

OFFICE CORRESPONDENCE

DATE March 1, 1922

Governor Strong

SUBJECT: Bank Policy

FROM Mr. Snyder

Your question suggests a detailed answer. Let us first consider the prospect.

I. In Business.

Following the boom in 1919 we had an unusually long bear market in stocks--from November, 1919, to August, 1921--about 22 months. This followed a bull market of a little less than average length--about 22 months.

The decline in stocks was followed at about the usual interval--six or eight months--by a prolonged slump in business and an unprecedented slump in prices. The boom of 1919 lasted about 14 months, on the Bureau of Labor index; and the slump lasted about the same length of time, to about last June or July. Since then there has been no appreciable change.

We have had now for six months a very strong bond market, the longest and most sustained bond market, according to the dealers, since 1905, that is, over 16 years. This followed, as usual, upon declining rates for money and liquidation in business.

Accompanying this strong market has been a quite remarkable rise in street loans, amounting since September to over \$300,000,000, or very nearly to 50 per cent.

At the same time we have had since August, or for a full six months, a slow, creeping rise in the stock market, that has had no interruption, and now amounts for the industrial list to between 20 and 25 per cent. But a large number of individual stocks have risen from 50 to 100 per cent.

The prospects, I should think, were for fairly easy money for at least the rest of the year. We have had a liquidation in bank loans that, for the whole country, equals if it does not considerably exceed that following '73, and is certainly much greater than '93, and extending now over a period of fifteen or eighteen months, and in New York City, of course, over two years.

I should take it that this combination of prolonged liquidation, easy money and sustained bond market and a steadily rising stock market was pretty nearly the invariable precursor of a stock market boom. As the rise in stocks has gone on now for over six months without a break, it might be due for a sharp recession sometime this spring or early summer, but I should think the boom would be well under way, with active public participation and generally buoyant feeling, by next September or October.

The violent and unprecedented decline in prices has likewise created the conditions, it seems to me, for a great boom in commodities. In the first place, the fall in prices was very unequal and nowhere more so than in farm prices. Where the average of all prices, including a heavy weighting

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of farm prices, has been for the last six months around 150, that for farm prices has been 20 to 30 points lower, and for wheat and corn more than 50 points lower.

This disturbance of the equilibrium creates the natural tension for a violent rebound, and this is exactly what we have been having for the last two months or more. Mr. Walter Case tells me that the rise in wheat has been, in percentage, the greatest ever recorded in the Chicago market in a similar period, and I believe that the general rise in farm products will soon have, if it has not already, passed all records.

This tremendous rise in farm products must bring about a strong revival in many lines of business that are now stagnant or utterly dead, as, for example, agricultural implements and every kind of industry that caters to the farmer.

Likewise, we have had, after the 80 per cent. rise in cotton last August, a rather sagging market in that commodity. If, as seems now probable, the textile industry in England, Germany and other European countries is recovering and there is a good demand in this line in this country this spring, we have, with a very short cotton crop, the conditions for another very big rise here; and it may well be that the predictions of 25-cent cotton before the year is out will be realized. This should have a corresponding effect on business in the South.

A strong stock market usually precedes a revival in business by about six or eight months. On this basis, with rising commodity prices and especially the restoration of equilibrium for farm products, most lines of business should be in pretty good shape this spring and perhaps in very good shape this fall.

Such seem to me, in a broad way, the prospects so far as it is possible to look into the future. Lest I give you the idea from all this that I am merely a chronic optimist, I should like to say that my tendency is, if anything, just a little the opposite. So far as I can now recall, I was the only man I know of in this bank in the spring of 1920 to think that we were in for a very bad time. I will say that I felt we might have a much worse time than we actually got, at least in some regards. I remember at one time I believed with Mr. Hepburn, who made the unequivocal prediction, in his speech at the Academy of Political Science in May of 1920, that we might not get by without an old-fashioned banking panic. The influence of the Federal Reserve System proved to be stronger than I felt might turn out to be the case.

As to the fall in prices, under date of April 21, 1920, I wrote to Prof. Persons, of the Harvard Bureau of Economic Research, as follows:

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"I have been extremely interested in your judgment that liquidation in commodities will be moderate. Most studies we have been making have led me to an almost opposite conclusion, namely, that it will be very drastic though perhaps short-lived. I cannot believe we can have a rise in commodity prices in one year of 26 per cent., in peace times, with a corresponding increase in bank loans in 12 months of 25 per cent., without a very severe reaction, especially in view of the world-wide money stringency. It will be interesting to see how it actually works out."

As to the present prospects, under date of February 3, 1922, I wrote again to Prof. Persons, as follows:

"Possibly I am too optimistic, but I cannot help feeling that there are forces at work which will drive the business machine somewhat faster than you seem to anticipate. My belief is that the rise in the general price level will be at least twice, if not three times, the estimate of 10 per cent. named in your letter."

## II. Foreign Trade.

Just a word about the ineradicable superstition that our foreign trade is a vital factor in our prosperity. First of all, as anyone may verify, the great bulk of our exports, even now, is as it always has been, in great staples like cotton, copper, meat, wheat, and a lot of things in which either we have relatively little competition, as in cotton and copper, or else which we are able to produce and deliver for export at a cost that compares favorably with that of the other big producing countries. This great bulk of non-competitive or little-competitive exports undergoes relatively little variation in volume and is not greatly affected by general conditions either here or in Europe, but rather from quite special conditions.

The proof of this is that, with general business conditions this last year at the lowest ebb for a long time, our grain exports and others have been unusually heavy. On the other hand, the price of copper is at the lowest point relative to the general level of prices in long years, and our exports have steadily been very small.

So, on the other hand, our imports are in the main, staple articles like rubber, tin, silk, coffee, tea, and a great number of other things that we do not produce at all. In a broad way, the volume of these imports is but little affected by the general condition of our exports. What I mean is that our foreign trade is not an affair of simple barter or direct exchange; and the proof is that,

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with Europe  
for years and years, the so-called "merchandise balance" has been steadily in our favor.

The amount of our exports in manufactured goods, other than in foods, is not only relatively small as compared with our great staple exports, but as compared with the whole product of manufactures in the country is, I almost started to say, a negligible quantity.

I don't suppose that, of the total value of manufactures of the country, other than foodstuffs like flour and dressed meat, the total of our exports in manufactures has ever amounted to more than 3 to 4 per cent. at the outside. Of course this billion or so of manufactures seems very great to our New York exporters and bankers and merchants, but as against the total volume of the business of the country it is relatively slight.

Further than this, our studies here at the bank, confirmed by those at the Harvard Bureau and likewise recently by Mr. Hoover's new Bureau at Washington, show that in weighted volume our exports this last year, in the face of the endless talk of the ruin of our foreign trade, the great decline, etc., were not appreciably lower than in either of the two boom years of 1919 and 1920.

This means that if the prices of all products had remained absolutely the same in these three years, then the reported values of our exports would likewise have been practically the same. And this conclusion has a very remarkable implication.

There is little doubt that, taken as a whole, the total physical product of the country last year, measured in tons, bushels and barrels, including crops and the mineral product and manufacturing, was at least 15 per cent. below that of the preceding year. In minerals it was more than 30 per cent. below. It follows then from this that if our exports were practically the same in volume as in the two preceding years, then the percentage of our total product which has gone abroad was greater last year than in the boom years of 1919 and 1920.

I know this seems a very surprising result; but I believe it is incontestably true, and furthermore the studies made by this department a year ago likewise would suggest that this percentage of products going abroad last year was the highest in at least the last quarter of a century. I cannot, therefore, share the prevailing view that the key to our prosperity is our foreign trade. On the contrary, I believe the evidence is overwhelming, for those who will have the patience to study the actual facts, that it is not.

Further than this, the idea that our prosperity is conditioned upon the "recovery" or reconstruction of Europe seems to me pretty sheer imagination. England has been in a bad way in the last year, but the rest of

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Europe has not. It has probably produced 80 to 90 per cent. of its normal total, even though so large a section as Germany has probably been considerably below this.

But at most it seems probable that the "restoration" of Europe would not mean an increase of more than 20 per cent. at the outside, and possibly less in her total product, and therefore her total purchasing power; and it is probable, further, that so far as this country is concerned recovery would mean possibly as large a decline in the demand for our foodstuffs as it could possibly mean in increased demand for our manufactured products.

For the rest, my visit to Europe last summer gave me a tremendous impression of the way things in general go on, in spite of all wars and catastrophes, in Europe just as they do in this country even in the worst years of crisis and depression that we have ever known.

The variation in the total product probably in the last hundred years, for either this country or for Europe, between good times and bad, has probably never much exceeded 15 per cent., and certainly not 20 per cent.

### III. The Political Side.

First of all, I would like to note that I have a pretty good knowledge of the West, for I was born and brought up out there; and of politics, for I was born and brought up in them; was editor of a daily paper at twenty and went through the Bryan campaign at an impressionable age. I think, therefore, I know pretty well the temper of the people from whom I came. A very strong impression I got very early was that the political swing of things was pretty well determined by business conditions and not the reverse, as so many people believe.

For example, it is a popular superstition that business in this country was greatly upset by the free silver agitation in the Bryan campaign, and that our business recovery dated from the "establishment of the gold standard."

It seems to be quite lost to view that the depression in Europe and in South America and other countries started in a full two years before there were signs of it in this country, in England and in Germany, and the Argentine and elsewhere, where there were no Bryans and no free silver agitations and no question of the gold standard.

It was apparently this depression in Europe, through the diminution of purchases here and of exports of capital to this country, which finally brought on the panic of '93. I have never believed that this crisis had anything seriously to do with political issues.

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Moreover, you will find that in general in the last fifty years or more the political administration has usually changed with falling prices and bad times, and stood fast when times were good. Therefore, I take the view that the general political swing now, as always, will be dependent upon general business conditions.

Therefore, I should rather expect that, if business was good by early fall, and farm prices have had a heavy rise and the stock market is booming, a Republican Congress might be returned with at least a narrow majority, even though its prestige may have been very seriously impaired. On the other hand, especially if the Democrats espouse a cheap money or soft money platform, as I understand is now the programme, and business is not good, and farm prices have not recovered, then I should expect a very heavy Democratic majority, possibly a "landslide."

Looking ahead two years further, I should expect much the same. If the stock market boom runs about the usual course, 24 to 30 months, this would bring its culmination in the late fall or winter, say November or December of 1923.

If this should be followed by a corresponding rise in commodity prices, they would probably reach their apex with the general movement of business six or eight months later, that is to say, along in May or June of 1924. If the reversal is very sharp and we get a headlong fall of prices and business should have a heavy slump, in the autumn of 1924, then I should expect to see the Republicans beaten out of sight.

But if, as in 1920, the decline in prices should at first be rather slow and business keep up pretty well and other conditions be fairly right, then I should think that the Republicans would have a fair fighting chance.

#### IV. Bank Policy.

If things should work out somewhat along the lines here very tentatively suggested, then it seems to me that the question of policy for the Federal Reserve Banks might not be so very difficult. Pretty clearly now almost every consideration of general welfare and general happiness, as well as political and economic considerations, seem to me to suggest that every encouragement should be given to the revival of business, trade and production as speedily as possible.

Personally I cannot imagine why we should any more endeavor to get back to the price level of 1913, the imagined "normal" of the popular mind, any more, for example, than that we should go back to that of '96 or any other date. The price level of 1913 was almost an even 50 per cent. above that of '96, and that of '96, in turn, very heavily below that of the average of the preceding twenty years.

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SUBJECT: Bank Policy--7

Mr. Snyder

If the aim of an intelligent statesmanship and banking policy is the general welfare of all the people, and a general atmosphere of contentment and satisfaction with life, does it not seem to you that what is desirable is a fair stability of prices and not a tremendous rise like that we had before 1913, or a tremendous fall like that we had in the nineties?

And it is my firm belief that the results of our investigations here in the last two years show pretty clearly that such a fair degree of stability is now obtainable if only the public and the bankers and the Federal Reserve Board can be educated to see that our banking and credit policies may now be made a matter of science and certainty, instead of as at present, a kind of rude rule of thumb.

As to immediate policy, if we have had an average decline in bank loans for the whole country of something like 13 to 15 per cent., as the recent returns from the Comptroller would suggest, then the banks of the country would have an available credit supply of plus 3 billions, at least, before they would have any need to call on the Federal Reserve Banks. I should imagine that, from tradition and from the doctrine that has been so assiduously cultivated, that the banks ought not "to be in debt" to the Federal Reserve Banks, that they would not resort to rediscounting much until they were forced to do so.

They probably would be forced to some extent by the demand for currency. From the peak of 1920 the Federal Reserve currency has been contracted about a billion and a quarter; and if prices begin to rise again and trade expands, pretty clearly there will be renewed pressure for Federal Reserve note issues. This rediscounting could be made the basis for a moderate rise in rediscount rates, as time went on, especially if the rates on commercial paper and the rest should likewise rise.

Meanwhile, I am wondering whether it might not be at once sound policy and good strategy to reduce the New York rate, at least, and possibly that of Boston and Philadelphia, to 4 per cent. for the time being. Our general money rates have held up much higher than those in London, and there does not seem to be any reason why they should. And if this is to be chronic, as it has been in the past, then clearly New York is not going to be a great rival of London as the international money center.

For the time being the broad speculation in bonds and, I think to some extent, in stocks has created a certain market for funds here in New York, and held up the rate possibly higher than good business judgment would fix it. It might be well worth considering whether a reduction of our rate to 4 per cent. might not be regarded as a formal notice to the country that the supply of funds was ample, that money in New York was becoming steadily cheaper, and then, by maintaining a higher rate in the West and South, produce some flow of funds to these sections.

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SUBJECT: Bank Policy--8

FROM Mr. Snyder

But such a policy could not be very effective unless the spasm of contraction which has laid a heavy hand upon the banking mind of the country is not relaxed by an effective campaign of education. I know a great many serious and careful thinking people feel that some part, and possibly a large part, of our depressions, or at least their continuance, is due to the natural timidity and fright of the banking community at such periods.

Forced by various impulsions in the period of expansion to an undue expansion, when the snap comes they swing to an opposite extreme; and it seems as though one of the great problems of statesmanship for this country is to find some way to combat both of these natural tendencies and to mitigate their very harmful influences.

Looking farther ahead, if business should get well under way and prices rise steadily, then it seems to me the bank rate might be put up at pretty regular intervals, say each three months, by a half per cent.; and especially so if, as it seems to me, there is at least a possibility that the thing should swing out into a runaway market and another characteristic "boom." Surely by this time the country has begun to get a little glimpse of the fact that it is a boom that breeds a panic; and I can't help thinking that the strong conservative sentiment of the country would back up the Federal Reserve Banks in a steady advance of the rediscount rate, especially if this was accompanied by a strong campaign of popular education in the idea that the Federal Reserve Banks ought to be the governor or the gyrostaf of business to prevent alike wild expansion and disturbing collapse.

For this reason it seems to me that the bankers of the country generally should lend their support to all such organizations as the Stable Money League, which have for their base popular education of the public in the field of economics and finance and the advancement of any kind of practical measures which might seem calculated to mitigate the violent oscillations to which this country seems so prone, and which seem to have been heightened rather than curbed by the introduction of the Federal Reserve System.

This brings me to another question which, in view of the experience of the last three years, we must soon face. That is the question of:

#### V. An "Elastic" Currency.

We have recently made an investigation that I believe is of fundamental significance. Running back over more than a hundred years we have found that, taken by decades at least, that is to say, in what is called a ten-year moving average, the amount of currency estimated as in circulation in the country has increased at the rate of about  $3\frac{1}{2}$  per cent. per annum.



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SUBJECT: Bank Policy--9

FROM Mr. Snyder

Now it happens that this is exactly the rate of increase which we found was characteristic for the total product of the country throughout the last half century--that taking the average of all the major products of the country, between 50 and 75, for which the material was available, crops, mining, manufactures and all, the average rate of growth of our industries has been at this same  $3\frac{1}{2}$  per cent. per annum.

Now I do not believe that these two findings are unrelated. Furthermore, in a very rough way a change in the rate of increase in the currency above or below this average seems to have been paralleled by an increase or decrease in prices.

In the last forty years it appears that the normal rate of increase of bank loans has been at about 6 per cent. per annum, and that in turn a marked increase from this rate has not resulted in increasing production but simply in a rise of prices.

We know that these results tally closely with the practically universal experience of the European countries in and since the war. They could print money and expand their currency and raise prices, but this brought no corresponding increase in production but, just as in this country, apparently the reverse, some diminution.

Does not this open up the question as to whether our idea of an "elastic currency which will respond to the demands of business" is fundamentally unsound? Is it not probable that the so-called "demands of business" are to all intents unlimited; and that the only restraint which we can have upon rising prices is a limited currency and a limited amount of credit?

Now the grave problem, it seems to me, that faces the Federal Reserve Banks is to what extent they can throw their influence against another such expansion of the currency and of bank loans as took place in 1919 and 1920. The increase in bank loans was about 26 per cent., the increase in wholesale prices, Bureau of Labor index, a little over 30 per cent. But the increase in production was limited to a few months and for the two years taken together was below the estimated normal rate of growth.

These are questions on which, from your far greater vision, I should like very much to have your opinion and idea. It may be, of course, that things will not work along anything like the lines I have suggested as possible, and then the problems will be quite different.

But of one thing I do feel confident, and that is that the influence of the war, per se, and separated from the direct influence of currency

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SUBJECT: Bank Policy--10

FROM Mr. Snyder

and credit inflation, has been curiously and perhaps grotesquely exaggerated; and this leads me to feel that the conditions we are dealing with are possibly far more financial and monetary questions than that of any great disturbance brought by the war; and therefore that we are dealing with forces still imminent and likely to persist in their influence.

In other words, my feeling is that the post-war boom was, if we may divide the responsibility, far more due to an excess of credit than to a shortage of goods, although the latter may have exerted an impulse at the beginning. And if this be true then does not the existence of the highest potential expansion of credit which this country has probably ever known--something like 13 billions at least in bank loans--present a very serious problem which perhaps only a strenuous campaign of economic education can cope with?

And if our bankers and economists are divided in their views, is such an effective campaign possible?

VI. Conclusion.

Definitely to answer your inquiry, is not the sole avenue open, to make use of and spread broadcast a body of new knowledge which is now in our possession? It seems fairly clear that no rate of rediscount by the Federal Reserve Banks that is politically feasible, or, under existing conditions which you describe, likely to be put into effect, would be adequate to control a great credit expansion, if it comes.

The sound money campaign was fought on issues of reason and logic, that appeal to a relatively small number of people. They won, but it was a pretty narrow squeak.

But the question of the gold standard was simple as compared with that of attempting to limit credit expansion.

But if we do not educate and agitate, and if when it is too late, as in 1920, the Federal Reserve Banks should attempt to put a curb on currency expansion, and we should have another collapse, what would then become of the Federal Reserve System?

--Always supposing the boom comes along!

OFFICE OF  
CORRESPONDENCE

DATE March 2, 1911

TO Governor Strong

SUBJECT: Bank Policy

FROM Mr. Snyder

I fear I was so deeply flattered by your invitation that I have written you an essay. I did not realize it was getting so long.

So I enclose a brief digest, and for your leisure, the material on which it is based, if you have the patience to go through it.

Dr. Willis said the other night that Senator Glass had told him that a strong party was already forming among the Democrats, to go in for a soft-money campaign with Bryan as their possible leader, and that he feared they would be able to swing the party.

Which is interesting. But I cannot help thinking that the tide of business and prosperity in the next two or three years will be all against them.

Possibly, if you approve, Chairman Anderson would be interested in the draft of a letter regarding the farm situation, to Mr. H. A. Wallace. I really feel as if there was a body of fact contained therein that ought to be widely known to the whole country.

*Your memo. of Feb. 28. returned  
here with as requested.  
But I hope it will  
be preserved. J. W.*

## OFFICE CORRESPONDENCE

DATE March 2, 1922

TO Governor Strong

SUBJECT: Bank Policy

FROM Mr. Snyder

DIGEST

To digest briefly what I said in extenso, is there not a very fair prospect that the situation will, to a large extent, take care of itself? Either:

I. Business and production will improve steadily and perhaps be well under way in the fall, enough to take care of the fall elections; or

II. The depression, such as it is, will continue and it will develop into a contest between say sound money and cheap money. Even if the cheap money advocates win this fall they can scarcely do anything very radical for the next three years.

Meantime, I can't help feeling that, whether it gets under way this fall or a little later, things will improve sufficiently so as to pretty much take the edge off the antagonism to the Federal Reserve Board, and banks.

If not, then is there not the very greatest need for a strong organization for the spread of popular economics and sound ideas, such, for example, as the Stable Money League, an organization that will bring together the ablest economists, bankers and business men in the country? The nucleus for this organization has already been formed.

I am moved to this reflection: Our bankers and financiers justly regard the ideas of Ford, Edison, and "Coin" Harvey as unsound, and to say the least as "dangerous." But economists have something of the same feeling about many of the typical ideas of bankers and financiers. The latter retort by calling the economists mere theorists, and impractical. But it happens that within the last twenty years there has been growing up a new body of knowledge that, to borrow an analogy from chemistry, may be called quantitative economics, dealing with measurement and fact, as opposed to the old qualitative economics, which was largely theory.

With the aid of this new knowledge it is now possible to submit many economic ideas to the acid test of statistical fact.

And so it happens that those trained in this new economics may turn on their tormentors and accuse the banker and financier of being theorists, and as indulging in loose ideas that will not stand quantitative measurement and analysis.

Now. If, as Mr. George Roberts has been saying for a year and a half, we shall have to fight the sound money campaign all over again, would it not be a pity that our bankers and our economists should be divided in their view, especially if it be true that the new economics can deal with proof and not "reason" and theory?

Is it not possible that the exigencies of the free silver campaign forced the advocates of really sound money (and some economists) into a false position?

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DATE March 2, 1922TO Governor StrongSUBJECT: Bank Policy--2FROM Mr. Snyder

In some ways is it not fair to say that, as regards theory, Bryan was right and the friends of sound money were in the wrong? And was not this an essential part of their weakness and the difficulties they encountered?

The trouble with Bryan and the free silver advocates was that they were all wrong on their facts and the ends they sought. And this is what the new economics could now show clearly without having to adopt specious and indefensible theory.

If all this be true, then is not the biggest thing that can be done now and in the next two or three years to arouse our bankers and financiers and public men who think upon these questions, and our editors and educators and all who mould public opinion, to the weight and power of this new economics; for I am sure if their minds are fairly a unit their intelligence will impose its will upon the whole country.

Meanwhile, one thing I do not see clearly the need of. That is what you have referred to as a "capital operation." My mind runs thus: Are not the banking and the business and productive forces of the country now essentially sound? Has not the liquidation of the last year and a half been sufficiently prolonged and severe?

What, in terms of human happiness or general welfare is to be gained by prolonging it further?

And especially, if the ideas back of Mr. Hoover's conference on unemployment were essentially sound, does not this call for what reasonable participation may be given by our bankers and by the directors of the Federal Reserve Banks?

I submit these considerations merely as questions and I should be much interested to know what reaction thereto your clear and experienced judgment would have.

## OFFICE CORRESPONDENCE

DATE March 7, 1922

TO Governor Strong

SUBJECT: The health of the bank

FROM Mr. Snyder

employees

Being very deeply interested in such matters, I have a strong feeling that the health and therefore the happiness of the employees of the bank ought to go before any other consideration of efficiency or morale or the convenience and comfort of the management of the different departments.

This because it seems as if efficiency and morale and all would best be promoted by good health and happiness and contentment. But I get the feeling that there is rather a disposition to put efficiency and morale first. I give two instances.

One of the most capable workers, Miss Bagwell, has had a rather hard struggle, I take it, within the last year to fight off T. B. As Miss Carlson was very much concerned about her, I sent her up to my friend, Dr. Williams, a physician of long experience and great intelligence. After seeing her at intervals for six months and more his verdict was that she ought to get away for a good long rest, and very reluctantly she agreed, and asked for a three-months leave of absence without pay. And this I recommended in a note explaining the circumstances in full.

This application was opposed by the Medical Department, and granted rather reluctantly and as a special favor by the Personnel Department.

Perhaps the most capable boy we have ever had in this department is Andrew Turner, the youngster who, when a requisition came from you in Washington last summer, during the investigation, to get copies of a certain chart in the mail that night if possible, went over to the Photostat Department and, finding it locked and the key gone and no way possible to find the man, broke in the window, mixed up his own mixture and got out the charts, although he

FEDERAL RESERVE BANK  
OF NEW YORK

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DATE March 7, 1922

TO Governor Strong

SUBJECT: The health of the bank

FROM Mr. Snyder

employees--2

had never done any photostat printing before. This is the kind of metal that seems worth encouraging.

The boy has not been in good shape lately, and has a chance to go up and spend the summer on his uncle's farm, out of doors and doing vigorous manual work, which he likes and needs. He is under weight and needs pulling up. He would like to take six months' leave at his expense, but hates to resign and run the risk of losing his job. Do you think he should?

I made application for this leave and it has not been granted.

As this opens up a very wide question of policy, I hope that you may consider it important enough for your attention; and there are some matters I might add verbally.

## OFFICE CORRESPONDENCE

DATE March 7, 1922To Governor StrongSUBJECT: Second Bank of the United StatesFROM Mr. Snyder

The best brief account of the second Bank of the United States that I know of is Davis Dewey's, which is attached herewith.

The interesting thing, I think, is that Jackson's antagonism to the second Bank of the United States, and his ideas about banks were simply Jefferson's ideas right over again. There are some interesting quotations in Holdsworth's sketch of the first Bank of the United States on page 67 ff. And yet we think of Jackson as a kind of a narrow, ignorant and fantastic person. What shall we say of Jefferson?



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE March 10, 1922.To Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

I attach herewith copy of the little primer "Questions and Answers about the Federal Reserve System," and with this the revised and shortened draft of a proposed pamphlet to be put out by the member banks. Mr. Jay seemed to think that the revised version was much improved. I should be extremely obliged for any suggestions regarding either.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE March 10, 1922To Governor StrongSUBJECT: Gold Supply and PricesFROM Mr. Snyder

Just to keep the record straight, about what happened at the outbreak of the war, may I note the following:

All the "intense competitive demand" that sprang up almost immediately, for foods and for all kinds of war material, had no appreciable effect upon general prices until more than a full year after this demand was going strong. Not until October of 1915 was there any rise at all in the general level, even of wholesale prices (Bureau of Labor index).

While individual prices rose very rapidly, just as you said, other prices fell heavily in consequence of the outbreak of the war. A notable instance was cotton, which in 1915 sold down to below 7 cents.

Now there was about all this a very remarkable fact. There was no rise in the general level, even of wholesale prices, and they are the long fore-runners of a rise in the general price level, until after the heavy outflow of gold from this country, which set in early in 1914, had been made good by a return flow, and an appreciable balance had begun to show, that is, in the autumn of 1915.

In other words, it seems a definite fact that there was in this country no rise in the general price level until there was an increase in the nation's holdings of gold.

*Other influences have been taken into the.*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE March 10, 1922To Governor StrongSUBJECT: Edison QuestionnaireFROM Mr. Snyder

The Thursday meeting of the department yesterday was devoted to the Edison Questionnaire and the question

What is Sound Money?

Mr. Woodlock, Mr. Morgan and a number of others took part and everyone seemed to be very much interested.

As a result of the meeting I got very strongly the impression that what is back of almost everybody's mind in these discussions is the idea that more money would bring more happiness and good things to have. And it seems to me, therefore, that unless you can combat this root idea, that by increasing the money supply you can increase the supply of goods, you can talk until dooms-day about right and wrong, and all the money theory in the world.

I have reshaped the Edison letter with this thought in mind and should be very glad to know your reaction thereto.

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OF NEW YORK

## OFFICE CORRESPONDENCE

DATE March 15, 1922To Governor StrongSUBJECT: The Increasing Gold HoardFROM Mr. Snyder

This week or next the gold holdings of the Federal Reserve System will pass the three-billion mark.

They have gained nearly 800 millions since the little memorandum I wrote you just a year ago this date, and there are no clear signs of a let-up.

The gain since November 1, when mercantile exports began to fall off, has been 190 million dollars, and since January 1, 107 millions.

In the memorandum referred to, you recall I raised the question as to whether it would not be politically wiser not to go on piling up this huge hoard as a kind of glittering target to inflame the imagination of every inflationist in the United States; by which I mean both the conscious and sub-conscious kind. According to Parker Willis, this would include most of the bankers.

He says that the average banker is instinctively an inflationist, whether consciously or not; and if one stops to think about it, there are very strong reasons why he should be so, naturally.

A year ago we were very close to the previous peak of gold holdings, reached in 1919. In 1919 the reserves were at a fairly high figure, and we know what followed.

Now we have eight hundred millions more, which is capacity for eight or nine billions of inflation in itself.

And the total is not less than 16 billions now, i.e., we have over a billion and a half of excess or redundant gold in the Federal Reserve Banks.

It may be an obsession, but I can't get the feeling out of my head that it is a great tactical mistake; and that we shall pay for it very dearly. And I was talking yesterday with Mr. George E. Roberts, and he takes the same view, and may have a talk with you about it.

He remarked that "the control of inflation is our great unsolved problem in the Federal Reserve System," and that there is no way now that is politically possible to put the check on in time.

The ratio of deposits to loans, in the reporting member banks, is down now from a high point in 1920 of 97 per cent. to about 81 per cent., a decline of 16 per cent. If this is true for all the country, then the banks as a whole have now a capacity for a credit inflation of close to 4 billion dollars, without any recourse to the Federal Reserve System save for currency.

The amount of currency that would be needed for this expansion would be, roughly, about 800 million dollars. But if all the rediscounts were taken out as currency, would the Federal Reserve Banks feel they had the right

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OF NEW YORK

## OFFICE CORRESPONDENCE

DATE March 15, 1922

TO Governor Strong

SUBJECT: The Increasing Gold Hoard--2

FROM Mr. Snyder

to put the rates up to 7 per cent., or higher, with the Federal Reserve Banks' gold reserve still above 65 per cent.?

And yet, as Mr. Roberts remarked, no less a rate would be likely to have much effect, because 6 per cent. is a fairly normal rate for business accommodations over the country as a whole, and in good times a 7 per cent. rate would be very high.

Unless, therefore, there was the penalty attached to the rediscounting, a direct loss to the banks, would a 7 per cent. rate, even, be effective to check the slight amount of rediscounting which would be required?

If a year ago the banks had followed the course we then discussed, of paying out gold certificates, we could by now have retired every available Federal reserve note left in circulation in the United States; possibly two billions or thereabouts, and still have left an ample gold reserve against the remaining notes and the required deposits.

We could have gone further and taken the 150 millions of gold now held in the Treasury against our old greenbacks and retired every available note of that issue, leaving practically nothing but national bank notes, gold, silver, and a small amount of Federal reserve notes.

We could thereby have kept the Federal reserve ratio down in the lower forties, possibly below 45 per cent., which has always seemed to me the highly desirable thing to do, from a political or strategical point of view.

The studies we have made seem strongly to suggest that there is no need for any large expansions of the currency, or of bank credits, when things are on a fairly even keel. Possibly an ideal range of the Federal reserve ratio would be between 40 and 45 per cent.

This might mean that, at a ratio of 40 per cent., the bank rate would go to 8 per cent. if not up to 9 per cent., and then, at 45 per cent., it could go down to below 5 per cent., and if it got up to 48 per cent., to say 2 or 3 per cent., instead of having the wide oscillations we have had within the last three years, which seem to imply or carry with them, or be accompanied by, an equally wide and violent oscillation of the price level, which is so utterly disturbing to business and so unfair to everybody.

I should like very much to go over this work with you, as soon as you could find the time.

## OFFICE CORRESPONDENCE

DATE March 20, 1927TO Governor StrongSUBJECT: Presidency of Stable MoneyFROM Mr. SnyderLeague

We have been considering who would be, from all points of view, probably the strongest man who might be available and would accept the presidency of the Stable Money League. It was the general consensus that, if possible, it should be a man from the Middle West, or at least not in New York, and if possible not a banker.

The name of Mr. John V. Farwell, of Chicago, had been most considered, because of his general interest in the question, and his connection with the Sound Money Association.

Mr. Jay also suggests either Col. W. C. Proctor, of Cincinnati, or R. S. Brookings, of St. Louis, both of them business men of high standing.

Yet another name, proposed was that of George Eastman, at the head of the Eastman Kodak Company, who has also shown a very definite interest in the movement.

I should be very much indebted to know your judgment about these four, and the suggestion of any other names that may occur to you.

## OFFICE CORRESPONDENCE

DATE March 21, 1922TO Governor StrongSUBJECT: Thursday ConferenceFROM Mr. Snyder

I should like to make clear that I neither picked nor suggested the topic for discussion next Thursday. Various topics were proposed by different members of the department and then voted on by all, with the attached result.

*The topic is O.R.!*

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## OFFICE CORRESPONDENCE

DATE March 23, 1922TO Governor StrongSUBJECT: Mr. Hawtrey's paper on theFROM Mr. SnyderFederal Reserve System

Prof. Cannan, in his review of Prof. Hawtrey's "Money and Credit," summed it up as "a brilliant and very dangerous book." There was the same tendency to rapid generalizations, often on a very slender basis of fact.

I have marked a few such passages in this paper.



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OFFICE CORRESPONDENCE

DATE March 23, 1922

*from*  
TO Governor Strong

SUBJECT: "European Problems and Their

*20*  
FROM Mr. Snyder

Relation to American Business"

Possibly you would like to see just a page of the loose talk and unbased statements made in this document, of which Mr. Fahey told us yesterday 240,000 copies have now been distributed.

*ally Commendation of this report, we may have noticed that today, was confined to its ——— brevity!*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE March 23, 1922To Governor StrongSUBJECT: The Japan Financial and EconomicFROM Mr. SnyderMonthly

This is a journal we have been looking for for some time, and I think we shall subscribe for it. Would you care to see it each month when it comes?

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OF NEW YORK

## OFFICE CORRESPONDENCE

DATE March 27, 1922TO Governor StrongSUBJECT: Digest of Prof. Hawtrey's articleFROM Mr. Snyder

If you approve, I thought it would be of interest to make a short digest of Prof. Hawtrey's very interesting but not flawless article on the workings of the Federal Reserve System, for the directors and officers; and, in addition, to this, make some comment on the same for the Business Summary.

*M.S.*  
*have been changed before delivery at Royal*  
*Sec's mts.*  
*P.S. This is only a salary &*

4905

## OFFICE CORRESPONDENCE

DATE March 27, 1922To Governor StrongSUBJECT: Statistical ClassFROM Mr. Snyder

I should rather like to have you see the attached memorandum. It means that, instead of having one or two well trained in all kinds of statistical work, we shall have half a dozen or more new ones; i.e., that our own department is competent to give as good instruction in statistical work as any university, and that we can manufacture our own statisticians here.

*Line* *RS*

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## OFFICE CORRESPONDENCE

DATE March 24, 1922To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Miss Carlson

You may be interested in knowing that the statistical class which Miss Bagwell started off with simple analytics and calculus, and that Miss Myers is following up with more advanced statistical theory and method, has resulted in the half dozen members of the class learning not only how to differentiate, obtain correlation coefficients, and calculate various types of trend lines, but to glimpse also the theories underlying our various working formulae.

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OF NEW YORK

MAIL ROOM-21

OFFICE CORRESPONDENCE

DATE March 24, 1928

TO Mr. Gayler

FROM Miss Carlson

You may be interested in knowing that the statistical class which  
 Miss Bagwell started off with simple analytics and that  
 Miss Myers is following up with more advanced statistical theory and method  
 has resulted in the half dozen members of the class not only how to  
 differentiate, obtain correlation coefficients, and calculate various types  
 of trend lines, but to figure also the theories underlying our various work  
 and formulae.

RECEIVED - 3  
 11:44 AM '28  
 FEDERAL RESERVE BANK  
 OF NEW YORK

## OFFICE CORRESPONDENCE

DATE March 27, 1922TO Governor StrongSUBJECT: Congressional RecordFROM Mr. Snyder

I find that, owing to the numerous calls, Miss Burnett is having the Congressional Record gone over very carefully each day for any references of importance to the Federal Reserve System or Banks; and this is now being indexed for future reference, and anything of importance is sent down to Mr. Harrison, who, I believe, is watching these matters.

*noted*  
*DS*

## OFFICE CORRESPONDENCE

DATE March 28, 1922TO Governor StrongSUBJECT: Prof. W. I. KingFROM Mr. Snyder

I was to remind you after your return from Miami that you were to ask Prof. W. I. King to luncheon. He has a very interesting and rather unique type of mind, and I think an extremely good head; well worth your while.



## OFFICE CORRESPONDENCE

DATE March 30, 1922TO Governor StrongSUBJECT: Edison QuestionnaireFROM Mr. Snyder

Mr. Jay tells me he has written a letter to Mr. Edison, and that it will not be needful for me to revise my draft again.

Some day I should like ever so much to go over my draft with you again and see if you could suggest a way in which the material I therein tried to present could be put in a more acceptable form.

I can't get away from the feeling that solid facts are better than any kind of reasoning or argument; and I believe that these were the facts.

## OFFICE CORRESPONDENCE

DATE March 29, 1922TO Governor StrongSUBJECT: Edison QuestionnaireFROM Mr. Snyder

Mr. Jay tells me he has written a letter to Mr. Edison, and that it will not be needful to revise my draft again.

I was very much disappointed, and interested, that the draft I made, in its last revision, did not seem to you, or Mr. Jay, an effective answer.

