular circumstances in which we enter the war the financial aid that our country will be able to render will be one of our most important contributions, and I have no doubt that in whatever way our Government will finally decide to appeal to the American investor he will respond with an alacrity and in a spirit that will astound the world.

It is a profound satisfaction to all of us to know that never before was this country financially as strong and as well prepared as it is today. During the last three years our gold holdings have increased by 57% from \$1,900,000,000 to about \$3,000,000,000. In addition, as you are well aware, we have improved our position as against other nations by repurchasing our own securities and making foreign loans to an amount approaching \$5,000,000,000.

Moreover, by the establishment of our Federal Reserve System we have organized this enormous strength. We have brought into effective coordination a large portion of the country's banking reserves. We have regulated and brought about a general under-

standing of modern methods of rediscounting. We have created a new wide market for bankers' acceptances, so that our member banks now have an easy means of recourse to the Federal Reserve Banks in case they wish to replenish their reserves. We have ready and available a vast supply of notes of undoubted solidity which are ready to be issued whenever there may be demand; and, through the gold clearing fund, we have established a machinery of freest exchange of balances between the various parts of the country. Not by any stretch of imagination could we perceive any more the possibility of a gold premium between the various American centers or a currency famine as in years gone by. About our power to take care of ourselves there cannot be any doubt. But in view of the unparalleled demands that may be made upon us - demands that it may be our highest national interest and duty to be able to satisfy - we should not omit to perfect our financial machinery to such a degree as to give it the greatest possible strength. For this reason the Federal Reserve Board has again recommended to Congress amendments having for their object a still further concentration in the Federal Reserve Banks of gold held in scattered bank reserves and a more liberal substitution of Federal Reserve notes for our present unscientific and wasteful use of our rigid 100% gold certificate circulation. The committees on banking and currency of both houses of Congress

showed themselves in sympathy with the general thoughts of the amendments proposed. Unfortunately, however, in the general tie up of all legislative work at the end of the preceding session, Congress was unable to pass the desired legislation. It is most essential for the best interest of the country that prompt action be taken by the present Congress and it is most desirable that public opinion assist the committees on banking and currency in securing early and favorable consideration of these amendments, *which will enable us to complete our financial mobilization.*

When many months ago I accepted your flattering invitation and selected "Government and Business" as the topic for my to-night's address, I did not anticipate that between then and now conditions would take so serious a turn that the relation of Government and Business in times of peace would hardly be of interest to my audience. But just because at this present juncture we see so plainly to how great an extent a country's fate, its power of defense and offense, depends upon its railroads, its shipping, its industries, and its finances, and just because we perceive so clearly how essential it is to secure consistent development and preparation in times of peace, it may be worth while to stop and analyze the gradual growth in importance of the interrelation of Government and Business, <sup>*We may well*</sup> ~~and to~~ ask ourselves: "Has government activity in business - generally called regulation - come to stay?" "Is its future scope going to increase or decrease?" "Can modern business succeed without it, and what is

the attitude of business towards government and government towards business and what should it be?" These are large questions which it would be interesting to discuss in the light of the past, present and future, but we cannot do more tonight than dwell upon the most essential phases of the problem.

Some of the <sup>chief</sup> ~~main~~ economic changes brought about in Europe during the past century have been: The transformation of nations from <sup>primarily</sup> ~~mainly~~ <sup>in character</sup> political entities, into political and economic units; the evolution from mainly agrarian into agricultural and industrial states; from decentralized, self-contained, and self-supporting individual activity, to strictly specialized vocation. This development has brought about wholesale production - on the part of the individual and communities - leaning upon broad national and international markets both for the sale of ~~their~~ excess products and <sup>in</sup> the purchase of many ~~of the~~ articles, of necessity and luxury, ~~needed~~ for their own daily life. It has resulted in making every country dependent upon the goods of others.

When Napoleon I. overran Europe, a little over one hundred years ago, England was the only industrial or manufacturing state in Europe. It was the period of Goethe, and Germany was then a multitude of small, separate, agrarian states, a country of "poets and thinkers". When Napoleon closed the continent against England he cut off England's trade in such articles as cotton and woollen goods, steel, coal, and glass, just as Germany has been deprived

today of her foreign trade. But he could never have thought that, in so doing, he might <sup>be</sup> subjecting ~~to~~ <sup>ing</sup> a large continent which at that time was essentially agrarian and entirely self-supporting with respect to food-stuffs.

Prussia's humiliating defeat at the hands of Napoleon brought forth in that country the theory of a "people in arms". Since then, universal service has gradually been adopted by all the leading nations on the European continent, and at the same time most of them have become, to a greater or less degree, industrial nations. These two evolutions have been most important factors in the making of modern history.

Industrial development enables a nation to sustain within its boundaries a larger population than it could feed from its own agricultural products, provided it can trade with countries that have a surplus of those products. Larger population and larger taxing power means, in turn, the possibility of creating larger armies. But industrial countries are vulnerable if they can be cut off from other nations which supply them with food and other raw materials essential for their daily life.

Here we have in a nutshell the European problem, as it lay at the root of the present catastrophe, and we see the importance of the part played by business in this connection. Given the wicked division of Europe into two armed camps, of fairly equal

power, it is obvious that each side must have watched with <sup>the</sup> greatest concern any change in ~~either~~ <sup>any</sup> of these three important items; population, wealth and ocean control. Wealth is all the more important because the efficiency of modern armies and navies is, to a much larger degree than in the past, dependent upon the most modern and ample equipment, a dependence which in turn resolves into a question of financial endurance.

Modern warfare has since developed the fact that defeat or victory depend upon the degree of speed and efficiency with which unheard-of quantities of ammunition and instruments of war can be supplied. And a country's ability quickly to organize and mobilize its industries has become a most essential factor in the struggle of the nations.

This explains why European governments, in questions of commerce and production, have long ceased to be simply regulators, and have become active promoters, of business, and at times have even become partners in it, or themselves producers.

Not on account of the welfare of the individuals concerned, but on account of the national importance of these subjects, governments are vitally interested in proper tariffs and commercial treaties. Railroading and shipping are likewise subjects of the care of government - not merely because of their strategic importance, but because of the bearing that efficient transportation has upon a country's development and its ability to compete



with other nations.

In railroading and shipping, therefore, we find in the world today all kinds of variations of government influence, from government subventions and control of tariffs, to joint partnership between private capital and government, and complete government ownership and operation.

n In a similar manner, we see governments actively promoting agriculture and new industries, we see them organizing their industries into aggressive syndicates (and cartels), and we see a growing tendency on the part of almost all countries to control and develop their own natural resources. At present we see in Europe governments operating factories and regulating almost every phase of demand and supply to a degree never before known. We have seen some governments at work to develop new markets by acquiring and operating new colonies.

We have seen in Europe during the last twenty years a growth of control by governments of the national power to save and invest in foreign countries. Foreign loans were directed by governments to points where they were to produce business for the lending nation, or where they were to assist politically allied countries, or where - through financial aid rendered - other countries were to be drawn into closer commercial and political relations. Loans granted to China, Russia, Turkey and the Balkan States, are illustrations of such a policy.

We all fervently hope that the end of the war will bring about conditions enabling all powers to reduce armaments, thus lessening the urgent necessity for governments to secure increased ~~power~~ revenues for the sake of maintaining large armies and navies. On the other hand, the debts of the leading powers of Europe have increased at such an unparalleled rate that what seemed an unbearable military burden in the past will <sup>appear</sup> ~~seem~~ small as compared with the financial burden created and to be borne in the future.

The consequence will be that the future business activities of such governments will not, in scope and intensity, be decreased but will be increased. It will have to be their concern to rebuild their country's trade, to bring it back into conformity with the normal requirements of nations at peace, to secure larger revenue from <sup>a</sup> weakened people, to reduce to a minimum imports for the purpose of unproductive consumption, and to increase to the maximum the exporting power of the nation. Every country in the world has learned during the last three years, the necessity of developing its own resources and of becoming less dependent upon other countries for its normal requirements. There will be a tendency, I believe, on the part of most of the leading nations, even after the establishment of peace, to keep their trade balances under government control by restricting importations, particularly of luxuries, by regulating home consumption of all

kinds of articles, and by bringing about the lowest possible cost of production on the broadest possible basis of organized cooperation. I have no doubt that government monopolies will be established for the production of many important articles. Exchange of goods between countries, once the shortages of raw materials and finished products caused by the war have been met, will, to my mind, be decreased in volume, rather than increased, as compared with pre-war times. And wherever purchasing power exists there will be the keenest kind of organized competition to secure the contracts for the goods required.

I have outlined these conditions at such length in order to ask the question: "In the face of the ultra organization to be expected of other countries, can we afford to believe that when peace is restored we can meet this competition, or hold our own, unless we likewise systematize or organize our industrial efforts?"

~~Waxxxx~~ Furthermore, if in Europe it is necessary to have governments take an active part in organizing industries and banking, may we expect that it can be done without government regulation in a country that by law and sentiment much more than Europe is opposed to exclusive combinations in industries and banking?

We are all in accord, I believe, in thinking that, if at all possible, the operation of industries by party governments in the United States should be avoided. Where regulation is required and where regulation borders on the field of operation, it is best exercised through non-partisan government bodies. Leaving aside the councils and commissions organized for the purpose of dealing with emergency situations, we have bodies of that kind

in the Interstate Commerce Commission, the Federal Reserve Board, the Federal Trade Commission, the United States Shipping Board, and the Tariff Board. The task of government regulation is as complex as it is ungrateful. It is a largely judicial function. Those charged with it must hear the producer and the consumer, the shipper and the carrier, the borrower and the lender, and find a course that is fair to all, at the same time taking into consideration the larger question of the interests of the entire country in its national and international aspects. In addition, the problem of the producer and the shipper must be dealt with from the two-fold point of view of capital and <sup>of</sup> labor.

Foreign governments which own and operate coal mines are interested in securing <sup>large</sup> high revenues resulting from a combination of high prices for fuel and low cost of production. At the same time, however, they have to consider the millions of citizens consuming coal, the manufacturer, who must be able to compete in <sup>the</sup> world market, and finally the coal miner, who is entitled to reasonable wages. Efficient government regulation must conscientiously weigh all these aspects with fairness towards all, with malice towards none. It cannot please all sides; it probably will invariably displease some party involved in the question, or even all. But the test of its work does not lie in praise or blame. There is only one standard to be applied, and that is: "Has its work been fair, and, first of all, has it been in effect constructive?"

When by reduction of rates and increase of service, excessive dividends on watered stock are being cut, no harm is done; provided the country at large profits from such action. If, however, by going to an extreme in this direction the corporation's credit is interfered with, and its ability to grow and expand is <sup>thereby</sup> destroyed, regulation proves itself a failure. The carrier, by exacting extortionate rates, may hurt his own interests because he is bound to weaken or even destroy the shipper, or drive him away to other lines. Conversely, the shipper, by securing excessively low rates, may destroy the railroad's ability to serve him well, or to serve him at all. But these two conflicting interests, themselves often engaged in a life and death struggle with their <sup>own</sup> competitors, cannot take any but a strictly selfish view and there must be a power to intervene between them, protecting them from each other, and safeguarding the public interest. Without governmental bodies of this nature, which take a judicial and at the same time constructive point of view, the only remaining solution would be government ownership and operation.