I should appreciate it very much if you had time to look over this again and see if you could suggest a more effective manner of presentation of the facts therein related; for I feel that this new and definite and incontrovertible knowledge--statistical fact--ought to be very valuable at the present time, and that there ought to be some mode of presentation that would make these facts more acceptable to the banker-mind than they now seem to be.

*Mr. Snyder*

**OFFICE CORRESPONDENCE**

DATE April 5, 1922

TO Mr. Jay

SUBJECT: Anderson Address

FROM Mr. Snyder

*[Handwritten signature]*

From the point of view of the new Sherlock Holmes psychology, as I call it, this is most interesting. Note the suppressed yearning for some basis of certitude, like the Bible and the Constitution, and the "logical thinking" based upon these; and the regret at "the disappearance of the old type of logical thinking based on documentary authority." That I call a peerless phrase, and the whole document a vivid revelation of the uncertainty and lack of intellectual anchorage that, it seems to me, is so evident in the man's own mind.

## OFFICE CORRESPONDENCE

DATE March 31, 1922TO Governor StrongSUBJECT: European InvestigationFROM Mr. Snyder

I am properly flattered by your suggestion. I hope it was serious!  
And not to be too long delayed.

Swedish and Danish exchange will go to par this year, I think. And  
I believe that thirty days' investigation would give the approximate date.

Ditto regarding guilder.

I think we have got what I have been looking for, for a year and a  
half, and I hope I can get a few minutes before you go to Washington to talk  
to you about it.

1920

OFFICE CORRESPONDENCE

DATE: \_\_\_\_\_  
TO: \_\_\_\_\_  
FROM: \_\_\_\_\_

Mr. [Name]

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FEDERAL RESERVE BANK

I am regretfully pestered by your  
and not so long delayed.  
Sweden and Danish exchange will  
I believe that they have, investigation would  
this regarding matter.  
I think we have not that I have been looking for  
half, and I hope I can get a few minutes before you go to Washington to talk  
to you about it.

## OFFICE CORRESPONDENCE

DATE April 8, 1922TO Governor StrongSUBJECT: Hawtreys on Currency SystemsFROM Mr. Snyder

In connection with the question of paying out gold into circulation, possibly you would like to see Hawtreys' chapter on Systems of Note Issue, and especially the three pages 83 ff.

Does not our experience since 1919 show very definitely that Hawtreys' view is right, that under the fixed proportion system the expansion of credit which takes place would be greater than under the prevailing system, and that "the financial crises in which they so often end would be correspondingly more severe?"

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE April 8, 1922

To Governor Strong

SUBJECT: Paying out Gold

FROM Mr. Snyder

*not sent*

To answer your question, as to the advisability of paying out gold in the form of gold certificates into the general circulation, it seems to me that the present time presents a golden opportunity to put our whole currency system on the soundest possible basis, such as it has not been upon for a very long time and perhaps really never.

I doubt very much if it was ever the original conception of the framers of the Federal Reserve System that Federal reserve notes should ever become the main part of our currency. They have so become. In 1920 they amounted to more than three-fifths; and, if we should now have the great expansion which Mr. Hawtrey and others ~~anticipate~~ anticipate, the other forms of currency would become negligible.

We should have practically all Federal reserve notes.

Now it seems to me that almost any expert opinion upon the subject of currency will agree that this is fundamentally wrong.

The practical ideal of a currency system is that which approaches most nearly to the English system before the war. Therein an excessive rise of prices is promptly met by diminished exports and an outflow of gold; and thus a high degree of stability is obtained.

This stability we have now lost, through the abandonment of the gold standard in other countries, and by the peculiarities of our own currency system.

We never had such an outflow of gold as we had for a year or more after the Armistice. And we have never had such an inflow of gold, in peace times, as in the last two years.

Part of the design of the Federal Reserve Act was to reduce the necessity for so large a gold supply; and on this account the Act was denounced by Senator Root and others, as an inflationary measure. Which in principal, of course, it was.

Now by a singular fate we have gained an utterly redundant billion and a half of gold. If this gold is kept within the Federal Reserve System it opens up the way to another vast inflation, compared with which 1919-'20 would be mild.

Like Mr. Roberts, I cannot see how this expansion is to be controlled. There is never any limit to the demands of credit. Prices will always rise to the highest possible point. This is the reason we have any metallic basis for money at all.

*Would not this give us a highly unstable currency, fluctuating widely, highly sensitive to a gold out flow, and disastrous to business?*

OFFICE CORRESPONDENCE

Subject: Paying out Gold

To: Governor Strong

Our studies here have shown ~~practically~~ clearly

that there

To answer your question, as to the advisability of paying out gold in the form of gold certificates into the general circulation, it seems to me that the present time presents a golden opportunity to put our whole currency system on the soundest possible basis, such as it has not been used for a very long time and perhaps really never.

I don't very much doubt if it was even the original intention of the framers of the Federal Reserve System that Federal Reserve notes should ever become the main part of our currency. They have so become. In 1930 they amounted to more than three-fifths; and, if we should now have the great expansion which Mr. Hawtrey and others have suggested, the other forms of currency would become negligible.

We should have practically all Federal Reserve notes.

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FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE April 8, 1922

To Governor Strong

SUBJECT: Paying out Gold--2

From Mr. Snyder

If we paid away our gold into general circulation and retired the Federal reserve notes, we should then have a pure gold currency, with a small amount of Federal reserve notes for emergency purposes only. Is not this the ideal to be aimed at?

Isn't it safer to throttle down the steam now than generate excess pressure and then attempt to sit on the safety valve? Is there not much danger that another and more disastrous blow-up, like 1920, would mean the end of the Federal Reserve System?

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE April 10, 1922 192TO Governor StrongSUBJECT: Stable Money LeagueFROM Mr. Snyder

The Research Committee of the Stable Money League, which consists of:

Prof. Warren M. Persons	Dr. Wesley C. Mitchell
Dr. William T. Foster	Mr. John E. Rovensky
Dr. David Friday	Dr. H. Parker Willis
Dr. E. W. Kemmerer	Prof. Allyn Young, and myself

needs a Secretary to coordinate its work, and we asked Mr. C. D. Norton, of the First National, if he could spare a little of the time of a very promising young man in his office, Mr. P. M. Tuttle, who comes very highly recommended by Prof. Bullock and others. He may ask you about it.

I think at least the investigation of the general problem of stabilization is a worthy economic effort.

*Will try to do needful  
When Norton inquires  
BS.*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE April 10, 1922TO Governor StrongSUBJECT: Ridgeway's "Origin of MetallicFROM Mr. SnyderCurrency and Weight Standards"

This book was ordered a year ago, but it is very difficult to get. We have borrowed this copy from the Columbia Library until Wednesday, if that could suit your convenience. Chapter 6 rather sums it up.

FEDERAL RESERVE BANK  
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## OFFICE CORRESPONDENCE

DATE April 12, 1922To Governor StrongSUBJECT: Restricting Foreign Loans

FR

Pages 2 (a), 4 (c), 5 and 10.

Should the argument about the impossibility or unprofitableness of exporting gold be carried too far? Obviously if the loans were large enough, say several billions, exchange rates would turn against the United States and a large export of gold follow.

Now it looks as if this may soon take place if these loans keep up. Since last September the visible balance of trade and loans granted has been against the United States, and this must be true also of the invisible balance, which accounts in part for the steady rise of exchanges.

Whatever might be the effect of single loans, clearly enough of them would enhance this to the point of heavy gold exports.

FEDERAL RESERVE BANK  
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## OFFICE CORRESPONDENCE

DATE April 13, 1922TO Governor StrongSUBJECT: Price Levels and the Flow ofFROM Mr. SnyderGold

It irks me ill that you should feel that I had any peculiar economic ideas; but I think in the present case I have pretty good company.

The doctrine of price levels and the consequent effect upon exchanges was first clearly stated more than a century ago, so far as I know, by perhaps the ablest mind that ever wrote upon the economics of finance-- David Ricardo. His position was restated in the forties by one of the clearest minds that ever dealt with these questions--the orthodox of the orthodox, John Stuart Mill. It was restated in the sixties, with proofs from our Civil War experience, by Lord Goschen, also no mean mind; revised by Prof. Cassel in this generation, with new proof from almost every country for which price levels are available. Able support by such folk as Keynes, who seems to me the clearest mind now thinking in England, and Lord d'Abernon, a banker and the ablest economist in English public life.

Do you think that all of them were wrong?

FEDERAL RESERVE BANK  
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## OFFICE CORRESPONDENCE

DATE April 13, 1922

To Governor Strong

SUBJECT: Price Levels and Flow of Gold

FROM Mr. Snyder

ADDENDUM

May I add this:

(1) Suppose sterling were pegged at say \$2.43; i.e., at 50 per cent. discount. Pretty certainly that would mean a huge demand for British goods, and, for the time being, a lessening of her imports. Therefore, a large trade balance in her favor.

How could this balance be settled except:

- (1) By loans, or
- (2) By gold.

And, because loans would probably follow this movement rather slowly, would not the inevitable result be heavy gold shipments to England?

(2) If these considerations gave rise to an adverse balance for the United States, would not this gold flow to England from this country?

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE April 14, 1922 1922To Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

A very interesting letter and I should like very much to know his reply.

I note that you do not pursue any further his suggestion as to an advance upon Reichsbank gold.

In view of the grotesque English, as they translate it, would it not be better to advise them that after all perhaps it is better to write in German as before and that we will translate it here?

I do not think the experiment of their translating their letters is a good one.

CS .MM  
att.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE April 15, 1922

To Governor Strong

SUBJECT: Exchange Value of Currencies

FROM Mr. Snyder

Is this way of presenting it any better?

If, say, on one side of the line, in Denmark, butter is selling for 2 kroner a pound (paper money), and on the other side of the line, in Germany, at say 20 marks a pound (paper money), and there is a free interchange of goods between the two countries, save for the tariffs, and this relation of prices is true generally for all kinds of goods, then on this basis a kroner will be worth 10 marks, or 10 marks 1 kroner.

Now suppose a balance in favor of one country or the other: how is it to be settled? Either in a loan or credit, or by some form of international currency, e.g., gold. Practically there is no other way.

Is the case any different if, for example, the kroner is exchangeable for gold at a fixed price? Then the 20 marks will be worth 2 kroner, in paper or in gold.

Again suppose a balance, this time, say, in favor of Germany. How will this balance be paid? Unless by a loan, then pretty surely in gold?

Do you think a German merchant would refuse the gold? And if a German merchant, why not an Englishman?

I am wondering if the question is not being confused with what would be profitable or not, in the case of a government or a central bank, like the Bank of France, which is tangled up in the question of note issues and former legal parities.



FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 19, 1922

To Governor Strong

SUBJECT: German Debt, Balances, etc.

FROM Mr. Snyder

Answering further the inquiries in your memorandum of March 28, I have talked with Mr. Ludwig Bendix and report as follows:

(1) "A" and "B" as here given in previous reply. "C" cannot be answered; no possible way of finding out.

*See Corresp.*

(2) This report seems to have been without the slightest foundation.

(3) The Reparations Commission is supposed to have an estimate of the amount of reparations payments so far in paper marks, but Mr. Bendix does not know what it is.

(4) Only the vaguest estimates can be made as to the amount of exported capital or foreign credits. An estimate was made a year ago of around 5 or 6 billion gold marks, and this I think was used by Bergmann; but another estimate has placed the amount as high as 9 billions. Just a guess.

(5) Practically no way of getting at the real balance of German trade in the last few years. As long as the "hole in the West" was open there were heavy imports unreported; and, on the other hand, the unreported exports carried in trunks and bags and packages must have been tremendous. In fact, it is practically these tourist purchases that have kept Germany alive in the last two or three years. From what I saw last summer, I think this trade could readily run into hundreds of millions of gold marks *per year.* As you know, crowded trains run from a hundred miles or more from the line into Germany, and return the same day.

Bendix and everyone I have talked to regards any estimate as hopeless. Personally I think there is little doubt that the real balance against Germany in the last few years has been very heavy and possibly accounts far more than the reparations payments for the tremendous fall in the mark.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE April 24, 1922 192To Governor Strong

SUBJECT: \_\_\_\_\_

From Mr. Carl SnyderM. Bachmann's Letter

With reference to the main objections raised by M. Bachmann, it seems to me that his views are very deeply influenced by an inadequate idea of the nature and functions of foreign exchange; and I cannot help thinking that this is mainly at the root of about all the misunderstandings and the divergencies of view which have arisen.

At least one of the functions of exchange is to equalize the differences between the price levels of different countries trading with each other. If you take the view that this is the controlling and dominant factor and that the other things like foreign loans and the rest are merely secondary in their effect, then would not most of the supposed difficulties disappear?

I should like to draw your attention, if it were needed, to the quite exceptional English of this translation.

CS.MM  
att.

## OFFICE CORRESPONDENCE

DATE April 26, 1922

TO Mr. Snyder

SUBJECT Leipzig Fair

FROM M. E. Rose

The Leipzig Fair, which began on March 5, 1922, had about 13,000 exhibitors, of which some 700 were foreign firms. The attendance was larger than ever before, being estimated at 130,000 on the third day, and included representatives from many countries. Buying was feverish, and those firms which could sell for immediate delivery or could guarantee delivery at a fixed price, did a good business. In the textile industries, the competition of buyers was especially keen; some firms were sold out on the first day, other manufacturers sold only to regular customers and in some instances a system of rationing was introduced.

The uncertainties in regard to raw materials, labor conditions, foreign exchange and transportation costs created a reluctance on the part of sellers to book orders for future delivery, and such orders as were taken were largely on long delivery (4 to 12 months), with the right reserved to increase the price 50 to 100 per cent in the case of foreign buyers and to demand from German buyers the price ruling on the day of delivery.

The toy industry was also very successful. Among the foreign buyers, Americans were reported as the most active, the Scandinavians also being large purchasers.

The buying fever which appeared at Leipzig subsequently spread to the general public, and was even more intense at the Frankfurt Fair, held during the week of April 8, than at Leipzig. The conditions prevailing at Leipzig were repeated at Frankfurt - crowds of eager buyers including many foreigners, very little stock, reluctant sellers, contracts for distant deliveries at indeterminate prices, many exhibitors putting up "Sold Out" signs after the first day.

## OFFICE CORRESPONDENCE

DATE April 26, 1922TO Governor StrongSUBJECT: London ConferenceFROM Mr. Snyder

2199

As soon as it is settled, I should be glad to know as soon as possible what material, if any, in the way of data, tables, charts, etc., you might possibly require for your use in London, in order that we might have as much time as possible for their careful preparation.

F. B. B. of I  
4  
INCOMING MAIL DIV.

USE CORRESPONDENCE

27 PM 22  
FEDERAL RESERVE BANK  
OF ST. LOUIS, MO.  
You might possibly require for your use in London, in order that we might  
have as much time as possible for their receipt preparation.  
possible that material, if any, in the way of data  
INVESTING MAN DIV  
FEDERAL RESERVE BANK  
OF ST. LOUIS, MO.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE April 29, 1922

To Governor Strong SUBJECT: Currency and Exchanges

FROM Mr. Snyder

As to the three or four "orthodox" economists who might be invited, the first name that suggests itself would be Prof. Kemmerer's, as the man who has had the widest experience in monetary reform. But he, unfortunately, is in South America.

On the particular subject of foreign exchange, Prof. Chandler has given more patient study to the problem than anyone else I know of here, besides this department. I should next suggest, more for his good sense and broad view, Wesley C. Mitchell; but he is not familiar with the question of exchanges, nor has it been a matter to interest him very much.

Prof. W. I. King I feel has one of the clearest heads among our economists, even though he does hold views to which you except. He is a very stimulating man to talk to.

The choice is rather narrow because the subject of paper money parities is almost new to this generation, and there are very few who have been willing to go into the subject on the basis of the existing evidence rather than from their preconceived notions or opinions.

I have a very high regard for Col. Leonard Ayres, of the Cleveland Trust Company, if he should happen to be in town, who, by the way, gave us, I am told, a very interesting and original talk yesterday on "The Principles of Business Forecasting," and I regret to hear that hardly a single officer of this bank was present.

Wesley Mitchell has a very high regard for Prof. Allyn Young, now at Harvard. Possibly he might be coming over this way.

Rather than a luncheon, could you not arrange for an evening and let me invite these gentlemen for dinner?

*Chandler -  
Sprague -  
Miller*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 3, 1922.To Governor StrongSUBJECT: The foreign trade of England,FROM Mr. SnyderFrance and Germany.

With the extraordinary changes in values there remain only three ways to compute the probable volume or relative value of foreign trade in a country.

The first is the simple method, by correcting the reported money values of the exports and imports by dividing by an index figure of average export or commodity prices.

The second, where a large proportion of the trade is stated in quantities as well as in money, to multiply the quantities given by reported values and strike an average.

The third, to take the tonnage of vessels entered and cleared. Obviously this latter gives only an approximate or indicative figure.

It is none the less of very remarkable interest that these three methods, in the case of England, give both for imports and exports very closely corresponding results comparing 1921 with 1913, and indicates that the trade for the last year was something like one-third less than in 1913, in relative value.

The same method applied to France would indicate that the French trade was about 15 to 20 per cent. less than in 1913.

But when you come to Germany, you have, I think, no reliable figures whatever. Any estimate must be and can be only a guess. There is no total of tonnage from all ports, and probably the figure here given of Hamburg and Bremen would very much exaggerate the facts. A large part of Germany's pre-war trade, as for example to Russia, France and Austria, went by rail. The price method of estimating means little and the reported weights of the total I think quite nothing at all.

Just guessing at the very large quota of tourists' exports, stuff taken out in bags and trunks by tourists, with probably an enormous amount of smuggling, you might estimate that the total German foreign trade is not much more than 40 or 50 per cent. of the pre-war total.

INDICES OF VOLUME OF FOREIGN TRADE, ENGLAND, FRANCE AND GERMANY IN 1921

1913 = 100

<u>ENGLAND</u>	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>TOTAL</u>
1. Values ÷ prices			66.8
2. London Joint City and Midland Banks study	74	50	62
3. Tonnage, entered and cleared	75.6	53.7	64.7
 <u>FRANCE</u>			
1. Values ÷ prices			85.4
5. Reported weights of totals	85.9	72.4	81.4
4. Tonnage, entered and cleared	69.4	74.0	71.7
 <u>GERMANY</u>			
1. Values ÷ prices *			58.1
7. Reported weights of total **	34.5	27.9	31.3
6. Tonnage, entered and cleared at Hamburg and Bremen	67.2	65.7	66.5

Sources:

1. National Bank of Commerce "deflation" method. Memo to Governor Strong
2. Monthly Review of London Joint City and Midland Bank, January, 1922.
3. Accounts relating to Trade and Navigation of United Kingdom, Tonnage of ships with cargoes entering and clearing.
4. Monthly Bulletin of Statistics of League of Nations.
5. Official French Report. See Research Binder.
6. Wall Street Journal, March 15, 1922, p.11.
7. Official German Reports - see Research Binder comparison of 8 months of 1921 with corresponding 8 months of 1913.

\* Estimated for 12 months on basis of 8 months' report.

\*\* May and December, 1913, 1921 only. These 8 months are all that have been published for 1921.

Carlson/Bright/Schumann  
May 3, 1922.



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 3, 1922To Governor StrongSUBJECT: Stocks of Commodities on Hand.FROM Mr. Snyder

I have gone all over the question of existing stocks of commodities and it is perfectly clear that what has been hitherto true is still true, that with a very few exceptions, any reported figures are almost valueless and any public estimates of the most doubtful reliability.

Probably the best statement of stocks on hand is that of petroleum, for these are accurately known and consumers' stocks very little.

The trouble with almost all other figures on stocks is that the consumers stocks are impossible to even estimate and, in many cases, these may represent so large a percentage to the total stocks as to invalidate any estimate of stocks at wholesale or in the producers hands.

Endless efforts have been made to get at these stocks, for the figures would obviously be of great value always to the trade. But it is rarely that it is possible to get anything very reliable, except from first-hand sources from insiders.

Undoubtedly the copper people know pretty closely the copper stocks and in various ways can make a fair guess as to the size of consumers stocks and this may be equally true as to steel and wool and cotton and a number of other staples, but I regret to say that any attempt to estimate these holdings statistically has only a spurious accuracy.

We have pretty fair consumption figures in a number of lines and where the production or import figures are accurately known, this gives a fair idea of the public stocks held; as, for example, wheat, cotton, wool, silk, rubber, etc.; but even here it would be misleading to suggest that such estimates have any high degree of reliability.

LIBRARY

AUG 21 1922

FEDERAL RESERVE BANK  
OF NEW YORK.

OFFICE CORRESPONDENCE

DATE May 16, 1922

To Governor Strong

SUBJECT: English Taxation

From Mr. Snyder

2184

It is of interest that even those in officialdom are at last getting down to the fundamentals of England's taxation problem. I am wondering how far men of the type of Sir Charles Addis and Sir Felix Schuster and the rest of those determined to put back the pound to the former gold par have thought of the probable effect of the increased burden upon English industry and trade.

Just So! But suppose <sup>\$</sup>4,866,500  
increased production & trade by more than  
9% (4,450 ÷ 4,866,500) how then?

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 16, 1922 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Mr. Beyer

I am returning The Journal of Commerce and Commercial Bulletin, as of Monday, April 24, 1922, which you sent to Governor Strong to read. As the Governor wants to read this paper a little later on, will you be sure and keep it in a safe place so that when it is called for he can have it immediately.

GE.MM

att.

*Mr. Snyder  
As the first opportunity - I want to talk with you  
about this. Please don't overlook.*

May 15, 1922

*B.S.* CONFIDENTIAL

BANK LOAN LIQUIDATION TO DATE

For some time the weekly statements of the 800 Reporting Member Banks of the System have indicated that liquidation in loans held by these banks has since last summer shown but a slight decline; and that practically all the liquidation since that date has been applied to paper held by the Federal Reserve banks. For example, the rediscounts and advances of the Federal Reserve banks since the last week of last August to March declined about 861 millions, while the loans and rediscounts of the 800 Reporting Banks declined only 598 millions. The Reporting Member Banks represent about two-thirds of the System.

The returns from the Comptroller's call for the National banks, as of March 8, show that much the same is true of the National banks. From last June 30 to March 8 the loans of the National banks, excluding rediscounts, declined only 167 millions, or about 1 1/2 per cent. of the total; while in the same period the rediscounts and advances of the Federal Reserve banks decreased 1140 millions.

The National banks likewise constitute about two-thirds of the System, that is, their loans and resources are about the same as those of the 800 Reporting Banks.

In other words, on balance practically all of the payments on loans received by the Member Banks were passed on to the Federal Reserve banks; that is, notes were reduced by 437 millions and cash increased 469 millions. The increase in investments and acceptances accounted for the balance.

In the National banks there was actually a decrease of about 38 millions in the cash account. It is interesting that the increase in gold in the Federal Reserve banks in this period was 504 millions.

The Comptroller's statement shows that the decrease in loans for the

Cities and the 7775 country National banks. The chart on the preceding page shows the course of deposits and loans (excluding rediscounts and investments) of the Reserve City banks and the country banks for the last three years.

While the discounts and acceptances of the New York Federal Reserve Bank have declined to date more than 90 per cent. from the peak in 1920, and of all the other Federal Reserve banks over 75 per cent., the Reporting Member Banks in New York City have decreased their loans (including rediscounts) only 26 per cent., and the Reporting Banks outside of New York City only 20 per cent.

The decline in "commercial" loans in these Reporting Banks, i. e., in loans other than those secured by stocks and bonds or Government obligations, has been somewhat greater, 34 per cent. in New York City and 23 per cent. in the outside cities.

But the declines in the National banks have been much less than this, excluding rediscounts, for which figures are not obtainable. The National banks in the Reserve Cities had decreased their loans to March 8 only 14 per cent. from the peak, and the 7775 country National banks only 10 per cent.

For the 20,000 non-member banks outside the System we have no information; but they are obviously much more comparable to the country National banks, and as the latter show only about two-thirds the decline of the city National banks, it seems probable that the decline in the 20,000 non-member banks would be still less, possibly not much over 7 or 8 per cent.

This would mean, to take a very rough average for the whole country, a total decline in the neighborhood of 12 per cent. On June 30, 1920, the total loans of all the commercial banks of the United States, excepting the Federal Reserve banks, were about 28 billions; but this, of course, included interbank loans, which last year were very considerable, possibly one to two billions. The net, therefore, was not over 27 billions. Twelve per cent. on this estimated net would be over 3 billions.

To this is to be added the decrease in the rediscounts and acceptances of the Federal Reserve banks, which to date has exceeded 2,540 million dollars. The total liquidation, therefore, from the peak of 1920 has been between 5 and 6 billions, or about 16 per cent. on an approximate total of about 30 billions of all kinds of bank credit.

It is of interest to note that the major part of this liquidation took place in a little more than twelve months. In the crisis of '93 the course of liquidation, as nearly as can be estimated, from the National banks returns, also took about 12 months and meant in the neighborhood of a 15 per cent. decline.

There was, however, a very striking contrast between the two periods in that in the '93 period there was a drain of gold from this country, while practically throughout the entire recent period there was a steady inpour of gold, amounting to date, from August of 1920, to nearly a billion dollars. In other words, at the end of the former crisis the banks were in no position for a large expansion, while at the present time they could expand, through rediscounts, far beyond any legitimate needs of trade and industry; and could at the same time create the added currency that would be required for such an expansion.

Besides this, they have, in the commercial banks alone, over 8 billions in stocks and bonds, over 4 billions of which are in United States Government bonds and notes. In the period under review the total of these investments underwent little change.

In other words, there seems little to indicate that, from the financial side, the recent depression should be long drawn out, as in the '93-'97 period; and the quite astonishing industrial recovery in the past six months seems to suggest very clearly that it will not.

## OFFICE CORRESPONDENCE

DATE May 16, 1922.TO Governor StrongSUBJECT: Austrian SituationFROM Mr. Snyder

The attached is a translation of a paragraph from a personal letter from Dr. Schumpeter, former Finance Minister and now head of the reorganized Biedermann Bank.

*Wanna you in attny me see this. It's a bad picture,*

*B.S.*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 16, 1922TO Governor StrongSUBJECT: Decline in Bank CreditsFROM Mr. Snyder

The analysis of the course of liquidation which you asked for a fortnight ago was not possible before the receipt of the Comptroller's statement for March 8, which came yesterday.

The attached statement seems to me rather badly done, but the essential facts are there.



THE HEART OF THE DIFFICULTY IN AUSTRIA

*Dr Schumpeter*

From a private letter from a banker and former Finance Minister of Austria, the following is taken regarding the situation of that unhappy country.

In the meantime, affairs with us are taking the course which is marked out for them by the incapacity of the people to put the State expenditures in order. Herein lies the whole difficulty. The overextended State apparatus and the almost incomprehensible mismanagement in the operations of the State make the relation between productive active individuals and the absolutely inactive or unproductively active too unfavorable for the powers of the people. If the deficit is done away with by the increase of the revenues, - which is now being attempted and which, according to the accounts, is not impossible, - that fundamental disproportion will likewise - and all the more so if we receive foreign credits - render impossible any economic arrangement; on the contrary, when the narcotic of inflation loses its power, it will cause misery, unemployment and the like to appear for the first time with full force. I see no solution of this situation. Our Parliament is incapable of evolving as strong a government as would be necessary to reduce State expenditures. The reaction of this state of affairs/naturally is a decline in Vienna's position as a financial center. It is almost impossible to finance propositions in the <sup>new Succession</sup> ~~National~~ States with Austrian crowns, although the equipment and the means may be present. The stocks on which Vienna's position in the industry of the Succession States rests are rapidly disappearing. - A sad picture, and the saddest thing about it is that the natural possibilities are not at all to be despised, and that if it were not for our own policy this country might <sup>truly</sup> enjoy relative prosperity.

## OFFICE CORRESPONDENCE

DATE May 16, 1922TO ~~Governor Strong~~SUBJECT: "Money As a Standard of Value,"FROM Mr. Snyderby William T. Foster

2185

This seems to me an interesting article, and I should like very much to know your reaction thereto.

It hits now 100% quantity theory  
theory fellows! - Some day I'll let you  
know where I stand on Q.I. & maybe if  
I can be tough to write, I'll let some other  
all know. Meantime, - don't forget in a bookkeeper

Your friend Poell (?) is a duffer.  
He puts the Cosmic wife where  
you put the Quantity Theory.  
Notice "Caps" in Q. 7. & not  
for C. U. PS

## OFFICE CORRESPONDENCE

DATE May 17, 1922TO Governor StrongSUBJECT: English Banking ConditionsFROM Mr. Snyder

We are having rather a difficult time making any close analysis of banking conditions in England. The attached memorandum indicates the reasons. Perhaps you could give me some suggestions regarding this.

I should also like to ask you about your Washington address on June 15.

May 10,

2

Governor Strong

Investments of National and

Mr. Snyder

Reporting Banks

The receipt of the Comptroller's Report for National Banks for March 10 also permits ~~an analysis~~ of their investment account, ~~which is attached~~ <sup>with</sup> herewith. *a comparison* *(that of the larger banks in the larger cities)*

~~You will note that~~ in the National Banks of the country as a whole, there has been nothing like so large an increase in their investments as in the 800 Reporting Banks of the System. And, as previously noted, the resources of all the National Banks are just about equal to those of the Reporting Banks.

From the low point of last July the Reporting Banks in this district increased their Government holdings by 324 millions, while their holdings of other bonds and securities increased only 53 millions; which on the whole is rather remarkable.

For the whole 800 Reporting Banks the increase in Government securities was 537 millions, so that a very large part of the increase came from this district.

The increase in other bonds and securities was relatively larger and amounted to 161 millions.

For the National Banks of this district the gain in Government holdings was only 141 millions, so that in this district the larger part of the increase was in other than National Banks.

For all the National Banks of the country there was, from the low point of last year up to March 10, curiously little change, 169 millions in all; in other words, <sup>almost</sup> all of it in the New York district.

There was likewise extremely little change in the holdings of other bonds and securities, only 112 millions for the whole country.

So far, then, as the country as a whole is concerned, judged from the National Banks there has been extremely little change in the total holdings of all kinds of securities from the high point reached in June 30, 1920. This total was 4183 millions, almost at the peak of expansion in 1920, and it was 4114 millions last March 10.

These security holdings in the National Banks represented about 25 per cent. of their total loans and investments.

There would appear to have been very little disposition to cash in or unload these securities at the peak of the high interest rates of 1920--possibly because such a sale would probably have shown a considerable book loss. On the other hand, there does not appear to have been much of a disposition to load up at the very low prices last summer, and sharply falling interest rates *for loans* *gone with*

May 18,

2

Governor Strong

Investments of National and

Mr. Snyder

Reporting Banks--2

The larger part of the change, such as it was, took place in the New York banks, and this simply in the direction of larger holdings of Government securities. But the amount of this change is apparently only on the order of 2 or 3 per cent. of the total loans in the commercial banks of the country. It seems clear that there is no large absorption of securities by the banks, to be unloaded as soon as expansion of business should require.

And, as already noted, their holdings of cash are somewhat less rather than more than in 1920.

All this has a very important bearing on the probable course of rediscounts. If, ~~as now seems probable~~, a great expansion in business is ahead, this will require not only an increase of loans but of currency; and if there is no surplus of cash funds in the banks as a whole, then the only way to secure the needed currency, and to keep up the required reserves on increased deposits resulting from an increased loan, is through rediscounting. It would appear that the very large part of this financing must be supplied from the Federal Reserve Banks.

INVESTMENTS OF NATIONAL BANKS

(000 Omitted)

	<u>SECOND DISTRICT</u>				
	<u>June 30, 1920</u>	<u>Dec. 29, 1920</u>	<u>Low Point 1921</u>	<u>Dec. 31, 1921</u>	<u>Mar. 10, 1922</u>
United States Government Securities	\$509,050	\$453,932	Sept. 6 \$360,228	\$488,905	\$502,201
Other Bonds, Stocks and Securities	<u>531,116</u>	<u>537,327</u>	" <u>525,622</u>	<u>586,911</u>	<u>580,046</u>
Total	1,040,166	991,259	" 885,850	1,075,816	1,082,247
			<u>ALL DISTRICTS</u>		
United States Government Securities	2,267,609	2,129,473	Sept. 6 \$1,859,512	1,973,440	2,028,544
Other Bonds, Stocks and Securities	<u>1,916,284</u>	<u>1,989,814</u>	" <u>1,973,193</u>	<u>2,080,837</u>	<u>2,085,951</u>
Total	4,183,893	4,119,287	" 3,832,705	4,054,277	4,114,495

Increase from 1921 low point to Mar. 10, 1922	<u>SECOND DISTRICT</u>		<u>ALL DISTRICTS</u>	
	Amount	Per Cent.	Amount	Per Cent.
U.S. Government Securities	\$141,973	39.4	\$169,032	9.1
Other Bonds, Stocks and Securities	54,424	10.4	112,758	5.7
Total	196,397	22.2	281,790	7.4

DIVISION OF TABULATION,  
STATISTICS DEPARTMENT.

Prepared by *Ingl*

Checked by *E. Hicks*

MAY 17 1922

INVESTMENTS OF REPORTING MEMBER BANKS

(000 Omitted)

S E C O N D D I S T R I C T

	<u>June 25, 1920</u>	<u>Jan. 7 1921</u>	<u>Low Point 1921</u>	<u>Dec. 28, 1921</u>	<u>April 26, 1922</u>
United States Bonds	\$300,497	\$302,065	Jan. 28 \$294,285	\$363,991	\$ 449,927
United States Victory Notes	85,384	93,234	Nov. 30 74,934	88,474	41,818
United States Treasury Notes	---	---	Sept. 14 29,359	87,788	246,388
U. S. Certificates of Indebtedness	241,022	130,021	Oct. 26 38,869	122,531	55,001
<b>Total United States Securities</b>	<b>\$626,903</b>	<b>\$525,320</b>	<b>July 27 468,737</b>	<b>\$662,784</b>	<b>\$ 793,134</b>
Other Bonds, Stocks and Securities	(Not Available)	737,683	Sept. 21 702,195	730,257	755,343
<b>Total</b>	<b>\$626,903</b>	<b>\$1,263,003</b>	<b>July 27 1,187,073</b>	<b>\$1,393,041</b>	<b>\$1,548,477</b>

E N T I R E C O U N T R Y

United States Bonds	\$ 879,115	\$ 878,481	June 8, \$ 859,401	\$ 950,270	\$1,100,465
United States Victory Notes	198,690	205,572	Nov. 30 155,774	170,639	82,097
United States Treasury Notes	---	---	Sept. 7 48,333	125,559	385,779
U. S. Certificates of Indebtedness	483,124	227,555	Oct. 26 93,742	222,855	158,925
<b>Total United States Securities</b>	<b>\$1,560,929</b>	<b>\$1,311,608</b>	<b>July 27 \$1,189,699</b>	<b>\$1,469,323</b>	<b>\$1,727,266</b>
Other Bonds, Stocks and Securities	(Not Available)	\$1,987,879	Feb. 11 \$1,975,959	\$2,090,025	\$2,137,294
<b>Total</b>	<b>\$1,560,929</b>	<b>\$3,299,487</b>	<b>July 27 \$3,228,662</b>	<b>\$3,559,348</b>	<b>\$3,864,560</b>

Increase from 1921 Low Point to April 26, 1922.

	<u>SECOND DISTRICT</u>		<u>ENTIRE COUNTRY</u>	
	Amount	Per Cent.	Amount	Per Cent.
United States Securities	\$ 324,397	69.2	\$ 537,567	45.2
Other Bonds, Stocks and Securities	53,148	7.6	161,335	8.2

DIVISION OF TABULATION,  
STATISTICS DEPARTMENT.

Prepared by *E. Nicks*  
Checked by *Engel*



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 18, 1922TO Governor StrongSUBJECT: The extent of the Business RecoveryFROM Mr. Snyder

Since you did not know of my very deep, and possibly extreme, pessimism in the spring of 1920, at the height of the ~~boom~~ boom, it would be very natural that in the last year you should think of me as merely a cheerful optimist, and so inclined to rather overdraw the extent of the recovery that has actually taken place. So I should like to invite your attention to a statement as to the latter by Colonel Ayres, of the Cleveland Trust Company, in the last number of their Bulletin.

Several paragraphs attached.

*I read this! But how much "boom" shall we now permit?  
Also do you or do you not think we can avoid a speculation  
outburst? I know but won't tell  
while you do. Ps.*

## OFFICE CORRESPONDENCE

DATE May 23, 1922TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM M. E. Rose

We have been unable as yet to find any reference to economic agreements among the Scandinavian countries.

I am informed that conferences of representatives from the various countries are held from time to time, but as a rule result only in discussion without definite action.

The Swedish Riksbank publication, "Lagar, Instruktioner och Reglemente för Förvaltningen av Sveriges Riksbank," to which Governor Strong refers in his memo of April 8, contains the text of the monetary convention entered into by Sweden, Norway and Denmark in 1873, and the terms of various later agreements affecting the coinage of the Scandinavian countries, with special reference to Sweden. There seems to be nothing, however, about any economic agreement nor about any monetary agreement later than 1917.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 24, 1922To Governor StrongSUBJECT: Attached AddressFROM Mr. Snyder

The ancient story. And this is the quality of mind to which is entrusted the economic balance of a nation!

Resolution passed in December 1921 at Stockholm by the Representatives of the National Banks of Sweden, Denmark, and Norway.

To obtain the stabilizing of any value we must have a unit of value that is nearly fixed, so as to serve as a standard.

Before the war gold was the unit of measure for all the nations that had a currency with a gold base. But on account of the various arrangements adopted during the war, gold has ceased to serve this function and has become a commodity like any other, subject to fluctuations in price.

Theoretically other units of measure might be adopted, but until something better is found the only thing to do is to revive the function of gold, that is, to make again effective the currency system with a gold basis.

Each individual country will have to decide on the right moment to carry this into effect. To try to attain this end through a vast understanding among many nations, at the present moment, considering the enormous differences in the value in the various countries, may be looked upon as impossible; nor is it believable that the European nations would be now inclined to reduce their values in relation to the dollar offhand. Every state hopes to improve its value (currency) and in fact, speaking generally, indications are not wanting that an improvement may be possible.

Only the United States can be said at the present moment to have an effective gold standard; but in order that this may be really useful even to them, it is necessary that several other countries should also have it; it is not possible otherwise to obtain a true standardization of values.

No European country could now reestablish its gold currency base without the assistance of the United States. The best thing would be for the United States and England combined to take the first step, because

of the European countries England is the one that certainly has the greatest interest in this restoration. The other countries then would gradually work in harmony with England beginning with those who are best off. The world would thus again have a fixed unit of value, which is the primary condition in trying to overcome the difficulty of valuation and to return to an economic recovery.

Many of the chief causes of the present economic muddle are of an international political character and chief among them are the arrangements that had to be made and the debts that were contracted during the war, as well as the economic condition of Russia. It is for statesmen to try to overcome these difficulties.

Until England has stabilized the value of the pound sterling as regards the dollar, the Scandinavian states cannot think of doing this with their Krone; an isolated attempt toward this on the part of the little states will be premature and might do more harm than good.

But while waiting for the first step to be taken by England and America we must work energetically to improve our own conditions at home and abroad, even though we see that the road is long and difficult, and we should also avoid measures which, although they're momentarily helpful, aggravate the disease and put off the cure.

L'Economista, No. 2495, February 26, 1922

Comments by Cassel in Economica  
Review, Jan. 1922

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 24, 1922

To Governor Strong

SUBJECT: Article on Money

FROM Mr. Snyder

I am gratified at your comments on Dr. Foster's article on "Money As a Standard of Value," in The Annalist. I hate to disturb illusions, but he is about as much of a "100 per cent. quantity theory" fellow as I am, and no more; and holds, I think, very closely the same views that I do.

That was why I enclosed the article.

*ASFA*  
*MS.*

12-9

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 23, 1922To Governor StrongSUBJECT: Edison SchemeFROM Mr. Snyder

Colonel Ayres and I were remarking, as to the Edison proposal, that the singular thing about it was that it had the backing of the probably two best-known men in the nation.

*worse than that, -*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 26, 1922

To Governor Strong

SUBJECT: Surplus Bank Funds

FROM Mr. Snyder

Replying to your inquiry as to "surplus reserve accounts in the banks of the country":

I have already noted that the cash account of the banks, so far as we may judge from the 800 Reporting Banks and the 8,000 National Banks, has declined somewhat from the high point of expansion in 1920; and likewise that there has been, apparently, very little change in the total holdings of securities by the banks within this period.

Meanwhile, the loans and discounts of the 800 Reporting Banks, excluding investments and rediscounts with the Federal reserve banks, have declined about 3 billion dollars. In the same period the net demand and time deposits in these same banks have changed from the estimated peak of 1920 extremely little. The estimated peak was about 14,200 millions in 1920, and was about 14,100 millions last week. In other words, the ratio of loans to deposits has declined from an estimated peak (exact figures for that period not being obtainable) of 98 per cent. to about 77 per cent. last week.

These Reporting Banks represent very near to one-half the total loans of the commercial banks of the country (excluding savings banks), which were estimated at between 27 and 28 billions at the peak of 1920, and somewhere around 22 billions now.

① This means that, without unloading any of their investments, or rediscounting with the Federal reserve banks, the commercial banks of the country could, by returning to the status of 1920, increase their loans by about 6 billion dollars. This would mean at least a 25 per cent. increase and would carry with it, presumably, a correspondingly increased demand for currency.

If we take the normal relationship of loan expansion to currency as about 5 to 1, such an increase then would carry with it a demand for something like a billion to a billion and a quarter of Federal reserve notes.

② With this expansion also would come, of course, an increase of about 300 millions in the required reserves of the Member Banks of the Federal Reserve System. As these and the non-member banks have now very little surplus cash, this would bring up the total discounts that would be required of the Federal reserve banks to something on the order of 2100 millions, and expand the note issue to about 3300 millions. On the basis of no further increase in gold holdings, this would bring the reserve percentage down from about 77 per cent. to about 56 per cent., which is just about what it was a year ago.



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 26, 1922

TO Governor Strong

SUBJECT: Money and Prices

FROM Mr. Snyder

As to the relation of money and prices, to which you refer, if one were to formulate the definitely known and ascertainable facts, would it not be somewhat along these lines:

(1) The average level of all prices or payments is an immense composite made up largely of wages, salaries and other payments for services rendered, since in the long run the value of everything depends chiefly upon the labor cost. In this immense composite the total for the exchange of commodities at wholesale is a relatively small item, and to take the average of composite prices at wholesale as a general measure of the average price level is manifestly absurd.

In times of very slow price movements the level of wholesale prices will correspond with the general price level; but not in times of rapid fluctuation.

(2) Careful investigations carried on by this department in the last two years, and by others, have shown: (a) that the level of general production, and its fluctuations, may be pretty closely estimated from year to year and even from month to month; and (b) that the same is true as regards the so-called velocity or rate of turnover of demand deposits in the banks. And these investigations have shown in a rough way that these two diverse elements tend to swing together; that is, as production rises and trade becomes brisk, the average turnover of deposits likewise increases.

(3) It is, of course, an obvious truism that the sum of all things exchanged, goods and services, must be equal to the amount of the circulating media multiplied by the number of times of turnover; i.e.:

$$\text{Quantity} \times \text{Prices} = \text{Total Money} \times \text{Velocity}$$

But if velocity<sup>of money</sup> and quantity of exchanges tend to rise and fall together, then in the long run the average price level must bear a close relation to the total amount of circulating media, i.e., money and checkable deposits.

(4) But this no more supposes that the average of wholesale prices will necessarily correspond, at all times, to the actual amount of money and deposits than would such individual commodities as cotton, wheat or iron. For example, heavy forced purchases, such as you describe at the beginning of the war, or a great burst of speculation, may carry the average of wholesale prices far above the general price level.

(5) But this can be only for a short period, for it is obvious that unless the money supply increases, if a number of commodities rise very heavily, then the price of others would tend to fall, just as was the case

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 26, 1922TO Governor StrongSUBJECT: Money and Prices--2FR Mr. Snyder

with cotton and other commodities in 1915, before the gold inflow was sufficient to raise the volume of bank credits.

(6) So, without going into any questions of cause and effect, it is obvious that the money supply is always the limiting factor, or enabling act, of any great rise in prices; for a stream cannot rise above its source.

(7) A great collapse of speculation where, as in 1920, it is so widespread and almost universal, in stocks, cotton, grains, meats, oil, rubber, silk, wool, coffee, real estate, farms, etc., may result in a great fall in wholesale commodity prices; and as this inevitably results in great business prostration there will follow a general reduction of wages, salaries and retail prices. But this can be only temporary, unless there is a corresponding reduction in the total amount of money and credit.

Otherwise, as soon as the orderly flow of exchanges is resumed, the volume of money and credit will resume its normal effect, with a corresponding recovery in prices.

(8) Statistically, as the decrease in the circulating media probably has not exceeded 14 or 16 per cent., while the average price level has fallen from the peak of 1920 possibly twice this amount, we may expect, since the recovery in business is now very rapid, a correspondingly rapid recovery in the price level.

---

Such, as I conceive it, would be the present-day theory of money and prices, as held by Dr. Foster and many others. Would it not be equally acceptable to bankers and business men?

May 29, 1922

Strictly Confidential

### BANK LOAN EXPANSION WITHOUT REDISCOUNTING

In view of the fact that the Member Banks of the Federal Reserve System hold about two-thirds of the resources of all the banks of the nation, and rather more than three-fourths of the resources if we exclude savings banks, it becomes an interesting question as to how far these banks, and presumably the other commercial banks, could expand without recourse to re-discounting at the Federal Reserve Banks.

It has already been noted here that in the contraction from the peak reached in 1920 there has been no accumulation of cash in the Reporting Member Banks, or in the National Banks of the country, and presumably, therefore, very little in the remaining banks. On the contrary the amount of known cash held has somewhat declined.

It has likewise been pointed out that the total investments, holdings of Government securities and other stocks and bonds of the banks as a whole, have changed very little within the past two years, that is, from the peak of expansion to the present time.

On the other hand, the loans and discounts of the 800 Reporting Member Banks, excluding their investments and their rediscounts with the Federal Reserve Banks, have declined about 3 billion dollars. In the same period the net demand and time deposits in these same banks show little net change from the estimated peak of 1920. The estimated peak was about 14,200 millions in 1920, and was about 14,100 millions last week.

In other words, the ratio of loans to deposits has declined from an estimated peak (exact figures for that period not being obtainable) of

98 per cent. to about 77 per cent. last week.

These Reporting Banks represent very near to one-half the total loans of the commercial banks of the country (excluding savings banks), which were estimated at between 27 and 28 billions at the peak of 1920, and somewhere around 22 billions now.

This means that, without unloading any of their investments, or rediscounting with the Federal Reserve Banks, the commercial banks of the country could, by returning to the status of 1920, increase their loans by about 6 billion dollars. This would mean at least a 25 per cent. increase in the total.

But this would carry with it normally a corresponding demand for currency. If we take the normal relationship of loan expansion to currency as about 5 to 1, such an increase in loans would mean a demand for something like a billion to a billion and a quarter of Federal reserve notes. This, it will be recalled, was about the ratio of note increase to loan expansion in the period following the Armistice.

The loans of all banks were expanded between 5 and 6 billions and the note issue by a little over 1 billion. In that period, on balance, all of the increased rediscounts at the Federal Reserve Banks were taken out in notes and practically none was used to replenish the required reserves against deposits.

But an expansion of 5 or 6 billions in loans now would require, also, an increase of about 400 millions in the required reserves of the Member Banks. As presumably the banks could spare no cash, but would require rather more than now, for till money, they could obtain only a very limited amount through selling their securities.

Apparently, therefore, the only means by which the banks could meet the requirements of anything more than a very moderate expansion would be

through rediscounting. For the possible expansion here indicated, this would mean an increase in rediscounts exceeding a billion and a half, i.e., around 1200 millions for notes and 400 millions for increased reserves. This would bring up the total of the required reserves to something on the order of 2100 millions, and expand the note issue to about 3400 millions.

On the basis of no further increase in the gold holdings of the Federal Reserve Banks, this would bring their reserve ratio down from about 77 per cent. at the present time to about 56 per cent., which is just about what it was one year ago.

With gold reserves well exceeding 50 per cent., it is a serious question as to how favorably the country would regard an increase of rediscount rates sufficient to check such a headlong expansion. And it is likewise a serious question whether such an expansion would not bring about as great a wave of speculation and as great a rise in prices as that in 1919-'20, which could scarcely be checked without an even higher rediscount rate.

But all this presupposes that we shall lose no large amounts of gold. If our prices should begin to rise rapidly, and at a faster rate than the rest of the world, it seems probable that a considerable outflow of gold would take place, especially if we keep up the present rate of foreign loans.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 31, 1922TO Governor StrongSUBJECT: The Future of Silver as CoinedFROM Mr. SnyderMetal

I was asked to luncheon last week by some silver producers, to tell them something about the future of silver as coined metal. Barring a great revival of demand in the East, I suggested that the outlook did not seem very clear or immediately very favorable--that France would probably continue for some time her token coins and small paper, and a number of other countries likewise.

I should like very much to know how it looks to you.

FEDERAL RESERVE BANK  
OF NEW YORK

FILES DIV.

JUN 3 1922

FEDERAL RESERVE BANK  
OF NEW YORK

**OFFICE CORRESPONDENCE**

DATE May 31, 1922

To Governor Strong

SUBJECT: Bulletin of National Bank of

FROM Mr. Snyder

Commerce

In the absence of Prof. Chandler, the Bank of Commerce Bulletin takes a radically optimistic view of conditions. The article begins: "Business is better;" and is quite in clarion tones.

*[Handwritten signature]*

*[Handwritten initials]*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE May 31, 1922TO Governor StrongSUBJECT: English Bank CreditsFROM Mr. Snyder

With reference to your suggestion of a careful analysis of the banking situation in Great Britain, I would draw your attention to Mr. Macrosty's article in the Journal of the Royal Statistical Society, which has just come and of which I attach a brief digest.

You will note that he also finds a great difficulty in making any intelligible analysis from the available figures, and that, you will recall, is exactly what I reported to you some time ago.

But it does seem clear that there has been very little, if any, deflation in the loan account of the English banks, and I am wondering what will be the effect of this, with the current trade revival. If substantially the same amount of bank credit is outstanding against presumably a reduced volume of production and a terrific decline in prices, will this mean a correspondingly rapid rise in prices when something like a normal or average demand returns?



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 1, 1922To Governor StrongSUBJECT: Import of Securities andFROM Mr. SnyderMonies

We have so far received 32 replies from the circular letter asking for figures on the import of securities and monies in the last three years, two others have promised the figures as soon as possible, and sixteen have so far not replied.

Among the sixteen is J. P. Morgan & Company. Could a letter be sent to them, or could you make some inquiry, as they are the Hamlet of the play and it is little use making a total until we have their figures.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 2, 192 2

To Governor Strong

SUBJECT: Foreign Credit Balance

FROM Mr. Snyder

I attach herewith the letter to Mr. Domaretzsky, who was to have immediate charge of the investigation regarding the three and a half billion balance. I never have had even an acknowledgment of my letter, which is a fair indication of the way some things go. They were extremely cordial in their desire to undertake the inquiry.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 1, 1922TO Governor StrongSUBJECT: English bank figuresFROM Mr. Snyder

The annual Banking Number of The Economist, giving returns up to January 1 of this year, is just at hand, and on the surface gives some very remarkable indications. Both deposits and total loans have apparently risen over any previous year--in other words, no deflation at all. ✓

Before I make the complete analysis I should like very much to just run over the figures with you for any information you could give. ✓

On the Reichsbank Autonomy Bill, see marked paragraph on page 955.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 2, 1922.

TO Mr. Snyder

SUBJECT: Increase in Member Banks' Reserve

FROM R. G. Bellah.

Account.

	February 1, 1922 (In	May 17, 1922 Millions)	Increase
Member banks reserve account carried with all Federal Reserve Banks	\$1,689	1,811	122
Time and Demand Deposits Reporting Member banks	13,277	14,182	905
As Reporting member banks are about 2/3 of all member banks, then time and demand deposits of all member banks would equal	19,916	21,273	1,357

We found that the member banks on December 31, 1921 carried almost exactly 9 per cent. of their time and demand deposits as reserve with us.

9 per cent. of the \$1,357,000,000 increase of their time and demand deposits between February 1 and May 17, 1922 equals \$122,130,000, which, it will be seen from the figures on the first line of this report, is precisely the amount by which the reserves have increased.

OFFICE CORRESPONDENCE

DATE June 12, 1922

To Governor Strong

SUBJECT: The Iowa Senatorial Fight

FROM Mr. Snyder

The success of this Colonel Brookhart seems to me a rather disturbing sign. He is not a young man--he is sixty-three, and was a candidate against Cummins two years ago, on an anti-railroad issue. But otherwise he is a new comer.

To beat him the old crowd got into the field with two or three other "progressives", and the combined vote of these against the Old Guard crowd would be about three to one.

Now you will remember that in the free silver campaign Iowa stood firm, and has ever since been a solid and fairly conservative State.

Brookhart, you will remember, is the man who appeared before the Joint Agricultural Inquiry last summer, as the representative of the National Farmers' Union, and it was he who made the statement, which I took up with him, that "50 per cent. of the primary deposits of the banks of the United States are from the agricultural interests."

He was backed especially by LaFollette, and by Norris of Nebraska, and will come into the Senate under their wing. You will remember he made a very violent attack on the Federal Reserve.

*Sure! But he won't get  
anywhere.*

*P.S.*

## OFFICE CORRESPONDENCE

DATE June 12, 1922TO Governor StrongSUBJECT: Loans for Out-of-TownFROM Mr. SnyderCorrespondents

You may be interested to see the rapidity with which the loans for out-of-town correspondents and the total street loans have been rising of late.

*Pls. Keep me posted on this*

*BS*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 10, 1922To Mr. SnyderSUBJECT: Street LoansFROM G.W. Donaldson

	1922 (000 Omitted)			
	April 1.	June 8.	Amount Increase	Percentage of Increase
Street Loans for own account	634,690	806,398	171,708	27.1
Street Loans for Account of Correspondents	427,948	642,075	214,127	50.0
Total Street Loans	1,062,638	1,448,473	385,835	36.3
Balances of Correspondents	600,521	697,129	96,608	16.1

OFFICE CORRESPONDENCE

DATE June 12, 1922

To Governor Strong

SUBJECT: Security and Money Markets

FROM Mr. Snyder

I think that the following is not without interest:  
renewal rate

Last Friday call money/touched the lowest point since 1918; and last week rates on prime endorsed bills declined to 3 per cent, which was likewise the lowest point in several years. At the same time the stock market had the first sharp recession since last August, the industrial list declining from a high point of 92.27 to 89.74. This decline in industrial stocks follows upon a distinct backing up in the bond market for more than a month. Since the first week in May both the general bond averages and the average for industrials have shown a sagging tendency,

If last week's decline in stocks should prove the beginning of a considerable reaction or resting period, it would follow exactly the precedent of the last two bull markets. From the low point of 1915 to the beginning of the first notable reaction there was a period of ten months; and the same was true of the movement extending from a low point in December of 1917. There, also, a declining movement set in just ten months later. Last week was very close to ten months from the low point reached by stocks in the middle of last August.

The last two bull markets in stocks have been characterized by a steady and practically unbroken rise through these first ten months; and exactly the same has been true of the present movement. Instead of the averages rising in a series of waves, with considerable intermediary recessions, they have shown an almost straight-line movement.

This change of characteristic is generally credited to the influence of the income tax, which, it is held, has greatly reduced the volume of stocks for sale on a rise. Holders have been loath to cash in their



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 12, 192 2

To Governor Strong

SUBJECT: Security and Money Markets

FROM Mr. Snyder

2

profits when half or more might go to the Government. Hence a much greater ease in marking up prices.

If stocks should now show a dull or declining tendency, it will be strictly in the classical tradition if this is attributed to the supposition that "the anticipated improvement in business has not appeared," etc., etc., etc.

As a matter of fact, so far as we have any record this business recovery has perhaps been the most rapid, and I think real, of that from any crisis in a long number of years. And apparently the mechanism of the stock market movements is something like this:

A marked rise in the stock markets is usually followed by a clear improvement in business at an interval of from six to ten months. In the course of ten months to a year business begins to feel the need of funds.

Last year there were a large number of corporations and firms that had large surplus funds on hand for which they found no need in their own activities; hence the investments in stocks and bonds.

These investments now show a handsome profit, and with the increasing activity in business it seems probable that these investments are now being liquidated to provide for the required funds, rather than have recourse to bank loans.

If this were true it would also explain why it is that there could be a very considerable increase in business activity with no corresponding increase in commercial loans.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 13, 1922

TO Governor Strong

SUBJECT: Professor Friday's letter

FROM Mr. Snyder

(1) This seems to me a very clear statement of Professor Friday's general views, and his ideas of cause and effect. From such a base his conclusions are logical; but because I believe the base is mistaken, the conclusions seem to me likewise.

(2) His idea of "the interdependence of the values of agricultural production and of value added by manufacture" seems to me, and to others whom I have asked about it, a purely fortuitous equivalence and just a happenchance. There is no intrinsic reason why they should be about equal; but they would, of course, tend to vary, together with the general price level.

(3) The decline in velocity of demand deposits was apparently considerably greater than the decrease in the total volume of trade, and sufficient, perhaps, to count for a considerable part of the difference between the decline in deposits and the decline in the general price level.

Personally I have always thought that the figure for loans and discounts, excluding investments, might possibly be a better index of the net active demand deposits than the nominal figure given in the reports; but this is not provable.

As to the general price level, Professor Friday makes the same mistake which Fisher, Hawtrey, and no end of others have made, of accepting the index of wholesale prices as an index of the general level of all prices, wages, salaries, rents, stocks, etc. This is a serious error.

(4) I should very much like to see the studies which Professor Friday has made which indicate that the security markets will continue to move upward "for some months to come" (page 4). If you do not wish to write for them I should be glad to.

My own guess was that for some months to come we might have a resting or declining period before the advance was resumed.

(5) As to Professor Friday's idea of changes in "bankers' balances," the following are the figures for the end of the three years, and the latest available, for all the Member Banks of the Federal Reserve System. These are the net balances, i.e., "due to other banks" minus "due from other banks;" Professor Friday uses the gross figures of "due to other banks," but the difference is not large.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 13, 1922

TO Governor Strong

SUBJECT: Professor Friday's letter--2

FROM Mr. Snyder

Net Amount Due to Banks and Bankers  
All Member Banks in New York City  
(In Thousands)

December 31, 1919	\$1,029,000.
December 29, 1920	982,000.
December 31, 1921	964,000
March 10, 1922	996,000.

(6) The actual figures of out-of-town balances in the money-pool banks, which represent more than 90 per cent. of the New York banks, have been as follows:

January 1, 1919	\$750,000
January 2, 1920	820,000
January 3, 1921	716,000
January 3, 1922	639,000
June 10, 1922	675,000

It will be seen that there is no wide variation such as Professor Friday supposes. These balances are largely required to take care of the average volume of checks against them. What does vary, of course, is the amount of loans placed for out-of-town correspondents, which, as you know, have in the last three years ranged from below 400 million to above 750 million.

(7) But surely D. F.--no profanity intended--does not imagine that these balances, which of course provide an appreciable part, perhaps 20 per cent., of the loans of the New York banks, are final reserves, or that they can be used as reserves by the interior banks without occasioning a corresponding contraction of loans by the New York Banks. Surely New York is still located in the United States! n

It seems to me that this idea quite typifies the general character of Friday's conceptions.

(8) It seems clear that the amount of balances of out-of-town banks in New York is in no sense reserves, and the proof is that they are highest when the volume of checks is greatest and decline with this volume of checks, as is shown by the above figures.

--That's all.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 13, 1922TO Governor StrongSUBJECT: "Money," by D. H. RobertsonFROM Mr. Snyder

This seems to me very clever and amusing, and I think there are several chapters, like "Bank Money and the Price-Level," "The Foreign Exchanges," and "Monetary Policy," which you will enjoy.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 13, 1922

To Governor Strong

SUBJECT: About a "boom"

FROM Mr. Snyder

The suggestion of a possible period of dullness or decline in the stock market was not offered as a prediction, but just as a possibility. If it comes it will follow exactly the precedent of 1916 and the winter of 1819.

This seems to me quite consistent with the idea that we are in for a period of very heavy expansion and possible boom. A lull in the stock market would possibly be an almost indispensable precursor. Large corporations and big business generally would scarcely hold to large investments in stocks and bonds when they were compelled to get funds for the active prosecution of their business, do you think? They would hardly borrow at the banks until they had used up their own liquid capital.

## OFFICE CORRESPONDENCE

DATE June 14, 192 2To Governor StrongSUBJECT: Mr. Smith W. BrookhartFROM Mr. Snyder

Maybe, as you say, "he will not get anywhere," but I should like to point out that there will possibly be several others making for the same goal. It seems probable that McCumber will give way to Non Partisan League ex-Governor Frazier, in North Dakota, and there may be several others to join with the LaFollettes and Hefflins and Norrises--possibly enough of them to make trouble when the time comes.

I can't help thinking that this is a serious enough business to deserve some attention, and perhaps some active support by the Stable Money League.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 19, 1922TO Governor StrongSUBJECT: Address before GarmentFROM Mr. SnyderIndustries

This might be the means of getting some other of the big clothing firms to report to us, and if you see your way to it I hope you will push the good work along.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 20, 1922To Governor StrongSUBJECT: Sales of Jewelry and DiamondsFrom Mr. Snyder

You may be interested in the attached diagram, for I feel that the sales of jewelry at wholesale will be a very sensitive barometer of the real recovery in trade. Of course the wide discrepancy between the sales of 1920 and the last year or more is in part represented by a difference in prices.

Steel' hat been alarming!

BS



FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 20, 1922

To Governor Strong

SUBJECT: "Sixty Years in Banking," by

FROM Mr. Snyder

Andrew Jay Frame

Our old friend Andrew Jay, with a few thoughts on the  
situation.

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## OFFICE CORRESPONDENCE

DATE June 21, 1922To Governor StrongSUBJECT: Eugene Meyer's Milwaukee addressFROM Mr. Snyder

The reference to the Federal Reserve System is on page 14, and to the proposed legislation on page 16 ff. There is nothing very striking or, indeed, very concrete.

I note that he attributes the collapse in 1920 in large part to the decline in the price of farm products;

That he repeats the usual exaggeration as to the purchasing power of the farmer and the relative importance of agriculture;

That he attributes many of our troubles to "forcing agriculture to adjusting itself to our banking practice," instead of the reverse;

And especially that, in his view, most of the improvement of the last year is due to the effective work of the War Finance Corporation.

## OFFICE CORRESPONDENCE

DATE June 20, 1922To Governor StrongSUBJECT: Governor McKelvie's ReportFROM Mr. Snyder

Here is a quite astonishing specimen of a State Governor of a new kind. The letter is quite worth looking over.

OFFICE CORRESPONDENCE

DATE June 21, 1922

To Governor Strong

SUBJECT: \_\_\_\_\_

From Mr. Snyder

ABOUT PHILOSOPHY

Quoted by Gabriel Hanotaux in The Manchester Guardian Commercial

"I have often been astonished," wrote Grimm, in his celebrated Letters to Catherine II, "at the vainglory of man. The first glance that we throw upon the universe shows us, above all, the littleness and vanity of our fellow creatures. Yet this vainglory is nowhere so apparent, it seems to me, as in that very region which should most properly inspire us with moderation and with true humility; I mean, in the study of philosophy. . . . In general, man prefers to impose upon himself, to create sciences which teach nothing, to discover the vain and thorny byways of method, and to deceive himself on the margin, as it were, of human understanding by an imposing litter of specious terms."

*Very Good*

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OFFICE CORRESPONDENCE

DATE June 21, 1932

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TO Governor Strong

FROM Mr. Snyder

JUN 21 3 57 PM '32

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NEW YORK

ABOUT PHILOSOPHY

Quoted by Gabriel Hanzon in The Manchester Guardian Commercial N. Y.

"I have often been astonished," wrote Grimm in his celebrated Letters to Catherine II, "at the vanity of man. The first glance that we throw upon the universe shows us above all the littleness and vanity of our fellow creatures. Yet this vanity is nowhere so apparent, it seems to me, as in that very region which should most properly inspire us with moderation and with true humility; I mean, in the study of philosophy. . . . In general, man pretends to impose upon himself, to create sciences which teach nothing, to discover the vain and thorny byways of method, and to deceive himself on the matter, as it were, of human understanding by an imposing litter of specious terms."

*Handwritten notes in green ink:*  
Snyder  
June 21, 1932  
Governor Strong

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 26, 1922To Governor StrongSUBJECT: Reports from National Banks toFROM Mr. Snyderthe Comptroller of the Currency

There is before Congress now a Bill which I imagine has been chiefly fostered by Mr. Louis McFadden, Chairman of the House Banking Committee now, to reduce the number of required reports from the National banks to the Comptroller of the Currency from five to three each year.

It seems to me that, of all the times in the last twenty years when we most need to know exactly what is the state of the country National banks, and get a good cross section of the whole, the time is now. Mr. McFadden is the type of banker who finds the making of these reports annoying. I believe some reports which he made from his own bank got him into trouble with Skelton Williams.

I think a good strong letter from you to the Senate Committee, where the Bill now lies, might do a great deal of good.

*This should go to F.R. Board thru  
Mr. Tan.*

## OFFICE CORRESPONDENCE

DATE \_\_\_\_\_

To \_\_\_\_\_  
Governor Strong

SUBJECT: \_\_\_\_\_ June 21, \_\_\_\_\_ 2

FROM \_\_\_\_\_  
Mr. Snyder

Stable Money League

Mr. Catchings has suggested that one of the first things we might do would be an expression from the League as to the question of the Allied Debt. I am wondering if, in view of your deep attention to this subject and your knowledge of the situation in Washington and abroad, you would tell me what, in your judgment, would now be the sanest and most advantageous offer which this country could make, towards the settlement of this question. I take it for granted that it would be needfully a compromise measure, between the extremists of either side, but it seemed to me such a declaration might lean a little toward the side of an ideal solution, while keeping well in mind the political <sup>necessities</sup> interests of the case.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 29, 1922TO Governor StrongSUBJECT: Increase of Member BankFROM Mr. SnyderDeposits

In regard to the remarkable increase of Reporting Member Bank deposits of 1240 millions since February 8, reported in the Business Summary of last week: the increase of investments by the twelve Federal reserve banks, from February 8 to June 14, was 277 millions.

In the same time there was a decrease in the total of bills discounted and bought of 380 millions.

It is not very clear, therefore, that the increased investments of the Federal reserve banks WERE a strongly contributing cause of the very great increase in deposits reported.

In the same period the receipts of gold were a little over 80 millions of dollars, which likewise was not a strong contributing factor.

It seems to me that the conclusions stated, that there has been a distinct shift of funds from the country banks to the 800 reporting banks in the cities, would still stand as the most probable explanation.



FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 29, 1922

TO Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

If you are sufficiently interested you may like to run through  
this brief review.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 29, 1922TO Governor StrongSUBJECT: Genoa Financial Commission ReportFROM Mr. Snyder

1181

(1) I am glad to note your comment on Resolution 9, as to the idea that wide fluctuations in the purchasing power of gold resulted from the competition of a number of countries to secure metallic reserves.

It is truly, as you say, "a myth," but it is amazing what a persistent life it has. Ricardo laid down the law as to the distribution of precious metals, well over a century ago, and every country, including our own, with a free gold market, has over and over exemplified the full force of that law.

Professor Cassel has shown that, in the long run, prices in England will correspond pretty closely to the total amount of gold estimated as existing in the world, whether in the form of coin, bullion or gold; and of course all other prices, expressed in gold, tend to conform pretty closely to English prices, because these are or were gold prices.

I think it was Bismarck who started the idea that there was a "scramble" among the nations for gold, but obviously the only way that a nation could "buy" gold would be by offering a premium which, in the final international balance, would mean that the value of its own products would have been lowered in a corresponding degree. I am surprised that such a resolution could have found a place in the report of such a Commission.

(2) The most hopeful paragraph in the whole report seems to me that on page 17, paragraph 2, wherein it is declared that a great service will be rendered by the first country which shall boldly fix its parity at a new par.

I do not know how it strikes you, but the fact seems to me that there is scarce a government in Europe strong enough or resolute enough to take the bull by the horns and put its monetary systems in order. They all seem fearful of some suppositious danger, that I believe exists only in their own imaginations.

The only two bold steps that occur to me at the moment, from a grossly depreciated currency to a sound money basis, were those of Hamilton in this country and of Napoleon in France. So far as I am aware it occasioned no deep disturbance either financially or socially. Nor can I believe that it would now.

Is it not clear that the price level will adjust to any given volume of currency and credit, and that apparently rather quickly? Is not the vital question involved almost wholly that of the equity between debtor and creditor? And is not this for the most part, in the case of Europe, the relations of the Government to the bond holder, since the vast bulk of debts in each country must now lie here? And would not the simple, direct solution be merely to determine with some fair degree of approximation

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 29, 1922To Governor StrongSUBJECT: Genoa Financial Commission ReportFROM Mr. Snyder

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what was the average price level at which the large part of these securities were issued, and fix the amount of currency to be kept outstanding to correspond with this estimated price level?

Of course the question, in the case of Germany, is complicated by the immense amount of German currency held outside of the country, but in the case of France and Italy, and England, there is no such complicating factor.

As for the neutral countries, like Holland, Switzerland, Sweden, etc., which contracted no huge war debt, their price levels and exchanges are, with a few exceptions, so near to the present dollar parity that the immediate restoration of a free gold market would, I believe, have very little effect. Prices would very quickly adjust, through an inflow or outflow of gold, to the new situation.

In the particular case of England there is another complicating factor, the maintenance of their ancient prestige, which doubtless has a certain sentimental and even economic weight. And others will naturally occur.

But I am wondering if the real nigger in the wood-pile, that makes the finance ministries of the several countries so timid, is not the fact that almost all these inflationist countries have been living beyond their income, are probably still on a rather inflated basis, relatively, and that the establishment of gold exchange would disclose this fact? But if this is true, is not the only possible road back to financial health doing just this thing, the restoration of the universal gold standard, and letting the gold flow as the price levels and trade of the several countries will determine?

Even at the worst, I suspicion that the adjustment would probably be rapid, and this leads me to wonder No. 2, and that is whether the whole wide world is not making a desperate pother about a matter that is, at best, very simple and obvious to a degree--?

Snyder to  
Strong

July - Dec  
1922

*File*

**OFFICE CORRESPONDENCE**

DATE July 5, 192 192  

Governor Strong \_\_\_\_\_

SUBJECT: \_\_\_\_\_

Mr. Snyder \_\_\_\_\_

These are the figures which show very clearly that Governor Harding is mistaken if he believes that the returns from the reporting member banks in the different districts gives any clear picture of general banking conditions in those districts and especially of the country banks. Therefore, that the number of national bank calls ought not to be reduced from five to three, as proposed.

CS.MM

att.

RECEIVED  
JUL 10 1922  
FEDERAL RESERVE BANK OF ST. LOUIS

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 7, 1922

TO Mr. Snyder

SUBJECT:

FROM W. R. Burgess

I have been working over the problem raised by Governor Strong's memorandum of June 9 concerning the collection of figures of commodity stocks on hand with a view to determining what further steps we might wisely take.

As you were away at the time our work on this subject was initiated, it might be well to review briefly what we have done. Last summer at about the same time we were starting the computation of our indices of production of basic commodities as percentages of normal production, it occurred to me that a similar computation for commodity stocks on hand should be useful. I had the impression at that time, which has not been substantiated by our investigations, that one of the early indications of a recovery in business activity might be found in a gradual exhaustion of the stocks of basic commodities on hand and this exhaustion would lead inevitably to increased production and importation. It was with this thought in mind that <sup>we</sup> put two of the young men that we had with us for the summer on collecting figures for stocks and carrying through the computations necessary to express these stocks as percentages of normal. The two men who worked on the problem for a large part of the time that they were with us last summer were Doctor E. R. Lilley, Instructor in Geology at New York University, and M. J. Williams, a second year student at the Harvard School of Business Administration. Both of these men turned out to be competent workers and I believe they ran down practically all of the good leads for stock figures. Since Doctor Lilley was familiar with the people and the statistics in that field, he worked on minerals, while Williams covered such items as cotton, coffee, sugar, cement, etc. These men not only searched the available published sources, but interviewed people in the various trades rather widely, both for purposes of securing original data, and

## OFFICE CORRESPONDENCE

DATE \_\_\_\_\_

TO \_\_\_\_\_

SUBJECT: \_\_\_\_\_

FRC \_\_\_\_\_

- 2 -

for purposes of checking up the results of our computations.

The results of these researches were published in the Monthly Review beginning with the issue for July 1, 1921 and running through until May 1, 1922. For the last two issues of the Review we have not published any article containing these figures on commodity stocks for two principal reasons. In the first place, a review of some of our production figures in the light of current data has made it clear that some of our computations needed revision and I have felt that probably this was true as well of the stock on hand figures. We have not as yet had a chance to give the figures the rescrutiny which we wish. In the second place, I have been disappointed in the value of the stock on hand figures as an index of industrial conditions. The production figures have demonstrated their value from the start and are, I believe, in their present form one of the most valuable features of our Monthly Review. Stock on hand figures, on the other hand, appear to give very little indication of general business movements and seem to be affected far more largely than the production figures by particular circumstances within the individual industries. ~~It appears that~~ The figures are <sup>less</sup> less comprehensive and hence somewhat less reliable than those for production.

In order to analyze the stock figures a bit more fully I have recently had drawn up the attached diagrams of the available series in rough form and simply for purposes of study. For each commodity the index figures for stocks are shown as percentages of normal. Normal may be translated as that amount of stock which may reasonably be expected on the average, in view of the particular season of the year and the growth in industry from year to year.

## OFFICE CORRESPONDENCE

DATE \_\_\_\_\_

TO \_\_\_\_\_

SUBJECT: \_\_\_\_\_

FROM \_\_\_\_\_

- 3 -

As you will see, the figures which we have cover twenty-<sup>two</sup>three basic commodities. Eleven of these commodities are ones which are included in our price index of twenty basic commodities, while the others are additional. Most of the stock figures are for raw materials, although in a number of cases the commodities listed have been through at least one stage of manufacture. The comprehensiveness of the reports which we have used is indicated in the attached table. The least adequate of the figures appear to be those for the grains, which include the visible supply, but do not include stocks on farms. While these figures are not indicative of the entire grain position, they are, I believe, of considerable value in showing the movement of grain, and more roughly its available supply. While most of the figures are subject to one qualification or another, they seem to me genuinely indicative of the available supply of the different commodities.