All this is so obvious that I feel like apologizing for taking your time in stating it: but if it is obvious that these bodies perform functions of the very highest importance in regulating transportation and finance, in developing equitable tariffs, and in seeking to develop ways and means by which our industries may organize for joint and effective competition in

foreign fields, why then, if this is so obvious, does business look upon the work of these bodies, generally with apathy, and frequently with ill-disguised animosity?

I believe there are four main reasons:

First: We are a highly individualistic people; we cherish our personal liberty and naturally resent any kind of compulsive regulation as bothersome and unnecessary interference;

Second: There is a strong believe amoggst American business men that they "know better", and that any Government requirement or regulation is bound to be theoretical rather than practical; extreme and destructive rather than helpful.

Third: It is natural that those should be dissatisfied whose past share has been larger than was due them, and has consequently been cut by government interference;

And, finally, it is equally natural that those should be dissatisfied whose share, small in the past, has been increased by the government, but who now feel resentment that they cannot have the whole.

We need not lose much time over the last two classes, but we may devote some thought to the first and second.

True democracy cannot resent self-imposed regulation as an infringement on personal liberty; it would be that only if it were imposed by others. Police regulations we willingly accept as measures adopted for our own personal safety (we do not resent

them - except when we are caught exceeding the speed limit). Why then should we revolt against regulation that deals with the much larger question of national protection?

Putting the question in this way is to answer it: "Because, in our daily life, we value our personal interest higher than that of the country."

These last months have brought us face to face with problems of extreme gravity. For us their redeeming feature has been that they have awakened in us the willingness to consider our country first, and to place our personal comfort and interest where they belong - in the second row. But our lesson would be only half learned if we did not begin to apply it in peace as well as in times of stress or war.

As to the second charge that these boards are largely manned by men stronger in theory than in practice, I believe that in thinking of them many of you have in mind Bernard Shaw's sarcastic remark, "He who can, does. He who can't, <sup>not</sup> teaches."

But, gentlemen, when you consider the tremendous scope of influence that the Government is bound to exercise in the future business life and growth of nations, when you bear in mind that with the rapid changes of heads of departments and in our legislative bodies, these non-partisan boards and commissions, as years go by, may become the strongest elements of economic sta-

bility and expert knowledge, you will agree that these government boards will not be positions for "teachers" but, indeed, for real "doers".

Do not overlook, gentlemen, that these boards will have to act as buffers and balance wheels, not only between the various business interests involved, but also between emotional and changing factional government influence on the one side and the needs of quiet and steady economic evolution on the other. Capital and labor, farmer and manufacturer, shipper and carrier, all have their spokesmen in Congress, often representing as one-sided a class view as the classes themselves. To understand all parties to the controversy, to combine the business man's point of view as well as the farmer's, with the more detached conception of a non-partisan, expert government body; to arrive at the judicial and national point of view; to discover the proper middle course - that is conducive to the best interests of the entire country; to prevent harmful over-regulation in either direction; to overcome mutual distrust, prejudice and suspicion of all parties concerned, is a task deserving of the best talents and the strongest characters of the nation.

The scope of government regulation in business matters all over the world will not decrease but rather increase in the next 25 years. Modern states can no longer succeed without it. For



us it is no longer the question of shall we or shall we not have government regulation, or promotion, in certain branches of our business life. The problem is to find its most <sup>actual</sup> efficient form. Unless we do, we shall fail to hold our own. ~~Easy~~ For us, the question is only shall it be a non-partisan, expert regulation or one changing with changes in party government.

That democracy is the ideal form of government, I do not doubt. But Europe's recent history has borne out the experiences of 2000 years ago: that, in the hours of greatest need, democracy often is not the most efficient form of government. That is why in the old Republic of Rome, in times of war, recourse was invariably taken to temporary dictatorships, and that is why, for certain branches of government, we now see this form of administration again adopted in Europe. Democracy is government by the people. It is the most self-respecting form of government. But, being the expression of the ever changing will of the masses, it is lacking in stability of policy, and continuity in office of trained men. It furthermore abhors autocratic power vested in single individuals. It believes in checking one power by the other, and each man by other men, and, therefore, vests authority in groups rather than in individuals. These are conditions which cannot be avoided. Whether democracy will prove itself capable, however, of dealing effectively, fairly and promptly with the large economic problems of the modern state will largely depend

upon our ability to develop to their proper degree permanent and capable expert boards and commissions, assuring that measure of stability and reasonable promptness in action without which healthy progress cannot be made.

But, gentlemen, in order to achieve that result, such boards must find an attitude of sympathy and support on the part of the country.

Business men must feel towards these boards as lawyers would <sup>do</sup> towards the Supreme Court. Just as any lawyer might be asked to give up a highly remunerative practice in order to follow a call to the Supreme Bench, so the Government must feel that it is entitled to <sup>select</sup> ~~call on~~ the best business minds and put them on a supreme bench, if you please, of transportation, banking or trade. It is true that serving on these boards entails sacrifices of a material and, what is more, of a personal nature; but, if in England, France and Germany the flower of the nation stands always ready to serve its government, why should our country find its citizens less ready to follow its call? Men are willing to serve their country if they feel that the sacrifice involved is commensurate with the service to be rendered and if they can count upon the confidence, the sympathy and the support of the people they try to serve. How much has the business, railroad or banking profession done in this respect to enhance the attract-

iveness of these government positions? Have they tried to do everything in their power to help in the public work and to promote a sympathetic understanding on the part of the public? Or have many done the best they could to belittle it; to lament unnecessary government interference and to look often with hardly concealed animosity upon those charged with the duty of carrying into effect the people's ~~own~~ will?

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hardly concealed animosity upon those charged with the duty of carrying into effect the people's own will?

Personally, I have no reason to complain, but speaking by and large about the general attitude of the public, I am certain that you will bear me out when I say that it has not been what it should be for the best interests of the country. It ought to be clear beyond a doubt - particularly for you business men - that the more capable the men serving on these boards, the better for all concerned; that the higher the estimation the country places on the work of these boards, the more the country realizes the importance of having the ablest men serve it, the greater will be the chance of securing and retaining for these boards the services of leaders in the respective professions; that the more capable the various professions show themselves of taking a large and cooperative point of view, the greater will be the justification for the Government to fill these boards in a larger measure from their own ranks instead of seeking them elsewhere. Men who join such commissions or boards do not want foolish compliments or praise. There is but one possible compensation to which they aspire, and that is success in their work. If the public is interested in their work; if it trusts them and wishes them to prevail, their battle is half won. Intelligent understanding and *cooperative rather than obstructive,* a sympathetic attitude, is all that they require.

May I tax your patience for a few more minutes by illustrating these conditions in speaking to you of some problems of the Federal Reserve Board.

I have mentioned to you the important amendments we are trying to secure; amendments in the adoption of which every American citizen is interested and nobody more than the business men. For almost three years the Board has been striving towards the perfection of this greater financial mobilization. How many business men have followed the work of the Board; how many have raised a hand in its support? How many realize that what really caused the fatal delay in acting upon this legislation, was, as we have reasons to believe, a side issue not directly affected by the proposed amendments? It was the question of certain exchange charges, abolished by the Federal Reserve Act, <sup>and</sup> the restoration of which a large number of small country banks want to see included in the proposed amendments. Time does not permit me to go into the merits of the case, but it offers a characteristic illustration of problems requiring governmental regulation.

As between the shipper and the carrier, so there is in banking between the customer and the bank an old feud as to equitable charges. As in railroading, so in banking, many services are rendered without any or with inadequate compensation, while charges for other services, as a consequence, are made to pay the price for both. Exchange charges in many sections of the country became unreasonable. Regulation is never required unless there has been some abuse, and the greater the latter the stronger will be the tendency of the famous

"pendulum" to swing too far in the direction of reform. The customer is entitled to the lowest possible charge for collection that business will stand, and the Federal Reserve Board, in the exercise of the duties placed upon it by the Act, will in due course reduce the charges to be made to the customer to the minimum the traffic will bear. The Federal Reserve System will provide the most comprehensive clearing system the country ever possessed, and as this system grows in scope it will bring about savings in time and cost of operation for the general benefit of banks and customers alike. But, as in railroading, the sound business principles must not be brushed aside or the small bank cannot live, and only the larger ones will thrive. The elements of time and space cannot be *entirely* disregarded and the business man who berates the Federal Reserve Board because a check on Galveston is not taken at par for immediate credit at Seattle is *as* unreasonable as the bank that insists upon an excessive charge. If you study our weekly statement you find an item of about \$150,000,000 representing deferred credit on checks in transit. This item, as our clearing system develops, is likely to increase by more than 100%; if we give immediate credit, I believe it would at once rise to at least four times that amount, *that* ~~but it~~ would mean that we should *be* invest<sup>ing</sup> an important portion of the country's gold reserve in checks in transit, in the so-called "float", and <sup>thus</sup> ~~and~~ <sub>1</sub> undermine the strength of our system.

A check is not a bank note. The latter is the binding obligation of the bank and, if issued in proper volume, it circulates for an indefinite time and can remain outstanding indefinitely without voiding the bank's obligation to pay. The check is the drawer's obligation, not the bank's. The latter pays only upon presentation and only as long as the drawer's funds are sufficient. The recourse against the indorser of a check is lost unless it is presented for payment without undue delay. Checks are, therefore, not a "circulating medium", as is claimed ~~so often~~ <sup>some</sup> by economic writers. Quite the contrary, a check is a "non-circulating medium" because its safe use and the law require prompt presentation and collection. It is not a means of circulation but a means of avoiding the actual use of circulation. It is an unsound idea that a check must be taken everywhere for immediate credit at par like a bank note. The bank note, when received at par, may be put into the cash box and paid out again at par. The check must be despatched at once on its trip to its place of payment, and the cost of collection cannot, therefore, be disregarded even though it should be reduced to the minimum equivalent of the interest loss involved in transit on a time basis of greatest generosity to the bank's customer.

In order to carry out this par clearing plan, member banks, however, must agree upon presentation of checks drawn on them

to remit to the Federal Reserve Bank at par. That is to say, they may, in return for checks on themselves sent to them, ~~sim~~ either remit other checks to be credited to them at par, subject to time schedule, or if they have no checks they may remit currency, charging expressage to the Federal Reserve Banks. It is on these remittances that some country banks insist they must charge a small commission of one-tenth of one per cent, and - incredible as it may sound - it is this small charge that has furnished the main cause of the antagonism of the country banks towards the Federal Reserve System.

Whether or not these charges should be permitted or refused is a matter for Congress to decide, but it does not seem reasonable that vital legislation should be withheld or delayed at this time on account of an issue which ought to be settled independently upon its own merits. I have mentioned this incident because I have been wondering at the spathy of business men in this connection, and, in a similar manner, it has been a source of surprise to me that, apparently, the businessman has not yet fully realized the fact that the entrance of the State banks and trust companies into the Federal Reserve System ~~is~~ his concern.

The exchange problem, of which I have just spoken, would not offer as much difficulty if it were not that the member banks feel it a hardship that they should be asked to provide



the entire system of protection for the country while the State institutions not only ~~do~~ do not contribute their share but, in addition, are free to make charges and to do their business as they please. If some of the gentlemen who are directors or <sup>id</sup> presents of State banks or trust companies were asked by their neighbors to join in paying for a watchman to patrol the neighborhood of their private residences, would any of them say: "Why should I? As long as you, Mr. Neighbor, pay the watchman for your house I am protected anyhow without <sup>my</sup> paying for it."