It strikes me that a careful examination of the diagrams attached herewith indicates that we have figures of genuine value, but of a different type of value from the production indices. These stock figures are not sensitive indicators of changing industrial conditions. The stock figures that would be valuable in that connection would be for finished materials, especially those which turn over rather rapidly, our stock figures for department stores, for example, which have been exceptionally valuable indicators. It seems clear that variations in stocks of basic commodities lag behind other movements in the business cycle. If any general statement may be made it would be to the effect that stocks of these basic commodities tend to be reduced toward the close of a



FEDERAL RESERVE BANK  
OF NEW YORKLIBRARY  
DATE

AUG 21 1922

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

TO \_\_\_\_\_

SUBJECT: \_\_\_\_\_

FROM \_\_\_\_\_

- 4 -

period of active business operations when manufacturers are making large commitments for raw materials and that such stocks tend to rise at the conclusion of a period of depression when orders are placed with great caution and manufacturing operations have been curtailed. For example, in a good many cases stocks declined from about the middle of 1919 to the end of 1920 or the middle of 1921, and rose in 1922. This movement, however, was far from universal and the stock figures in many cases reflect conditions peculiar to the particular industries.

I should think these figures would be extraordinarily useful for persons in the particular industries who are studying their own situations. I am somewhat doubtful of their usefulness for the purpose which I judge Governor Strong had in mind, namely, that of giving a measure of the quantity of goods which might be multiplied by prices and compared with the volume of credit.

The difficulty lies in the fact that stocks of basic commodities and stocks of finished commodities bear a supplementary relation to each other, when one is high the other is low, and vice versa.

To sum the matter up, I am inclined to think that we might profitably make further study of this entire problem. We should review carefully the work which we had done last summer and make any revisions which seem required on the basis of later figures. We should canvass the field carefully for any additional figures which might be secured. We should analyze all our figures more fully to determine the purpose which they might usefully serve with a view to presenting them in more significant fashion in our Monthly Review. To do this work properly I am inclined to think we should add someone to our staff to undertake it. We could, however, make some headway gradually with our present <sup>slightly curtailed</sup> ~~applied~~ research section.

W.R.B.

SCOPE AND SOURCES OF STOCK FIGURES

1. WHEAT ) Visible supply "in regularly authorized warehouses at  
2. CORN ) prominent grain centers of U. S., East of Rocky Mountains;  
3. OATS ) including the quantities afloat on the lakes and Erie Canal."  
4. BARLEY ) These stocks represent the supply of grain "not disposed of  
5. RYE ) with reference to ultimate destination; but easily obtainable  
to influence the market or to supply any unexpected demand."  
The stocks rarely run as high as 10 per cent. of crop usually  
much less.  

Source: Chicago Board of Trade.
  
6. CEMENT Finished cement based on reports of producers.  

Source: U. S. Geological Survey.
  
7. COFFEE Visible supply in the United States. The highest stock  
of the year ranging from 1913-1921 from 16 to 37 per cent. of  
year's imports.  

Source: New York Sugar & Coffee Exchange.
  
8. COTTON In consuming establishments in public storage and at compress.  

Source: U. S. Census Bureau.
  
9. DAIRY PRODUCTS AND EGGS In cold storage includes  
Creamery butter largest stock in 1920 about 13 per cent of production  
Packing stock butter  
Total (6 kinds ) cheese " " " 20 " " " "  
Eggs case and frozen  

Source: U. S. Department of Agriculture.
  
10. MEAT CURED AND FROZEN In cold storage includes.  
Beef, frozen, in process of cure and cured  
Pork, " dry salt in process and cured; pickled and in  
process and cured.  
Lamb and mutton, frozen  
Miscellaneous meats frozen and cured  
Lard  
Representing less than 10 per cent. of estimated production of  
each kind of meat.  

Source: U. S. Department of Agriculture.
  
11. FLOUR STOCKS IN 10 CITIES Philadelphia, New York, Chicago, St. Louis, Toledo, Baltimore,  
Detroit, Boston, Milwaukee and Duluth.  
These figures represent about 56 per cent. of total stocks  
according to Russell's Commercial Agency. A. L. Russell was  
statistician of U. S. Grain Corporation.  

Source: Northwestern Miller and  
Miller's Almanac.
  
12. LEAD, BONDED Foreign lead constitutes from 1/4 to 1/5 of lead smeltered and  
refined in U. S. Figures are for the stocks of this imported  
lead held in bond.  

Source: Department of Commerce.
  
13. PAPER About 12 grades of paper at paper mills in U. S. Largest stock  
held each year 1918-1921 ranged from 3 to 5 per cent. of total  
production.  

Source: Federal Trade Commission.

14. WOOD PULP About 8 grades held by manufacturers of wood pulp. Largest stock held during each year ranges from 6 to 10 per cent. of year's production.  
Source: Federal Trade Commission.
15. FROZEN POULTRY In cold storage; broilers, roasters, fowls and turkeys.  
Source: Department of Agriculture.
16. SUGAR Raw cane sugar at Atlantic ports held by importers and refiners.  
Source: Weekly Statistical Sugar Trade Journal.
17. TIN World's visible supply.  
Source: New York Metal Exchange.
18. TOBACCO Held by manufacturers and dealers in tobacco plus imported tobacco in bonded warehouses.  
Source: Bureau of Census.
19. PETROLEUM "Total gross pipe-line and tank-farm stocks east of California and gross pipe-line, tank-farm and producer's stocks in California."  
Source: U. S. Geological Survey  
"Statistics of Petroleum."
20. GASOLINE At refineries. The largest amount on hand for any month from 1917-1921 ranged from 13.2 - 15.5 per cent. of the total annual production.  
Source: U. S. Bureau of Mines  
"Stocks on Hand at the Refineries."
21. GAS AND FUEL OIL At the refineries. The largest stocks for any month range from 8 - 13.2 per cent. of the total annual production for the years 1917-1921.  
Source: U. S. Bureau of Mines.
22. CHILE NITRATE At Chile ports. Normally equal to more than 2/3 of the world's supply.  
Source: Reports of the Chile Nitrate Producers' Association available at the office of W. R. Grace and Company.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 7, 1922TO Governor StrongSUBJECT: Exhibits for A. B. A. meeting inFROM Mr. SnyderOctober

Morgan, Gidney, Burgess, Bellah and myself have been talking over plans for the exhibit at the A. B. A. meeting here in October, and would like very much to have your views on the same. Tentative recommendations to you will be the following:

(1) A huge wall map, in relief, covering the largest wall of the room in which the exhibit is to be made, showing the location of the different reserve banks and branches, the districts, and little pictures of the different bank buildings, and, if possible, some kind of shading to show the percentage of membership in the System of all the banks in each of the various cities.

(2) Superimposed on this would be a series of little glass tubes filled with a colored liquid, to show the movement of the gold settlement fund among the various banks.

(3) Underneath this some kind of a cash carrier device, or other electrical exhibit to show the increased speed of collections under the new system.

(4) A huge cube of gold, to represent the total gold holdings of the Federal Reserve System. Our three billions, we figure, would make a cube of gold a little over twenty feet on each edge. We would make this box as high as the ceiling and then of the required width and breadth, gild it, so that it would have the outside appearance of a cube of box of gold. Inside we should utilize the space for other exhibits.

(5) Probably just in front of the cube of gold, and perhaps protecting it in some way, would be a model of the new vault door in our new building.

(6) Some skeleton representation of our new bank building, showing all the different departments, location of the offices, etc.

(7) A set of large photographs of the new buildings of each of the Federal Reserve Banks, attractively framed, or else presented in the new Attractoscope. This is a transparency device for exhibiting photographs, charts, pictures, etc., enlarging them in the display, and worked mechanically so as to change the exhibit so many times a minute and repeat endlessly. These machines can be rented for a very little.

(8) Complete exhibit of all kinds of currencies and different note denominations of the U. S. Government and Federal Reserve Banks, and with this an extensive exhibit of forgeries, counterfeits, raised checks, etc.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 7, 1922To Governor StrongSUBJECT: Exhibits for A. B. A. meeting inFROM Mr. SnyderOctober---2

(9) Complete exhibit on the wall of each of the three hundred or more of the charts made by the Statistical Department in the last two years. A considerable number of the more interesting of these charts will be shown in the Attractoscope.

We have discussed other ideas which we should like to tell you about. And Mr. Morgan is in treaty with Mr. Guy Emerson, who has general charge of the exhibits.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 7, 1922

To Governor Strong

SUBJECT: Lansburgh Article

FROM: Mr. Snyder

Some economic sanity out of Germany at last!

I cannot get rid of the feeling that, until it becomes clear that the currency reform is the fundamental reform, Germany and all the rest of the inflationary states will go on wallowing in just the same mire that they have been in for the last three years and a half.

Is it not becoming clear that balancing budgets, etc., is not the primary solution, but that it would be a natural detail of the real solution?

Show me how?  
P.S.

*Memo. for Gov. Stimson  
from Mr. Shivers*

MEMORANDUM ON THE GERMAN SITUATION

I - Schedule of Reparations Payments

For 1921-22 the schedule calls for four installments of 500,000,000 gold marks each and two quarterly installments of the variable annuity due November 15, 1921 and February 15, 1922, provisionally estimated at 325,000,000 gold marks each. The obligation to April 1922 is, therefore 2,650,000,000 gold marks. This is to be covered by 1,000,000 gold marks payable in accordance with the regular quarterly schedule and 1,200,000,000 gold marks deliveries in kind, and 150,000,000 gold marks payable under the Recovery Act. This leaves a balance of 300,000,000 gold marks required secured by resources including the proceeds of all German maritime and land customs dues, and in particular the proceeds of all import and export duties, the proceeds of a levy of 25 per cent. on the value of all exports from Germany (with certain exceptions), and the proceeds of any direct or indirect taxes as may be proposed by the German government and accepted by the Committee of Guarantees in addition to the specified taxes. The Committee of Guarantees decided that the payment of customs should be effective from November 15 and the payment of the 25 per cent. export levy should be effective from December 15, and should yield 300,000,000 gold marks.

For future years the Committee of Guarantees has stated that it will not be possible to estimate Germany's obligations, but provisionally assumed the annual sum as 3,300,000,000 gold marks, this to be covered by 1,200,000,000<sup>000</sup> gold marks deliveries in kind, 1,250,000,000 Reparation Recovery Act receipts and 25 per cent. export levy, and 200,000,000 customs receipts, a total of 2,650,000,000 leaving a deficit of 650,000,000 gold marks to be covered by additional assigned revenues. Proposed tax revenues as made by the German government and accepted by the committee yield 1,300,000,000 or double the amount required. The Committee has stated it will accept 50 per

cent. of the yield of these taxes reserving the right to require a larger amount if necessary to meet any deficit in Reparation Payments. These payments include only the actual reparations and do not include the cost of the armies of occupation estimated at 245,000,000 gold marks per year and clearing office commitments estimated at 500,000,000 gold marks within next two years.

## II - German Exchange Situation.

In order to provide the exchange for the reparations payments the German government has made use of the Central Exchange Office, a limited liability corporation organized in 1914, guaranteed by the commonwealth, which works very closely with the large banks through the medium of the Reichsbank buying foreign money with paper marks. Since this foreign currency is the normal produce of commerce it is to the advantage of the banks to sell the surplus currency at their disposal.

The government has attempted to prevent the banks from buying such currency and reselling it as a speculation and has also tried to force the people to declare their holdings of such money, but the purchases of exchange by the Central Bureau has had a disturbing effect on all the exchange markets mainly because of the active and powerful speculation in Germany and other countries. Speculators buy foreign exchange, preferably U. S. dollars, with Reichsmarks knowing that the German government must in turn buy this exchange from them in order to be able to meet its reparations payments. The continuous rise of foreign exchange in Germany as compared with the Reichsmark has induced everybody to hold back in offering foreign exchange, thereby practically closing the exchange market to the German government. According to Herr Bergman, Financial Representative of the German Government in Paris, the German government is in a "corner" formed



by unscrupulous speculation.

In 1920 this organization bought 24 milliard paper marks' worth of foreign money, that is, about 2 milliards a month, equivalent to 170 to 180 million gold marks' worth. These 24 milliards were used for account of reparations payments, Clearing Offices, International Postal, Telegraph and Railway settlements, essential food supplies, and minor governmental commitments. The German government hopes by means of a prudent policy to procure the necessary foreign money to pay at the dates fixed, but it must do this without entirely ruining the rate of the mark. The following table shows the purchases in terms of paper marks, for 1920 and up to June 17, 1921:

<u>1920</u>		<u>1921</u>	
January	838,751,000	January	2,439,310,000
February	1,919,516,000	February	1,625,134,000
March	2,954,628,000	March	2,368,386,000
April	2,129,001,000	April	2,499,717,000
May	1,644,841,000	May	3,854,670,000
June	1,448,445,000	June 1 to 17,	<u>2,104,040,000</u>
July	1,154,386,000		14,891,257,000
August	1,075,295,000		
September	2,353,728,000		
October	2,717,262,000		
November	3,164,807,000		
December	<u>1,612,057,000</u>		
	23,012,717,000		

THE FEDERAL RESERVE BANKS  
POWERS AND FUNCTIONS, MEASURE OF SERVICE  
FACTORS DETERMINING RATE MAKING

---

What are the Federal Reserve Banks?

Twelve of them serving twelve different sections of the country.

Locally owned by the Member Banks of each district, which also elect six of the nine Directors, who chose the Governor and decide on general policies.

Essentially cooperative in character. Cannot dictate to Member Banks as to loans or policies or rates.

Chief Function of the Banks.

To link together and coordinate a great number of the strongest banks of the country, nearly 10,000 now in the System.

No direct relations with or control over remaining 21,000 banks.

Total resources of Member Banks about two-thirds of the whole of the country.

Total deposits of Federal Reserve Banks about one-tenth of this.

Federal Reserve Banks Purely Bankers' Banks--Cannot Make Loans to public or Private Individuals.

Allowed to purchase certain types of bankers' acceptances and Government securities.

Total of loans to Member Banks at peak over  $2\frac{3}{4}$  billions. Now under half a billion.

Keepers of Vast Gold Reserve.

All the gold in the United States now impounded in the 12 F. R. Banks. Over 40 per cent. of all the monetary gold in the world.

Engine of vast strength, not without its dangers.

Might easily become a Frankenstein monster and plunge the country into headlong speculation.

Gold forms basis of currency issued by banks, which at peak was nearly  $3\frac{1}{2}$  billions, now  $2\frac{1}{2}$  billions.

Provides for elasticity, expanding or contracting with business needs (possibly too elastic and not sufficiently under direct control).

At present every Federal Reserve note and gold certificate covered by more than 100 per cent. of gold (no need now of the old National Bank issues, greenbacks, silver certificates, etc. Ought to be abolished).

Never again a currency famine in U. S.

Supply Credit in Times of Need.

Loans to Member Banks permit a total credit expansion for whole country of 6 to 7 billion dollars. Probably much beyond all business needs.

Not clearly seen at the time. Need of great caution now.

A fortress in times of panic or crisis.

For first time in its history the U. S. passed through great commercial crisis without banking panic, and relatively few commercial failures.

Recovery from depression has been of unparalleled rapidity, indicating that banking position of the country was essentially sound.

No occasion for a relapse, nor of apprehension. Liquidation has been thorough and far-reaching.

F. R. Bank loans so low now that banks can hardly meet expenses for great public service performed.

### Rate Making Function.

Most important power and function of the F. R. Banks. Vitally affects whole business life of the country.

Properly exercised, should become a gyroscope or stabilizer for the whole commercial world.

Accomplishes this through rate changes which determine the amount of rediscounting and hence credit expansion in the country.

Practically all available banking reserves of the country now centered in Federal Reserve Banks.

Banks no longer hold large amounts of cash, but only just till money.

Amount of cash not much over 3 per cent. on total deposits of nation.

Credit expansion, therefore, possible only through rediscounting.

Adequate limitation of this rediscounting power most important single function of the System.

Rediscount rate nominally determined by state of reserves. Actually determined by state of the country, the volume of bank credit outstanding, volume of speculation, trend of the price level, status of Government finances, and much else.

Rate should be, if possible, equal to or above prevailing bank rates for commercial loans. Otherwise, rediscounting privilege becomes a tempting source of profit with no regard for welfare of the country.

Indefinite credit expansion of same effect as, and equally dangerous, as indefinite expansion of the currency of the nation. Russia, Poland, Germany, Austria, and other countries vivid examples.

Credit expansion in United States a difference of degree but not of kind. Demoralizing effect of undue expansion just as great.

### Vital duty of Bankers.

Country confronted with one of recurrent waves of fiat money and cheap credit.

Real danger in advocacy of men of prominence, like Mr. Ford and Edison.

Essential fallacy that plentiful money and cheap credit mean prosperity. Russia represents reductio ad absurdum.

Productive capacity of the country matter of slow growth, at rate of about  $3\frac{1}{2}$  per cent. per annum.

Can be very little exhilarated by currency or credit expansion. Actually retarded by excessive expansion.

Proof in the lowered production of Germany, Poland, Czechoslovakia, Austria, etc.

Same thing evident in this country in 1920.

Great need of bankers and good citizens to understand the "money problem." Especially bankers.

Bankers natural leaders of financial thought in their communities.

Ought carefully to study proposals of Ford, Edison, etc., and know clearly why these proposals are unsound.

Excellent article in July number of Atlantic, by Dr. Foster. Ought to be circulated by the million by the banks of the country.

Great need of the country is financial and industrial stability.  
Demoralization produced by booms and waves of speculative mania.  
Bear hardest on those with smallest incomes, wage earners, school teachers, clerks, etc.

Are a crime against thrift, prudence, and provision for old age.

No country rich enough to ruin its workers and wage earners.

Federal Reserve Banks can do much if their policies are sustained by the 30,000 banks of the nation and an intelligent public opinion.

Great need of cooperation by all thoughtful and right minded citizens.

Some Items of Service, Federal Reserve Bank, Year of 1920.

A total of 180,000 different transactions in the making of rediscounts and advances alone. Aggregate amount over 50 billions of dollars. That means an average of nearly a billion dollars per week.

In acceptances purchased a total of over 106,000 items, involving a gross total of nearly  $2\frac{1}{4}$  billions of dollars.

Handling and counting over half a billion separate pieces of Federal reserve notes and other paper money, sorting out worn bills, etc., to a total value of over  $2\frac{1}{4}$  billions of dollars.

Collecting 87 millions of checks of an aggregate value of 55 billion dollars, again over a billion a week.

Collection of over half a million notes and drafts of an aggregate value of two billions.

Nearly 150,000 transfers of funds by telegraph, involving 17 billion dollars.

Payment of over 10 million separate checks and warrants of the United States Government, involving nearly  $2\frac{1}{2}$  billion dollars.

Handling nearly 48 million different pieces of Government bonds of an aggregate value of nearly 7 billion dollars.

Total of securities handled in the Custody Department, either for the U. S. Treasury or for Member Banks, of an aggregate value of over 100 billions.

---

This vast volume of business explains why it should require a total of over 2500 employes to carry on the work of the New York bank alone.

Housing of these and storage of the vast volume of gold and securities held a very serious problem. This could only be met by construction of a building of adequate size and strength.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 10, 1922

TO Governor Strong

SUBJECT: Havenstein's Memo.

FROM Mr. Snyder

Two things seem to me to stand out in this letter:

(1) The first is an old one, and that is the reiterated insistence upon Germany's incapacity to pay in cash any such sum as two or three milliards of gold marks, with the camouflaged implication that it could not pay this amount at all, whereas this sum would not exceed 5 or 6 per cent. of the total of Germany's pre-war national income, which was around 40 to 50 billion gold marks.

But it does still remain a very wide open question as to whether Germany could pay this amount plus the taxes to meet her very heavy governmental expenditures. I do not know what is the taxable limit on a nation's product--Sir Josiah Stamp considers it in his recent book on the subject, and imagines that it may be much higher than most students of the subject have believed.

(2) The second is the last part, and that is the curious evasion of the fact that it is the increase in currency and not the increase in the floating debt that is responsible directly for the fall in the mark; and with this a justification of the Reichsbank's course. Of course if they could only stop the fresh issues of currency, then and then alone would it be possible to balance the budgets (and to float internal loans.) The people of Germany are not going to subscribe to a huge loan in a currency that is continually depreciating under their eyes.

If continuous inflation had not, as we fear, become now a part of the game, though it may not have been so originally, this letter would make me think that there was small hope for Germany's salvation under its present governing powers.

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 14, 1922

TO Governor Strong

SUBJECT: German Budget

FROM: Mr. Snyder

and currency reform

The provisional figures for the German budget are given in the current number (July 1) of The Economist. The net total expenditure is estimated at 332 milliards of marks, and the total deficit at 41 milliards, though it appears that this result has been obtained in part through the issue of Treasury bills.

However, the point is that a deficit of 41 milliards, or even much more than that, could probably be covered by an internal loan if the people had any confidence that such bonds would have a stable value. As a matter of fact, any voluntary loan is impossible, of course, because it would have no such value.

So far as I can see, Germany can stop the printing press only by either an external or internal loan of sufficient amount to cover her current deficit. Is not either of these impossible until the printing press has stopped, and therefore is not the first step financial reform, and is not the balancing of budgets and the rest of it a merely incidental question?

Second, with a steadily falling currency, are not all budget figures practically worthless anyhow, and is it not impossible for any government to really make any kind of reliable budget, balanced or unbalanced, under the conditions now prevailing in Germany? *Yes, - the greater the need for financial reform.*

That, I suppose, is the basis of Lansburgh's argument that currency reform should come first. *It can't!*

One difficulty in the way of currency reform and therefore, as it seems to me, absolutely blocking the making of a reliable budget, to say nothing of a balanced budget, is the colossal holdings of German marks abroad, not less than 30 to 40 milliards, and including foreign bank credits twice this sum or much more. How would a balanced budget help this?

And doesn't currency inflation seem always to mean over-expenditure by the people and a heavy adverse trade balance? *Yes - always.*

*These will return home when the marks advance or the owners of the foreign balances will so to live where their balances are!*  
*Yes, - but financial reform and balanced budget are one & the same thing. Monetary reform will follow*

*Can you make this out?*

*These will return home when the marks advance or the owners of the foreign balances will so to live where their balances are!*



FEDERAL RESERVE BANK  
OF NEW YORK

**OFFICE CORRESPONDENCE**

DATE July 18, 1922

To Governor Strong

SUBJECT: Gold policy

FROM Mr. Snyder

Would it not be of interest to at least get the different points of view of several of the abler men in the academic field? And I would suggest Mitchell as one of the first. He has a highly pragmatic mind and a rather wide point of view.

*Yes.*  
*RS.*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 14, 192To Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

I wonder if you might find time to read pretty carefully Dr. Foster's article in the July number of the Atlantic, on the Ford-Edison heresies and the like? Dr. Foster is one of our Research Committee, and the article was gone over very carefully by each member and might be used as a leaflet for general circulation and I should like very much, therefore, to know your opinion of it.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 19, 1922TO Governor StrongSUBJECT: Gold PolicyFROM Mr. Snyder

For nearly a century following her resumption of specie payments in 1819, England enjoyed a fair degree of stability in its price level. So far as data are available, at scarce any time were the annual averages over 30 per cent. above or below the average for this whole period; and in spite of these considerable fluctuations wholesale prices, for example, appear to have been practically on the same level in 1842, 1860, 1879, and 1910-13 (see chart attached).

This relative stability it secured simply through the free flow in and out of gold with, it should be noted, a fixed fiduciary currency, and the Bank of England steadily pursuing a policy which reduced both the outflow and the inflow of gold to a minimum.

Such a regime is much more possible in a country having a huge foreign trade, and in addition an enormous international banking and exchange business than in a country like the United States, where the foreign trade is relatively much smaller and our international banking much less developed. None the less, it is remarkable how closely, outside the Civil War period, the general trend of our prices followed that of England.

This strongly suggests that, with our now steadily increasing proportion of foreign trade (since 1909), and our development of international banking, such a policy would tend to become equally effective in the United States. This suggests:

Q. No. 1. Is not our great problem now to get rid of something like a billion and a half of utterly redundant and, to us, useless gold?

Part of the purpose of the new Federal Reserve System was to economize our need of gold and reduce the quantity we should require for banking and currency reserves. Instead, the war brought us an import of gold unparalleled in the whole history of the world.. In 1910-12 there was a great outcry at the high cost of living, and endless commissions appointed to inquire into the cause. It is to be remembered that the writings of Fisher, Mitchell and others, on the instability of the gold standard, appeared long before there was a thought of a world war. It is illustrative of present conditions that the vast majority of people now look back to this 1912-13 level as a kind of beneficent "normal" towards which we should strive to return.

Clearly even this is impossible, so long as we have the menace of a vast inflation and a great part of the people crying out for precisely such an inflation or expansion. Our billion and a half of redundant gold is not merely useless, but an unceasing danger. I believe Mr. George Roberts made the point, the other evening, that in a country like ours available credit in the long run is always used.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 19, 1922To Governor StrongSUBJECT: Gold Policy--2FROM Mr. Snyder

Under our present gold holdings we could expand our present bank credits (and supply the added currency needed to support this inflation) by 17 billions or more. This is equal to nearly three-quarters of the outstanding loans of the commercial banks, and would inevitably entail a correspondingly great increase in prices and another orgy of speculation, and collapse.

And this vast expansion could take place without needfully any great outflow of gold, for the simple reason that the old mechanism for gold distribution, among the several nations, is gone. So long as nearly all the great commercial countries of Europe, from England down, are matching our gold with issues of unredemable paper currency, a heavy rise of prices here would only mean a corresponding rise of prices in these countries and would not in itself occasion any great loss of gold from this country.

Q. No. 2. Is not any practical plan for the restoration of the gold standard in Europe dependent upon a great gold loan from the United States?

If any way could be found to prevent the employment of our present gold reserve, which I think is politically improbable, then we should confessedly have a billion and a half of gold that might as well be buried in the ground, for any good it does us. This would seem to suggest, then, that the quicker we get rid of it the better.

Furthermore, at the present time the loss of this gold would apparently entail no kind of financial disturbance. Quite the contrary. And if, on the other hand, we should delay, and any considerable credit expansion should take place, the loss of this gold might help to precipitate another crisis like 1920.

It seems clear that no great deflation of their currencies is possible in countries like England, France, and Italy, and only in those countries like Germany, Austria, Poland, and Russia, where their monetary systems are a total wreck. The restoration of a very considerable quantity of gold would, therefore, be required to build up adequate reserves behind these currencies, and likewise for such new gold base currencies in Germany, Austria, etc.

Under the law enunciated by Ricardo more than a century ago, the precious metals, if left to free commerce, will distribute themselves according to the several needs of the nations. But this is needfully a slow process, and, if it is left to the natural play of circumstances, will mean inevitably financial disturbance and demoralized exchanges for many years to come. If, then, we could work out a plan for a great gold loan to Europe, it would have the double effect of stabilizing conditions here in the United States and restoring a relative stability to Europe as well (providing, of

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 19, 1922

TO Governor Strong

SUBJECT: Gold Policy--3

FROM Mr. Snyder

course, all the needful accessory conditions and enactments outlined in the Genoa Agenda were fulfilled).

Q. No. 3. Is any great gold loan to Europe from the United States Government or from the Federal Reserve Banks feasible?

I am sure the answer is unequivocally no. Such a loan by the Government could never be passed in Congress, and if it were undertaken by the Federal Reserve Banks on their own account it would undoubtedly produce an uproar.

Q. No. 4. Is any other plan feasible?

*Inflation?*

Supposing that the ten biggest banks of the United States, or, if need be, twenty, fifty, or one hundred, were to unite in the purchase of either a joint loan from three or four of the principal countries of Europe, or else in a loan from these banks to each of the countries in proportion to its need, then these banks could go to the several Federal Reserve Banks, and by rediscounting other securities, could obtain a credit with the Federal Reserve Banks, and if the Federal Reserve Banks agreed this credit could be withdrawn entirely in gold, and this gold distributed to the several countries.

In the meantime these foreign loans could be made a joint offering by the banks to the investing public here, and could be distributed, so far as was possible, under the offering rate, which pretty surely should not be to exceed 5 per cent.

Q. No. 5. But would not this gold promptly flow back to the United States?

This would depend entirely upon the action of the Governments of the several countries, and raises the question as to whether specific agreements could be entered into with these Governments as the absolute conditions for the making of such a loan. If such conditions were entered into and were fulfilled to the letter, then the effect of such a flow back of this gold to this country would be to contract credits in each of the several countries, bring about a fall in prices, and thus restore the automatism of price maintenance. In other words, their prices would very quickly adjust to the new level and the flow back to this country would cease.

If all this is not feasible, then the next question is:

Q. No. 6. Is there any other practical way?

Could such loans be made direct by the associated banks of this country to the central banks of the several countries, possibly in association

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 19, 1922

To Governor Strong

SUBJECT: Gold Policy--4

FROM Mr. Snyder

with other banks in each of these countries? This, of course, would need-fully imply some sort of contract on their part with their own Governments, and this, in turn, may not be feasible. The next question, then, is whether a syndicate of banks in each of the countries could directly make a loan with the associated banks of this country, depositing therefor full and adequate security. For example, supposing the "big five" of the joint stock banks united with the Bank of England for a loan of 500 millions in gold, giving in return therefor securities which would be equal in value to the amount of the loan, with the stipulation that this gold should go to and be held by the Bank of England and should be used for the buying and selling of sterling exchange at a fixed figure.

From the investigation we made last year, I came to the belief that not much more than half this sum would be quite adequate to achieve this re-sult; certainly 500 millions would be vastly more than would be needful.

Of course such a loan would have to be made under a definite con-tract that the existing fiduciary note issues would not be increased, and that the several Governments would meet by taxation the full amount of their expenditures. If this could be done, I am firmly of the belief that the trade balances would correct themselves.

This last is vital, because I believe at base this is the secret of the whole trouble. For,

Q. No. 7. Why does the United States now continue to gain gold?

In the last two years we have gained a billion of gold, in spite of the fact that in the same period we have loaned abroad more than a billion and a quarter. This gold would never have come unless the United States had sold goods (or contracted credits) in excess of its purchases abroad. This means that the normal balance which usually obtains in the total im-ports and total exports of a country has in some way been upset.

In the writer's belief this has been possible only through con-tinuous inflation and, in a certain sense, that must be still existent. Even in Germany it is clear that the imports exceed the exports, as a whole, and that this is the fundamental reason why they are unable to pay even a passable amount in reparations. In a nutshell, Germany is buying abroad more than it sells; and I think that this has been equally true of England, France, Italy, and other countries.

Apparently, then, if this be true, the flow of gold to the United States will continue until the primary cause, inflation and extravagance, is stopped. If it does not stop, then is there not a large possibility that the other nations will, in their distress, begin to consider some other

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 19, 1922

TO Governor Strong

SUBJECT: Gold Policy--5

FROM Mr. Snyder

monetary standard than gold? Would we not have another great surge for bimetallism and all the vagaries that usually go with it?

In other words, is not the settlement of the present difficulty of imperative social and political consequence, as well as from purely financial and commercial reasons?

Is it not clear that the effects of a great currency or credit expansion in a country are not those which were freely imagined, and that these evils are not, under the existing regime, self-correcting, at least not in any short periods?

Q. No. 8. Is another method feasible?

If the idea of a great gold loan to Europe is politically or otherwise inadvisable, might it then not be possible to bring about a revision of our currency system so that it should consist exclusively of gold notes and Federal reserve notes, retiring the greenbacks, National Bank notes, and the silver certificates? Then, if the existing gold reserves were reduced to the proper working level by paying out gold into general circulation in lieu of notes, the existing menace could be in part removed.

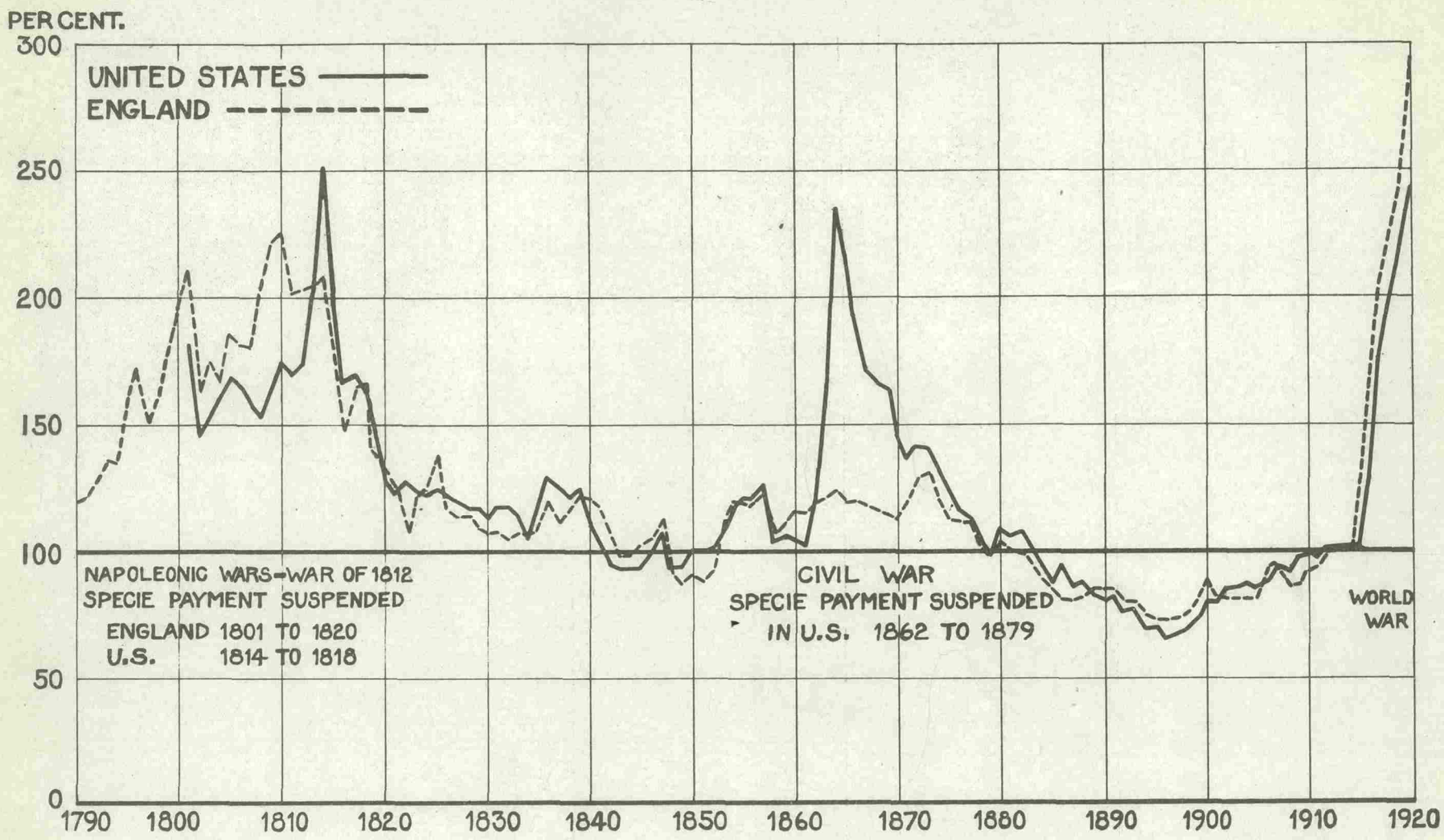
Q. No. 9. What is the proper reserve level?

From a study of the workings of the gold reserves of England and the Bank of England's rate, one gets the impression that a very wide fluctuation in the reserves is not highly desirable, i.e., a high reserve is indicative of general business prostration and the usual consequences of a crisis. Otherwise, the reserves range about a fairly stable level.

Clearly it is the existence of heavy reserves which leads to very cheap money, which permits the spirit of speculation and the ensuing wave of expansion. If the expansion can be controlled, the crisis or reversal of trend will be correspondingly mild.

Now, in the United States it is certain that the conditions for a large expansion will sooner or later lead to such an expansion, in a greater or less degree. If the bank rate is fixed purely with reference to the reserve ratio, and not with reference to the trend of speculation and prices, the problem of control in the United States is hopeless. If the reserves were never allowed to get beyond, say, 48 per cent., or fall below 40 per cent., I firmly believe we should have a high degree of business and price stability in this country, with a large avoidance of the wild waves of boom and collapse which have been our steady characteristic.

Therefore, is not the only safe alternative to a great gold loan for Europe the use of our gold for general circulation, in the form, of course, of gold certificates?



WHOLESALE COMMODITY PRICES IN THE UNITED STATES AND ENGLAND

Figures for 1913=100 per cent



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 21, 1922TO Governor StrongSUBJECT: Memorandum on "Gold Policy"FROM Mr. Snyder

If it had not been for your suggestion this would not be offered, and I have really only tried to formulate the problem. The whole of it seems to me bound up in Query No. 9.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 2, 1922

To Governor Strong

SUBJECT: Memo. for Mr. Gilbert

FROM Mr. Snyder

I asked Mr. Roberts to prepare a little memo., since he has an excellent gift for nice phrasing. It seems to me very carefully done.

His conclusion as to the wage earners is that, except as to their savings, the evidence that they are very seriously affected by inflation and deflation, like people of fixed incomes, is extremely doubtful. Very recently Mr. Robert Crozier Long adduced figures to show that in many lines of industry, for example in Germany, the rise in real wages, that is to say, the actual wages divided by the official estimated cost of living, had been as much as 30 per cent. And we know, of course, that there is some evidence along the same line in this country during and after the war. And we know, further, that the reduction in wages so far has been nothing like as heavy as the reduction in the cost of food and the cost of living.

It also seems clear that the actual amount of real unemployment last year was grossly exaggerated by simply taking the reduction in the factory rolls and pro rating this over all industry and assuming, first, that such a pro rating was possible, and, secondly, that workers leaving factories found no other means of gain.

OFFICE CORRESPONDENCE

DATE Dec. 1922

TO Mr. Strong, SUBJECT: \_\_\_\_\_

FROM \_\_\_\_\_

451  
Mr. G. W. Currier returned  
to Boston this week.

Sorry. try again  
P.S.

OFFICE CORRESPONDENCE

DATE December 21, 1922

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

Here's the hasty draft of a letter which Prof. John R. Commons says he wrote on the train, merely to get down some thoughts--a proposed letter that he would send to Mr. Ford on his own responsibility, and not as President of the organization. Submitted for criticism and punching.

You may like to look at it as the work of a rather odd but very sincere mind.

## OFFICE CORRESPONDENCE

DATE December 20, 1922To Governor StrongSUBJECT: The Confidential FiguresFROM Mr. Snyder

Perhaps I should make clear that Mr. Cooper had simply come to Dr. Burgess to get his idea of the proper way to chart the figures for you, and that there had never before been any communication about them, even in this department, except once, a year ago last summer, at your own request, during the Joint Agricultural Inquiry at Washington.

OK  
BS

## OFFICE CORRESPONDENCE

DATE December 19To Governor StrongSUBJECT: Statistics DepartmentFROM Mr. Snyder

We are planning our annual Christmas party for Wednesday, January 3, at the bowling alley in the Annex, with lots of gymkhana stuff. Festivities begin at six o'clock, and we hope very much at least be on hand to start the ball rolling.

5319

*Sure thing!**D.S.*

## OFFICE CORRESPONDENCE

DATE December 13, 1922

TO Governor Strong

SUBJECT: REDISCOUNT RATE

FROM Mr. Snyder

There still seems a prevalent idea, even in the best informed quarters, that a further expansion of bank credit would be necessary for the "restoration" of normal production and trade. Thus, in its last review, the Harvard Bureau says:

"So long as the expansion of credit means merely a further recovery of business and the restoration of a normal volume of production and trade--and it must continue to mean just that for some time in the future--it seems unlikely that there will be any drastic advances in rates."

(1) There seems nowhere any realization that we have had, in the last year, one of the heaviest banking expansions we have ever known, amounting, for the commercial banks, to perhaps 3 billion dollars, or not less than a 10 or 12 per cent. addition; nor

(2) That, in all probability, if there had been no expansion at all, we should still have had a heavy rise in prices from the low levels of last year, because of the excess of credit then outstanding. In other words, that:

(3) So far as we can measure it, there was ample and excess credit outstanding to finance at least the peak volume of production and trade so far reached in this country (1920), at the average level of prices prevailing last year; in other words, ample for all recovery to normal, or whatever it may be termed, and probably much more than that, i.e., enough for any probable expansion in the actual volume of production and trade next year.

It seems to me, as long as even expert opinion is ignorant of the actual situation, and does not realize or understand what has been happening in the last year, there is very little basis for the education of a sound public opinion, which would certainly be required to sustain any advance in the rediscount rate within the near future.

It seems pretty clear that any further advance in prices now must carry us into another headlong tide of speculation, if, indeed, with 25-cent cotton, 29-cent rubber, \$8.50 silk, and corresponding prices for wool and other commodities, we are not pretty near that now, and, if so, that a later advance in rediscount rates might prove as ineffective for arresting this tide as it was in 1919.

## OFFICE CORRESPONDENCE

DATE December 13, 192TO Governor StrongSUBJECT: War College AddressFROM Mr. Snyder

Mr. Bendelari has again made a laborious search for something new and of interest on the subject of conscription of labor, materials, etc., and price regulation in feudal and in later times. I attach herewith the notes he has made, and would be very glad to know if these are sufficient for your purpose.



Dollar Value of 2 groups of US Exports. in millions

Food stuffs in crude condition & food animals

Foodstuffs partly & wholly manufactured.

Year	Food stuffs in crude condition & food animals		Foodstuffs partly & wholly manufactured	
1913	170		325	
4	275		309	
5	462		551	
6	421		648	
7	509		807	
8	547		1,406	
9	678		1,963	
20	918		1,117	8 mos.
21	692	8 mos.	670	479
22	293	8 mos.	404	

Carlson 12/7/22

#### 4-- Currents in Foreign Trade.

A pronounced shift in our foreign trade during the past few years is the increasing ratio of imports from tropical countries. A study of this situation reveals that over one-half of our imports are of tropical origin (rubber, sugar, coffee, woods and so forth), as against about one-third of such imports before the war. The balance of trade is heavily against us in the tropics as a whole. A study of the trade of these particular countries indicates that the excess of our imports from those areas over our exports to them is about \$500,000,000 per annum, which is largely used by them for the purchase of manufactured goods from Europe, thus to a considerable extent liquidating the excessive balance in our favor in our European trade, created by shipping to Europe our agricultural produce. This triangular operation seems likely to increase as tropical goods do not materially conflict with our own production and our consumption of these commodities is likely to increase steadily.

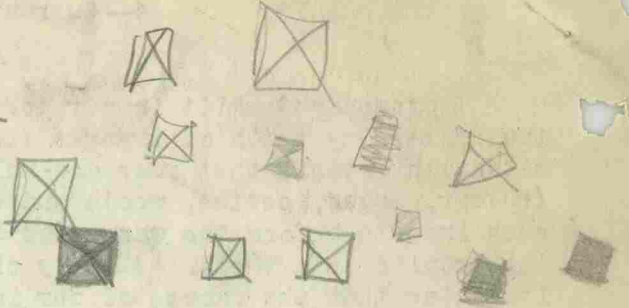
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No 3

1922



### 3--Currents in Foreign Trade.

can be noted. It would, at least, appear that the invisible exchange is certainly able to take care of commodity balances, and that we are reaching the end of the gold import stage of war re-adjustments. Continued trend in the general direction now evident would soon produce gold exports even in the face of payments on account of Allied debts.

#### SHIFTS IN THE CHARACTER OF EXPORTS

There are several important shifts in our foreign trade due to the war. The export of foodstuffs has immensely increased, due partially to the demoralization of Russia. There is at best no probability of Russian exports of large volume for another two or three years, not only because of the condition of agriculture, but also because of the demoralization of her railways. There has been a decrease in raw cotton exports due to various causes, chiefly short production, but partly due to steady increase in our cotton manufactures.

The following table shows the quantitative movement of major agricultural exports, pre-war and for the last two fiscal years:

	1913	1921	1922
Grain and grain products (bus.)	258,343,629	543,375,523	544,220,964
Meats, dairy products, animal and vegetable fats (lbs.)	1,610,053,715	2,384,517,262	2,192,174,236
Tobacco leaf (lbs.)	418,796,906	496,873,830	451,555,221
Cotton, raw (bales)	8,724,572	5,408,986	6,541,241
Fruits (lbs.)	620,423,027	675,892,383	491,227,140
Oil cake and meal (lbs.)	2,049,361,136	837,606,407	1,099,246,797
TOTAL VALUES	\$1,029,967,344	\$2,192,335,101	\$1,557,372,997
TOTAL VALUES AT 1913 PRICES	\$1,029,967,344	\$1,126,682,232	\$1,168,521,140

About 55 per cent of our total exports are agricultural produce and raw materials and 45 per cent are manufactured and partly manufactured goods (excluding manufactured foodstuffs).

About 75 per cent of our exports of agricultural produce and raw materials go to Europe and about 25 per cent to the rest of the world.

About 26 per cent of our manufactured goods go to Europe and 74 per cent elsewhere.

Our exports of agricultural produce comprise, roughly, 15 per cent of the entire crop value on the farm, while our exports of manufactured goods comprise less than 4 per cent of our production. Our exports of agricultural produce to Europe comprise 11 per cent of the value of our agricultural production, and less than 1 per cent of our manufactured production.

This last fact has much to do with our ability to shake loose from European economic currents in the manufacturing industries and with the strengthening of employment in our home industries, we will, no doubt, increase home consumption in agricultural products.

of payments on account of...

TABLE IN THE...

There are several... The following table...

Table with multiple columns and rows of data, including numerical values and labels.

of our... of our...

Our... of our...

DIVISION OF TABULATION, STATISTICS DEPARTMENT.

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2-- Currents in Foreign Trade

during the previous year.

For the year 1920-21 the excess of export goods over imports, i.e., the total trade balance of \$2,862,000,000 was liquidated in part by \$511,000,000 in precious metals shipped to us in part by invisible exchange of, say, \$1,100,000,000, leaving an apparently unliquidated balance of about \$1,200,000,000 to \$1,300,000,000 for that fiscal year. A study of the banking returns of unfunded foreign advances at this time does not bear out the conclusion that such an amount of private financing of exports, as indicated above, was ever undertaken and thus the probabilities are that the speculative losses in European currencies and other investments and other forms of invisible exchange were even larger than has been estimated above.

For the year 1921-22 the excess of exports over imports of \$1,163,000,000 was liquidated in part by \$449,000,000 net imports of precious metals and this, together with the additional estimated balance against us of \$1,500,000,000 of invisible exchange, exceeds the amount necessary to square accounts by some \$750,000,000. No doubt this was at least partly absorbed in repayment of private loans because even a smaller amount of private export financing existed in July, 1922, than in July, 1921. Generally this change indicates a much sounder and firmer basis of trade.

GOLD MOVEMENT.

The gold situation in the world is a matter of a great deal of economic thought and no doubt the heavy drain to America has contributed to the instability of foreign currencies, not only by the diminution of their essential guarantees but also by their fluctuation involved in liquidating trade balances in this fashion. Our gold stocks amount to about \$3,077,000,000. Of this, the minimum legal necessities at the moment for assurances to our currency and credits amount roughly to about \$1,600,000,000, but for a 60 per cent reserve of security, we would require about \$1,400,000,000. Therefore, our surplus amounts to somewhere over \$700,000,000. While this is an asset, it nevertheless would be more advantageous to us if it were in active use. The automatic tendencies in our international trade and financial relations are, however, setting strongly toward rectification of this whole situation without artificial action.

There is a steady increase in the ratio of imports to exports of goods, as indicated by the decrease in the average monthly balances in our favor over the last 2-1/4 years.

	<i>Spent Balance</i>
	<u>Average Monthly Balance in our favor</u>
Six months July 1 to Dec. 30, 1920	274,674,811
Jan. 1 to July 1, 1921	202,333,636
July 1 to Dec. 30, 1921	126,980,328
Dec. 30 to July 1, 1922	66,887,576
Three months July 1 to Oct. 1, 1922	51,623,542

At this rate we would, theoretically, reach a balance in the movement of goods in another few months. However, economic movements do not proceed on time schedules, although their trends are no less positive. Many uncertain factors naturally affect commodity movements and but little beyond tendencies

The gold market in the United States has been characterized by a general decline in prices since the beginning of the year. This decline has been the result of a number of factors, including a general increase in the supply of gold, a decline in the demand for gold, and a general decline in the price of gold in the international market.

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Gold Market

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The gold market in the United States has been characterized by a general decline in prices since the beginning of the year. This decline has been the result of a number of factors, including a general increase in the supply of gold, a decline in the demand for gold, and a general decline in the price of gold in the international market.

Annual Report on Gold

1934-35	1933-34
100,000,000	100,000,000
100,000,000	100,000,000
100,000,000	100,000,000
100,000,000	100,000,000
100,000,000	100,000,000

The gold market in the United States has been characterized by a general decline in prices since the beginning of the year. This decline has been the result of a number of factors, including a general increase in the supply of gold, a decline in the demand for gold, and a general decline in the price of gold in the international market.

DIVISION OF TABULATION,  
STATISTICS DEPARTMENT.  
Typed by *Egstein*  
Compared by *Trombly*  
*Wells*

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*W.F.*  
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TEMPORARY FILE

Released for use not earlier than Monday, November 6, 1922.

FEDERAL RESERVE BANK  
DEPARTMENT OF COMMERCE  
Washington

CURRENTS IN FOREIGN TRADE

(Extracts from the forthcoming annual report of the Department of Commerce for the fiscal year 1921-22).

During the twelve months ending June 30, 1922, our foreign trade suffered in common with the general world depression. The monetary value of our exports and imports during the period in question, in comparison with the previous fiscal year, is shown in the following table:

	<u>1920-21</u>	<u>1921-22</u>
Imports	\$3,654,459,346	\$2,608,079,008
Exports	<u>6,516,510,033</u>	<u>3,771,286,428</u>
Total foreign trade	10,170,969,379	6,379,365,436
Balance of exports over imports	2,862,050,687	1,163,207,420

The fall in the monetary value of imports was therefore 28.6 per cent, in exports 42.1 per cent, and in total trade 37.3 per cent. The great decline in value from the previous year was due in a large degree to a fall in prices rather than in quantities, as indicated by the tables of quantity movements of larger commodities in this statement. From these tables it will be seen that our agricultural exports were actually larger in quantity, during the year of depression, although they decreased in value by about \$700,000,000. A study of the whole export and import list so far as quantitative statistics are available indicates that roughly our trade in 1922, if it was valued at 1921 prices, would have shown a decrease in exports of 12 per cent, an increase in imports of 29 per cent or an increase in total trade of roughly 2.7 per cent.

INVISIBLE EXCHANGE

The influence of the balance of invisible exchange in our whole trade and financial relationships is of growing importance. It is possible to estimate roughly some elements in invisible exchange, such as public issues of foreign loans, tourist traffic, remittances of immigrants; and freights; but other items such as private loans, reciprocal interest payments, investments, and loss by speculation in foreign currencies are unknowable factors. Foreign loans were issued publicly during the fiscal year to the amount of \$1,015,000,000 as compared with \$618,000,000 during the previous year. What the ebb and flow of private loans may have been is, of course, unknown. It would appear that the net balance of the other items against us amounted to a minimum of from \$400,000,000 to \$500,000,000 per annum. In any event, the invisible exchange against us could be approximated at not less than about \$1,000,000,000 or \$1,100,000,000 in 1920-21 and about \$1,400,000,000 or \$1,500,000,000 in 1921-22.

The balance of goods in our favor drew a net amount of \$449,000,000 in gold and silver during the fiscal year 1922, as compared with \$511,000,000



## OFFICE CORRESPONDENCE

DATE December 7, 1922To Governor StrongSUBJECT: Dollar values of foodstuffs ex-FROM Mr. Snyderported

Attached are the dollar values of foodstuffs exported, for calendar years back to 1913.

I enclose also a statement from the Department of Commerce, (see page 3), that also gives a vivid idea of the situation.

I think it would be well to note that last year, the year of the greatest depression and especially in farm products, was the year of the greatest farm exports we have ever had.

OFFICE CORRESPONDENCE

DATE December 5, 1922

To Governor Strong

SUBJECT: The Volume of Goods and Prices

FROM Mr. Snyder

(1) From 1910 to 1920 the total tonnage accepted for transport by the railways increased at the rate of 2.2 per cent. per annum (this is not ton miles moved but total tons only).

(2) From 1900 to 1910 the rate of growth was a little higher, about 3 per cent., the slackening tonnage being due, apparently, to the rapid development of waterway and motor truck transportation.

But do not these facts, tallying as they do so closely with our estimate of the rate of growth of the total product of the nation, show clearly that the variation in the volume of goods produced and services rendered (outside of the crop yields) is extremely small, and not extremely large, as popular imagination had always pictured it?

And does not this make it clear why even so small a rate of increase in demand deposits, as a little over 3 per cent. per annum, before the war, was sufficient to finance the total volume of trade, even at a slightly rising level of prices?

(2) The estimates we gave in this week's Summary, as to the volume of trade and production in 1922, show pretty clearly that we have largely recovered from the slump of last year, and that we are probably pretty nearly back to what may be called the normal line of growth, a little below it, perhaps, but not over 5 per cent. below.

Now, if 1920 was only about a normal year, as we compute it, is it not clear that an excess of credit needs of approximately 100 per cent. applied to about a normal volume of goods, could only have the effect that it did have, that is, of increasing prices and nothing else?

And if today the total volume of purchasing power, as represented by demand deposits of the banks, is greater than in 1920 and the volume of goods about the same, is it not probable that we shall have identically the same effect?

We have expanded our bank deposits by more than 3 billions in the last year, bringing them to the highest point yet reached.

What I am wondering is whether we are not going to have a general level of prices, and probably an estimated cost of living, higher than in 1920, even if the index of wholesale prices does not rise quite so high.

And if this was anything like the probable prospect, then ought not the Federal reserve banks promptly to get rid of their investments, force rediscounts, and then put up the rate as soon as possible? If they don't now, then won't it be too late?

"Little drops of water etc"  
 Read with interest.

BS

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE December 5, 1922 192To Governor StrongSUBJECT: New Farm BlocFROM Mr. Snyder

Prof. John R. Commons, who, as you know, has accepted the presidency of the National Monetary Association, said yesterday, at a luncheon given for him here, that Senator LaFollette had always been, and still is, a sound money man, and that, radical as he is, he has never leaned towards any kind of vicious financial legislation. He believes that, if Senator LaFollette were provided with full information regarding the credit and currency situation of the country at the present time, and his interest elicited, that that would be the end of any kind of dangerous legislation in the Senate. This seemed to me a very interesting point of view, and for this reason I am arranging for Prof. Commons to have a talk with Mr. Jay.

*Let me know what Covert  
would like to meet prof. C.*

---

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## OFFICE CORRESPONDENCE

DATE December 4, 1922

TO Governor Strong and Mr. Jay

SUBJECT: Dinner of American Statistical

FROM Mr. Snyder

Association

I do not know how much this would interest you, but if it would, and you were free for that evening, I should be very glad if you could come as my guest.

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## OFFICE CORRESPONDENCE

DATE November 29, 1922To Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

When you are in need of a little diversion, you might be interested in the very shrewd observations on human nature and crowd psychology contained in this very popular article--if you have not seen it already.

I even thought that there were one or two good pointers in it for ourselves--one, especially, that the public is not greatly interested in approvals of any past performance, however good--that they want something always for the future.

SUGGESTED TOPICS FOR THE ANNUAL REVIEW

---

Arrest of deflation.

Revival of inflation.

The big rise in prices, giving list of commodities that have risen 50 per cent. or more.

Great expansion of bank deposits compared with pre-war percentages.

Huge increase of investments by banks, creating

The great bond and stock markets.

Increase of foreign balances in American banks probably a contributing factor.

Continuance of gold imports, but at a declining rate.

Corresponding decline in the excess of exports.

Revival of trade production and railway traffic.

Heavy volume of retail and wholesale sales.

Enormous boom in building continues.

Automobile production probably breaks record.

Heavy increase in employment and

Turn in the trend of wages upward.

Shortage of labor in many lines.

Disturbance to business, manufacturing and wholesaling, from high cost of raw materials, rising wages, and labor shortage.

Average cost of living continues low, owing to the low level of grain and food prices, which has been advantageous to the urban population but hard on the farmers.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE November 28, 1922

To \_\_\_\_\_

SUBJECT: Annual ReviewFROM Mr. Snyder

2 \_\_\_\_\_

(2) The average rise on our list of twenty basic commodities, and also of Bradstreet's list, has been about 25 per cent. This is greater than the total rise in at least fifteen years before the war.

(3) The returns of the National banks for September make it clear that bank deposits in the last twelve months have increased something like 15 per cent., due very largely to the heavy investments of the banks in bonds. This stands against a pre-war average increase of about 6 per cent., and in the five years just preceding of about 5 per cent.; and of only about 3 per cent. in net demand deposits, which are, of course, the vital thing.

(4) We have had the greatest boom in the security markets, in some ways, that we have ever known. We have probably never had quite such a bond market, and the duration of the rise in stocks, and the percentage as well, has certainly broken all records. I gave a list of eighty or more stocks some months ago, that had risen by 100 per cent. or more from the low point.

(5) We have had the greatest inflow of gold in the last two years ever known in peace times in any country.

(6) We have had what is described as the biggest building boom the nation has ever known, and automobile production will probably exceed all records.

Must we not recognize that these are the evidences of inflation, and not simply of "recovery"?

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## OFFICE CORRESPONDENCE

DATE November 28, 1922To Governor StrongSUBJECT: Annual ReviewFROM Mr. Snyder

As regards the most striking occurrences of the current year:

I find myself, as events become clearer, growing to the conviction that we can no longer regard the "recovery" of the last year as a mere rebound from a period of depression; the expansion of deposits and the rise in prices have been too great. A year or so from now I think we shall recognize that the period of reinflation set in at the beginning of 1921 and was continued, with practically no let-up, throughout the year.

Consider the facts:

(1) Here are 21 commodities which, from the low point of last year, have risen 40 per cent. or more:

- Lumber
- Steel Beams
- Hides
- Rubber
- Linseed Oil
- Corn
- Coffee
- Sugar
- Eggs
- Butter
- Pig Iron
- Steel Bars
- Pig Lead
- Zinc
- Bituminous Coal
- Coke
- Petroleum
- Raw Cotton
- Cotton, print
- Wool, raw
- Silk, raw



NEW YORK UNIVERSITY BUREAU OF BUSINESS RESEARCH

Reserve Ratio Questionnaire

What do you consider an adequate ratio of reserves to combined deposits and outstanding Federal Reserve notes during a period of normal business?

For your Federal Reserve District \_\_\_\_\_%

For the Federal Reserve System \_\_\_\_\_%

What is your basis for this conclusion?

During a period of abnormal business expansion, to what minimum figure do you believe this ratio should be permitted to fall?

For your Federal Reserve District \_\_\_\_\_%

For the Federal Reserve System \_\_\_\_\_%

May we use your name in this connection? \_\_\_\_\_

Do you desire a copy of the Bureau's report? \_\_\_\_\_

What is your opinion of the significance of the Federal Reserve Ratio as an index of business conditions?

(Signed) \_\_\_\_\_

(Institution) \_\_\_\_\_

NEW YORK UNIVERSITY  
BUREAU OF BUSINESS RESEARCH

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LEE GALLOWAY, BUSINESS MANAGEMENT  
CHARLES W. GERSTENBERG, FINANCE  
GEORGE B. HOTCHKISS, MARKETING  
JOHN T. MADDEN, ACCOUNTING  
JOSEPH W. ROE, INDUSTRIAL ENGINEERING

November 24, 1922.

New York Federal Reserve Bank,  
New York, N.Y.

Attention of Mr. Carl Snyder:

Gentlemen:

This Bureau is engaged in a study of the Federal Reserve ratio, in connection with which the opinions of selected banking experts are being sought. You will greatly oblige us by filling in and returning the enclosed form at your very earliest convenience.

While individual replies will be held in strictest confidence, we shall be glad to send a copy of the results of our investigation to those who co-operate with us.

Very truly yours

NEW YORK UNIVERSITY  
BUREAU OF BUSINESS RESEARCH

*Lewis H. Haney*  
Director

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE November 21, 1922To Governor StrongSUBJECT: International DebtFROM Mr. Snyder

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double those before the war and from one-third to one-half higher than present incomes.

Nor does it seem a fair statement to suggest that the people of this country would sustain a "loss" if these debts were pared down to a gold or commodity-value parity, because all of the "loss" involved would represent simply the fictitious value that we were able to put upon our goods, owing to our Allies' supreme necessities.

But, for one, I would waive all these questions of equity and all other discussions if we could boldly adopt a policy of saying that we would enforce the payment of these debts to the last dollar of interest, and without quarter of any kind, if Europe is going to go on maintaining large standing armies and big navies.

Surely the splendid gesture, though it may have meant little more than that, that we made at the Washington Conference, deserves to be followed up in a way that would really mean the realization of the thought behind that Conference.

If we could buy the peace of Europe, and therefore of the better part of the world, for 10 billions, wouldn't it be cheap at the price?

Sure! bless you! Put it all  
in a nice letter & Ill send  
it to Waddy et al,  
BS.

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## OFFICE CORRESPONDENCE

DATE November 21, 192

To Governor Strong

SUBJECT: International Debt

FROM Mr. Snyder

There is one phase of the question of collecting our debts from Europe that has been very little dwelt upon, but which seems to me at least a primary question. That is the matter of equity.

We are demanding payment from Europe in gold. But we did not loan any gold to Europe. We sold them goods and took their I. O. U's.

These goods were sold to them at extravagantly inflated war prices. We are now asking that they be paid in full in deflated gold prices. Does this seem to you a very high-minded attitude? Consider the implication:

Supposing the war prices had been, not roughly about twice present gold prices, but, let us say, ten or, better, twenty times present gold prices. Would anyone then dream of endeavoring to make full collection in gold?

Or if ten times or twenty times be not sufficiently clear to enforce the argument, supposing it were fifty times. Is the case any different now that the war prices are only about 100 per cent. higher, let us say, or 200 per cent., instead of a thousand or 5,000 per cent. higher?

Here are some of the prices at which we sold Europe 8 to 10 billion dollars' worth of goods:

Wheat	\$2 to \$3
Corn	\$1.25 to \$2 (Sept. '17, \$2.06)
Hogs	\$15 to \$20
Pig Iron	\$40 to \$50
Steel	\$80 to \$95
Copper	30¢ to 35¢ per pound
Cotton	30¢ to 42¢ per pound
Hides	\$40 to \$50
Tobacco	35¢ to 49¢ per pound

Not for money loaned but for goods sold at these fictitious war prices we would ask full payment in gold. Is not this asking for two pounds of flesh, or three, instead of one, which would be stipulated in an equity proceeding?

The same line of argument applies especially to France, Italy and similar countries, where the rate of exchange has shown no such improvement as in the case of England.

And is it to the point to say that the people of the United States taxed themselves to provide the loans for these amounts? They did not tax themselves to the extent of any 10 billion dollars in gold. They taxed themselves at war prices and bought bonds on war incomes which were, broadly speaking,

P.T.O.

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OFFICE CORRESPONDENCE

DATE November 20, 1922

To Governor Strong

SUBJECT: Credit Analysis

FROM Mr. Snyder

With reference to yours of November 15:

*Right  
For always  
Sail So.*

The figures for the 800 Reporting Member Banks are inconclusive, and even misleading until they can be checked up by the returns from the National Banks, and, better still, from the full statement of the whole system.

We have tried to make as full an analysis as possible from the returns available to date, i.e., to June 30.

The full figures for the Comptroller's call of September 8 will be available this week. I have tried to obtain an advance copy of it, and may have it tomorrow.

*They may be more harmful than helpful.*

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**OFFICE CORRESPONDENCE**

DATE November 16, 1922

To Governor Strong

SUBJECT: Ratio of Deposits to Currency

FROM Mr. Snyder

in Circulation

With reference to your inquiry as to the constancy of the ratio between the estimated amount of demand deposits and the total amount of currency in circulation outside of the banks and of the Treasury, I submit the following computation, the figures being taken as of July 1 of each of the years:

<u>1919</u>	<u>1920</u>	<u>1921</u>	<u>1922</u>
5.15	4.86	4.98	5.53

In this period, as you will recall, we had probably the greatest expansion, alike in bank deposits and in the amount of money in circulation outside of the banks, of any peace-time year in a half century, I should say, and then the greatest shrinkage.

Roughly, from the early part of 1919, Federal Reserve notes expanded by about a billion or something like 20 to 25 per cent. of the total circulation. And, as you know, the increase in bank deposits from the spring of 1919 to 1920 was without any parallel, even including the war period, in half a century.

Then came a shrinkage of the note circulation to a total of something like 1400 million, and in deposits of a corresponding amount.

Yet, despite all this, the ratio of the four years was very closely the same. The two high points of 1919 and 1922 both came at a time when bank deposits had been expanding more rapidly than general business. In the two intervening years the reverse was true; and this seemed sufficient to account for the slight difference shown.

It is the constancy of this ratio, it seems to me, which gives the Federal Reserve Banks the greatest leverage they possess over the tendency to excessive expansion and inflation. (If an increase in the total of demand deposits soon carries with it a corresponding demand for money for hand to hand use, then any tendency to expansion will, under our present system, carry with it a corresponding demand for Federal Reserve notes.

In fact, as you know, practically all of the expansion of rediscounts from 1919 to 1920 was taken out in Federal Reserve notes.

It is for this reason, it seems to me, that we can rely upon the fact that the rediscount rate at the Federal Reserve Banks could very easily be made a real control over expansion. Needless to say, this control would be very much greater if the gold reserve were not so great and the reserve ratio were not so high. It is this latter and the question of public support of a proper rate policy which seem to me the real problem.

*Notes with much interest of*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE November 16, 1922To Governor StrongSUBJECT: Prices, Wages and Credit VolumeFROM Mr. Snyder

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(6) The price of food at retail, in this case, would tend to rise much more rapidly than prices at wholesale, since in general retail food tends, in times of expansion, to run closely with or above the estimated cost of living, and also factory earnings in New York State.

(7) The index of the cost of living reached a low point last March, and has since remained practically at the same level. The public quickly adjusts itself to a given scale, and if there be now a rapid increase in this figure we may expect a renewal of the outcry at the high cost of living, and a corresponding demand for higher wages.

If we are in a period of expansion and rising price level, the natural tendency is towards an increase of wages, rather than the opposite. If the tendency as to wages in the last three or four months be an earnest of what is to come, especially if prices continue to rise as rapidly as they have, shall we not then be in the full swing of the same vicious circle as in 1919?

I attach two charts which depict graphically the relationships, which have here been discussed throughout the last four or five years.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE November 16, 1922To Governor StrongSUBJECT: Prices, Wages and Credit VolumeFROM Mr. Snyder

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The actual increase up to last July, as we estimate it, was about 20,600 millions. This amount has, of course, been rising steadily since.

This would give a theoretical ratio, of the actual amount of outstanding bank credit to the maximum estimated amount required to finance industry and trade at a slowly rising price level, of about 183. In other words, the present amount of credit is 83 per cent. in excess of the estimated required amount.

(4) Of course all these indices are not to be taken as absolutely exact, but with a certain and possibly considerable probability of error. Of all of them, the least probable error seems to be in the amount of excess bank credit outstanding. If this can be taken as some approximation of the fact, then we would be led to the view that the present level of unskilled labor (180) corresponds somewhere near to the theoretical wage level.

The average weekly earnings of the workers in the New York State factories appears to be somewhat above this theoretical level.

The average cost of living is very considerably below this estimated level.

The level of prices at wholesale is apparently very close to the estimated cost of living in a skilled worker's family.

The average of food prices at retail appears to be much below the level of wholesale prices, and so much below that this discrepancy probably cannot long continue.

(5) If this be anywhere near the true picture of these relationships, then we might perhaps infer the following:

As we are in an obvious period of expansion and upswing, the level of wages and factory earnings would probably not be lowered.

If this be true, the cost of living and of both wholesale and retail prices will tend to rise to a level somewhat corresponding to the wage level.

If there be no further expansion of bank credits, we might expect wholesale prices to rise by another 20 per cent., and if this took place this would probably mean something like a corresponding increase in the cost of living.



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## OFFICE CORRESPONDENCE

DATE November 16, 1922TO Governor StrongSUBJECT: Prices, Wages and Credit VolumeFROM Mr. Snyder

I have put together the following, in an endeavor to get at, if possible, the reasonableness of present relations between the volume of outstanding bank credit and wages and prices.

(1) In the ten years preceding 1915 the average rate of increase of demand deposits, excluding Government deposits, appears to have been very close to 3 per cent. Yet this increase was sufficient to finance a small but steady increase in prices. The Bureau of Labor's annual average of prices at wholesale, as now revised, stood at 88 in 1906, and for the three calendar years of 1913, 1914 and 1915 at 100, 100 and 101.

This was an increase, then, of about 13 per cent. for the ten years, or a little over 1 per cent. per annum. The inference seems to be, therefore, that an average annual increase of  $2\frac{1}{2}$  per cent. per annum in demand deposits would, broadly, be sufficient to keep the average of all prices on a fairly even keel. Anything in excess of this means rising prices.

(2) We have had, within the present year, an increase in the demand deposits of the Reporting Member Banks of something over 10 per cent. In the same period we have had an increase in the average of prices at wholesale exceeding 15 per cent, Bureau of Labor index (Bradstreet's and our 20 basic from 22 to 25 per cent.).

This raises the question as to what is the present relationship between bank deposits and prices and wages as compared with 1913 and 1914. As regards the latter, we have the following indices, 1913 or 1914 being taken as 100:

	<u>Latest Figure</u>
Average weekly earnings in the New York State factories	200 +
Unskilled labor in the Second Federal Reserve District	180
Prices at wholesale, Bureau of Labor index	153 (September)
Cost of living, National Industrial Conference Bureau index	155
Retail food index, Bureau of Labor	140

(3) If we imagine that industry and trade has, in the last eight years, expanded at about the same rate as in the preceding ten years, then the credit requirements of the country would, in the eight years from 1914 to 1922 inclusive, have expanded by about 27 per cent. This would mean that the private demand deposits, as reported for July 1 of each year, would have increased from 8800 millions to about 11,300 millions.

## OFFICE CORRESPONDENCE

DATE November 15, 1922To Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

We do not seem to have any very good account of the bitter dispute over the Constitution. The attached from Prof. Channing is rather mild (page 495).

The course of prices at wholesale before the war is given on page 131 of the attached volume, "Index Numbers of Wholesale Prices in the United States and Foreign Countries."

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 13, 1922

TO Governor Strong

SUBJECT: Dinner of November 23

FROM Mr. Snyder

If you lunch with Prof. Chandler on Friday, the ~~23d~~<sup>17</sup>, there will be Houston, Mitchell, Rorty and one or two others, so I have not included any of these.

I suggest that you might make up your list from among the following, and I should think it would make it a much more intimate discussion if you did not ask more than six or eight:

- ~~\_\_\_\_\_~~ David Friday X
- ~~\_\_\_\_\_~~ William Trufant Foster
- ~~\_\_\_\_\_~~ Harold G. Moulton
- ~~\_\_\_\_\_~~ H. J. Davenport
- ~~\_\_\_\_\_~~ Warren F. Persons  
or
- ~~\_\_\_\_\_~~ Allyn A. Young
- ~~\_\_\_\_\_~~ Clyde King
- ~~\_\_\_\_\_~~ E. W. Kemmerer
- ~~\_\_\_\_\_~~ E. R. A. Seligman  
or
- ~~\_\_\_\_\_~~ Samuel McCune Lindsay

*Tar Snyder*  
*Snyder Anderson*  
*X Snyder Strong*

Sydney Anderson is expected at the Academy meeting on Friday afternoon, and if he were coming over might be added. Probably some other names will occur to you.

FEDERAL RESERVE BANK  
OF NEW YORK

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## OFFICE CORRESPONDENCE

DATE November 10, 1922TO Governor StrongSUBJECT: Bank Rate PolicyFROM Mr. Snyder

*Not sent down*

With reference to your question yesterday, as to how far I was in agreement with the Christmas cable of December, 1920, I would like to draw attention to a few paragraphs in the two attached memoranda. [ You will see that on October 26 I raised the question if the time had not come to reduce the rate, and on December 1, in a still longer discussion, I renewed this suggestion.

I would like especially to draw attention to paragraphs 8 and 9 of the note of December 1, and paragraphs 4 and 5 of the note of October 26.

You will see that it was my belief that, just as pressure against expansion was delayed until it was <sup>to be effective,</sup> too late, ~~for it seems fairly evident~~ that the speculative bubble would have burst at about the same time in 1920, whether there had been any Federal Reserve System or not, for the simple reason that the collapse began outside of the United States and would have almost inevitably carried with it a corresponding collapse here. And secondly, that <sup>it being</sup> the pressure was kept on too long, and ~~clearly~~ after the necessity had passed.

It seems to me that these are matters now which we ought to consider pretty carefully, if anything effective is to be done.

## OFFICE CORRESPONDENCE

DATE Nov. 9, 1927To Governor StrongSUBJECT: Agricultural SituationFROM Mr. Snyder

This seems to me a pretty bad piece of work, all through. I will  
be glad to specify, if you desire.

MISC. 41.

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE November 6, 1922

TO Governor Strong

SUBJECT: Banking Theory

FROM Mr. Snyder

I should be extremely interested to know your opinion of Mr. Rorty's little paper. It seems to me that it raises a very important question in banking theory.

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## OFFICE CORRESPONDENCE

DATE Nov. 8, 1922. 192  TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Mr. Roberts

Miss Youngman quotes Governor Strong only once in the attached article. This was on page 423, and was in connection with a discussion of the theories as to the nature of capital and credit.

As near as I can make out from a rather obscure argument, her observation is that the statements of the Federal Reserve Board have placed emphasis on the interpretation of capital in the general economic sense of "goods", with credit merely a reflex of the demand for such goods. It is in upholding her view that for purposes of discussion of discount and credit policy, capital and credit should be considered synonymous, as in the money market sense, that she quotes testimony of Governor Strong before the Joint Commission as follows, "Credit is a commodity just as anything else that is bought and sold and commands a price which is fixed by the laws of supply and demand."

It doesn't seem to me that anything has been said that would call for serious objection.

FEDERAL RESERVE BANK  
OF NEW YORK

VJ

## OFFICE CORRESPONDENCE

DATE November 6, 1922

TO Governor Strong

SUBJECT: German Situation

FROM Mr. Snyder

As you know, I got the impression a year ago last summer, in Germany, that industrial conditions in that country were steadily improving; and nothing I have seen since has changed this view. If this be true, then Germany's difficulties are almost purely governmental and currency difficulties and little more.

Of course I believe that the total amount assessed against Germany by the London Protocol was absurd, and a flat violation of a definite agreement at the Armistice, not to include pensions in the reparations demand. But, on the other hand, I don't believe that the amount asked of Germany, as an annual payment now, was at all beyond her capacity to pay.

I cannot get away from the impression that the whole present situation was more or less permitted by a set of crafty and customarily dishonest and bungling politicians, aided and abetted by a just revolt on the part of the German people against the outrageous reparations assessment.

Now, if these are anywhere near the facts, is not the Reparations Commission, including your friend, going at the matter in the wrong way, and is not the real remedy in such a matter as this "pitiless publicity," with accurate facts and figures?