I know that a great many of the leading State bankers of the country are very sensitive of this ~~situation~~ situation. They do not feel happy about it and have made up their minds that it is the proper thing for them to come in. They much rather would be in the position of paying their share of the watchman's salary. They furthermore know that every depositor in a member bank contributes his share to the stronger protection and to the greater credit power of the country, and that their depositors will awaken to a realization of the importance of this condition. They know that in case of a real strain savings banks, trust companies and State banks indirectly will have to depend upon the strength of the Federal Reserve System

The State banks and trust companies carry outside of the System's reserves amounting to \$ while a large portion of these ought to be added to the general reserve power of our country.

that others maintain for them. Some of them, doing a large acceptance business, profit every day from the acceptance market created by the Federal Reserve System, a market that has enabled the American dollar acceptance to take its place along with the Sterling, Franc and Mark bills in all parts of the world. But they know that entering the system means certain sacrifices in earnings, and, may be, the loss of some interlocking directors. Yet, if that is their share of the contribution to the rise of America's banking system and to the safety and better growth of our economic edifice they ought to be willing to pay that price. They know it and they will do it, but the trust company president thinks of his competitor - "will he come in? If he will, I will."

When still a banker in New York, I once tried to get into a subway train during the rush hours. I forced my way into a crowded car, but with another man was caught between the automatic doors which would not close behind us. My fellow sufferer began to yell at the top of his lungs; "Isn't there anybody to push us in?" Well, a guard came and pushed us in. It looks to me as if there were enough in the present situation to push the State banks and Trust companies in. This is a time when beyond a doubt public interest must prevail over individual advantage.

Early training in banking in Europe has inculcated in men aversion to banking by regulation when, by intelligent voluntary action of the banks, the same result can be achieved. But in Washington I am constantly met with the view that without compulsion it is impossible in the United States to make any headway. I am unwilling to surrender to that point of view. I still like to think of the Federal Reserve System as of a club which the strongest and best banks consider it an honor to join, and not as of a "club" to swing over the heads of the banks to coerce them into sound banking methods of cooperation. It is a most satisfactory fact that in almost every important city some leading State institutions have come in voluntarily, and I hope that on that same plan the majority of the strong State institutions will soon follow.

The present condition of having 7,500 banks carry the burden for 27,000 is unfair both to the member banks and the best interests of the country. The strong non-member banks who, knowing the facts, do not remove this ~~inequ~~ inequality will, in time, force the Government to do its duty in adjusting the matter. But if Congress finally should be forced to swing "the big stick" they will be the ones to complain most loudly about the nuisance and unfairness of governmental compulsory regulation.

In England there are 259 banks, in Canada 21. We have about 30,000. It is obvious, therefore, that leadership and direction by Government agencies is even more necessary with us than in Europe. We have adopted from Europe the principle of cooperative protection in banking and we ought to accept from them also the loyal spirit in which they cooperate with their leaders. The people, the banks and the press are mindful of the fact that farmer and manufacturer, borrower and lender, of necessity cannot take an unselfish point of view; that no matter how profoundly they believe to have given due regard to the country's general interests, most of them are so busy with their own affairs that they have not even had the time to consider the problem from any but their own angle. The central bank's actions must, of course, bear careful analysis and healthy public discussion. But the first impulse abroad is to follow the men they have placed in charge, to stand by them rather than to attack them and to take it for granted that the obvious is not likely to have escaped their attention, and that the only object they can have in view is to be fair to all and to do the best for their country.

More than in Europe is it necessary with us that our banks do not consider the Federal reserve System as an unwelcome and bothersome leash from which some day they still hope to escape. The Federal reserve Act provides for a joint administration by Government on the one hand and banking and business on the other.

The more the banking and business communities realize that Government regulation in banking is indispensable and has come to stay, the more they substitute for a critical attitude a spirit of active cooperation, the more they begin to recognize their duties and privileges as half-partners in the administration, the more they make it their business to perfect the machinery which has been established for their own protection, helping instead of hindering those who try to make it a success, the happier and the safer will they be and the better it will be for the country. Let them be clear about it that our country will never permit this Federal Reserve System, or any other similar system, to be run by the banks alone without the check and regulation of the Government, just as little as the country would permit the Government to run such a system without the counter-check of the cooperation of the banking and business communities. You may say that this marriage between Government and business is not wedlock based upon love at first sight. But no matter whether it was love, reason, or necessity that brought it about, there cannot be any divorce. And inasmuch as they have to live together the only wise course is to pull together and let the best advantage be the strong bond uniting them.

And, now, coming back from this digression into my own field of activity, permit me in closing to recapitulate the thoughts that I have tried to convey.

The modern state is as much an economic as it is a political unit. There are millions of individual enterprises apparently self-centered and independent, but, as a matter of fact, all dependent upon each other. There is not one in the conduct of which, directly or indirectly, the state is not interested. There is not one which, by exaggerating the single and selfish point of view, would not do harm to others and affect the well being of the whole. ~~Whenever~~ Whenever the fair middle course, essential for the greatest prosperity and comfort of all, cannot be established and adhered to by common understanding between contending parties, Government has to step in as a regulating factor. If this regulation is to bring about the highest result, it must not be exclusively preventive of abuses or destructive of old business practices, but <sup>it</sup> must be, at the same time, constructive. Government must not regulate only. It must also promote.

In the state of the future, particularly in Europe at the end of the war, the most efficient Government promotion of industries will be held to exist in actual government ownership and operation in many branches of business and trade. More than ever before will states become solid industrial and financial unions effectively organized for world competition

driven by the necessity of perfecting a system of greatest efficiency and economy and thrift in order to be able to meet the incredible burdens created by the war.

That is the future of the world in which we shall have to maintain our own position and it requires, on our part, thorough organization and steady leadership. Under our democratic system this cannot be furnished by changing party governments, but can only be provided by fairly permanent, not-partisan and expert bodies. These bodies must combine the ~~jud~~ judicial point of view with that of active and constructive business minds. They must be able to act as expert advisers alike to Congress and the industries concerned. They must break down suspicion and prejudice of Government against business and of business against Government. They must stand for the interest of all against the exaction of aggression of any single individual or group, be it called labor, carrier or shipper, lender or borrower, Republican or Democrat.

Our ability to handle effectively <sup>ually</sup> the large <sup>great</sup> economic problems of the future will depend largely upon developing boards and commissions of sufficient expert knowledge and independence of character. This will be possible only if both Government and the people fully appreciate the importance of such bodies, so that the country may find its ablest sons willing to render

public service worthy of the personal sacrifices it entails.

I believe that the dark clouds of sorrow and suffering which for three long years have shrouded the world will before long show us their "silver lining". We shall see it in the greater political liberty and safety coming to millions in Europe. We shall perceive it in the chastening that will come to some and the awakening in others to the deeper realization of the things most essential in life. To us it will bring, I believe, a keener appreciation of the individual's duty towards his country, not alone to his country in stress, but also to his country in its peaceful endeavors. It will develop a better understanding of our common problems, and with a proper estimation of their importance there will come a greater willingness on the part of all to serve our country either by taking a more active share in its government or by readier and more intelligent subordination of our own work to the larger public interest.

This broader conception of genuine citizenship will perceive in government regulation not unwelcome and arbitrary restraint to be resented by liberty loving men, but self-imposed rules established for mutual advantage and protection.

Aristotle, in defining the essential characteristics of liberty, said; "it is to govern and in turn to be governed"



and this thought has lost nothing of its force even though 2000 years have passed since it was expressed.

Liberty without government is anarchy.

Government without cooperation of the governed is autocracy.

To govern and in turn to be governed is the only form of true liberty.

In this conception there is nobody governing and nobody governed. We all govern and serve alike and together. We all serve one master; the only master that no liberty loving man need be ashamed to serve - we serve our country.

-----\*-----

FEDERAL RESERVE BOARD

*D.A.W.* WASHINGTON

APR 17 1917

April 10, 1917.

Dear Strong:

Things have been so intensely interesting and perplexing during these last weeks that I do not remember when I wrote you last. Since then, Delano came back and brought us the very best news about you, and I cannot tell you with what pleasure I am looking forward to the time in June when you will be back at your desk. However, do not get it in your head to come unless you are certain it is the wisest thing for you. This is also how your Mother feels about it. It was a great pleasure to see her. She is a wonderful lady, and I now know from whom you get some of your traits.

I saw your telegram to Harding. I understand, of course, that you are impatient and want to come back under the circumstances, but do not be foolish about that. As a matter of fact, there is very little doing at the Federal Reserve Bank of New York at this time, and even we here in the Federal Reserve Board cannot do as much as we should like to. Most of the things are being cooked up at the Capitol and taken up with the Secretary of the Treasury. Of course, we are doing everything to get in some ideas of ours, and I believe on the whole things are moving on sound lines.

I just returned from Chicago, where I had some very good meetings with the Chicago bankers and where my speech was re-

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ceived with remarkably hearty applause. The stiff old Chicago bankers and merchants really woke up and showed some enthusiasm. I think I made good headway with the State banks and trust companies. The Union Trust Company promised unqualifiedly to come in and Hulbert, of the Merchants Trust, promised too with a very slight reservation (that he wanted to study the amendments proposed.) But I do not believe that he will find any difficulty. They both expect to come in during this week. If they do, I am confident that we can also get the State Bank of Chicago, which is the most important of the State banks there.

The St. Louis Union Bank came in yesterday. The Cleveland Trust Company has come in, as you know, and the People's Bank of St. Paul also. So things are moving.

In New York, Jay is stirring up the trust companies. I do not know with what success, but I am sure that, if handled properly, they will come in on a basis of patriotic appeal.

The amendments in Congress are making some headway. The Senate Committee voted to report them favorably. I do not know what will happen in the House, but, confidentially, we have good reasons to believe that the president will place himself behind it at this time and I suppose that we will get the gold amendment through now.

As to Argentina, we do not understand each other very well,

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and it is about time you should come back so that we can talk over matters a little more easily. I do not think that in writing we get very much closer to each other's thoughts.

I enclose copy of a letter which I received today which shows how anxious the Argentine bank is to get into touch with the New York Bank and that this is largely a question of gold reserves that they might keep with you. I do not want to go into a lengthy argument concerning your long letter, but I cannot understand how it can be in your mind that we should invest heavily in Argentine exchange or undertake to regulate exchange between these two countries. That is much too large an order and we could not possibly go into so comprehensive a program wherever we formally open relationships with foreign government banks. Before you would know it you would have to do the same thing with Chile, Brazil and "God-knows-What". On the other hand, so far as our purchases of <sup>American</sup> acceptances are concerned, I cannot see any danger there because that is absolutely controlled through the forward rate fixed from time to time.

The Banco de la Nacion has not got a large gold reserve of its own but it has the power to draw on the Caja de Conversion for a large amount of gold against the deposit of commercial paper. The New York Bank has meanwhile sent a letter to the Banco de la Nacion, but before active operations begin I expect you will be back at your desk and can have your own fun in the

matter. *Keep well & remain patient! Governor's conference was fairly satisfactory. I had to leave, however.* Very truly yours,  
Benj. Strong, jr., Esq., *in the* *(Cancelled)*  
4100 Montview Boulevard, *hid it.*  
Denver, Colorado.

FEDERAL RESERVE BOARD

WASHINGTON

*R.A. Br.*

APR 23 1917

April 20, 1917.

Dear Strong:

Thank you for your letter of April seventeenth, which I received this minute.