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE November 3, 1922

To \_\_\_\_\_

SUBJECT: Foreign Debts--3

FROM Mr. Snyder

Germany had a bad setback from the war, probably greater than any other nation, and this may have largely cancelled her normal rate of growth, which was probably very nearly the same as that of this country or of England, as we know that the same growth was equally true of a country like Sweden, i.e., about  $3\frac{1}{2}$  per cent. per annum.

This rate of growth, compounded for eight years, would have added about one-third of her total product. I find it hard to believe, therefore, that in the clear and positive recovery in four years since the Armistice her total product is not now somewhere near that of 1913.

If this be true then Germany's ability to pay would be about the same as England's, i.e., her estimated income was somewhere around 11 billion dollars, or around 44 billion gold marks.

Her estimated savings were around 15 per cent. of this, or 7 or 8 billions of gold marks. I can see no reason whatever, except the lack of a stable and honest Government, why Germany should not pay this year, if her people were willing to be taxed, somewhere near the 2 billion gold marks that were required of her. All that would be required, it seems to me, would be a strong and honest Government, a sound currency, and a sound and equitable system of taxation.

It is perfectly true that such an impost would very seriously affect her industrial growth and capacity to keep up with other countries; but we are not now thinking of what is just or equitable, but of the simple question of her actual financial ability to pay.

I know how widely such a view as this differs from all that has been written on the subject, even by very able men like McKenna, Keynes, Cassel, and others, but I cannot help thinking that this is the true method of getting at the question and that, so far as Germany is concerned, the real condition has been camouflaged by a weak, dishonest and hopelessly incompetent Government and the disposition of her citizens to concur in the policy which has been followed, in the hope that it may bring a more speedy revision of the treaty.

Possibly this was the only feasible course that could have been taken, in view of the position of France. But this does not seem to me a valid reason why we should not understand very clearly just what is going on.

---

I should like ever so much to know if the above method of calculation seems to you to be sound.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE November 3, 1922

To ~~George S. Strong~~

SUBJECT: Foreign Debts--2

FROM Mr. Snyder

would be slight and there would be the resultant gain to the whole world from the willingness of England to sell her products at a lower price than hitherto.

Any other view, it seems to me, would be in effect to suggest that low-priced production, or increased production, is a loss and a harm--an argument very frequently used, it is true, but no sounder for that.

II. If this be true then the important question to know is, for any given country, what is its income?

What is the disposition of its people to tax themselves?

What are their normal annual net savings?

What is the normal rate of growth?

Can this net saving be increased by any governmental or voluntary action on the part of the people?

To take an example:

A number of different and very careful estimates before the war set the so-called money income of Great Britain at around 2,200 million pounds, say in round figures eleven billion dollars. And the corresponding estimate of the normal savings of a modern industrial state, like the United States, England and Germany, is around 15 per cent. It is impossible to fix this accurately.

On this basis, then, the outside limit of ability to pay would be something like 15 per cent. of 11 billion dollars. Actually, of course, this would probably be far beyond the capacity of the country. But my own thought has been that 5 per cent. of this estimated net income might not be impossible to realize. This would mean, say, for England around half a billion dollars a year. And for this purpose, as I conceive it, it would make relatively little difference what is now or has been England's nominal trade balance. I conceive that her own internal development and the expenditures for these far outweigh her investments abroad.

III. It seems to me the same line of reasoning would apply equally well to Germany, and even at the present time. Even now I have an idea that Germany is producing within 85 or 90 per cent. of her total product before the war. This is only a guess, but I think it is better grounded than most other guesses.

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## OFFICE CORRESPONDENCE

DATE November 3, 1922

To \_\_\_\_\_

SUBJECT: Foreign Debts

FROM Mr. Snyder

With reference to your letter to Mr. Gilbert, of October 20, I should like to suggest the following, in order to have your opinion:

I. The ability of an individual or firm to pay a debt may rest upon their cash balances or their holdings of securities; but if it is a long-continuing payment it will rest rather with the question of their income. The amount which can be paid annually, say, will depend upon the difference between the income and the expenditure, i.e., in part upon the disposition to restrict expenditure, or, as we may put it, to tax themselves.

Is it not the same with a country? Take England. Her ability to pay an immediate debt, as, for example, France did in '71, would depend upon her cash balances or holdings of her securities, etc. But for a long-continued payment, as proposed, would her capacity not depend rather upon her total income and net annual saving as a nation, rather than upon any nominal balances of her export trade, as Mr. McKenna and others have so repeatedly and insistently declared?

To take an example: Supposing that England had a very great supply of available coal. Her production then would be limited by the available market, at, of course, the price she could offer.

Now, supposing that the Government commandeers the coal produced and, after providing for domestic wants, offers it abroad at a lower price than the purchase cost. It might be able then indefinitely to expand its market and in that way create huge balances in its favor. True, it would have to make up the deficit created by selling below cost, but this in turn could be met by taxation.

Now, what applies to coal might apply to all her industries. In other words, England might <sup>commandeer</sup> her exports and sell them at a lower price abroad, and thus indefinitely expand its market, and meet the deficit by taxation.

In this way it could create foreign balances up to the limit of the willingness of her people to be taxed. Now, my point is: Is not this the true measure of a nation's ability to pay, and is not all the talk about former or present export balances quite beside the mark?

It may, of course, be said that this would violently disrupt international trade and be disastrous to other nations. But if it was done as the result of a carefully mapped out and published policy continuing over a series of years, the temporary disturbance to industry in other countries

## BANK REPORTS SHOW PROSPEROUS COUNTRY

**Controller Crissinger Declares  
"All Channels of Commerce  
Appear to Be Active."**

WASHINGTON, Nov. 5.—All "channels of commerce appear to be active," and "there is every reason for the expectation that we are now at the beginning of an era of prosperity," Controller of the Currency Crissinger declared tonight in making public an analysis of the Sept. 15 condition of national banks.

As compared with September last year, Mr. Crissinger reported an increase in the total resources of the national banks of more than \$1,000,000,000 and an increase of deposits of more than \$2,000,000,000. Continued improvement in the condition of the national banks as reflected in the September reports, Mr. Crissinger declared, shows "that our national banks have very materially strengthened their conditions during the past year and are now in a better position to respond to the financial needs of our industries than at any time since the beginning of the deflation period."

Total resources of the national banks Sept. 15 aggregated \$20,926,099,000, an increase of \$220,089,000 since June, 1922, and an increase of \$1,206,919,000 since September last year. Loans and discounts and rediscounts amounted to \$11,236,000,000, a decrease of \$12,000,000 since June and a decrease of \$446,000,000 since September, 1921. Cash on hand totaled \$332,000,000, an increase of nearly \$6,000,000 since June, but a decrease of more than \$25,000,000 since September a year ago.

Holdings of United States Government securities aggregated \$2,402,000,000, an increase of \$117,000,000 since June and of \$540,000,000 since September of last year, while other bonds and stocks held amounted to \$2,289,000,000, an increase of nearly \$12,000,000 since June and of \$316,000,000 since September last year.

The total deposits in the national banks aggregated \$16,598,000,000 in September, an increase of \$278,000,000 since June and of \$2,037,000,000 since September last year. Surplus funds aggregated \$1,042,000,000, a decrease of \$6,000,000 since June but an increase of nearly \$15,000,000 since September a year ago, while undivided profits aggregated \$539,000,000, an increase of \$49,000,000 since June and an increase of \$263,000 since September.

The number of reporting banks Sept. 15 totaled 8,240, an increase of 85 over the same month last year, while the percentage of loans to deposits was 67.89 per cent, as compared with 68.93 in June and 80.23 in September, 1921.

### Financiers Asked to Aid Hospitals.

James Speyer, Chairman, and Walter Frew, Treasurer of the Bankers and Brokers Committee of the United States of New York have sent a letter to the directors and brokers, and directors of any of the banks belonging to the Federal Reserve Bank of St. Louis.

UPTOWN OFFICE—31 Union Square, New York  
N OFFICES—St. John's Place, Cypress Hills, Liberty  
UGH OFFICES—Jamaica, Flushing, Long Island City, Far  
rk, Rockaway Beach, Seaside, Arverne, Ozone Park, Jackso  
mond Hill, Elmhurst, Maspeth, Corona, College Point  
Woodhaven, Brooklyn Manor, Ridgewood, Fresh Pond

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AN • AUGUSTUS V. HEFLY  
LIAM A. DUNCAN • F. HOWE

FEDERAL RESERVE BANK  
OF NEW YORK

45

## OFFICE CORRESPONDENCE

DATE November 1, 1922To Governor StrongSUBJECT Reed's Book on the Federal ReserveFROM Mr. Snyder

System

I'd like very much to know your feeling about Reed's book on "The Development of the Federal Reserve System," as I am going to write a brief review of it for The Evening Post Literary Review. I want to give it any praise it deserves, but I noted several things that seemed to me mistaken ideas.

MISC. 4.1.

FEDERAL RESERVE BANK  
OF NEW YORK

38

OFFICE CORRESPONDENCE

DATE October 31, 1922

TO Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

I do not know whether this shoot in October was due to the  
Treasury loan, but it was sure a shoot.

FEDERAL RESERVE BANK  
OF NEW YORK

57

## OFFICE CORRESPONDENCE

DATE November 3, 1922TO Governor StrongSUBJECT: Article in "The Nation'sFROM Mr. SnyderBusiness"

I wrote Mr. Bishop saying that the article should not be published unless its source was distinctly given, and I attach his reply to the same. In a telephone conversation following this, I repeated this statement and understood from him a distinct promise that it should be put in in that way. I do not consider that the paragraph he inserted in the box is a fulfillment of that promise.



## OFFICE CORRESPONDENCE

DATE November 1, 1922TO Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

I have been very much interested to note that in '94 and '95 the tendency of prices was downward, and well into '96; i.e., there was no "recovery" after the crisis of '93.

After 1907 there was a decline from the high point reached in 1907, of about 7 per cent. (97 to 90). And then in 1909 and 1910 a recovery to 99.

But the general direction of prices in the latter period was upward, while in the former it was downward, i.e., the long swing, so that it does not seem that we may ascribe the present rapid rise in prices to any mere "recovery" from the slump of last year.

Just because the general price level has fallen seems to establish no reason for expecting that it will have a "reaction," as, for example, in the stock markets.

35

## OFFICE CORRESPONDENCE

DATE October 31, 1922To Governor StrongSUBJECT: Mr. Gilbert's LetterFROM Mr. Snyder

Mr. Gilbert's letter is in substance the same as the material prepared for him by Mr. Riddle last June.

No one suggested that the great increase in deposits since last February was difficult to analyze. What I tried to say was that it was largely due to the greatest buying movement, so far as our records extend, in securities by the banks, that we had ever known, and this was the main source of supplies for our tremendous bond market of the last year.

That this great expansion of deposits is already having its effect very strenuously in the commodity markets is sufficiently evident, day by day, first in such daily paragraphs as I have sent to you, and secondly in the continuous rise of our index of 20 basic commodities, which is, I believe, the best barometer of prices which we possess.

FEDERAL RESERVE BANK  
OF NEW YORK

30

## OFFICE CORRESPONDENCE

DATE October 30, 1922To Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

The Harvard Economic Service now has over 1500 subscribers, at \$100 a year, and goes to a very high class of people. They are extremely friendly to the Federal Reserve, and, aside from all this, I think it would be a pleasure to meet and talk with Prof. Bullock.

When I was over in Boston, Prof. Persons also suggested that it would be a great pleasure to meet you, and he is a worth while man.

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6100

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FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 31, 1922

To Governor Strong

SUBJECT: The French Symposium

FROM Mr. Snyder

This seems to me very interesting. " Deflation might be of  
value to other countries," but not to France!

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE October 30, 1922TO Governor StrongSUBJECT: English Bank BorrowingsFROM Mr. Snyder

Is it correct to say of the English banks that "the reserves of private banks consist largely of credits on the books of the Bank of England?" (H. L. Reed, "Development of Federal Reserve Policy," p. 234)

I suppose he means "deposits" instead of "credits." My understanding is that the joint stock banks and others borrow at the Bank of England only in extremis--?

*Please return!!*

*The*

# BROOKMIRE ECONOMIC SERVICE

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## Consulting Economists

EXPERT ADVICE ON FUNDAMENTAL  
BUSINESS AND INVESTMENT PROBLEMS

25 WEST 45 TH. STREET - NEW YORK

August 17th, 1922.

ALEXANDER KUELLER  
SALES MANAGER  
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Brooklyne's method of forecasting is entirely scientific. It is based upon fundamental economic factors only - personal opinions being entirely eliminated. It's basic theory is the scientific of its kind - produced by my studies organization, and is the only one in existence which indicates the exact month when a change in the direction of prices should occur. In fact of the Brooklyne's forecasts indicate that the direction of prices will be earlier than any other service - frequently months earlier - than those of any similar service. Late but not lost, greater profits can be made more easily than religiously following the Brooklyne service than any other method yet devised.

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ALEXANDER KUELLER  
 SALES MANAGER  
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October 28, 1922.

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The following illustrates our point. Note the stocks, the time recommended and the profits to date:

<u>Stocks</u>	<u>Date</u> <u>Recom.</u>	<u>%</u> <u>Profit Oct. 14th</u>
Rails	June 27, 1921	42%
Railway Equipments	May 30, 1921	63%
Standard Oils	July 24, 1922	40%
Automobiles	May 30, 1921	70%
Steels	May 30, 1921	40%

Now, expert opinions differ widely as to the future course of the market. Our fundamental indications are very definite - new opportunities are occurring every day. We hope you will not pass them up considering the small fee involved.

Yours truly,

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*"The Original System of Forecasting from Economic Cycles"*





## “His Knowledge of the Big Men of the Country Is Positively Amazing”



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In his search for information on what makes a successful business man, he studied wages, prices, bank clearings and other fundamental business material over a long period of years. As he went along, he was trying to account for a sort of a wave motion which seemed to run through each. He was trying to find some law of action and re-action that had anything to do with this economic wave motion.

Finally he found what he wanted and reduced the various factors in business to a definite law.

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and that Optimism is fully justified,” says B. C. Forbes in his current forecast. Mr. Forbes is now on his way back after an extended trip to get first hand business conditions in the Middle Western and Pacific Coast States. He tells here the progress that has been made in the West—the advance in business over last year—and how the Western States are manufacturing merchandise and equipment which they formerly bought in the East. Eastern, as well as Western business men—take note!

### Why Rents Should Be Reduced

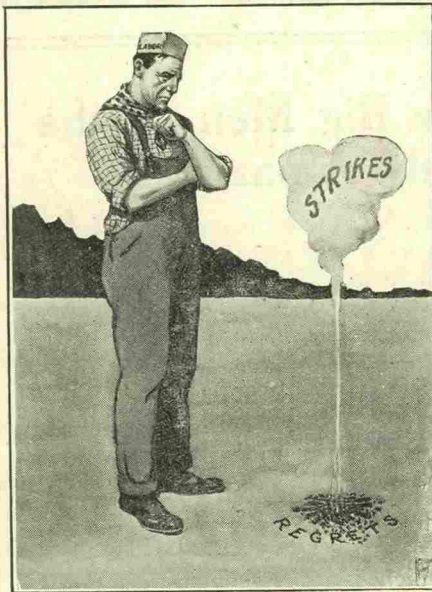
By John Oakwood

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FREE—“MAKING GOOD IN BUSINESS”—See Other Side

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By J. G. Donley

Managing Editor, Forbes Magazine

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By Marcus

One of the most interesting regular features of this Magazine is a cartoon by Marcus, who has become famous through his picturization of men and events in the New York Times. In every issue you get some timely editorial in cartoon form,—on some phase of the current business and financial situation. These tell a story better than can 1,000 words. The greatest tribute to these cartoons in Forbes is that they are widely reprinted in newspapers, magazines and house-organs.

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A page of inspirational quotations that reflect ideas and thoughts that make for greater happiness and more humane business success.

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By Roger W. Babson

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# ANGES

## BALTIMORE.

### Stocks.

High.	Low.	Last.	Sales.	High.	Low.	Last.
39%	39	39%	20 Finan Co Am	35%	35%	35%
75	75	75	40 Hous O pf..	92	92	92
60	60	60	10 Mt V M pf..	52	52	52
50	50	50	70 Mfrs Finan.	61	61	61
110	108%	110	130 Md Casualty	92	91%	92
89%	89%	89%	150 Merch Bank.	21%	21%	21%
65%	65%	65%	4 Merc T & D	216%	216%	216%
119	119	119	10 NewAmsCas.	32%	32%	32%
60	60	60	10 Nor Cent RR	79	79	79
25	25	25	80 Un Ry & El.	21%	21%	21%
			6 U S Fld & G	142	142	142
			20 W B & A Ry	14%	14%	14%

### Bonds.

98%	98%	98%	1,000 Md El Ry 5s	96	96	96
92%	92%	92%	1,000 North Balto			
110%	110%	110%	Ry 5s .....	99	99	99
105%	105%	105%	500 Un Ry 6s	97	98%	98%
110%	110%	110%	1,000 Do 6s,	103	103	103
92%	92%	92%	1,000 Do 1st 4s..	77	77	77
103	103	103	11,000 Do inc 4s..	59	58%	58%
99%	99%	99%	6,000 W B & A El			
85	85	85	Ry 5s .....	80%	80%	80%

## CHICAGO.

### Stocks.

High.	Low.	Last.	Sales.	High.	Low.	Last.
72	72	72	25 Pick & Co..	26%	26%	26%
100%	99%	100%	550 Pig Wik A..	44	43	43
12%	12%	12%	55 Pub Service.	100%	100%	100%
5%	5	5%	10 Do pr.....	92%	92%	92%
6%	6%	6%	25 Quaker O pf.	200	200	200
7%	7%	7%	320 Reo Motor..	13%	13%	13%
2%	2%	2%	26 Stand Gas..	20%	20%	20%
130%	130%	130%	160 Do pf.....	48%	48	48%
10%	10%	10%	1,000 Stw Warner	52	50%	51%
100%	109%	109%	257 Swift & Co.	108%	108%	108%
05	105	105	1,875 Swift Int..	24	23%	23%
2	2	2	50 ThompsonJR	49%	49%	49%
86	86	86	1,329 Un Carbide.	62%	61%	61%
16	15	15	25 Un L & R..	68	68	68
24%	24%	24%	50 Do 8% pf.	73%	73%	73%
23	22%	22%	60 Do 7% pf.	80%	79%	80%
74%	74%	74%	68 Un Lt rts..	6	6	6
48	48	48	10 U S Gypsum	57%	57%	57%
8	7%	8	60 Vesta Bat...	25	25	25
48	48	48	350 Wahl .....	59	58%	58%
83%	83%	83%	150 West Knit..	8%	8	8
96%	96%	96%	310 Wolff Mfg..	29	28%	28%
23	22%	23	185 Wrigley ....	106%	106%	106%
8	8	8	769 Yel Mfg B..	199	196	196
39%	39%	39%	1,325 Yellow Taxi	74%	73	74

### Bonds.

5s.....				51%	51%	51%
v 4s.....				26%	25%	26%

## DETROIT.

### Stocks.

High.	Low.	Last.	Sales.	High.	Low.	Last.
10%	10	10	1,100 Packard ...	14%	14%	14%
24%	24	24%	235 Do pf.....	91%	90%	91%
13	13	13	400 Paige .....	22%	22%	22%
6%	6%	6%	825 Reo .....	13%	13	13%

## MONTREAL.

### Stocks.

High.	Low.	Last.	Sales.	High.	Low.	Last.
73%	71	73	20 Dom Textile.	173	173	173
65%	62%	63	500 Laurentide..	95	94%	95
22%	22	22	242 Montreal P..	98%	97%	98%
16	115%	116	950 Natl Brew..	56	54%	55%
14%	43%	43%	25 Ottawa Pow	92%	92%	92%
35	38%	34	600 Price Bros..	45	43%	43%
3%	13%	13%	230 Quebec Ry..	26%	26%	26%
36%	35%	35%	80 Rlrdon P&P	8	7%	8
7%	7%	7%	255 Smith P & P	81	79%	81
0	59%	59%	77 Shawinigan.	113	113	113
3%	106	106	1,070 Spanish Riv.	96	95	95%
5%	55	55	1,240 Do pf.....	105%	104	105
7%	27	27%	705 Steel of Can	77	75%	75%
8	68	68	10 Toronto ....	84	84	84
7	37	37	155 Wayagama'k	62	61%	61%
4%	74%	74%	60 Tucketts Tob	53	53	53

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## OFFICE CORRESPONDENCE

DATE October 25, 1922TO Governor StrongSUBJECT: International Conference of WorldFROM Mr. SnyderBusiness Men

The Library has only been able to obtain these three copies, but I also saw the Boston Post, which was very much on the order of the Chicago Examiner.

*Mr Sawyer*

26

OFFICE CORRESPONDENCE

DATE Oct 24 192  

TO *Gov. Strong*

SUBJECT: \_\_\_\_\_

FROM \_\_\_\_\_

A rather interesting letter from  
 H. L. Henderson, author of the  
 volume on "Supply & Demand," in the  
 new "Cambridge  
 Hand books.

Economic  
 shows <sup>very</sup> interesting  
*[Signature]*



FEDERAL RESERVE BANK  
OF NEW YORK

28

## OFFICE CORRESPONDENCE

DATE October 25, 1922TO Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

If we are nearing practically full employment of labor, and our transportation systems are at capacity, how are we to produce or move a much greater volume of goods than now? Yet I believe that prices would and will go on rising without any further expansion of bank deposits.

Which seems to me proof that the outstanding volume of bank credit will prove sufficient to finance prices at a much higher level than now.

regularity of a cycle.

A year ago Mr. Axe published a tentative endeavor to portray the general trend of business. His line showed the volume for 1920 much above the line of estimated normal growth, and 1921 very heavily below it--at the extreme for several months, 25 per cent. below this estimated normal. All in applauding the industry and ingenuity involved, it seems to me that we now have very strong evidence that such curves are very far from representing facts. Indeed, if I were forced to put down in set terms an estimate of the real amplitude of variation in the nation's business, I think I should imagine it <sup>never</sup> ~~nothing~~ more than 5 per cent. (for a whole year) above the normal line of growth, even in the late war, and rarely if ever more than 5 to 8 per cent. below the normal, with accent on the 5. And this, it is agreeable to find, is something like Professor Persons' view.

That there are marked and often curiously regular cycles in particular industries there is no question. That these ever coincide in sufficient number to produce a marked and regular rhythm in the total of the nation's activity I very much doubt.

It is from this point of view, it seems to me, that we have great need of a thorough revision and review of the cycle idea. Professor Mitchell, Professor Moore, the Harvard group, Mr. Axe, and others, and more recently Professor Ogburn, to mention only some of the more recent workers, have made notable contributions to the subject. But their results, unfortunately, have not such a concordance as to enforce general acceptance. Moore finds an eight-year cycle, Persons a three-and-a-half-year cycle, Axe and Ogburn a wholly irregular wave movement, that bears little relation to the other two. It seems to me that this might well be the subject of a very interesting discussion at the next meeting of the American Economic Association.

1920). It seems to me that, in selecting a few basic items which are subject to the widest variation and the deepest depressions, and assuming that these are representative or barometric of the whole, we have been very much misled.

I am quite sure that neither the stock market nor the pig iron market nor any such of these are an accurate or reliable index of national trade.

Now if this be true of what was, on these same barometrics, a year of sharpest depression in perhaps half a century, does not this suggest an equal caution in accepting the pictures that have been drawn of years of previous crisis and depression? And if this be true, and if the things I have here set forth are true as to a year of such sharp depression as 1921, shall we not be led to similar reserves as to the amplitude of and the importance of the so-called business "cycle"? After a good many years of what I hope has been fairly patient attention to the subject, I have found it more and more difficult to discover any such clear rhythm or wave in business activity which would justly answer to the idea embodied in this phrase. It seems to me that we have latterly been carried away by a tempting and seductive catch-word.

*particular*  
That there are, in ~~certain~~ lines, such alternating phases of activity and often fairly rhythmic, such as has been so ably set forth in Professor Mitchell's classical work, and in the splendid work of the Harvard Bureau, must be evident to anyone. And I yield to no one in my admiration of the work done by Professor Persons and his coadjutors in this field. But my feeling is that the careful and cautious conclusions derived from this work have, by other workers, been carried to what seemed to me a rather unjustifiable extreme. I doubt very much if we have as yet adequate data to demonstrate that any such amplitude of movement is true of the nation's business as a whole, nor that this movement has any such even rhythm as to suggest the

building and all; but I think there is very good evidence to suggest that it is relatively small, possibly on the order of not more than 10 or, at the outside, 15 or 20 per cent. And yet these make up a large part of the total of our manufacturing activity. We seem to have assumed that a measure of this manufacturing activity is a fair measure of the total volume of the nation's business. I think this is a mistake.

But even when we consider manufacturing activity we meet with some equally surprising facts. When comparing the two years we find that the production of anthracite coal, for example, in 1921 was equal to that of the previous year, and petroleum and gasoline some 4 or 5 per cent. above. Cement was slightly above and so were meat slaughtered and sugar meltings. Wool consumption was 12 per cent. higher, wheat flour milled 18 per cent. more, and silk imports, to take but an example, 40 per cent. ~~higher~~ *greater*

Even the average of about fifty of the most important products, including crops, for which quantitative measurements are available, showed a decline of only about 14 per cent. in 1921 from the previous year; and I believe if we could know the facts that we should find that the production of these basic materials forms a minor and not a major part of the colossal total of the nation's trade, and in extreme years may not needfully be any reliable index of that total.

And to consider only two conspicuous items, I would point out the fact that, in this year of supposedly deep depression, there was a tremendous outburst of building activity; and in this same year the nation still had a capacity to purchase a million and a half of motor cars and motor trucks, to add to its existing stock of over ten million cars. *L* It seems to me that, in the face of all such facts as these, there is something wrong with the current picture of the depression of 1921 (and, if you like, also of the boom year of

the total quantity of goods in the department stores of the East that pass over the counters, not measured in dollars but in yards and pounds and pieces, was ~~very~~ considerably larger in 1921 than in 1920. Of course we do not know that the sales of these large department stores are fully representative of all retail sales. But we have now, in the New York district, sixty-four of the largest stores reporting their dollar sales, month by month, and it is beyond any question the best evidence we have.

But we have also now figures for over 130 of the largest wholesale establishments in the New York district, sending their goods all over the country. These also are reporting their dollar sales, month by month, and here again the evidence seems clear that, making <sup>due</sup> ~~only a minimum~~ allowance for the <sup>wholesale</sup> difference in prices, the total of shipments at wholesale, the actual quantities, in 1921 were up to if not ~~much~~ above 1920.

But it will be objected, this may all be true of sales of drygoods and groceries and other necessities; but consider the drastic slump in, for example, railway traffic, the sharpest in 1921 of any year in a record that extends back nearly half a century. But here again we have clear evidence that, in what may be termed the necessities of life, freight shipments in 1921 were above those of 1920 rather than below. The great slump was in coal and coke and various products and ores and the like, mostly things that are used rather in <sup>manufacture and</sup> construction than in immediate consumption. Shipments of <sup>from</sup> ~~corn~~ and <sup>from</sup> ~~corn~~ products, of live stock and of merchandise, and less than car-load lots, were heavier in the year of so-called depression than in the year of great prosperity.

I do not know and I do not think we have any way of determining how large a part in the total of the nation's transactions is formed by the production and transmutation of mineral products and the like, construction and

no way of measuring the average level of all prices, including wages, rents, salaries, securities, etc.; and so we have no index with which to allow for the influence of the fall in prices, for example, in the total of bank clearings. Studies we have made have led us to the idea that, in the so-called cost-of-living <sup>index</sup> ~~figures~~, we have a very crude approximation to this average of all prices, to be taken with due reserves, but certainly far more trustworthy than, for example, the average of wholesale prices. Now, if we take this cost of living index and correct, as we say, bank clearings for 1920 and 1921 in this way, we find that, relatively to 1920, the total volume of transactions outside of New York City, in these reporting centres, was only 7 per cent. less in 1921. Of course if we use the average of wholesale prices this difference would disappear and we should have the total for 1921 above that of 1920.

Now it is well known that in these bank clearings purely speculative transactions play a considerable if unmeasurable role. If, in a year of riotous speculative mania, as in 1920, we estimate this at but 10 to 20 per cent. of the total, we shall hardly exaggerate. But if we estimate that the difference from 1920 to 1921 amounted to no more than 10 per cent. of the total, then we should be forced to the conclusion that the actual volume of strictly business transactions, after <sup>allowing</sup> ~~collecting~~ for the difference in prices, was actually greater in 1921 than in 1920. Or if not actually greater, at least of no measurable difference.

Now if this were true, we should expect to find at least some supporting evidence in, for example, the volume of retail sales. We do not know what these were for the whole country, but we do have accurate figures as to these sales in New England and in the New York and other Federal reserve districts. And here we meet with the very remarkable result that even if we make the smallest possible allowance for the difference in retail prices,

## NEXT YEAR'S BUSINESS--AND LAST YEAR'S

---

Next year's business, it is trite to say, will be much influenced by this year's business, as this year's business was by last year's, and so on, without end. It is of very great interest, therefore, that we should know quite definitely just what last year's business was, and this year's business is; and the astonishing thing to find is that we have no conclusive data upon which to found an unquestionable opinion.

Measured in many ways, we have been emerging this year from one of the severest depressions we have known. If we take indicators like the production of pig iron and some other important products, the fall in railway traffic, in the volume of bank clearings and much else, we might consider this depression the sharpest in at least fifty years. You will recall the official figures which were given out as to the degree of unemployment last year.

Yet a patient study of the known facts will strongly suggest that if we could eliminate the influence of speculation and confine ourselves to the actual volume of goods sold and services rendered, we should fail to find ~~any~~ <sup>and decisive</sup> reliable evidence that the total of trade for the country was measurably less in 1921 than in the boom year of 1920. As this is so directly at variance with popular ideas on the subject, let me set forth the grounds upon which this conclusion is based.

We had, beginning in 1920 and continuing through 1921, a tremendous fall in wholesale prices and, to a lesser degree, in retail prices. We have

OFFICE CORRESPONDENCE

DATE \_\_\_\_\_ 192\_\_

To Gov. Strong.  
C.S.

SUBJECT: \_\_\_\_\_

FR \_\_\_\_\_

A rough draft, for Harvard Conf.  
Not finished.  
I hope it is safe.

g.



## OFFICE CORRESPONDENCE

DATE October 17, 1922To Governor Strong

6347

SUBJECT:

FROM Mr. SnyderPessimism.

I have been pondering this question:

In all essentials the ideas of economists like Cannan, Keynes, Cassel, Lansburgh, and, to take only two or three in this country, say Kemmerer, Sprague and King, are practically the same, differing only in minor details.

And, in turn, their ideas are essentially the same as those, let us say, of Bagehot in "Lombard Street," Stuart Mill, and Ricardo. And the remarkable thing of it is that neither Bagehot, Mill nor Ricardo were college men--Mill all his life as an active business man in the East India Company, and Ricardo, as you know, a City man making a fortune before he was thirty, and trained in City ways of thinking.

But these are nowhere the ideas of typical bankers, say like Schuster, Leaf, Strakosch, Norman, nor, for the most part, those of even able bankers in this country. And they seem never to have been. Bagehot fought the bankers in his day and Mill in his and Ricardo in his.

Is this division implacable and insuperable?

The point is, in my mind, that the bankers have their hands on the throttle, and going full tilt, and they are going to run the open switches exactly as they did in 1919-20 and in endless times before, and with the same results--at least so it looks to a man up a tree.

FEDERAL RESERVE BANK  
OF NEW YORK

20

## OFFICE CORRESPONDENCE

DATE October 17, 1922TO Governor StrongSUBJECT: Basil Miles' Memo.FROM Mr. Snyder

Miles' memorandum is interesting, but it seems to me to represent rather the reaction of the similar class of business men, which in Germany were always and normally easily disturbed and upset, pessimistic and gloomy-- and never satisfied.

Add in the ruin of the larger part of the "rentier" class and the natural gloom which pervades Germany as to the outcome of the reparations settlement, and an obviously weak and floundering government, and I think the picture is scarce to be wondered at.

But the other side is that the vigorous, aggressive type that made modern Germany is driving ahead now as well as it can under obvious difficulties; and I would venture to guess that Krupps, Stinnes, and heaps of them were employing more men today than a year ago.

FEDERAL RESERVE BANK  
OF NEW YORK

N

## OFFICE CORRESPONDENCE

DATE October 11, 1922To Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

I did not know until the other day that any notes of the famous conclave which Mr. Jay, Mr. Morgan and I attended last year existed. It is rather interesting to see how nearly unanimous last year was the belief that recovery would be slow and that we might get back to normal in ten years!

*Very interesting. - but dangerous!*  
5629  
*B.S.*

OFFICE CORRESPONDENCE

Date October 11, 1933

To Governor Strong

From Mr. Snyder

I did not know until the other day that any notes of the famous  
 convales which Mr. Jay, Mr. Morgan and attached last year existed. It  
 is rather interesting to see how they and last year was the belief  
 that recovery would be slow and that it would take back to normal in ten  
 years.

RECEIVED  
 OCT 13 8 57 AM '33  
 INCOMING MAIL  
 FEDERAL RESERVE BANK  
 OF NEW YORK

*Mr. Snyder*  
*10/11/33*

16

OFFICE CORRESPONDENCE

DATE October 13, 1922

To Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

RECEIVED  
FEDERAL RESERVE BANK  
ST. LOUIS  
OCT 15 1922

Is it not surprising that a bank like the Chemical would put out such a statement as this? <sup>r</sup>

But this is on a par with the credit chart on the next page, wherein it is conceived that deposits and investments are to add.

6190

Who is the "Economist"?

3

1919.

That's the way I've been feeling about it right along for a year or more. But somehow, I'm beginning to get suspicious. The thing seems so damned obvious that it can't possibly happen at least. I'm beginning to feel that way.

But if it doesn't, why not? What's going to prevent the ~~the~~ craziest boom in stocks and business, another big inflation of prices etc? I don't know, unless it's the F. R. Board. But (over)

4 things that look so obvious  
don't often come off - something  
usually happens to upset  
the schedule x

Have you any notion as  
to what it's going to be  
this time?

Perhaps you'd better  
reserve the answer for  
that luncheon engagement -  
provided you don't delay it  
too long + you see I'm ant-  
ious to have the cool breezes  
of your mind bring down the  
temperature of mine - when  
ever you feel disposed -  
with best regards  
Sincerely  
Pulicee

Oct. 10, '22

Dear Mr. Pyden:-

Here is a little problem that is worrying me and may interest you. Anyway, I'd like some time to have your off-hand opinion on it.

Experience shows that when the supply of credit has been restored by liquidation, the stock market begins to rise and that it keeps on rising as long as credit is available - at least until the supply at any reasonable rate disappears.

The supply was restored to normal a year ago last June - and the stock market has been rising pretty steadily since then - on the average has gained about 40 per cent - perhaps more.

(over)



7/  
The mutilized credit facilities - in-  
cluding rediscount facilities of the  
F. R. banks - are simply enormous  
- greater by far than ~~in~~ ~~any~~ ~~times~~  
before.

But business is expanding only  
slowly - comparatively. It will  
be a long time before it can  
absorb enough credit to re-  
strict the supply available  
for speculative uses.

The conclusion is that the  
bull market will continue  
for a long time and that  
prices will be carried to  
extremes - a speculation  
equalling or exceeding that  
which culminated in November

Misc. 4.i.

FEDERAL RESERVE BANK  
OF NEW YORK

14

OFFICE CORRESPONDENCE

DATE October 11, 1922

TO Governor Strong

SUBJECT: Mr. Penhale's Letter

FROM Mr. Snyder

You may like to see this little note, as an evidence of the  
direction that close observers' minds are running.

Rather dangerous also  
isn't it?

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 9, 1922.

TO Mr. Jay

SUBJECT: Control of Inflation - 5.

FROM Mr. Snyder.

There is much to be said against the policy of hoarding a monumental mass of gold in the treasury, that is idle and doing no work and serving only to excite the cupidity or the imaginations of the predatory and the ignorant.

It has seemed to me for a long while that this might be an ideal time for the unification of our whole currency system by the retirement of all the old greenbacks and silver certificates and national bank notes, and to have only two kinds of currency, namely gold notes and Federal Reserve notes, and the latter to be, as it seems to me was clearly the original intent, simply emergency currency, to be retired as soon as the emergency had passed.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE October 9, 1922TO Mr. JaySUBJECT: Control of Inflation - 4.FROM Mr. Snyder.An increased discount rate - ?

As the great bulk of bank loans are upon commercial paper, the present 4 per cent. bank rate is a direct encouragement to the banks to re-discount when good paper is offering. In the present situation surely this spread ought not to exist, for nothing is clearer, it seems to me, than that the present volume of bank credit will sustain a level of prices probably considerably higher than the present general level and at least 20 per cent. higher than the present level of commodities at wholesale. Any encouragement of rediscounting now, therefore, is a direct encouragement to renewed speculation for a rise.

I doubt very much whether, with the present rising tide of business, there would be any violent opposition excited by, or even very much attention paid to, an increase of the bank rate from 4 per cent. to 5 per cent.

(For the reasons that have been valid in England for half a century, the discount rate should certainly move in steps of a full per cent. and not in halves or three-quarters)

An increase in the bank rate to 5 per cent. would encourage many banks now borrowing on government securities to close out these loans and in that way reduce rediscounts to the lowest possible point.

Reduced investments - ?

It seems probable that there could scarcely be a more propitious time for the Reserve Banks to reduce their investments steadily, with the idea of retiring them wholly say within the next six months. The effect of this would be to counterfact all probable gold imports during this period and to offer a salutary check to an overly speculative securities market. Such a course would probably also have the effect of driving some of the banks to re-discount, and this increase in rediscounts, especially if a 5 per cent. rate were established, would disclose conclusively the pressure that actually exists.