I can well imagine how restless you are. Nina, Aiken and I were discussing only the day before yesterday what a terrible itching you probably would have to break away from your golf links as soon as you would hear that Lord Cunliffe would be in this country.

It is hard to advise you. I can understand only too well your unwillingness to stay away. On the other hand, I am profoundly convinced that it would be foolish for you to come. From all I can hear you are doing splendidly just now and it would be a great wrong, I believe, to interrupt this splendid recuperation no matter how hard it may be to remain reasonable. Moreover, the gentleman has not arrived yet and nobody knows where he is or when he may come. I do not believe that at this moment much more can be done in the Bank of England matter, and I think that Cunliffe very likely will want to talk about general financing and, as to this, there is hardly any help necessary because I think he will get whatever he wants just as far as we can furnish it. I believe that it is generally

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understood that our only important contribution for the moment can be a financial and economic one and we have got to do all we can and plan wisely for the financing and get all the cooperation we can.

The difficulty is that there are too many cooks on the one hand and maybe too much autocracy on the other; too much consultation and deliberation where it need not be and too little where it ought to be. However, in spite of all that, I believe that things will take their usual United States course; that is to say, we shall blunder along at first but when we get to it ~~do~~ the thing in in good style. This has been the experience of the last few days. I think that the problem is clearing up rapidly, and personally I feel that it is getting into a shape where we can handle it.

What we did today, I think, is a great step in advance. The Secretary has now announced his plan to issue \$200,000,000 of certificates payable July 1 on a 3% basis. We hope before we are through we shall issue about \$500,000,000 of them. As the banks will subscribe for these and the proceeds will be turned back to the market in order to pay for the various Government purchases, be they local or Allies, we shall anticipate any disarrangement that might follow the paying in of the instalments; because if the banks hold

(3)

\$500,000,000 of these certificates which they turn in in payment of the first instalment and if the depositor then withdraws a like amount for his payment for the bonds the two items will wash. I believe that if we proceeded on these lines so that for each instalment the banks will have in advance invested in these short certificates before the final payments are made there will be very little money withdrawn through the Treasury from the banks. Whatever temporary disarrangement there will be the Federal Reserve Banks may take care of by putting out money at a very low rate for fifteen days, be it 2% or 2½%.

We had a long and interesting meeting with the Advisory Council. I was amazed at the unpreparedness of these bankers. None of them had really a definite plan in his head. Some, however, were very good because they wanted to be helpful and were intelligent in catching on. I was particularly pleased with Wing and Rue. Wing has developed from the worst member, I think, into <sup>one of</sup> the best. Forgan, unfortunately, was ill. Morgan's attitude was most disappointing. He took the attitude of a spoiled child, being mad at the taxation scheme which he dislikes. He gave the impression that he did not care to play and that he did not care how the loan went so long as things were done which he considered unreasonable. They all claimed that no more than

one billion would go, and it was yours truly who urged strongly that a \$2,000,000,000 issue should be considered, which I believe can be done provided the policy is adopted of selling short Treasury notes ahead and if the instalments are spread so as not to be more than four or five hundred millions at a time. In the end I believe that almost all agreed with that point of view.

I had a frank talk with Morgan in the afternoon in my room in which we discussed the entrance of the Guaranty Trust and the Bankers Trust and which gave me an opportunity to say some things to him which decidedly cleared the atmosphere. I had heard that he had said some pretty unfair things about me in connection with the statement by the Board of November, and I wanted to put his mind straight. It all ended by his saying that he thought he had done me an injustice and that he was sorry for it. The nice part about Jack Morgan is that he apologizes when he finds that he is wrong and I like him for it. But it is very regrettable that he is so absolutely unbalanced and says so many silly things when he gets mad. The impression that he generally made at the meeting was not a favorable one.

The State bank situation is excellent. Hulbert was here and said definitely that he would come in. About Harry Wheeler I told you. The Marshall & Ilsley Bank and the German American Bank, of Milwaukee, have telegraphed



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that they would come in if the amendment should pass. The Commercial Trust Company, Kansas City, has applied for <sup>an</sup> ~~na-~~ ~~tionalization~~ <sup>examination</sup> and today we have received a confidential letter from St. Louis saying that the Mississippi Valley Trust Company would come in and bring with it three other State banks. That the Union Bank of St. Louis has come in I think I have written you. The Mississippi Valley Trust Company is entirely confidential.

I had a letter from Lamont in which he says that the Guaranty Trust and the Bankers Trust are "considering" entrance, so as to the State bank situation I believe we can say that we have won. I have no doubt that the leaders will now come in thick and fast and the mob will follow.

As to the amendments, they have passed the Senate Committee and we have asked the President to place himself particularly behind the gold amendment. Inasmuch as Congressman Hayes, who is the ranking Republican member, is for it, I had several talks with him, and I believe we can get this thing through in conference. The difficulty now is that the exchange charge question is being drawn into the discussion and it may be-devil the whole situation. However, I have no doubt that we shall succeed in pulling this thing off this time. So if you will do me the favor of staying away until June I think when you come back you will find a situation which will be pretty satisfactory and

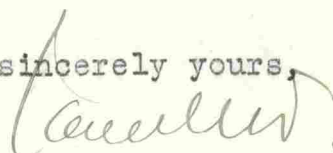
(6)

rounded out. You will have your hands full.

Thank you for what you say about Jim. He is in Newport News and since two days he is flying to beat the band. He is having a great time, but that I am relishing the thought of having my son develop into an angel I cannot say, though under the circumstances it was the only proper thing to do. I did not like the "Mosquito Fleet" idea but aviation for the Navy, I believe, is under the circumstances not a bad plan inasmuch as quite a number of his friends have joined that particular corps he is feeling doubly satisfied to be in the swim - or I should rather say "in the fly".

With cordial regards and best wishes for a good appetite and good golf, I am

Always sincerely yours,



Benj. Strong, jr., Esq.,  
4100 Montview Boulevard,  
Denver, Colorado.

E	SYMBOL
is	Blue
age	Nite
color	N L

If these three symbols  
 after the check (number of  
 is a day message. Other-  
 character is indicated by the  
 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

~~1917 APR 25 PM 6 08~~  
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0247CH SHEET 2.

MOMENT IMPENDING LARGE LOAN TRANSACTIONS WILL RENDER EXCHANGE  
 TRANSACTIONS BETWEEN THE TWO BANKS IMPRACTICABLE FOR QUITE SOME TIME  
 AS TO IMPENDING LOAN TRANSACTIONS THERE ARE MANY COOKS AND COMPARATIVELY  
 LITTLE CHANCE FOR EFFECTIVE ASSISTANCE FROM YOU DOUBT WHETHER  
 RESULT WOULD JUSTIFY YOUR TRIP KINDEST REGARDS

PAUL M WARBURG.

From \_\_\_\_\_  
 To \_\_\_\_\_  
 Time \_\_\_\_\_  
 By \_\_\_\_\_ to be \_\_\_\_\_

**RUSH DELIVERY**

REGISTERED MAIL DELIVERY

FEDERAL RESERVE BOARD

WASHINGTON

1917

FILING DEPT.

JUN - 6 1917

May 14, 1917.

FEDERAL RESERVE BANK

Dear Mr. Jay:

Permit me to introduce the bearer of these lines, Mr. William Taussig, son of my friend Professor Taussig of Harvard, now Chairman of the Tariff Board.

Mr. Taussig, Jr. up to now has been in the bond business with Messrs. John Muir and Co. He is willing, however, to abandon his present position in order to do his share in serving the country. I have suggested to him that possibly he might render valuable service in joining one of the organizations formed by the Federal Reserve Banks for the placing and handling of the Liberty Loan. After my talk with Mr. Anderson Saturday I had the feeling that possibly in New York it might be very agreeable to you to secure his cooperation.

With kindest regards, I am

Very truly yours,

Pierre Jay, Esq.,  
Federal Reserve Agent,  
New York.

\*

F SERVICE	SYMBOL
Message	
Letter	Blue
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

163KS 36 GOVT

K WASHINGTON DC 417P 18

BENJ STRONG

993

4100 MONTVIEW BOULEVARD DENVER COLO

THANKS FOR YOUR TELEGRAM GLAD TO KNOW YOU BACK SAFE AND SOUND  
AM CONFIDENT YESTERDAYS CONFERENCE WILL BRING GOOD RESULTS AM WRITING  
TONIGHT

PAUL M WARDBURG.

1917 MAY 18 PM 2 3

REPLICATE BY TELETYPE

Phone No. 1000  
 Referred to Carson  
 By W.P. to be initial

FEDERAL RESERVE BOARD

WASHINGTON

*R.A.H.*

MAY 22 1917

May 18, 1917.

Dear Strong:

I confirm my today's telegram.

I was glad to learn you ~~were~~ <sup>here</sup> back. I am sure you must have a feeling that your weeks <sup>here</sup> were well spent, and I am quite certain that the knowledge of how important for the success of our work you are will give you renewed patience to hold out and get <sup>completely</sup> well.

I have delayed answering your letters, but I have been so confoundedly busy ~~as~~ that it has been absolutely impossible to do so.

I think the <sup>Liberty Loan</sup> prospectus <sup>is</sup> as it has now been published is a good piece of work, and I am confident that the announcement to be made by the Secretary today, concerning redeposits, will be received with general satisfaction. The scheme was developed with the cooperation of a great many helpful minds and I believe that it represents the consensus of opinion. We are today offering another \$200,000,000 of certificates at  $3\frac{1}{4}\%$ , at which I am confident they will <sup>easily</sup> move. We might have placed them at 3, but it was felt that we should reach the little fellow <sup>and</sup>, therefore, it was a good plan to make that concession in order to bring that about.

The amendments are in good shape. Confidentially,

(2)

the conference has agreed on its report, including the reserve requirements without any obligatory till money involved and including the gold note issue amendment. The other phases have been satisfactorily included. However, there is a devil of a mess owing to the Hardwick amendment which the Senate tacked on and concerning which, at the last minute, the House instructed its conferees to consent to the "substance" of the amendment. This little word "in substance" saved the situation because Owen and Glass, with our assistance, have concocted a tail to that amendment which will wag the dog. The question is, however, will Congress swallow it. If not, there is danger again that the whole blessed amendment business will hang fire on account of this exchange charge. I am confident we will get the amendments through in the end, but I am very much afraid that a great deal of delay will be caused again. For the time being, the Banking Committees and all Senators are flooded with telegrams protesting against the Hardwick amendment, and owing to this flood, which pleases the Conference Committee, they have not acted today and have delayed action until Monday, when I hope they will report. Ninety per cent of this amendment situation is, therefore, excellent, but ten per cent is pretty bad.

The gold amendment, I am happy to say, has passed the



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crisis. Glass is willing now to let it go through owing to heavy pressure that has been brought upon him, and asked me himself to take it up with his fellow conferees of the House, which I did. Very confidential information from behind the scenes is <sup>to the effect</sup> that when this thing was discussed in the Conference Committee practically nobody understood what he was talking about but they were going to vote for it.

I have my hands very full and you must pardon me for not writing more today.

It was very nice to see you here. Come soon again!  
Family sends warmest greetings.

Sincerely yours,

*Cancelled*

Benj. Strong, Esq.,  
4100 Montview Boulevard,  
Denver, Colorado.

CLASS	SYMBOL
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



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

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

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

RECEIVED AT

REPLICATE OF TELEGRAPHED MESSAGE

*R.A. Jr.*  
MAY 24 1917

*Miss Carlton*  
505  
*ag. I mailed*

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WASHINGTON DC 644P 23

1213

BENJ STRONG

4100 MONTVIEW BOULEVARD DENVER COLO

CONFERENCE REPORT SIGNED TONIGHT UNANIMOUSLY CARRIES ALL  
RECOMMENDATIONS OF BOARD INCLUDING GOLD AMENDMENT HARDWICK AMENDMENT  
MODIFIED SO AS TO MAKE CHARGE! SUBJECT TO REGULATION OF BOARD AND NO  
CHARGE TO BE MADE AGAINST FEDERAL RESERVE BANK THEY HOPE TO GET  
IT THROUGH HOPE THEY ARE RIGHT I HAVE ME DOUBTS SO FAR GOOD BEST  
WISHES

WARBURG.

CLASS OF SERVICE DESIRED

Day Message

Night Message

Day Message

Night Letter

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

# WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, VICE-PRESIDENT

BELVIDERE BROOKS, VICE-PRESIDENT

Receiver's No.

Check

Time Filed

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

Washington, D. C.  
May 23, 1917.

*B.A.K.*  
*MAY 24 1917*

Benj. Strong,  
Denver.

Conference report signed tonight unanimously carried all recommendations of Board including gold amendment. Hardwick amendment modified so as to make charge subject to regulation of Board and no charge to be made against Federal Reserve banks. They hope to get it through. I hope they are right,- I have my doubts; so far good. Best wishes.

(Sg.) Paul M. Warburg.

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

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for comparison. One-half the unrepeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM AND PAID IN FULL. In consideration whereof it is agreed between the sender of the telegram and this Company as follows:

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyond the rate of the telegram, or for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED telegram, beyond fifty times the rate of the telegram, or 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 obscurities in telegrams.
2. In any event the Company shall not be liable for damages for any mistakes or delays in the transmission or delivery, or for the non-delivery, of this telegram, whether caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, at which amount this telegram is hereby valued, unless a greater value is stated in writing hereon at the time the telegram is offered to the Company for transmission, and an additional sum paid or agreed to be paid based on such value equal to one-tenth of one per cent. thereof.
3. The Company is hereby made the agent of the sender, without liability, to forward this telegram over the lines of any other Company when necessary to reach its destination.
4. Telegrams will be delivered free within one-half mile of the Company's office in towns of 5,000 population or less, and within one mile of such office in other cities or towns. Beyond these limits the Company does not undertake to make delivery, but will, without liability, at the sender's request, as his agent and at his expense, endeavor to contract for him for such delivery at a reasonable price.
5. No responsibility attaches to this Company concerning telegrams until the same are accepted at one of its transmitting offices; and if a telegram is sent to such office by one of the Company's messengers, he acts for that purpose as the agent of the sender.
6. The Company will not be liable for damages or statutory penalties in any case where the claim is not presented in writing within sixty days after the telegram is filed with the Company for transmission.
7. Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to the foregoing terms.
8. No employee of the Company is authorized to vary the foregoing.

THE WESTERN UNION TELEGRAPH COMPANY  
INCORPORATED  
NEWCOMB CARLTON, PRESIDENT

### CLASSES OF SERVICE

#### FAST DAY MESSAGES

A full-rate expedited service.

#### NIGHT MESSAGES

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

#### DAY LETTERS

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

##### SPECIAL TERMS APPLYING TO DAY LETTERS:

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

- a. Day Letters may be forwarded by the Telegraph Company as a deferred service and the transmission and delivery of such Day Letters is, in all respects, subordinate to the priority of transmission and delivery of regular telegrams.
- b. Day Letters shall be written in plain English. Code language not permissible.
- c. This Day Letter may be delivered by the Telegraph Company telephoning the same to the addressee, and such delivery shall be a complete discharge of the obligation of the Telegraph Company to deliver.
- d. This Day Letter is received subject to the express understanding and agreement that the Company does not undertake that a Day

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

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

#### NIGHT LETTERS

Accepted up to midnight for delivery on the morning of the next ensuing business day, at rates still lower than standard night message rates, as follows: The standard day rate for 10 words shall be charged for the transmission of 50 words or less, and one-fifth of such standard day rate for 10 words shall be charged for each additional 10 words or less.

##### SPECIAL TERMS APPLYING TO NIGHT LETTERS:

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

- a. Night Letters may at the option of the Telegraph Company be mailed at destination to the addressees, and the Company shall be deemed to have discharged its obligation in such cases with respect to delivery by mailing such Night Letters at destination, postage prepaid.
- b. Night Letters shall be written in plain English. Code language is not permissible.

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

VICE DESIRED

Day Message

ay Letter

ight Message

Night Letter

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

# WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, VICE-PRESIDENT

BELVIDERE BROOKS, VICE-PRESIDENT

Receiver's No.

Check

Time Filed

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

New York City,  
May 24, 1917.

*B.A. Fr.*  
MAY 24 1917

Benj. Strong,  
Denver.

Thanks for your telegram. There won't be any difficulty arranging rediscount as suggested by you. Believe everybody in favor of it. Delighted to know you are coming but can't you wait another week - the transaction will stand it.

(Sg.) Warburg.

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

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

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyond the amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED telegram, beyond fifty times the sum received for sending the same, unless specially valued; nor in any case for delays arising from unavoidable interruption in the working of its lines; nor for errors in cipher or other telegrams.
2. In any event the Company shall not be liable for damages for any mistakes or delays in the transmission or delivery, or for the non-delivery, of this telegram, whether caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, at which amount this telegram is hereby valued, unless a greater value is stated in writing hereon at the time the telegram is offered to the Company for transmission, and an additional sum paid or agreed to be paid based on such value equal to one-tenth of one per cent. thereof.
3. The Company is hereby made the agent of the sender, without liability, to forward this telegram over the lines of any other Company when necessary to reach its destination.
4. Telegrams will be delivered free within one-half mile of the Company's office in towns of 5,000 population or less, and within one mile of such office in other cities or towns. Beyond these limits the Company does not undertake to make delivery, but will, without liability, at the sender's request, as his agent and at his expense, endeavor to contract for him for such delivery at a reasonable price.
5. No responsibility attaches to this Company concerning telegrams until the same are accepted at one of its transmitting offices; and if a telegram is sent to such office by one of the Company's messengers, he acts for that purpose as the agent of the sender.
6. The Company will not be liable for damages or statutory penalties in any case where the claim is not presented in writing within sixty days after the telegram is filed with the Company for transmission.
7. Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to all the foregoing terms.
8. No employee of the Company is authorized to vary the foregoing.

THE WESTERN UNION TELEGRAPH COMPANY  
INCORPORATED  
NEWCOMB CARLTON, PRESIDENT

## CLASSES OF SERVICE

### FAST DAY MESSAGES

A full-rate expedited service.

### NIGHT MESSAGES

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

### DAY LETTERS

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

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- B. Day Letters shall be written in plain English. Code language not permissible.
- C. This Day Letter may be delivered by the Telegraph Company by telephoning the same to the addressee, and such delivery shall be a complete discharge of the obligation of the Telegraph Company to deliver.
- D. This Day Letter is received subject to the express understanding and agreement that the Company does not undertake that a Day

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

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

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

12.4.1  
JUL 2 - 1917  
RECEIVED  
FILING DEPT.  
JUL 3 1917  
FEDERAL RESERVE BOARD  
WASHINGTON  
FEDERAL RESERVE BANK

RECEIVED  
JUL 8 1917 610  
FEDERAL RESERVE BANK  
New York

June 30, 1917.

Dear Governor Strong:

Thank you for your letter of June twenty-eighth, sending me a copy of an amendment submitted by the Clearing House Committee.

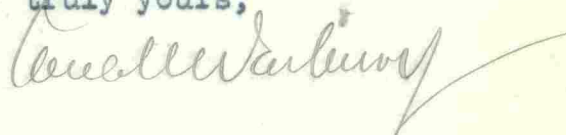
I do not think for a moment that Mr. Glass would stand for this kind of an amendment. I happen to know his views about the subject, having discussed with him an emergency clause on these lines. I found him very much opposed to it.

I shall be glad to submit the Clearing House Committee's suggestion to the Board at its next meeting, which will take place on Monday, but I am confident that the Board's opinion will be adverse. As far as my own judgment is concerned, it is against it. I agree with you that it would be unwise to permit this amendment. It would open the door wide to the use of securities as a basis for advances by Federal Reserve Banks and as a basis for note issue. It would also bring about the very thing that the Clearing House banks want; that is, we would remove the incentive for our member banks to keep invested largely in commercial and eligible paper and encourage instead investment in loans on securities. I do not for a moment deny the importance of the latter loans - particularly in New York - but the Federal Reserve System ought to find its roots primarily in commercial paper. It has been necessary for us to open the

doors to Government securities but we should not go any further unless it is absolutely necessary for the saving of the situation, a condition which, to my mind, does not exist.

A great deal of money is being redeposited by the Treasury against collateral of the kind that the Clearing House banks want to see made available. A question that goes through my mind in this connection is whether Federal reserve Banks, pending the wider development of an acceptance market and a market for commercial paper, should not have the power to make deposits or make loans on securities up to a certain percentage of Government deposits held with them. In other words, enable the Federal Reserve Banks to do themselves what they are now doing acting *as fiscal agents* for the Treasury. That is a question which I think we might well consider because it would enable the Federal Reserve Banks to exercise the banking functions which now, as a matter of necessity, must be exercised by the Secretary of the Treasury.

Very truly yours,



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



P. H. Frabney  
Sunday, July 29<sup>th</sup>

FONTENAY  
HARTSDALE, WESTCHESTER COUNTY  
NEW YORK

Dear Ben,

I received your letter just as I was leaving for N.Y. It was about time it came; for Kevin and I began to think that something was wrong with B. P. jr. We are all the more pleased with your good news. You are a wise guy to take it easy! That conference on Aug. 15<sup>th</sup> will not take place, as Mr. G. does not want the meeting at that early date

permit. We have been urging Mr G. to get the  
limit removed from the short borrowing and he wants  
to - but, as usual, hesitates to do the necessary thing  
in time. He is fussing instead, <sup>(also as usual!)</sup> with some pretty  
unreasonable steps which would mean trouble. We  
hope, however, it will be possible to get sense into  
him. He is coming around to the view that what  
we need is a 4% bond, ~~free~~ from normal income  
tax only, and I hope we may get that if not for  
the next, then for the later issues. Jimmie is  
here today and we enjoy having him. Poor

and wants to call it himself when he is  
good and ready! So - leaving aside the  
merits and ethics of the case - why don't  
you telegraph Truman whether he cannot  
hold out a week or two more? I do  
not think the issue will be made earlier  
than end of Sept. with payment of first  $\frac{1}{2}$   
instalment first half of November. That's  
the time when you want to be there. I think  
Aug. to Nov. is too long a pull for you.

Think it over and be as intelligent  
as your softened grey matter will

Darwin must have received a terrible shock  
through his son's accident. I hope the boy  
will get through all right!! Oh, these  
terrible times, when will they end? I  
trust you have continued good news from  
your boy!

Uena sends lots of love - shall I  
transmit this message?

Always sincerely,  
Lawrence

FEDERAL RESERVE BOARD

WASHINGTON

Strictly personal

August 27, 1917.

B. A. H.  
AUG 28 1917

Dear Governor Strong:

I have your letter of August twenty-fourth, enquiring about Miss Knowles' qualifications.