Paying out gold - ?

I should like to renew my suggestion of nearly a year ago, of not allowing the gold reserve of the banks to be further increased, and that it might be the part of wisdom very considerably to reduce this gold reserve by the paying out of gold certificates, instead of Federal Reserve notes. There seems little reason to suppose that these certificates would be hoarded any more than Federal Reserve notes now, since gold is to be had for the latter without restriction now, and they are to all intents gold notes.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE October 9, 1922.To Mr. JaySUBJECT: Control of Inflation - 3.FROM Mr. Snyder.Renewed hortation - ?

Would it be unwise for the Federal Reserve Board to put out a memorandum setting forth these facts and the reasons for caution, and drawing attention, furthermore, to the fact that a large part of the increase in deposits has come from the heavy buying of securities by the banks? It seems to me that if such a memorandum were well worded and of a character such as to secure the approval of the best economic minds of the country it could not fail to be of great weight and lay the foundations for the acceptance of a rational rate policy, both by the banks and by the business public at large.

It seems to me that this should come in the form of a rather elaborate statement coming from the Board and not merely as the personal utterance of the Governor of the Board, i.e. it should be an official document stating definitely the declared policy of the Board to check any wave of wild speculation with any reasonable means in its power.

If at the present time it was not deemed wise that such a memorandum should come from the Board itself, might it not be very well formulated by the governors of the twelve Federal Reserve Banks as a memorandum to the Board itself, setting forth the dangers which exist and urging the need for the declaration of a definite policy? If then such a memorandum were followed by a brief rescript from the Board, giving full adherence to it and emphasizing the difficulties of the situation, perhaps this might have even more weight than a single memorandum from the Board.

This idea might be extended still further. At the present conference the twelve Federal Reserve Governors might very well formulate a brief succinctly setting forth the situation as it exists and submit these questions, let us say, to a committee of twelve of the ablest economists of the country. To avoid any invidious distinctions, these might be chosen by taking one from each of the twelve leading universities of the country. This would almost automatically secure at least six or eight of those of the first rank.

Then when this committee of twelve had submitted its report, which it could do in very short order, say in a fortnight, the twelve governors could then transmit this report to the Board with their own recommendations upon the findings there given. If then the Board, in turn, should give its judgment on the briefs submitted, it seems as if this could scarcely fail to be of tremendous weight with the country and enlist the cooperative support of practically all the sound and conservative business men of the country.

It would be easy in this memorandum to dwell upon the various difficulties which a heavy rise in prices immediately entails as, for example, railway congestion, frantic over ordering of goods and supplies, mushroom speculation, etc. It should be carefully documented and have sufficient length to be impressive and persuasive.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE October 9, 1922To Mr. JaySUBJECT: The Control of Inflation--2FROM Mr. Snyder

But it is not so easy to determine just what is at any given time the general average of prices. Many economists and most writers upon the subject have been led into very serious error by assuming that the average of wholesale commodity prices in such times as the present was a reliable index of the general price level. And this mistaken idea has been thought by many to cast doubts upon the validity of the orthodox theory of money and prices.

But it is now clear that the general level of prices most represent practically the average of all purchases and payments, and this would, therefore, include retail prices, wages, salaries, interest payments, and the like. But to strike such an average or obtain any kind of reliable index of this general price level is an almost hopeless undertaking at the present time. Some investigations made by this department have led me to believe that the nearest approach to any such index at the present time is perhaps the index of the so-called cost of living; but this is admittedly only a very crude approximation.

But what is clear is that, just as the prices, at wholesale, of individual commodities, as grain, cotton, pig iron, rubber, etc., may fluctuate very widely about the general average of wholesale prices--may have a very wide "scatter," as the phrase is--so wholesale prices may at times swing much above or much below the general average of all prices. But there is this difference: There are no really reliable price indicators among the individual commodities, i.e., a rise in cotton or pig iron does not needfully signify a general rise. But it is certain that a long and sustained rise of prices at wholesale must, in the long run, carry with it a corresponding rise in retail prices and eventually, therefore, in wages, rents, etc.

This is universal experience.

Therefore, it seems to me that, in any attempt to check another wave of speculative furor, the test must be the commodity price index. And the facts here are that during the present year the Bureau of Labor index has risen (in seven months)  $12\frac{1}{2}$  per cent., and from the low point of last year Bradstreet's has risen  $17\frac{1}{2}$  per cent., and our index of twenty basic commodities, 20 per cent.

This rise has been too prolonged and too general to be regarded as a mere "rebound," and the further practical fact is that it has been accompanied by a corresponding expansion in bank deposits, i.e., ultimate purchasing power. It seems clear, therefore, that unless this expansion of purchasing power is checked this rise in prices must continue.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE October 9, 1922TO Mr. JaySUBJECT: The Control of InflationFROM Mr. Snyder

The situation is obviously very difficult, in view of the fact that, almost alone of all the great basic commodities, grain prices have so far had no great rise from the low levels of last year. The result of this, of course, is great depression and discontent on the part of the farmers, and, on the other hand, relative cheapness of foodstuffs with a consequent effect upon the average cost of living. It is only when farm prices undergo a heavy rise that the situation for the whole country will become acute, with a renewed irruption of strikes, demands for higher wages, etc.

But if the Board waits for this so-called "adjustment," it will then be too late for any kind of effective action; and secondly, <sup>to</sup> attempt to take any such action would then arouse just as violent opposition from the farming classes, almost, as it would now, and would be interpreted possibly as aimed directly at them.

It is my belief, based upon a long-time analogy, that the adjustment for farm prices will take place rather quickly, within say the next six months or so, and that effective action by the Board and the Reserve Banks now would not materially hinder this recovery. In other words, the circumstances which bring about the present low prices for grain will, I believe, not long continue, and they are rather independent of the course of general prices. Therefore, it seems to me that the following proposals would be just as opportune, politically, now as later; and if there is much delay ~~then~~ it seems to me there is much danger that any practical measures will become quite inadequate to meet the situation.

#### What Shall be the Test?

The second difficulty is that of determining when inflation is taking place. This has been a very serious difficulty heretofore, but it should be no longer. The indices of production worked out by Prof. W. W. Stewart, now at the head of the Division of Analysis and Research; of the Harvard Bureau of Economic Research; and of our Research Department here, have established clearly that the average rate of increase of the total product of the nation cannot very much exceed  $3\frac{1}{2}$  to 4 per cent. and that the variations from years of depression to those of boom are not very great.

Next, it seems clearly established that the effective agent in determining the purchasing power of the country is bank deposits, and that it is the relation of bank deposits to the total production which determines the general price level. This seems to have been established beyond all question in the World War, when there was no rise in the general level, even of wholesale prices, until twelve or fifteen months after the war had begun, and not until the great influx of gold had begun to stimulate a huge expansion of bank loans and therefore of bank deposits.

In other words, factory workers and the urban population generally are now enjoying a return of prosperity, improved employment, and, in a large number of cases, higher wages without any increase in the cost of living; the farming population, except in the South, being correspondingly depressed. It is clear that the general of social affects of this rising tide of prices have not as yet been felt by the population at large; there is always a normal lag. But this must surely come if there be no check to the further expansion of bank credit.



Other confirmations of this may be gained from the steady increase in the volume of check transactions; the very marked and in some cases quite unprecedented improvement in the indices of production; in the heavy volume of railway traffic; in numerous and important wage increases, and in the reports received by the Federal Reserve Banks as to retail and wholesale trade. From all of these it is clear that the volume of goods moving at the present time is considerably heavier than a year ago, in spite of all the losses due to the coal, railway and other strikes.

But most characteristic of all has been the swift and, for peace times, almost unprecedented rise in wholesale prices. The Bureau of Labor index of commodities at wholesale shows, for July and August, a rise from last January, which was actually the lowest point, of some 17 points (138 to 155 on the revised index), or about 12 1/2 per cent.

The Federal Reserve Board's index of one hundred selected commodities at wholesale shows an increase from the low point of last year, to September, of about 16 per cent., while this bank's index of the twenty great basic commodities shows to date a rise of nearly 20 per cent.

In the twenty years preceding the great rise in prices which began about October 1915, such an increase in prices was unheard of. In these twenty years the average increase was about 2 1/2 per cent. per annum, and yet this aroused by 1912 such a protest that the so-called "high cost of living" was even then a subject of very anxious inquiry. And this soon must be the case when this rise in prices at wholesale is reflected, as it must be in time, in prices at retail.

There is a phase of the situation which may readily make this increase in retail prices the more acute; and that is the very low prices prevailing still for food products. While, for example, pig iron, cotton, wool, and other products have risen from the low point of this year or last by from 75 to 100 per cent., the great cereal products of the country are still greatly depressed and average now some 30 per cent. below the average of all commodities at wholesale. This is a condition which can scarcely continue for long, if the present expansion of production and of business activity receives no severe set-back.

4  
5.  
6.  
7.

THE RISING TIDE

The wave of optimistic sentiment which has been so strongly in evidence in the last month or two is clearly a reflection of improved business conditions; and business conditions, in turn, are themselves a reflection of a much improved financial situation.

In the last year or more, as these pages have noted, there has been a very heavy liquidation in the loans and discounts of the banks, amounting for the Reporting Member Banks to something like 3 billions, and hence, for the whole country, something like 5 or 6 billions. As here set forth, last June, this liquidation has been to a considerable extent simply bookkeeping; there has been, especially during the current year, a very heavy increase in the investments of the banks, amounting for the 800 Reporting Member Banks alone to over a billion dollars.

To a very considerable extent the frozen credits of last year have been funded into short or long time obligations, and the market for these has been in some part created by the banks, either directly through the purchase of industrial and other securities, or of Government securities already existing. The effect in the latter case was very much the same.

In consequence of all this there has been a corresponding but considerably greater increase in deposits. From the low point reached last February, the net demand and time deposits in the Reporting Member Banks have expanded by over a billion and a quarter, and while this rate of increase apparently has been greater than in the smaller banks of the country, it is safe to estimate that the total increase in deposits has been not less than 2 billions.

This increase in deposits has been accelerated by the enormous imports of gold, and apparently also by an actual return of currency in circulation outside of the banks; and from the fact that this increase has been steady now for the past seven or eight months it may be taken as a real turn of the tide.

FEDERAL RESERVE BANK  
OF NEW YORK

12

## OFFICE CORRESPONDENCE

DATE October 9, 1922TO Mr. JaySUBJECT: "The Rising Tide"FROM Mr. Snyder

1 & 2. The attached charts show the decline in the so-called commercial loans and the increase in investments in the Reporting Banks from the beginning of 1921. Back of this we can only estimate.

3. Deposits of all banks, except for a long period, are depicted on the accompanying chart.

4. Indices of production attached herewith.

5 & 6. Range of prices depicted on same chart *as no. 3.*

7. We have no chart of grain prices. Attached is a chart from the Harvard service, showing some of the principal commodities.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 6, 1922 192

TO Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

2

	Lowest Monthly Average 1921 or 1922	Sept. 30, 1922, Price	Per cent. Increase From Low
31. Brick *	\$17.50	\$20.60	+ 17.7
32. Lumber	15.106	24.75	+ 63.8
33. Steel Beams	1.38	2.00	+ 44.9
34. Hides	.098	.22	+ 124.5
35. Leather	.288	.29	+ 0.7
36. Rubber	.1407	.1525	+ 8.4
37. Paper	3.50	3.75	+ 7.1
38. Sulphuric Acid	14.00	15.00	+ 7.1
39. Linseed Oil	.606	.88	+ 45.2
40. Tobacco	.267	.275	+ 3.0

Average, omitting coke + 37.2

\* Not monthly average but lowest daily quotation.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE October 6, 1922TO Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

Below is given a comparison of the prices in forty of the principal basic commodities, between the lowest monthly average price for any of the months of 1921 and 1922 to date, and of those of September 30, 1922, with the percentages of increase or decrease.

It will be noted that, eliminating coal, coke, and pig iron, there are still increases ranging from 50 to 125 per cent., while the average increase for the whole forty, omitting coke, is 37.2 per cent.

The question in my mind is whether such enormous and general increases in prices can be considered as simply a "rebound," or whether it does not show clearly that inflation is now well under way.

	Lowest Monthly Average 1921 or 1922	Sept. 30, 1922, Price	Per cent. Increase From Low
1. Wheat	\$1.0635	\$1.09	+ 2.8
2. Corn	.45	.6438	+ 43.1
3. Oats	.327	.4012	+ 22.7
4. Flour	6.88	6.22	- 9.6
5. Hogs	6.94	9.30	+ 34.0
6. Steers	8.36	10.10	+ 20.8
7. Coffee	.06	.10	+ 66.7
8. Sugar	.049	.0625	+ 27.6
9. Eggs	.242	.46	+ 90.1
10. Butter	.318	.44	+ 38.4
11. Pig Iron	17.75	34.00	+ 91.5
12. Steel, bess.	28.00	40.00	+ 42.9
13. Steel Bars	1.38	2.00	+ 44.9
14. Copper, elec.	.1188	.14	+ 17.8
15. Copper, Sheet *	.195	.2150	+ 10.3
16. Lead, Pig	.0408	.0665	+ 63.0
17. Lead, Sheet *	.0775	.0875	+ 12.9
18. Zinc	4.18	6.80	+ 62.7
19. Tin	26.19	32.75	+ 25.0
20. Coal, Bituminous	1.862	4.50	+ 141.7
21. Coal, Anthracite *	7.75	8.25	+ 6.5
22. Coke	2.75	12.00	+ 336.4
23. Petroleum	1.00	1.25	+ 25.0
24. Gasoline	.24	.25	+ 4.2
25. Cotton, Raw	.12	.2035	+ 69.6
26. Cotton, Print	.043	.0675	+ 57.0
27. Wool, Raw	.83	1.295	+ 56.0
28. Wool, Serge *	2.35	2.50	+ 6.4
29. Silk, Raw	5.50	8.05	+ 46.4
30. Cement	1.50	1.60	+ 6.7

FEDERAL RESERVE BANK  
OF NEW YORK

5

## OFFICE CORRESPONDENCE

DATE October 6, 1922To Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

Just as an example of clear thinking and clear writing, you may like to look at the translation, on page 109, of an article by Dr. Lansburgh-- whom Mr. Max Warburg refers to as "ein gelehrter nichtwischer," i.e., a highly educated know-nothing.

FEDERAL RESERVE BANK  
OF NEW YORK

11

## OFFICE CORRESPONDENCE

DATE October 6, 1922To Governor StrongSUBJECT: Chart "Indices of Economic ConditionsFROM Mr. Snyder1909-1913 Inc."

Herewith find 30 copies of the photostats of the economic indices of the five-year pre-war period from 1909 to 1913.

I was led to make these comparisons, noting the unusually even growth of bank deposits through this period, as compared with any previous or subsequent period, and the well-known fact of the prolonged stagnation of the stock market. I have an idea that there must be an intimate relation between the two.

*Very Good. Only a few  
were used. JS*

## OFFICE CORRESPONDENCE

DATE Oct. 3, 1922 192To Governor Strong

SUBJECT: \_\_\_\_\_

Fk Mr. Snyder

RECEIVED  
OCT 10 1922  
3 33 PM  
MAIL  
FEDERAL RESERVE BANK

I have verified the fact that there was no error in the chart comparing our 20 basic commodities with the Bureau of Labor index and the Harvard Bureau's 10 sensitives.

1493

I am trying to work out a plan whereby we can still include coal, which is such a tremendously important commodity, and still not have it throw the index off the track as it did in the summer of 1920 and would have done again this summer if we had continued to include it.



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE September 29, 1922To Governor StrongSUBJECT: German ProductionFR Mr. Snyder

As further confirmation of the come-back in German industry, please note pages 167 and 115-19.

A curious phase of the Hamburg trade is that it has been in large part in British vessels and not German.

For an analysis of German export trade in terms of 1913, see page 123.

FEDERAL RESERVE BANK  
OF NEW YORK

6

## OFFICE CORRESPONDENCE

DATE October 6, 1922To Governor Strong

SUBJECT: \_\_\_\_\_

FR Mr. Snyder

5995

Now I suppose the heavy tide of buying which has brought about *this* railway congestion will bring a further sharp rise in prices, and that this will be wisely ascribed to the congestion, as in 1920 (Federal Reserve Bulletin, and about one million other editorials, articles and speeches).

So! what to do?  
P.D.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Oct. 3, 1922TO Governor StrongSUBJECT: The Edison PlanFROM Mr. Snyder

I think the sketch attached is excellent so far as it goes, and drives straight at the vital weakness of the idea. Of course from another angle almost an equal objection would be that it provided for no sort of control over the total volume of purchasing power that would be created by this means.

Dr. William T. Foster has a quite admirable article on the Ford-Edison, Loucks, and other panaceas, in the July number of "The Atlantic Monthly," and I am getting a copy to send down to you.

I hope that such articles as this, and such a letter as you have here, can find very wide circulation under the publicity plans of The American Bankers Association.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 28, 1922

To Governor Strong

SUBJECT: War Demand and Prices

FROM Mr. Snyder

In running through our charts of commodity prices, I have been very much struck with the fact that by far the largest number showed practically no advance until the middle of 1915, and in a great many cases were well below the 1913 level until that time or later.

Of the thirty-odd principal commodities, basic to all industry and to prices, which we have listed, the division stands as follows:

Compared with 1913

Higher in 1915

- Sugar
- Wheat
- Wheat Flour
- Copper
- Wool
- Hides
- Zinc
- Linseed Oil
- Eggs

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9

About the Same

- Corn
- Steers
- Paper
- Sulphuric Acid
- Sole Leather
- Lead

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6

Below 1913

- Hogs
- Bituminous Coal
- Petroleum
- Pig Iron
- Cotton
- Silk
- Cement
- Lumber
- Rubber
- Tobacco
- Steel
- Tin
- Coke
- Gasoline
- Coffee
- Butter

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16

Same 6

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22 - 9

This explains why the general level of prices did not show any material advance over the 1913 level until in October and November of 1915.

*Effective war buying started  
in 1915 —*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE September 26, 1922TO Governor StrongSUBJECT: The German SituationFROM Mr. Snyder

The attached article, which is from the pen of Mr. Robert Crozier Long, the Berlin correspondent of the London Economist, gives careful facts and figures as to the recent industrial development in Germany, confirming:

- (1) Very much what you were saying in your proposed address.
- (2) Precisely what it seemed to me was the case <sup>from</sup> ~~in~~ my investigation of last summer, and from all the exact and reliable information which I have been able to find out since.

How long must the fiction of an impending "collapse" of Germany

be continued?

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE September 27, 1922To Governor StrongSUBJECT: American Bankers' ConventionFRC Mr. Snyder

*file*

It seems to me that the evidence confirms to the full what you said as to the general trend of industry in Europe, and I feel as though it was so important that it would very materially add to the weight of it to add a paragraph or two of specific reference to Germany and other European States. In another few months I think the general rise in prices all over the world will be sufficient to prove the case up to the hilt.

*Noted P.S.*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE September 26, 1922TO Governor StrongSUBJECT: New name for Stable Money LeagueFROM Mr. Snyder

We are having a deuce of a time trying to get an appropriate name for the reorganized League. Catchings and Rorty have proposed "Money and Credit Association," and Fisher has agreed to this. But it seems to me very colorless and to lack in distinctive impressiveness.

Do you think that the group who were present at Mr. Warburg's dinner would find any objection in a name like:

Association for a Stable Monetary Standard

Does this not get far enough away from the objectionable associations of the present name? Surely no reasonable person would stand for an unstable monetary standard.

Any suggestions would be welcome.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Sept, 25, 192  TO Governor StrongSUBJECT: Article on New BuildingFROM Mr. Snyder

Attached is the little article on the new building, for the October number of The Journal of the American Bankers' Association. They go to press very soon, and the Editor would like very much to have the copy today, if possible.

This goes with the cut of the Liberty Street facade, such as was used in the last Annual Report, and as they want only a very brief article I think Mr. Shaw has done an extremely good job.

Could you look it over, and do you wish it under your signature or without?



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE September 21, 1922TO Governor Strong

SUBJECT: \_\_\_\_\_

FROM Mr. Snyder

This was completed at 1:30 and given to the boy, John, who was waiting here for it to take up to you immediately. It is now four o'clock and he has not yet returned and I am, therefore, sending you the carbon copy, as I do not know what has become of the boy.

This has been very hastily revised and runs to rather over 4,000 words, so there is ample room for the carving knife.

I am sorry as to the delay.

[The Banker + Epstein  
Financial Selection  
Sept 19, 1922,  
See Strong's  
address.]

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept 21 1922

Gov. Strong

SUBJECT: \_\_\_\_\_

FROM: \_\_\_\_\_

This has had only the  
most hasty revision.

G

I guess @ 4000 words.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Sept. 20, 1922To Governor StrongSUBJECT: Factors in Federal ReserveFrom Mr. Snyder

Policy.

1581

As a possible contribution to the discussion at Washington, I attach a picture of economic conditions in the five years preceding the war.

You will note that the price level, even as reflected in whole-sale prices, Department of Labor Index, varied less in these five years than the variations in that same index in the last five months.

Correspondingly you will note that there was an almost even growth in the volume of production (lower red line), and amazingly little variation from year to year, even though this was heavily weighted by farm products.

Similarly, individual deposits in banks, either in all banks or in National Banks, moved up at almost the same even pace.

And there was, likewise, extraordinarily little variation in the average of prices on the stock market, compared with previous and subsequent years (in fact, great stagnation).

Taken as a whole, I doubt if any five years, since perhaps 1850, would show such a high degree of industrial and economic equilibrium.

Now. This was the condition in the five years preceding the war and preceding the establishment of the Federal Reserve System.

Question: If, in the establishment of the Federal Reserve System, the primary object was a greater degree of stability and equilibrium than had previously been attained, is it not reasonable to think then of these five years as a norm which must be surpassed if the Federal Reserve System can be considered to have achieved its object.

RECEIVED-5

SEPT 24 4 00 PM '22

RECORDING MAIL  
FEDERAL RESERVE BANK

## OFFICE CORRESPONDENCE

DATE September 16, 1922TO Governor Strong

SUBJECT: \_\_\_\_\_

FROM (Miss) K. D. Frankenstein

At Mr. Snyder's request, I am sending you this summary of an article in the latest number of "Die Bank," to which Dr. Lansburgh referred in his recent letter to Mr. Snyder.

branch banking exists in every country of any financial strength.

In the United States, greatest progress has been made in California which has more than 300 branch banks, and where the requirements of agriculture, mining and manufacturing are such as to cause a continuous demand for banking service which a system with a chain of branches at many points is especially well fitted to supply.

The advocates of branch banking claim many advantages for it. Those accruing to the public include the benefits of expensive "equipment service" of a large organization, the installation of better banking practices in small communities, increased protection to depositors in the large capital and surplus of a system, and better service in general through the greater flexibility of a branch system and better utilization of resources.

Among the advantages to the banks themselves may be mentioned greater earning power from economy in operation, improvement of accounting and auditing methods, elimination of duplication, retention of valuable employees through greater opportunities, more diversification and better distribution of risk, and the creation of more paper eligible for rediscount. It is urged that a properly conducted branch banking system would be a Federal Reserve System in miniature, and would function in about the same way, except for the right to issue notes.

It may be predicted that branch banking will stand or fall upon the extent and quality of service it can give the public and upon the decision whether it is equally or more profitable, compared with unit banking.

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ECONOMICS AND FINANCE - THEORY

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Something wrong with prices

The Bankers Magazine (American), CV: pp. 394-5, September, 1922

Prices are being kept up from a variety of causes, among them, the spirit of extravagance engendered by the war, high wages in several lines of industry and inefficient and costly means of distribution of some products.

A factor not, perhaps, given due weight is the weakening of the actual cash reserves of individual banks. So far as members of the Federal Reserve System are concerned, these reserves must all be in the form of loans to the Reserve banks, to be in turn partly loaned out again. The State banks also hold their reserves largely in credit in one form or another.

So long as the reserves of the banks of the country consist largely of credit, there will be inflation and violent fluctuations in price movements. Prompt and effective action ought to be taken to stabilize prices. One way of doing this would be "to get our individual banks squarely back on the gold standard of value from which they were unceremoniously thrust by the Federal Reserve Act."

Allowing for all these factors, the principal cause of the continued high prices is probably the excessive desire for gain on the part of far too many who are engaged at some point in the production and distribution of goods.

The world's currency problems

Statist, C: pp. 12-16, August 19, 1922

To the long list of schemes for solving the present currency problem of the world, the Statist adds another, which it suggests might be administered by the Committee of Central Bankers. The principal feature of the plan is an international gold loan, to be raised among the sound financial nations, in assigned quotas, and allotted to the inflationist countries from time to time in amounts corresponding to their

(continued)

To You. S

Memoranda

Especially pages. 214,  
263 ff. - 279 - 291 ff

(Ricardo)

You remember that David  
was a City man, & knew its  
ways so well that he made  
a fortune out of it before  
he was 30.

Therefore no "Theorist",  
but a Practical man, dealing  
with profits & pence.

Also you recall that when  
he wrote, the English paper  
pound was at what you  
call a "discount", exactly  
as now, and, in

Ricardo's view, for  
a sole, and identical,  
reason.

You will note that  
he does not share your  
view that gold, to be  
taken in trade, must  
be coined into legal  
tender.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Sept. 1, 1922TO Governor StrongSUBJECT: Gold Flow and PricesFROM Mr. Snyder

I am sending down this little bit as a curiosity. You will note that by giving about an equal swing to the two lines between 1918 and 1920 you have an approximate parallelism up to the present time. And I have an idea that this may be continued for some time, i.e., that as prices rise further some of this gold will again flow outwards.



## OFFICE CORRESPONDENCE

DATE August 25, 1922TO Governor StrongSUBJECT: Time DepositsFROM Mr. Snyder

The ratio of time deposits to total deposits in the National Banks and in the Reporting Member Banks does not appear to have very greatly changed. I should not attach a great deal of importance to the difference in percentage in the Reporting Member Banks between last May and August 16, as that may be merely temporary.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 25, 1922

To Governor Strong

SUBJECT: Lansburgh Article

FROM Mr. Snyder

01881

The attached interesting passages are taken from an article by  
Dr. Alfred Lansburgh, in "Die Bank" of last April.

*copy sent to Mr Eliot Wadsworth*



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 25, 1922

To Governor Strong

SUBJECT: Ricardo's Collected Works

FROM Mr. Snyder

Ricardo's Collected Works are apparently quite rare, and we were offered a copy last week for \$7.50. I have been trying for some time to get one for the bank, and think we had better send to England.

The one you had was a private copy I picked up in Portland. The larger part was uncut because I had the "Principles" in a smaller and more convenient form.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE OF CORRESPONDENCE



Date August 25, 1922

Mr. J. P. Morgan & Co. Inc.

Governor

St. Louis

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INCOMING MAIL  
FEDERAL RESERVE BANK  
OF N. Y.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 24, 1922To Mr. Jay (Copy to Mr. Morgan)SUBJECT: Council of the twenty-twoFROM Mr. Snyder

I hope you have not forgotten the famous Council of the twenty-two, at the Machinery Club last November, when it was agreed, twenty-one to one, that there would be no great business revival and no material rise in prices this year.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 24, 1922

TO Governor Strong

SUBJECT: Statement Regarding America's

FROM Mr. Snyder

Attitude

Herewith a first draft of the statement, probably pretty crude,  
but it will possibly serve as a beginning.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 23, 1922

TO Governor Strong

SUBJECT: Statement Regarding America's

FROM Mr. Snyder

Attitude--4

the forced or excessive expenditure of the people of Europe (under the conditions of practical capital confiscation,) which is the invariable result of currency inflation. The stoppage of this injurious financial policy would result in the restoration of normal conditions in international trade, and eventually the redistribution of the world's gold among the different countries, according to their several needs.

*debtor* As a step towards this redistribution the United States, no longer a creditor country, has since the war loaned to other countries a sum in excess of 2 billions of dollars. This is at a rate never before witnessed in international affairs. There is every disposition on the part of this country to continue these loans where they may be judiciously made, to the utmost extent possible, but it is fair to say that in existing financial conditions in Europe such loans are made with great difficulty. The absolute essential, therefore, to the continuance of these loans, and especially to the countries of Europe, is a restoration of their finance and their currencies and their trade to a condition of health. To continue these loans at the present time would be simply to perpetuate the existing chaos.

(4) Every interest, therefore, financial and otherwise, would seem to demand an immediate settlement of the reparations question upon some practicable basis, a reasonable agreement as to the interallied debts and a contractual agreement among the several nations to reduce their military expenditures to a purely police basis, that will leave no further threat or convenient opportunity for waging war. With the reparations question settled, with thorough-going disarmament agreed upon, and further disturbance of the international equilibrium to the utmost extent relieved, it would be but a brief time when the complete economic recovery of Europe could be effected. One of the outstanding facts of history is the rapid recovery of devastated nations from the effects of war when once their economic and financial policies are established upon a sound basis. It is clear that the actual damage to industrial plant and equipment in Europe, occasioned by the war, has been grotesquely exaggerated. It is equally clear that the amount of restoration already achieved has been surprisingly large. With a return to sound governmental and economic policy, that restoration could be quickly completed and the normal industrial and social progress of Europe, arrested by the war but still more by the conditions growing out of the war, could be resumed.

Such, at least, is the widespread belief of most Americans who have intelligently studied the questions at issue; and in this apparently they have the support of most economists of neutral countries.



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 23, 1922

TO Governor Strong

SUBJECT: Statement Regarding America's

FROM Mr. Snyder

Attitude--3

accruing from the war.

To ask the people of America to shoulder the full burden of this debt, and to cancel it without any equivalent, is to ask them to assume a burden practically equal to the entire amount, exclusive of pensions, assessed against Germany as reparations for the war. This seems a large order.

But the people of the United States are ardent believers in peaceful and friendly relations with other countries, and the great majority of them believe that the cataclysm of the great war would have been impossible had it not been for the huge standing armies and monstrous expenditures for military purposes which were characteristic of most European nations before the war began.

It may be said further that the people of this country have a vital economic interest in the peace of Europe, as well as of the rest of the world, and this is in a double sense. The maintenance of great armaments by other nations compels a corresponding expenditure by our own Government, deeply as the people of this country deplore and detest the purpose for which this expenditure is made. And in its trade relations it is with the people of Europe that our own people find their largest customers. We have then a deep financial interest both in a prosperous and solvent Europe and in a reduction of armaments.

Towards this end a Peace Conference was called by this Government, and treaties looking to the substantial limitation of expenditures for naval warfare agreed upon, but not yet ratified by all the attending powers.

If it were now possible for each of the principal nations to agree upon a further and more drastic limitation of land armaments, this would go a long way towards relieving some of these governments of their present financial difficulties and conditions of practical insolvency. It is further evident that the manifest inability of some of the countries to repay the United States at the present time is due to these huge military expenditures, and that to ask the United States at the present time to cancel these debts is practically asking a corresponding contribution to these war expenditures. At least, so it seems to our people.

(3) Post-war financial conditions have produced for the United States a large excess in her customary trade balance; and this excess has been settled in gold. This has resulted in piling up in the banks of the United States a store of gold far beyond any possible needs of the nation. But this excess of trade balance, in the judgment of most economists, is due either to

partly

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 23, 1922

To Governor Strong

SUBJECT: Statement Regarding America's

FROM Mr. Snyder

Attitude--2

Allied Governments could agree upon this compromise, the central point of difficulty would be removed. [ As it stands, in four years the reparations payments that Germany has made have been slight and probably not equal to the payments which it has received from other countries through the purchase by foreigners of its paper currency and German securities. In other words, on balance Germany has thus far paid nothing. And it appears that the requisite for any real payment is a government strong enough to raise by taxes and by loans the sums that are required. [ It seems extremely doubtful if any government strong enough to carry out its agreements financially and otherwise can gain or hold power in Germany so long as the central point at issue is not adjudicated. At the present time the German Government is practically bankrupt and exists only through the surreptitious form of taxation found in printing unlimited quantities of paper money.

It would seem to be the part of wisdom that some reasonable compromise should be effected, and that Germany should pay what it feels it is able to pay, and should be reasonably assisted to that end, rather than that the present financial and governmental chaos there existing should continue. *revised*

(2) A question of almost equal importance is that of the interallied debts. Leaving Russia out of the picture, it remains that, from its Allies in the war, there is owing to the United States some 10 or 11 billions of dollars, advanced to these countries by our Government. This money was for the purchase of food, munitions, and supplies at a time when these countries were in desperate straits; this money was spent wholly in the United States, and the goods it paid for sold at topmost war prices ranging from 100 to 400 per cent. above the average of prices obtaining before the war began. [ These loans were contracted in dollars, and since that time the currencies of several of these countries have undergone a violent depreciation, so that in some, to attempt to exact the full payment of these loans now in gold, and under the purchasing power of the currencies of the debtor nations, would be to make our Allies pay twice or more the actual amount which they received in goods, and put this country in the position of profiteering heavily from its former Allies and friends.

It remains, nevertheless, true that the people of the United States subscribed 10 billions, to the average amount of aboutn \$500 for each family in the United States, in actual money, in order that these loans might be made to Europe, and through taxes assessed this country is now paying the interest on these bonds.

This sum, with the accrued interest, is now equivalent to almost the entire amount of actual damages assessed as reparations against Germany, i. e., nearly 50 milliard gold marks; and is equal at current rates of exchange to more than 133 milliards of francs, or about four times the entire amount of claims for damages so far filed by the citizens of France for damages

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 23, 1922

To Governor Strong

SUBJECT: Statement Regarding America's

FROM Mr. Snyder

Attitude.

Nearly four years have now elapsed since the war, amid universal rejoicing, came to an end; and it is probable that, through reduced production, depressed trade, and the disturbance of international amity, these four years have occasioned almost as great an economic loss to the world as the four years and three months of actual war. This is a situation that seems to belie an intelligent direction of international affairs; and probably in this each of the principal countries concerned would agree. But each nation would probably hold a view of this situation widely at variance with the others, and it is just this lack of a common meeting ground and common understanding of economic conditions that is largely the source of difficulty.

Where such a wide divergence of opinion and policy exists, it is probable that each is extreme and that a meeting ground is possible only by a modification of these extremes. In the belief that America, more distant from the scene and less vitally affected by the struggle, and before the war on terms of equal friendship with all the warring nations, might view the problem more dispassionately, and in the spirit of an umpire, the following suggestion of a via media is offered:

(1) The central point of disturbance in the last four years has undoubtedly been the question of reparations. So long as this remains unsettled, Europe may remain unsettled and its recovery to normal and productive health be inhibited. And in the reparations question the central point at issue is the question of pensions for those injured in the war. In the final assessment under the Versailles Treaty, as fixed by the London protocol, 50 milliards, or billions, of gold marks were fixed upon as adequate compensation for damages, and a further 80 milliards, or billions, of gold marks for pensions.

It is the contention of Germany that this award for pensions was in violation of the Armistice agreement, and (furthermore) that it imposes upon Germany penalties beyond her capacity to bear. The German Government has offered officially to undertake the payment of 50 milliards of gold marks, providing it be given sufficient time, and (that) the award of 80 milliards for pensions be cancelled.

In this contention, both that the award of 80 milliards for pensions was in violation of a definite agreement, and second, that it is beyond the economic capacity of Germany to pay, many careful students of the question in England, in America, and in neutral countries are inclined to agree. If Germany would in good faith undertake to pay the full amount of actual damages assessed, and were allowed at least one or two years in which to extricate itself from the financial morass in which it is now struggling, and the

## OFFICE CORRESPONDENCE

DATE August 22, 1922

To Governor Strong

SUBJECT: The European Problem

FROM Mr. Snyder

To try to get a line on average sentiment, I have talked in a very general way with a number of people in the last week, about the debts and reparations and what this country might do--with a couple of lawyers, with a newspaper owner, with Mr. George E. Roberts, etc., and it seems to me clear from what almost all of them say that there is no particular sentiment favoring cancellation in this country. On the other hand, as Mr. Roberts pointed out, there is no very strong opposition, except in certain quarters like the bonus people, who would like to utilize the debt interest as a fund.

The general sentiment is of complete indifference.

Likewise, I have found that almost none, even among well-posted people, know that two-thirds of the German indemnity is for pensions, or anything about the history of the assessment; and I can't help thinking that if the facts were generally known it would make a very considerable difference in public sentiment. So I have been wondering about an idea like this:

Would it be feasible to attempt to organize in each of the principal countries, and maybe some of the neutral countries, among the more fair-minded type of people, a committee of say a hundred or two hundred very representative and highly respected citizens, as a kind of Committee of Conciliation, the list to include some distinguished bankers, economists, editors, writers, business men, college presidents, etc.--maybe even Henry Ford and Edison. Similar committees in Great Britain, France, Germany, etc.

Supposing, that ten or a dozen of the right kind of people were chosen as a nucleus, and that the committee should then grow by nomination and approval of this nominating committee. Then, when organized, the committee might name two or three delegates each, who might draw up a statement for the approval of the whole committee, and these in turn might be circulated among the committees of the other countries, with a view to meeting on a common ground.

Complete exclusion of politicians and Government officials. Do you think it might do any good? As I talk it over with experienced people it seems to me more and more doubtful that the politicians in control of each of the principal countries will be an effective stumbling block to any kind of intelligent action, unless their hands are forced by some outside agency of high standing and influence.

August 22, 1922

Dear Governor Strong:

Last spring, when I came up to see you at your apartment, I intended to bring up a volume of the "Collected Works of Ricardo" (one volume); but I cannot remember whether I did or not.