You met her Sunday a week ago when the whole Knowles family called at Hartsdale. She is quite a capable girl. When her father's financial affairs got involved <sup>a few years ago</sup> (I understand they now have been straightened out again) she took up stenography and showed quite some grit in this respect. She became secretary of some league - I forget which - and I believe did well in that capacity.

Personally, I have never taken a great shine to her, though she is very popular with the boys and Jimmie liked her quite well. She has been going out a lot in spite of her business career and I do not know how far she expects to keep this up. If she does, I doubt that she will be capable of doing both at the same time; that is, business and society. Jimmie says she is very popular amongst girls and that she might be a good leader. Personally, I would suggest that if the girl appears of the right type to you you give her a trial and get your own experience first as to her earnestness and abilities before you pick her out for a leading position. Maybe she will make good but I think you want to form your own judgment.

Very truly yours,

Benj. Strong, Esq.,

*Carroll D. Burton*

11

FISH ROCK CAMP  
VIA SARANAC INN  
FRANKLIN COUNTY  
NEW YORK

- 1.) stop that loss of gold
- 2.) get (at the proper moment) more gold from England. Rates over there appear to ease off and there are still, I am told, \$150 million Amer. balances in London. These will be drawn unless England puts up her rates and assists in keeping money easy here. But that is essential anyhow for her on account of

her interest in the success & continuation  
of our Government Loans. Moreover, to jobs  
we lose, we ship to cover her debit  
balances in neutral countries.

3.) get all the gold in we can lay our  
hands on in the U.S.

4.) keep the float down to the minimum.

I wonder whether there is not some  
thing to be said for a plan of selling  
the next loan outright, instead

subscription, letting everybody pay  
at once, if he please, and permit banks  
to pay by credit - the Govt. paying  
out whatever it withdraws.

There are two problems: one, to keep  
the F.R. system strong in gold and two  
to reduce the "float." At present all  
banks outside of N.Y. draw on N.Y. for  
their payments & file it into their F.R.  
banks, then the Govt. draws on N.Y.



asks the other F.R. banks to refer  
them to ~~the~~ the money must  
to the member banks in payment of  
goods. In other words money makes two  
large round trips in order to move from  
the N.Y. member bank to the F.R. bk of N.Y. and  
back (for <sup>the</sup> of the country bank) or in order  
to move from the west. F.R. ~~bank~~ member  
bank to ~~its~~ F.R. bank and back.

The question is can we short-circuit  
at any spot and let money go direct?  
The difficulty is that ~~the~~ money changes

III

FISH ROCK CAMP  
VIA SARANAC INN  
FRANKLIN COUNTY  
NEW YORK

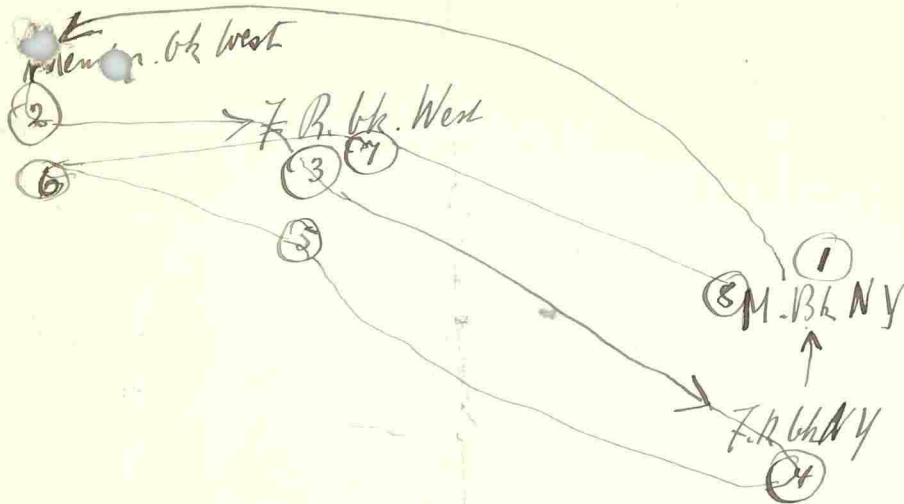
hands in the various districts & does not return in the same quantities.

But that is the problem. My feeling is we cannot much shorten the float but ought to reduce the quantities to the minimum. This is a gossiping letter and I must close it in a hurry to catch the only boat that

may take this letter. I am jotting  
this down just to start you thinking  
on these lines. Will see you  
Monday; hope you are not over  
tiring yourself.

Sincerely,  
Caldwell

see picture on back of this



course of money paid to the Govt  
 in the West and paid out by Govt in N.Y.

Thursday, Sept 6<sup>th</sup>

FISH ROCK CAMP  
VIA SARANAC INN  
FRANKLIN COUNTY  
NEW YORK

RECEIVED

198

SEP 11 1917

FEDERAL RESERVE BANK  
NEW YORK

Dear Stoup,

Thank you for your letter with chart which was sent to me here from Washington.

It rains like h... today and I am profiting from this non-golfing condition in order to answer your question, at least superficially. I expect to be in N.Y. Monday

Morning next and leave by the  
Congressional. If you can arrange  
to have the morning reasonably free  
for me we can talk the matter over.

I have urged Crosby repeatedly to begin  
issuing two or three day U.S. certificates  
of indebtedness to F. R. banks for short  
advances (instead of overdrawing)  
even if he paid only 2% for that.

I think at times that may be help-  
ful on the lines that Kenzel suggests,

but I do not think it alone will do  
the trick. Banks are not sufficiently  
willing or able to take and put out on  
call these large sums. We should not  
call these large sums. We should not  
try to add <sup>(as Kenzel would do)</sup> or withdraw large sums  
but rather seek to return what we  
take as quickly as possible. The  
F. R. banks must take care of two things  
in this connection 1.) the temporary  
dislocation; and for this, let us call  
it, 'float' the Kenzel system may help  
anticipando, or rediscounts & open.

Market transactions as post-  
or simultaneous relief; 2.)  
reserve-balance-basis which will  
necessary in consequence of our growing  
credit operations. 3.) In addition the normal  
seasonal demand must be taken care  
of by the F.R. bank, as at present.  
The more operation under 2 grows, the  
more difficult will it become to satisfy  
1 & 3. Particularly in consequence of  
our continuous loss of gold!  
What we should do is, of course, to

C O P Y

Fish Rock Camp Via Saranac Inn  
Franklin County  
New York

Thursday, September 6th (1917)

Dear Strong,

Thank you for your letter with chart which was sent to me here from Washington. It rains like h... today and I am profiting from this non-golfing condition in order to answer your question, at least superficially. I expect to be in N. Y. Monday morning next and leave by the Congressional. If you can arrange to have the morning reasonably free for me, we can talk the matter over. I have urged Crosby repeatedly to begin issuing two or three day U.S. certificates of indebtedness to F. R. banks for short advances (instead of overdrawing) even if he paid only 2% for that. I think at times that may be helpful on the lines that Kenzel suggests, but I do not think it alone will do the trick. Banks are not sufficiently willing or able to take and put out on call these large sums. We should not try to add (as Kenzel would do) or withdraw large sums, but rather seek to return what we take as quickly as possible. The F. R. banks must take care of two things in this connection (1) the temporary dislocation; and for this, let us call it, "float" the Kenzel system may help anticipando, or rediscounts and open market transactions as post- or simultaneous relief; (2) reserve-balance-basis which will be necessary in consequence of our growing credit operations; (3) in addition, the normal seasonal demand must be taken care of by the F.R. bank, as at present. The more operation under 2 grows, the more difficult will it become to satisfy 1 and 3. Particularly in consequence of our continuous loss of gold!

What we should do is, of course, to (1) stop that loss of gold (2) get (at the proper moment) more gold from England. Rates over there appear to ease off and there are still, I am told, \$150 million American balances in London. These will be drawn unless England puts up her rates and assists in keeping money easy here. But that is essential anyhow for her on account of her interest in the success and continuation of our Government loans. Moreover, the gold we lose we ship to cover her debit balances in neutral countries. (3) Get all the gold in we can lay our hands on in the U.S. (4) Keep the float down to the minimum.

I wonder whether there is not something to be said for a plan of selling the next loan outright, instead [sic.] subscription, letting everybody pay at once, if he pleases, and permit banks to pay by credit. The Government paying out whatever it withdraws.

There are two problems: one, to keep the F.R. System strong in gold, and two, to reduce the "float." At present, all banks outside of N.Y. draw on N.Y. for their payments and pile it into their F.R. Banks, then the Government draws on N.Y., asks the other F.R. Banks to refund N.Y., then the money must travel back to the member banks in payment of goods. In other words, money

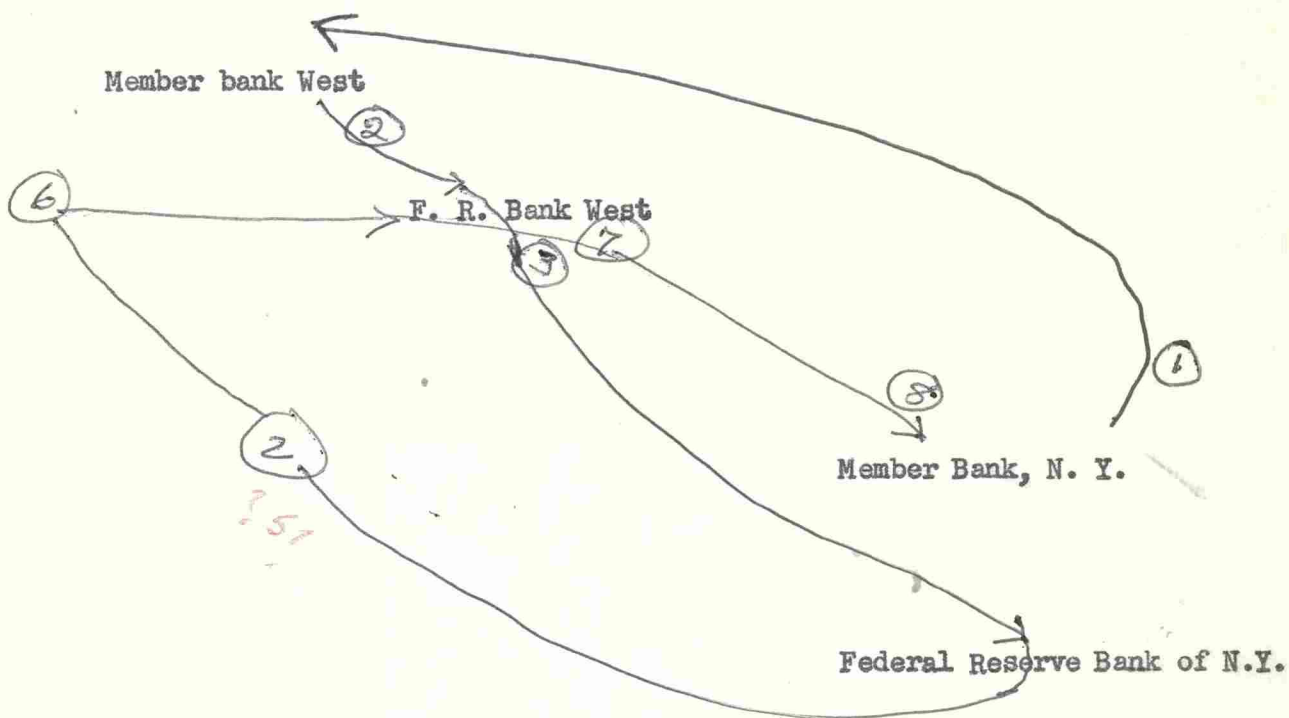


makes large round trips in order to move from the N.Y. member bank to the F. R. Bank of N. Y. and back (for account of the country bank) or in order to move from the western F.R. member bank to its F.R. Bank and back. The question is can we short-circuit at any spot and let money go direct? The difficulty is that money changes hands in the various Districts and does not return in the same quantities. But that is the problem. My feeling is we cannot much shorten the float but ought to reduce the quantity to the minimum. This is a gossipy letter and I must close it in a hurry to catch the only boat that may take this letter. I am jotting this down just to start you thinking on these lines. Will see you Monday; hope you are not overtaxing yourself.

Sincerely yours,

(Signed) PAUL WARBURG

See picture on back of this [below]



Course of money paid to the Government in the West and paid out by Government in New York

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

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

# WESTERN UNION TELEGRAM



CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	
Night Message	
Night Letter	

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

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

RECEIVED AT

B229P 33 3 EX

RZ PHILADELPHIA PEXN 1180P 29

1917  
1917 SEP 29 PM 12

*CO*  
*P. A. W.*  
OCT 1 1917

BENJ STRONG JR

1572

FEDERAL RESERVE BANK EQUITABLE BLDG NEWYORK NY

CAN WE DINE TOGETHER MONDAY EVENING EIGHT OCLOCK HAVE TO  
RETURN ON MIDNIGHT THAT EVENING PLEASE RESERVE ME

DRAWING ROOM OR COMPARTMENT ON PENNSYLVANIA OR B AND O MANY THANKS

PAUL WARBURG HOTEL RITZ PHILA **FILED DEPT.**

OCT 2 - 1917

**FEDERAL RESERVE BANK**

282

FEDERAL RESERVE BOARD

WASHINGTON

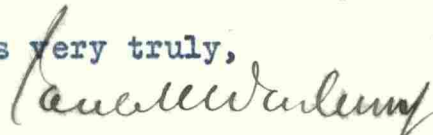
(Confidential)

October 15, 1917.

Dear Governor Strong:

Supplementing Secretary Crosby's today's letter dealing with Government deposits, I am writing these lines for your personal guidance and referring to your letter of October 9th to Mr. Leffingwell, concerning the acceptance of Russian bonds as collateral for special government deposits: " <sup>X</sup> The view here is that it would not be practicable openly to discriminate against these bonds, and that Federal Reserve Banks should deal with the matter using their discretion and protecting themselves by adopting the following policy. As to all securities, except United States Government bonds, no one bank or trust company should be permitted to secure its deposits by more than a reasonable amount of any one security, particularly in the case of securities which are not selling on a conservative interest basis, the object being to have the collateral pledged by each depository well diversified. This will enable the Federal Reserve Banks to deal with the problem cautiously. "

Yours very truly,



Vice-Governor.

Benj. Strong, Esq.,  
 Governor, Federal Reserve Bank, OCT 13 1917  
 New York.

FILING DEPT  
 FEDERAL RESERVE BANK

0.761

FEDERAL RESERVE BOARD

WASHINGTON

RECEIVED

OCT 26 1917

October 25, 1917.



X 431

Dear Governor Strong:

Please talk to me over the telephone about discount rates. Philadelphia and Boston have made application to increase their 90-day rates on Liberty Loan paper to four per cent, to go into effect on November fifteenth.

The 15-day rate probably may have to be considered too. As to that, we shall know a little bit better after next Saturday.

I think the rate for bankers acceptances ought to be moved up, also. With 90-day Government paper selling at four per cent and probably going higher, I believe that bankers acceptances probably ought to move up to three and a half to three and three-fourths.

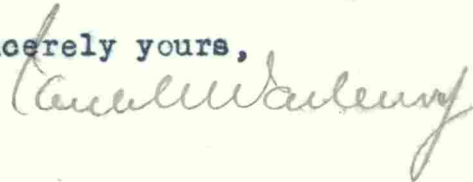
Of course, you must not overlook that we may have to form the under-writing syndicate for the U. S. Certificates of Indebtedness; but I believe that the four per cent rates for Liberty Loan 90-day and 15-day rates, varying in the several districts between three and one-half to four per cent according to requirements, would not interfere with the larger plans before us.

(2)

I have no doubt but that all the districts except possibly New York will want to move up to four per cent for 90-day Liberty Loan paper, and I am rather inclined to think it will be to your best advantage to join ~~in the fray~~, or otherwise the pressure will be all on your bank.

Let me know your views about this topic.

Sincerely yours,



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

\*

FEDERAL RESERVE BOARD

WASHINGTON

198  
JAN 2  
FEDERAL RESERVE BANK  
November 7, 1917.

Dear Strong:

Just as I left the house this morning your nice letter came from Virginia Hot Springs, and Nina and I were delighted to hear from you and to know that you have safely landed and are planning for a good rest. I should like very much to go over and play with you. However, I do not see how I can get away within the next week or so, inasmuch as I want to keep my eye closely on money conditions in connection with the payments on the fifteenth.

We shall all miss you tomorrow and day after tomorrow at the conference with the Governors. We have prepared quite an interesting program and quite a comprehensive one, and I believe the conference will be timely and useful.

I send you herewith a copy of the re-draft of my war loan finance scheme. You might study it while on your back, and might drop me a line as to your impressions. Something has to be done, and my own feeling is that this is the least objectionable form.

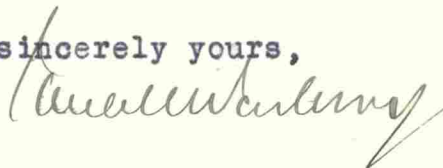
Did I tell you that Jimmie is not flying any more? He has some defect in his eye sight which the little devil managed to conceal very successfully in order to get into the aviation service. This prevented him, however, from seeing the water

(2)

line when coming down and he has been managing to get through without a scratch by taking risks that he had no business to take. His lieutenant had his eyes examined again and this time he could not cheat and he was told that they could not permit him to fly any longer. However, his lieutenant gave him a most glowing recommendation and apparently they are going to hold on to him in the aviation service. He expects to get his commission within a few weeks and will then be kept on some other work in the department without active flying. Jimmie is furious, but Nina is a different being since she is no longer worrying every hour of the day about what ~~is~~ <sup>might</sup> going to happen ~~and~~ <sup>is no longer</sup> ~~is~~ <sup>up in the air.</sup>

Let me hear soon how you are getting along and be wise and keep quiet.

Very sincerely yours,



Benjamin Strong, Esq.,  
Virginia Hot Springs,

FEDERAL RESERVE BOARD  
WASHINGTON

*Narburg* 198

In re  
International War Finance and  
War Industries Corporation.  
-----

November 5, 1917.

My dear Mr. Secretary:

Since writing you on October 13th about the "National Finance and War Industries Corporation", I have given the matter some further thought.

Having discussed the problem informally with some bankers, I believe that the thought frightens them that if the Government once goes into the financing of railroads and industries there will be Government financing of private enterprises in perpetuity and that, for instance, railroad ownership by the Government may be the next step.

On the other hand, it is clear that the powers to be vested in a corporation of the character outlined by me are such that strict Government control must be a prerequisite. These powers could not possibly be vested in private citizens. We are confronted with the same problem that faced us when dealing with the Federal Reserve Act, and I believe that our solution must be sought on similar lines.

It would appear, therefore, that the simplest way would be to organize a Federal War Loan Bank, administered under your chairmanship by a board of directors consisting of the Federal Reserve Board, to which the President would add, for this purpose, four additional members. Some of the members of the Fed-



eral Reserve Board together with these four new members (taken from the War Trade Board and similar positions) might constitute the executive committee.

The corporation would have twelve branches, which would be located at the Federal Reserve City points, and, if possible, housed with the Federal Reserve Banks. Each branch would be under the management of a board consisting of the directors of the local Federal Reserve Bank, to whom again would be added four additional members, and these four members, together with some members of the regular directors of the Federal Reserve Bank, would constitute the executive committee of the branch. All applications for loans would have to come through these branches, and would be granted subject to the approval of the Board at Washington.

In my earlier memorandum, I suggested the initial capital of \$50,000,000. I believe that was too modest. I think that a minimum of a hundred million dollars ought to be provided, with power vested in the President to increase this capital to \$250,-000,000. The bank would not be endowed with any note issuing power, but would be authorized to issue its obligations, having a maturity of no less than a year and no more than five years, to the extent of eight times its capital. These obligations would be subject to full taxation. Federal Reserve Banks would be granted the power to treat these obligations in the same manner as Government bonds; that is, they would have power to rediscount

for member banks notes secured by these obligations. The bank would have to liquidate within a given number of years after the conclusion of peace.

The Federal War Loan Bank would normally grant loans only to member banks and mutual savings banks, but it might be wise to insert a clause similar to the open market clause of the Federal Reserve Act, providing that, with the approval of threefourths of the members of the central board, loans might be granted direct to concerns engaged in industrial business essential to the best interest of the country.

All loans should be secured and no loans should be made on stocks. Provision should be made for ample margin against market value, subject to the rules and regulations of the central board.

The obligations of the Federal War Loan Bank should either be placed on the market through bond houses and in round amounts as the business of the banks develops, in a similar manner as now done by the Farm Loan Banks, or to the borrower direct. To illustrate, it might be practicable to issue the obligations to the savings banks against the pledge of the collateral, thus enabling the savings bank to secure a loan from a member bank which, in turn, would be more willing to do so on account of the possibility, in case of need, of pledging this obligation as collateral for a loan to be secured from the Federal Reserve Bank.

The objection will be raised that the sale of these five year obligations (for simplicity's sake I am only referring to

five year though they may be issued also in one, two, three or four year maturities, according to the requirements of the case) would compete with the financing of the Government. The Government sells long term bonds and short term certificates running less than a year. These obligations, as contemplated, would be something "in between" and, therefore, would not compete with the bonds offered by the Government. But we must bear in mind the alternative, which would be that the Government itself would have to issue these securities, in which case we would still further increase the financial requirements of the Government. Furthermore, it is worth while noting that, as, for instance, in the case of a savings bank, a loan would not amount so much to an issue of additional securities but in effect it would rather be a means for the savings bank to secure a guaranty for its loan from a member bank.

Moreover, we may safely expect that the actual use of the War Loan Bank will probably not be a heavy one but that the mere creation of this instrument will eliminate well grounded apprehensions which otherwise might easily create a panic owing to the realization on the part of the public and the banks that there is no adequate machinery that would take care of securities in case of an emergency. I believe that the psychological effect in this case will be a very important one and that actual assistance will possibly not be required to a very large extent unless the war should continue for quite a period and the Government should be forced to borrow at increasing rates, thereby further

endangering the position of the savings banks both as to the shrinkage in values of their securities and the increased danger of withdrawal of deposits as Government securities would in that case gain in attractiveness through the higher rate of interest.

It is furthermore most desirable to avoid as far as practicable the dangerous practice of having the Government go too far into the business of making direct loans to industrial corporations, savings banks and banks. To a certain extent this is being done, and admirably done, today through Government deposits, but these are temporary loans for the convenience of the Government; not long term loans for the benefit of the borrower. Direct Government loans of the latter character will, sooner or later, lead to embarrassment to the Government, particularly should losses be incurred, and it is better to throw the burden of transactions of this kind on an organization similar to that which has been created for commercial loans through the Federal Reserve System (or in years gone by by the Aldrich-Vreeland currency associations) and vest the responsibility for this in a separate corporation administered by a group of men appointed for this purpose by the Government and sharing this responsibility, to a moderate extent, with the representatives of business (the Federal Reserve Bank directors).

There will be criticism, of course, against that feature which would permit Federal Reserve Banks to treat these obligations as Government bonds, and the hue and cry of inflation will be raised. To a certain degree this criticism will not be without

justification. But we must bear in mind that, without this privilege, these five year obligations probably could not be placed to advantage, in which case we would again be confronted with the necessity of either having the Government itself issue these obligations or of having the Federal Reserve Banks make these advances direct. If the Government provided the funds direct it would issue additional bonds and these Government bonds would carry with themselves the same privileges as proposed for the obligations of the Federal War Loan Bank. In that case, therefore, "inflation" would be the same as in case of the War Loan Bank. If the Federal Reserve Banks would make advances direct, the wheels might work so fast that inflation to a much greater degree might have to be apprehended.

There cannot be any doubt but that during normal times a proposition as here described would have to be firmly rejected. It would be argued with force that the market should absorb the securities and that whatever banking credit could not be provided in the natural way should not be secured by unnatural means. But we are at war, and the natural means of having the security market provide credits have ceased to exist. We must, therefore, take some extraordinary measures, bearing in mind that we must take recourse to such measures only to the most moderate possible degree. I believe that, as here proposed, we are not going too far but are doing only what the necessities of the country require and we are doing it in the least harmful way open under the circumstances.

This plan would have the advantage that it would at once create confidence and that it would simplify the problem. At present there is danger that we are getting too many boards; too many groups of different people working at arm's length and at cross purposes even though striving for the same aim.

Exportation cannot be restricted without a careful consideration of the consequent necessity of paying for our importations in gold. Credits cannot be restricted without a careful discrimination of what industries are to be restricted and what are to be encouraged. Without restriction of our domestic consumption - that is, scientific economy on the part of individuals, corporations and municipalities - and a scientific, not haphazard, regulation of our foreign trade and that of our allies, our financial problems may end in hopeless confusion and failure. Close cooperation between the various Government agencies is absolutely essential for the successful prosecution of the war. It is much to be regretted that the Federal Reserve Board was not invited to be represented on the War Trade Board and to strengthen on that Board the Treasury point of view. By putting representatives of the War Trade Board on the board of the Federal War Loan Bank a community of thought might be created which is most desirable for both sides.

While under the plan proposed the Government would have an efficient control over the operations of the banks, the public would at once understand that the matter is in the hands of the Federal Reserve Board and the Federal Reserve Banks, which are both

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JAN 2 -  
FEDERAL RESERVE BANK  
now firmly established in the confidence of the country and are charged at present with the duty of exercising a financial control over the banking situation, and in whose hands this additional instrument should, therefore, naturally be placed. Moreover, by adopting the well established lines of the Federal Reserve System, the problem would be simplified for Congress and much unnecessary discussion and loss of time would be avoided.

The great advantage of this plan is that whatever financial burden may fall through it on the Federal Reserve System will only come indirectly and we are creating a second line of defense around the system. Unless we provide for something of this sort, I am confident that we will be forced to amend the Federal Reserve Act so as to permit the Federal Reserve Banks to make direct advances on securities, and this step is fraught with many dangers and subject to a great many serious objections.

Commissions could be created that would cooperate with the Federal War Loan Bank with a view to vetoing or permitting new issues of securities in a manner outlined in my previous memorandum, directing banking so as to produce well guided economy and, incidentally, exercising a most necessary indirect control over the issues of States and municipalities.

If any further elaboration of the plan is desired, I shall be only too glad to submit further details.

Respectfully,

(Signed) Paul M. Warburg.

Hon. W. G. McAdoo,

Secretary of the Treasury.

MEMBERS  
CADOO  
ARY OF THE TREASURY  
CHAIRMAN  
ON WILLIAMS  
CON. TROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN  
M. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

# FEDERAL RESERVE BOARD

WASHINGTON

X-719

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD  
**RECEIVED**  
FEB 14 1918

*Recd. by*  
FEB 15 1918



MAIL TELLER  
FEDERAL RESERVE BANK  
of New York

X 413  
X 414  
*Nash*

February 12, 1918.

Dear Sir:

At the time of the Board's last conference with the Governors, on November 10, 1917, they were asked by me to estimate what, in their opinion, would be the maximum amount of rediscounts by their respective banks of 90 day paper secured by Liberty Loan bonds or certificates of indebtedness.

I give you enclosed a list of the estimates made of 90 day paper secured by Liberty Loan bonds and have added to that a column showing the borrowing on fifteen day notes secured by Liberty bonds and certificates of indebtedness, and<sup>a</sup> further column showing the total.

It would appear that the only estimate that was fairly correct was that of Governor Van Zandt.

I am sending this believing it will be of interest to you.

Very truly yours,

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



LOANS ON 90 DAY PAPER

X-719

Secured by Liberty Loan Bonds or Certificates of indebtedness

MEMBER BANKS COLLATERAL NOTES SECURED BY LIBERTY BONDS & U. S. CERTIFICATES OF INDEBTEDNESS

TOTAL PAPER SECURED BY LIBERTY BONDS & U. S. CERTIFICATES OF INDEBTEDNESS.

	Estimate made by Governor Nov. 8, 1917 (In thousands of dollars)	Actual as of January 18, 1918 (In thousands of dollars)	Actual as of January 18, 1918 (In thousands of dollars)	Actual as of January 18, 1918 (In thousands of dollars)
Boston	\$75,000	\$36,029	\$ 3,158	\$ 39,187
New York	200,000-300,000	67,294	90,331	157,625
Philadelphia	50,000	16,465	1,550	18,015
Cleveland	60,000	9,308	5,462	14,770
Richmond	25,000	6,278	4,919	11,197
Atlanta	12,000	29	3,806	3,835
Chicago	75,000	5,691	33,147	38,838
St. Louis	.. ...	1,500	4,267	5,767
Minneapolis	75,000	210	877	1,087
Kansas City	30,000	241	2,208	2,449
Dallas	5,000	4,082	916	4,998
San Francisco	20,000	453	2,047	2,500
	\$560,000-\$660,000	\$147,580	\$152,688	\$300,268

Washington, D. C.,  
February 12, 1918.

*D.A. L.*  
FEDERAL RESERVE BOARD  
FEB 26 1918 DEPT.  
WASHINGTON

FEB 27 1918

FEDERAL RESERVE BANK February 20, 1918.

Dear Governor Strong:

I have your letter of February fifteenth, in reply to mine of the twelfth, enclosing a statement of the estimates of the amount of advances expected to be made by Federal Reserve Banks on Liberty Loan bonds.

I have read your letter with a great deal of interest and do not disagree with you as to your analysis concerning the effect of the Government's loan operations on the general investments of your bank. However, the question that was asked at the time was a very definite one, not "How much will your loans expand in consequence of the Liberty Loan operations" but "What will your bank's investment be in 90 day paper secured by Liberty Loan bonds" and, as a matter of fact, the fifteen day paper was excluded from that question. I do not think that you were present at that particular conference but Mr. Treman was, and it was his guess, not yours. The estimate, as I remember, was given by Mr. Treman only with all due hesitation.

I should like to mention that I have not been sending this memorandum for any purpose of showing up anybody as right or wrong, but simply because I had been asked by several of the Governors concerning the result of the guesses. Mr.

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Van Zandt was particularly insistent, and you can guess the reason why.

As to the large amount of advances made by your Bank on certificates, fluctuating between \$253,000,000 to \$346,000,000, that, as you know, really has nothing to do with the placing of the Liberty Bonds but was caused simply by the fact that banks in your district, instead of using the certificates for the purpose of paying for their subscriptions, were carrying them and a majority of them borrowing from you against the certificates. That was, as a matter of fact, a transaction which had nothing to do with the ultimate result that we were trying to establish.

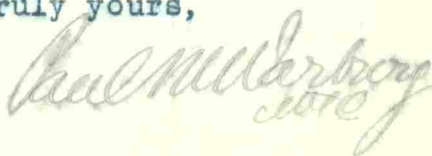
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Since dictating the above yesterday, I have spoken to you on the telephone about the telegram that we sent concerning deposits bought by Clearing House banks.

I send you herewith a copy of my testimony and also that of Secretary McAdoo before the Senate Finance Committee, in case you have not seen it. I have more interesting testimony before the House Committee which I hope to be able to send you in a few days. The latter contains some material that might go into the press and be helpful in the present controversy.

Very truly yours,

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



Paul M. Warburg  
1912

Enc.

(Dictated by  
Mr. Warburg)

*Exec. Com*

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FEDERAL RESERVE BOARD

MAR 2 1918

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WASHINGTON

FEB 28 1918

*B.A. Jr.*  
FEB 27 1918

FEDERAL RESERVE BANK

February 23, 1918.

FEDERAL RESERVE BOARD  
(Personal)

Dear Governor Strong:

In reply to your personal letter of February twenty-first, with respect to the various amendments recommended by the Comptroller of the Currency, I may state to you what, no doubt, is known to the majority of the banks, that the fact of the Comptroller's recommending certain measures does not in any way mean that the Board is of the same view. As a matter of fact, when the Comptroller handed in his report, and when he permitted some of us to see his recommendations in advance of their being released for publication, he was advised that the majority of the Board was opposed to some of his recommendations, and the Comptroller himself stated that he felt, of course, that his recommendation did not in any way mean that the Board would not be absolutely free to state frankly its opposition to any such amendments if the Board felt so disposed. The Governor informed the chairman of the banking and currency committees of the Congress that the Board did not consider it advisable to have the question of guaranty of deposits agitated at this time, and that, in case it should come up for serious consideration, the Board would wish to be heard.

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It is difficult to advise the Federal Reserve Banks as to what attitude they should take towards banks which make enquiry of them with regard to these bills. I should say that they might state what I have said above, that neither the Federal Reserve Board nor the Federal Reserve Banks are bound in their opinions by the recommendations of the Comptroller, and that the fact of the amendments having been proposed by him in no way indicates that the Board is in accord with his recommendations.

Very truly yours,



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

# WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

CLASS OF SERVICE	SYMBOL
Telegram	
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 telegram. Otherwise its character is indicated by the symbol appearing after the check.

OL  
Blue  
Nite  
N L

three symbols  
check (number of  
telegram. Other-  
character is indicat  
appearing after the check.

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169B 97

Washn D. C. Aug 10, 1918. 530PM.

Benj Strong,

Woods Hole, Mass.

Thank you for your message I received a very gracious letter yesty  
 most satisfactory in its form accepting my retirement personally I  
 am greatly relieved but I cannot but regret with all my heart that  
 the association with you old man and my <sup>many</sup> ~~money~~ loyal friends and  
 associates in this work of ours has come to an end indeed I cannot  
 as yet quite realize how my mind will manage to leave the old tracks  
 however friendships formed in this work and the common aim will but

*Paul M. ...*  
*file*

COL

# WESTERN UNION



# TELEGRAM

Message	Blue
Letter	Nite
	N L

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

CLASS OF SERVICE	SYMBOL
Telegram	
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 telegram. Otherwise its character is indicated by the symbol appearing after the check.

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

**RECEIVED AT**

last whatever artificial barrier there may exist from now on affectionately

Paul 650PM.