I am sorry to trouble you, but it was a hard book to find and I should be greatly indebted if you could just take a look and see if it was there.

Sincerely yours,

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

OFFICE CORRESPONDENCE

DATE August 21, 1922

TO Mr. Snyder

SUBJECT: International Debt

FROM Colonel Ayres

2

When England takes that step she will render her debt to us morally uncollectable. It seems to me highly probable that we are confronted by a situation involving the welfare of most of the civilized world, and of so very difficult and complicated a nature that we cannot hope to collect at any time that we can foresee, the vast sums that we loaned during the war. Since conditions as they exist probably make these debts impossible of collection, and since England will probably take steps that would render it even more certain that we could not collect payment, it seems to be the part of wisdom for us to take the initiative in a general and cooperative movement for the common good, rather than to stand apart and finally be compelled to accept our loss with ill grace and with no compensating gains.

Sincerely yours,

(Leonard P. Ayres)

V. P. Cleveland Trust Co.

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FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 21, 1922

To Mr. Snyder

SUBJECT: International Debt

FROM Colonel Ayres

Dear Mr. Snyder:

In thinking over our conversation of this afternoon, I am left with the conviction that the opportune time has arrived for some person or group in America to make a statement outlining the situation with regard to international indebtedness and the relation of the United States to the troubled fiscal problems of the other nations. It is probably true that Americans in general are now less interested in this matter than they were some months ago, for the returning prosperity has convinced many business men that the purchasing power of Europe is a less potent factor in our own well being than it seemed to be some months ago. If hard times had lasted a little longer American sentiment in favor of constructive and helpful action would have been stronger and more general at this time. Moreover, our Congress is apparently about to enact a pretty drastic piece of tariff legislation, and we have already created a Debt Refunding Commission bound down by trammels of a sort that are not at all friendly in their aspect, from the European point of view.

Despite these difficult elements, it seems probable that the time has arrived for a well-reasoned statement from some American source, telling what our attitude ought to be and proposing methods by which genuinely better conditions could be brought into being. It is probable that there no longer exists in this country any general conviction that the debts of the European nations to the United States can be paid in the near future, and increasing numbers of thoughtful men believe that large parts of the indebtedness can never be paid us at all. Because of this realization there is, I think, a growing sentiment favorable toward a remission of the indebtedness, if we could secure in return certain conditions and agreements that would be of large value to us.

These conditions are probably of four sorts. They would include, in the first place, a further reduction of land armaments in Europe. Following this would come definite steps looking toward the balancing of budgets, which would result in the betterment of fiscal and currency conditions. The third consideration would be a definite and feasible settlement of the problems of reparations, and the fourth would be a general adjustment of European international indebtedness.

Among other reasons why it would be timely to initiate such suggestions in this country and among ourselves is the realization which is growing among thoughtful people that if we do not take such steps England will take them without us. The financial problems of Europe will have to be settled before very long. The world cannot tolerate their indefinite dragging out in their present status. If we make no move toward cooperation in the adjustment of international debts, England will almost surely, sooner or later, take the step of remitting the debts that other nations owe to her.

OFFICE CORRESPONDENCE

DATE August 18, 1922

To Governor Strong

SUBJECT: Analysis of Investment Accounts

FROM Mr. Snyder

of Banks

Herewith is presented the highest and lowest amounts in each year, of Government securities held and all other, and the total investments and total deposits (i.e., net demand and time and Government deposits).

You will observe that, from the low point of last year, the increase in total investments by all National banks has not been very considerable, that is, less than half a billion, while in the 800 Reporting Member Banks the increase has been on the order of about 1300 million.

In the National banks this increase in investments has been fairly distributed between Government and all other in the proportion of about three to two, whereas in the Reporting Member Banks, over a billion of the increase has been in Government securities held and only a little over 300 million in all other investments.

Of the increase in investments of the 800 Reporting Member Banks, near to one-half is from the New York district alone, and this increase is almost wholly consigned to Government securities.



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 18, 1922To Governor StrongSUBJECT: Address before AdirondackFrom Mr. SnyderBankers' Association

*Paul Smither*  
I am to speak at the meeting of the Adirondack Bankers' Association  
at ~~Lake Placid~~ on September 2, and I was wondering if there was any special  
slant that would be of interest or value.

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of New York to be held on the 18th of August 1922.

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of New York to be held on the 18th of August 1922.



OFFICE CORRESPONDENCE

NEW YORK  
FEDERAL RESERVE BANK

3

## OFFICE CORRESPONDENCE

DATE August 18, 1922

To Governor Strong --- Mr. Jay  
Mr. Case --- Mr. Gidney  
 FRC Mr. Snyder

SUBJECT: Rise in Average of Wholesale  
Prices

Before the war a rise of  $3\frac{1}{3}$  per cent. in the average of wholesale prices in six months or a year was considered notable. Even the great rise from 1896 to 1912-13 averaged only a little over 2 per cent. per annum.

If this continues will it not soon eventuate in another great wave of speculative excitement as in 1919-20?

*It looks that way especially when reinforced by 20% advance in steel workers wages, but big crops may counteract in measure*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 18, 1922

To Governor Strong

SUBJECT: The European Problem

FROM Mr. Snyder

(1) Is it not doubly clear now that the key to the settlement of Europe's financial and economic problems is the reparations question, and that until that is reasonably solved economic and bankers' conferences must be as barren and fruitless as the Genoa Conference and all the rest?

(2) And is it not also clear that, in the solution of the reparations question, the position of the United States as to the cancellation or adjustment of its debt is a very vital factor; and could be made a very powerful lever in any settlement if our Government were to go further and announce that it would look with disfavor upon any further foreign loans in the United States or any credits of our citizens to any countries of Europe involved, until a settlement had been reached that would be no longer disturbing to the economic and financial equilibrium of these countries?

(3) I have been turning over this question ever since a visit from Walter Lippmann last month, and I come more and more to the view that it would be impossible to elicit any general approval of a programme of cancellation or long-time adjustment in this country unless it could be made to include some powerful emotional appeal, such as world peace, and the settlement of the European problem, or the like.

(4) If so, is not the logical thing for this Administration to carry on its programme for the Washington Conference of last winter, in the direction of further limitations of armaments and military expenditures, and to make this a part of any settlement of the foreign debt?

In talking over this question with the most varied types of minds, from economists like Mitchell and King and others, to business men, there seems to be an almost universal sentiment that there should certainly be no cancellation unless we can drive what seems to us a very good bargain, i.e., no cancellation without full quid pro. Now, is not this the opportunity?

I should like very much if you would read again the statement given out by Senator Borah a fortnight ago, which I attach, and which, as I understand it, was a sort of feeler or beginning to a very definite campaign.

---

To your knowledge, was there ever any kind of an estimate made as to the total expenditures by the several nations during the war, in the United States, and if so is it possible to get this expenditure by years, i.e., in order to estimate the approximate price average level at which these expenditures were made?

It seems to me that this is a vital item in any consideration of the adjustment or cancellation of the foreign debts to the United States.

DATE Aug. 18, 1922

OFFICE CORRESPONDENCE

TO Governor Strong

SUBJECT The European Problem

FROM Mr. Snyder

I did not mean to attempt another Disarmament Conference, but simply that a statement of the American banking position in the matter would be effective only if it set forth clearly that American sentiment would be decidedly opposed to cancellation of foreign debts unless there were a quid pro in the shape of pretty definite contractual guarantees for peace between the contracting countries, a radical reduction of military expenditures, and equally definite agreements as to further printing of money in order to meet government deficits.

Would very much be gained by not meeting squarely the facts as they exist and stating them explicitly and in detail?

*Try it out and see  
how it reads  
P.S.*

CS.MM

att.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 17, 1922

To Governor Strong

SUBJECT: Rate Action of 1919--4

FROM Mr. Snyder

satisfaction of a vindication in subsequent events. I believe that this record ought to be made public, with all that goes with it, especially if a new emergency should arise; and if such an emergency comes I hope that you will be at the helm; for the memory of the people is short and what they are able to learn seems slight.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 17, 1922

To Governor Strong

SUBJECT: Rate Action of 1919--3

FROM Mr. Snyder

was not one of them who would have denied the probable effect of, let us say, a 10 per cent. bank rate, or, to make it still more clear, of a 12 per cent. rate. And yet we find Secretary Glass in opposition to a higher bank rate, because "it could not attract gold or have any effect on our exports." As if the moral, and monetary, effect of even a 7 per cent. bank rate would not probably have been all that could have been wished for.

It is a singular thing, the extent to which even clear thinking men were swept from their mental moorings by the war's emotions. Does it not show clearly that, after all, we think what we wish to think and that, for all practical purposes, logic is but a "fable convenu"?

(5) And the far more appalling thought is: Have we learned anything now? For example:

In the war a child could see that what the Government wanted and needed was men and materials, goods and man power, and not money; that then as always money is but the counters in the exchanges made; that then, as always, goods and goods alone could be exchanged for goods and services for services. Yet the whole financial policy of the war seemed to be dictated by the idea that what was wanted was money at a low rate, not goods at low prices.

In the war as out of the war, a child could see that we could not make and sell 1,700,000 automobiles as we did in 1917, at a cost of perhaps a billion and a half of dollars, without a corresponding diminution of the Government's capacity to obtain goods and services. The purchase of a billion and a half of needless stuff could only have been achieved through an enormous excess of purchasing power in the hands of the people. A child could understand that a policy directed towards increasing that purchasing power would cripple the Government's capacity to obtain goods, rather than promote it.

Yet, I fear that if a new war were to come today we should do the same old thing in the same old way.

(6) And so today, if great prosperity comes to us again, as now seems so strongly indicated, who will there be to preach clearly that prosperity cannot be increased by a great expansion of bank credit?

In 1917 and 1918, with every mill and factory strained to the utmost to produce goods, with the railroads so congested that goods could not be moved, with the whole nation wrought to a fervor to produce, the banks went on pouring out new money and new credit.

If the same thing comes again in 1923, how many people will there be to remember or to understand the lesson of those years?

(7) The position of this bank under your leadership, as revealed in these pages, is an enviable record and I hope the time will come when that record may be known to all. Meanwhile, you and your associates have at least the

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 17, 1922

TO Governor Strong

SUBJECT: Rate Action of 1919--2

FROM Mr. Snyder

(2) I have been especially interested in Mr. Leffingwell's contemptuous reference to "the economists," in his letter of February 12. Sprague, Fisher, Kemmerer, Hollander, Bogart, "Willis, and Miller, whom we both know,"-- "I have the measure of these fellows"! And they are all of them wrong; Mr. Leffingwell alone is right. And "when a merciful Providence relieves me of my present job I hope to find time to give a real account of our war finance, and incidentally have some fun with the critics."

I remember very well the occasion at Atlantic City when Mr. Leffingwell spoke before the American Economic Association, in defense of his war policies, and his almost cringing supplication at the end, to "give them your support."

I doubt very much if there is an economist of standing in this country now who shares Mr. Leffingwell's views, or approved them in the war. He says that "I have, since college, been more interested in economics than in any other subject;" but the teachings of those whose advice he spurned were but a restatement of the teachings of Smith, Ricardo, Mill and the rest, for whom, let us hope, he had more respect.

(3) Of especial interest is the naive belief of Mr. Leffingwell and all the rest that keeping down the rate for money in the war, and floating loans, at a "favorable rate," was a benefit to the Government or to the people. Is it not now clear that a far wiser procedure would have been to make these loans for a short term, from five to ten years at the most, at a high rate of interest, discourage banking inflation and the purchase of bonds by the banks, and thus keep down the level of prices and hence the cost of the war?

Most of the things for which the Government paid out money--food and munitions and ships, rose far more than the 100 per cent. or so of the general level of wholesale prices reached in the war. The average increase, I should think, was nearer 200 per cent. And I am of those who believe that, had the banking policy of the country been wisely conceived, this increase might easily have been less than 50 per cent. For is it not now clear, as an incontestable fact, that there can be no great rise in the general level of prices unless there be at the same time a corresponding increase and diffusion of purchasing power among the people?

All the demands in all the world, from ~~any~~ beggar or bankrupt, cannot increase the price level. That increase can only take place when coin or credit is behind the demand. And so we see that, in spite of all the war's demands in this country, the general effect of the war was slightly to lower the general level even of wholesale prices for the first twelve months after the war had begun.

(4) I was especially interested to discover your staunch faith, throughout the whole period, in the efficacy of the bank rate. I have wondered if all those who, like Leffingwell, Glass and Harding, were denying the power of the bank rate, ever considered the implication of their view. Surely there



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 17, 1922

To Governor Strong

SUBJECT: Rate Action of 1919

FROM Mr. Snyder

I have been very deeply interested in going through the memo., with the correspondence, on the question of bank rates and policies in 1919 ff., more interested than you could know.

In November of 1917 I participated with Prof. Hollander, Dr. Miller, and Mr. Noyes, in a discussion at a meeting of The American Academy of Political and Social Science, on the question: "Do Government Loans Cause Inflation?"

I attach herewith the volume of Proceedings, and would like to draw your attention to the marked paragraphs on page 143 and the little note on page 145.

As a further exhibit I attach part of an address before The Economic Club of Boston in October of 1917, to much the same tenor as the above.

I am very much gratified to find how closely my own thought apparently ran with yours, even to the extent of much the same type of illustrations. There would have been some divergence as to the wisest policy after our entry into the war, but none as to that following the Armistice. I wrote a great number of editorials in the latter period, for the Tribune, which were nearly identical with the general views expressed in your letters, and I attach copies of two articles which I saved, and I should like to draw your attention to the very mild predictions in that of February 17, 1919, suggesting that the direction of prices might more likely be that of a sharp upturn than that of a continued fall. I know of almost no one else at this period who clearly expected this possibility.

As to the memo. on Bank Policy, and your letters:

(1) A sufficient time has now elapsed, it seems to me, to show that the policy advocated by you was the only sound policy, and that the vast expansion and subsequent collapse, the post-Armistice boom, was largely brought on and encouraged by the policies advocated by Mr. Leffingwell and the Treasury. And I think it would be worth while to read into the record that this expansion, measured by the increase in bank loans and the almost exactly parallel increase in prices, was without precedent in this country, so far as we know, and likewise the extent and violence of the ensuing collapse.

In twelve months we had an expansion of bank loans exceeding 26 per cent. with an increase of the index of prices at wholesale of around 30 per cent.

Nothing like this in peace times had ever been known in the history of this Republic, and it was only made possible by the low rates of interest prevailing and the sanction of the Treasury and of the Federal Reserve Board to this expansion.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 16, 1922To Governor StrongSUBJECT: InventoriesFROM Mr. Snyder

I have gone over the matter of working up inventories from the financial statements in the Credit Department, with Mr. Morris, and he tells me that, for the most part and especially for the large companies, these statements are the same as those published in Moody's Manual, etc., each year, and for the most part they are of last January 1 or some months previous, and that very few of them are of much later date.

*MWS* Are they not then rather stale for purposes of estimating the current trend in this regard, if this is what you desire? Are they not too much past history?

In this connection I attach a very interesting letter from Mr. Nevin, of Cleveland, regarding the tire situation, from which it would seem to appear that production has not been excessive in that field.

*Very interesting. The world is on wheels. —  
P.S.*

By assets  
1919. 20 - ~~1921~~  
and 1st 6 months 1921.

---

1. Total reserves ✓
2. Loan percentage ✓
3. Total liability ✓
4. Deposit liability ✓
5. Total of loans  
and discounts
6. Total of all other  
earning assets

All 12 banks  
+ N.Y. Bank

Received from

Date received

Date returned

Prepared by

Checked by

Remarks:

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 14, 1922

TO Governor Strong

SUBJECT: American Federation of Labor Report,

FROM Mr. Snyder

June 12, 1922

Don't you think this is pretty good as coming from the Federation  
of Labor?

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 21, 1922

To Governor Strong

SUBJECT: Memorandum on "Gold Policy"

FROM Mr. Snyder *0069*

If it had not been for your suggestion this would not be offered, and I have really only tried to formulate the problem. The whole of it seems to me bound up in Query No. 9.

AVAILABLE COAL SUPPLY

(Memorandum by Mr. Page)

The figures contained in the attached memorandum are in the main correct, with the exception of that quoted as weekly consumption (8,000,000 tons) which in my opinion should be somewhat reduced.

By reason of the high selling price then prevailing, the consumption of bituminous coal throughout the abnormally active year 1917 was, in all probability, nearly identical with production. For the period April-June of that year this amounted to 135,700,000 tons, or at the rate of 10,200,000 tons per week, which figure we may accordingly adopt as likewise weekly consumption.

For the purpose of comparison and as a measure of industrial activity, we have for the period April-June of 1917 and 1922 respectively:

	April-June		Ratio	Wt.	
	1917	1922			
Pig Iron Production	10,021	6,739	67%	2	134
Coke Production	13,902	8,743	63%	1	63
Freight Ton Mileage	104,507	85,488	82%	1.5	123
				4.5	320
Weighted mean				71%	

Assuming that coal consumption varies as industrial activity, we then have for weekly consumption throughout the period April-June, 1922:

$$10,200,000 \text{ tons} \times 0.71 = 7,200,000 \text{ tons}$$

As supporting this view, it may be stated that production of bituminous for the period January-March, 1922, during which period the major portion of the 70,000,000 tons in stock April 1 was assembled, amounted to but 129,000,000 tons. Consumption for this period was, therefore, in the neighborhood of 59,000,000 tons, or 4,500,000 tons per week.

It is highly probable that wagon and river mines, the product of which is not recorded by the U. S. Geological Survey, have served materially to assist and relieve the coal situation. The use of fuel oil has also become general, as shown by the increased demand for this product at steadily rising prices.

Complaints of shortness of coal have not as yet become frequent.

## OFFICE CORRESPONDENCE

DATE August 14, 1922TO Governor StrongSUBJECT: Available Coal SupplyFROM Mr. Snyder

I attach a careful memorandum from Mr. Page which indicates what I think there is much to suggest is the fact, that the available coal supply of the country is very much higher than the estimate given. While it is true that large stocks of bituminous coal are not feasible, it is none the less a matter of observation as to the astonishing amount that is always lying around in consumers' stocks.

0013



Memorandum:

J. D. A. Morrow, Vice President of the National Coal Association, figures that at the beginning of the present strike approximately 65,000,000 tons of coal were in storage and possibly 70,000,000 tons. (Assume this was all bituminous.)

If we add to this the Geological Survey figures of bituminous output for April, May, June and July 74,000,000, we have a total of 144,000,000 tons.

The Coal Bureau of the Chamber of Commerce of the United States figures the country's weekly consumption of bituminous at approximately 8,000,000 tons - say, 128,000,000 <sup>8 x 17</sup> = 136,000,000 tons for the four months.

These figures would indicate <sup>8,000,000</sup> 16,000,000 tons of bituminous storage coal on hand August 1st as compared with 20,000,000 tons as estimated by Mr. Hoover's office.

There is practically no anthracite coal in storage and practically none being produced.

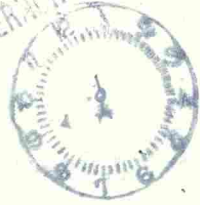
F.E.V.

Aug. 8, 1922.

*Plonate*  
*ERS*

---

RECEIVED BY  
GOVERNMENT DEPT



AUG 10 1922

press urged to consider subject of international stabilization of silver, Chronicle, 115: p. 498, July 29, 1922.

The attention of the United States Senate was recently called to a resolution adopted at a conference of mining interests which convened in Denver June 22-28. Believing that the rehabilitation of business and finance in Europe, and in the entire world, will be expedited by the increased use of silver for monetary purposes, and that under existing conditions international transactions in silver are subject to private manipulation, to the detriment of both producers and consumers, the conference urged Congress to consider the international stabilization of silver. The resolution was referred to the Committee on Banking and Currency.

The Conference of the Banks of Issue. Dr. Alfred Lansburgh, Editor-in-Chief Die Bank, No. 6, pp. 477-489, June 1922.

Dr. Lansburgh's point of departure is the statement on the London memorandum for a central bank conference that, on account of their large budget deficits and unfavorable trade balances, it will be years before many European countries can return to the gold standard. To make this admission is, he thinks, to deprive the conference in advance of the chief value it might possess.

Dr. Lansburgh strongly denounces the attempt to cover budget deficits by note printing, saying that a state oversteps the line between honor and dishonor when it resorts to the printing press in order to conceal its bankruptcy. There is at present, he declares, no country in Europe, even including Russia, which could not meet its deficit by means of internal loans, -- and voluntary ones.

To postpone currency reform until budgets have been balanced, -- as the London program advises -- is to postpone it indefinitely. Currencies must first be reformed, and then budgets and trade balances will right themselves.

As middle ground between the gold redemption standard and the gold exchange standard, the writer recommends the adoption of what he calls a "gold margin standard," providing for a currency backed by gold to an extent sufficient to settle each unfavorable trade balance by gold payments. This currency, which will tend to become a real gold currency, need not at first have more than a 20 per cent. gold cover in countries pursuing an honorable financial policy.

As to a disturbance of the world gold market by a reform of the currency of the Central European states, there is little danger, on account of the financial weakness of these countries and their inability to make effective any considerable demand for gold.

The paper concludes with the recommendation that the articles on the London program which create difficulties instead of solving them be "thrown overboard" immediately.

Paul M. Warburg Views as Inconceivable Insistence of United States on Payment of War Debts by Allies Unable to Pay. Chronicle, Vol. 115, pp. 596 - 598, August 5, 1922.

Paul M. Warburg, in discussing "The Rehabilitation of Europe" at the Institute of Politics at Williams College on July 31, deprecated our policy of aloofness toward Europe. The United States is helpless to assist

(Continued)

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 10, 1922

To Governor Strong

SUBJECT: Lansburgh article.

FROM Mr. Snyder

This article by Dr. Lansburgh, which I have marked, is that to which I drew your attention in June, in the Berlin correspondence of Mr. Robert Crozier Long in The Economist.

As the article seems to me important, especially as coming from a German, I am having it translated entire. He makes some very definite suggestions regarding the conference and the way back to the gold standard in Europe, that seem well worthy of careful consideration. For example, Sir Josiah Stamp's recent work on "National Taxation" brings out very clearly that there are very definite limits to the amount of taxation which a nation can bear. The present deflation policy of England practically doubles the burden of their war debt at a time when their general taxation still remains very high.

I have been wondering whether Sir Charles Addis and the rest who have so doggedly determined upon this policy have ever seriously considered what it might mean to the economic position of England and the welfare of her people in the next twenty years.

See Stamp, pp. 136-7 and 169 ff. I point out that after the Napoleonic Wars, for nearly a generation, English trade was very severely depressed, in spite of the industrial preeminence she then enjoyed.

## APER INFLATION ASSAILED.

German Economist Believes Public Loans Could Solve Whole Problem.

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Special Cable to THE NEW YORK TIMES.

BERLIN, June 17.—Considerable stir has been made in the currency and budget discussion by the declaration of the well-known economist Alfred Lansburgh, editor of the newspaper Die Bank, to the effect that every European State, even including Russia, could easily balance its budget by means of loans, which should stop the increase in floating debt and thereby check inflation. Lansburgh characterizes as "moral insanity" the statement on the London program for the central bank conference that some European States cannot return to gold currencies for years.

If, says Lansburgh, currency reform waits until budgets are balanced and foreign trade balances restored, it will wait eternally. The proper way out of the difficulty is the immediate stopping of currency inflation by means of funded loan. When this is done budgets and trade balances will automatically be restored.

In his concluding comment Lansburgh declares that this blunder in principle in the program for the bank conference threatens to vitiate the whole proceedings.

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FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 3, 1922To Mr. JaySUBJECT: Possible Bank Loan ExpansionFROM Mr. Snyder

I see nothing to change the calculation we made, that the potential expansion of the Member Bank loans, on the basis of each dollar of gold, is from 10 to 11 times. This supposes that the general ratio of demand deposits to the total amount of currency in circulation will keep to the ratio of about 5 to 1. But Mr. Riddle makes the interesting point that part of the Federal reserve notes go to constitute the reserves of the non-member banks, etc., and that, therefore, the real potential expansion is a little larger than this; but I think his figure of about 12 to 1 is too high, since not all the states allow Federal reserve bank notes to be counted as reserves.

Also, the bulk of state bank resources are in the system

81750

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 3, 1938

SUBJECT Possible Bank Loan Expansion

To Mr. Lay

From Mr. Snyder

I see nothing to change the calculation we made, that the potential expansion of the Member Bank loans, on the basis of each dollar of gold, is from 10 to 11 times. This supposes that the general ratio of demand deposits to the total amount of currency in circulation will keep to the ratio of about 5 to 1. But Mr. Riddle makes the interesting point that part of the Federal Reserve notes do constitute the reserves of the non-member banks, etc., and that, therefore, the real potential expansion is a little larger than this; but I think his figure of about 12 to 1 is correct. Since not all the states allow Federal Reserve bank notes to be counted as reserves.



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 3, 1922

To Governor Strong

SUBJECT: Figures on Brokers' Loans

FROM Mr. Snyder

Mr. Breck, of the San Francisco bank, asks if the figures on brokers' loans are to be published hereafter, <sup>(see attached)</sup> and if so would like to know if we could give him previous figures.

6075

This must be a guess.  
 Except as to "Reporting Bank  
 figures, we cannot give those  
 as they are inaccurate! P.S.

## OFFICE CORRESPONDENCE

DATE March 6, 1922 192To Mr. SnyderSUBJECT: FILESFROM Governor Strong

JUN 1

FEDERAL RESERVE

I have written to the War College advising that I shall be unable to deliver a lecture on April 15. The acoustics in the hall are so bad that I would be afraid to speak until later in the year; so that the revision of the address can be postponed, and I will give you good notice of any imminent danger of my being called on to speak later on.

BS.MM

## OFFICE CORRESPONDENCE

DATE March 7, 1922 1922

Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM

Governor Strong

Referring to the attached article by Professor Kemmerer, I went over it with Dr. Miller, and think he is convinced that the Board is on dangerous ground in making such an absolute statement as appeared in the Bulletin for February.

Will you please have some one keep an eye on both the Bulletin and other publications to see what is developing.

BS,MM

Att.



## OFFICE CORRESPONDENCE

DATE March 7, 1922 1922TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Referring to the attached strictly confidential correspondence we have just had, I wish you would bring it all down to me on my return from Miami. I want to talk it over with you. The same applies to your memorandum about the stable money league attached.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE March 20, 1932 1932TO Mr. SnyderSUBJECT: War College AddressFROM Governor Strong

The attached explains itself. I hope I am not burdening you unduly with the revision of my former address.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE March 20, 1922

TO Mr. Snyder  
Governor Strong

FROM

SUBJECT: *Paying Out Gold*

I have read the attached with a good deal of interest, and am willing to admit your argument on certain points but not on all.

The real question to examine is first what are the present surplus reserves of member and nonmember banks in the United States, and to what extent are they able to expand their loans and deposits without resorting to loans at the reserve banks? The minute they resort to loans at the reserve banks our rate comes into play. I am not sure whether politically we can count upon our making an effective rate sufficient to control expansion until the present criticism of the reserve system subsides. In other words, until business improvement sets in and some inflation takes place.

If there is no great surplus of reserves held by member and nonmember banks to-day, how then are they going to inflate, except to the extent that new importations of gold permit?

Do not forget also a practical consideration about our paying out gold. We do not want to be in the position of the famous surgeon who replied to an inquiry about one of his patients by saying that the operation was successful but the patient died. I do not think we want to control expansion to the point where the Federal Reserve System will go overboard as did the Second Bank of the United States. Suppose we all began to pay out gold certificates, as the United States Treasury is now proposing to do, the country was flooded with yellow-backs, the newspapers took it up and made a great point of it, and then some of our critical Senators or Representatives agreed that we were obdurate, determined deflationists, that we had suffered no change of heart, that we were now even going to the point of dissipating our reserves in order that we might have excuse for maintaining high rates? Has it occurred to you that there is just as much danger in paying out our gold reserve as there is in keeping it, allowing that a 15% reduction in the reserve percentage of the System, say from 75 to 60%, might indeed reduce the size of the show piece in the glass case

March 20, 1923

## OFFICE CORRESPONDENCE

DATE

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

2

and thereby reduce the sentimental demand for low rates in the minds of some people, but, on the other hand, it would subject us to the charge of an attempt at wilful deception.

You turn a sharp weapon against me when you quote Mr. George Roberts. I have such a great respect for his views, and almost always have agreed with them, but don't forget that he may have some respect for my views and if he heard them he might not feel as strongly as he does on some of these points.

That being the case I think you might arrange with him to reserve a little time on Wednesday, say prior to our luncheon, when we can have a chat on the subject. You might bring down the attached memorandum, because in it you are pretty well sewed up in writing, and it might be that Mr. Roberts and I could upset your views a little bit; in other words, that I might turn the very sharp weapon against you.

I am ready to go over the work that you and your colleagues have done on this work at any time. Please arrange an appointment with Mr. Beyer.

BS.MM

Att.

## OFFICE CORRESPONDENCE

DATE March 20, 1922 1922TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I agree with you that this is a good bit of reading. It is not that it says so much as that what it does say is well expressed.

Is it not stating a truism as to credit conditions which invariably arise in a new country with new land and resources to develop.

BS.MM

att.



## OFFICE CORRESPONDENCE

DATE March 24, 1922 192TO Mr. SnyderSUBJECT: Questions and Answers aboutFROM Governor Strongthe Federal Reserve System

Referring to the questions and answers, I have not yet had time to read them, but will try and do so over this week-end. I am sorry to be so slow.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE March 24, 1922 1922

Mr. Snyder

SUBJECT: \_\_\_\_\_

Governor Strong

FROM \_\_\_\_\_

Referring to the attached, I am sorry to feel that the addition of the new material in the early part of your letter makes it longer than I had hoped it would need to be, and not as simple and direct as it was. Mr. Jay is hesitating about sending the letter. I think the Scott episode indicates the need for sending an answer, and I would very much regret if he did not send one.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE March 24, 1922 1922

TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

466

I read the attached before leaving for Miami, and it struck me as a great improvement over anything that had as yet been submitted. I sent Mr. Jay and Mr. Shepard Morgan a few comments, however, which possibly you have already seen.

ES.MM

att.

*Revised draft for  
handset on F.R.S.*

## OFFICE CORRESPONDENCE

DATE March 27, 1922 1922TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Could some one in your department read through the attached communication, advise me if there is anything of special importance in it, and prepare a suitable acknowledgement.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE March 27, 1922

To Mr. Snyder

SUBJECT: \_\_\_\_\_

FR Governor Strong

These Dearborn Independent articles strike me as bosh.

ES.MM

att.

RECEIVED  
MAR 28 11 43 AM '22  
FRANKLIN D. SWIFT  
FEDERAL RESERVE BANK  
OF N. Y.

3745

FEDERAL RESERVE BANK  
NEW YORK

OFFICE CORRESPONDENCE

March 27, 1933

DATE

Mr. Snyder

SUBJECT

Governor Strong

These Dearborn Independent articles strike me as odd.

BS:MM

ajj

March 24, 1922

## OFFICE CORRESPONDENCE

DATE

Mr. Snyder

TO

SUBJECT:

Governor Strong

FROM

Referring to the attached, the reason why prices did not generally advance after the war started, until the fall of 1915, was not because the demand for certain war goods did not cause an advance, but because this was so greatly offset in the case of goods in general, and of war goods in particular, in certain instances by the decline in ~~the~~ other kinds of demand. The shock of the war almost stopped business in certain directions, and it was a good while in picking up; in other words, war demands did not come into competition with normal demands until after the shock of the war had subsided, and until after arrangements for method of payment had been worked out, and further until after contracts were not only let but until production started and the influence upon wages was felt.

Do not forget the tent order.

ES.MM

att.

OFFICE CORRESPONDENCE

DATE March 28, 1922

TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

*Answers attached*  
*[Signature]*

I am arranging with Mr. Beyer to hand to you an accumulation of documents and correspondence relating to reparations payments by Germany. I would like to have you designate some capable person in your department to regularly read the reports, of which you have a number, and of which a fresh batch accompanies the whole file. As new ones come in, they should be read and a digest sent to me, the digest, of course, covering only the most important matters and reduced to the fewest words.

Whoever undertakes this work should be familiar with the entire file and I would now like to have the file examined for the purpose of obtaining, if it is there, the following information:

- (1) What is the amount of the German national debt, divided between
  - (a) the debt to the Reichsbank,
  - (b) the domestic debt to the German people,
  - (c) the debt owing by Germany abroad.

(2) It has been recently reported that Germany has extinguished entirely the *bonde* debt of the Imperial Government, including the pre-war debt and the war debt. If that is so, how much was it, and how was it done?

(3) How much in paper marks has the German Government paid up to date in order to make reparation payments? I just want the total figure.

(4) What estimate does the Reparation Commission make of the amount of so-called exported capital of Germany?

(5) What has been the balance of German trade, as estimated by the Reparations Commission? This should include visible and invisible items, if possible.

Whoever undertakes to go through the documents should become so familiar with them that I shall be able to call from time to time for other information as the need for it arises; but they should all be kept in my confidential file under Mr. Beyer's

charge.



## OFFICE CORRESPONDENCE

DATE April 3, 1922 192TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I cannot claim that my suggestion was very serious because my own plans are exceedingly indefinite. I would like to do just what I suggested.

As to the exchanges; we must not turn a 12 inch gun on a sparrow. The great problem is sterling; the others will come along easily enough if sterling could be dealt with.

BS.MM

att.

April 28, 1922

## OFFICE CORRESPONDENCE

DATE

TO Mr. Snyder  
Governor Strong  
FROM \_\_\_\_\_SUBJECT: \_\_\_\_\_  
London Conference

It is not at all settled that I shall go to London; nor is it settled as to how much of an organization will be required; nor what sort of material should be taken. I am starting, however, to make a list, just by way of precaution, so that if the trigger is pulled, and when it is pulled, I can give you good warning. I wish you yourself would begin to consider what you think I will need in the way of material as well as assistance, in case I should go. Also sometime between now and leaving, and probably during the second week in May, I would like, if possible, to have a meeting with some of the nearby economists whose opinions are most orthodox and most reliable, upon the subject of currency and the exchanges.

When I say "most orthodox" I mean that I am not going to surrender my own convictions to any one, and my conviction is that we must get back to the gold standard, and that we can only do so by pursuing methods which have been tested and tried for the last 100 years, and are known by experience to be sound. In other words, if I am to have anything to do with the business it will not be in the nature of administering a "fake patent medicine to the sick man." I think it would be most helpful to get together three or four of the best there are on this subject and have a chat with them, and probably get them to prepare some memoranda. What I have in mind to consider particularly is what effect could be expected, say, in France, by the adoption of a new monetary unit, say, a franc of one-half the intrinsic gold value of the old franc. A discussion would readily bring out the points to be considered and it struck me that we should have such a discussion before trying to get anything in the nature of a formal paper from any one of them.

This is all most tentative and preliminary, and I do not see that anything can be done until after I get back from Washington.

BS.MM  
att.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE April 28, 1933 192TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Referring to the attached papers, please turn to my memorandum of March 28 and note that paragraph (2), due to some mistake in dictation, appears to be a very stupid exhibition of ignorance. The report that I heard was that the pre-war debt, and possibly a large part of the funded war debt, had been extinguished by the operation of certain laws permitting the payment of inheritance taxes and other taxes in these bonds. Of course, some 230 or 240 billion marks or more of the present debt is really floating debt, about one-half being held by the Reichsbank and the other half, I presume, by banks, investors, and the public generally.

BS.MM  
att.

FEDERAL RESERVE BANK  
OF NEW YORK

April 28, 1922

DATE \_\_\_\_\_ 192

## OFFICE CORRESPONDENCE

To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

You will be interested in looking over the attached printed record of the arbitration of certain coal matters handled by my friend, Mr. Logan.

BS:MM

att.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE April 28, 1922 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

The little book that I recently sent to you should contain the information desired in regard to the economic agreements between the Scandinavian countries. It was, I think, in Norwegian or Swedish, and will need to be read by some one familiar with the language who can give a very brief digest.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE May 15, 1922 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Benj. Strong

Reports from Genoa, and what I hear in Washington, indicate the probability of delay in the bank meeting, so please hold matters in abeyance for a bit.

May 8, 1922.

Governor Strong begs to thank the Secretary of the Financial Committee of the League of Nations for the receipt of a very interesting paper by M. Janssen, on the plan of an international clearing house, which he will read with very great interest.

Stocks (commodities)

OFFICE CORRESPONDENCE

DATE May 25, 1922 1922

To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I am sorry we cannot get something more on stocks of commodities.  
It would be most helpful if we had some reliable figures.

BS.MM

att.

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AUG 21 1922

FEDERAL RESERVE BANK  
OF NEW YORK.



OFFICE CORRESPONDENCE

DATE May 25, 1922 1922

TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Thank you for the attached memorandum in regard to the investments of National and reporting banks. What I am anxious to see is the condition of the surplus reserve accounts of the banks of the country. In other words, what is the lending power of our banking system before recourse is had to the Federal Reserve System?

BS:MM

att.

## OFFICE CORRESPONDENCE

DATE May 25, 1922 1922To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I am interested in the attached memorandum and its bearing upon what Prof. Chandler said to me in regard to the present trade of England, France and Italy (not Germany). Have you talked with him about it? It looks to me as though, roughly, the trade of that part of the world is very little above one-half of what it would have been at this time had there been no war, which means that trade must either be developed or standards of living must inevitably be reduced.

BS:MM

att.

## OFFICE CORRESPONDENCE

DATE June 1, 1922

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Replying to your memorandum regarding surplus bank funds, I think there is a contradictory statement in both the memorandum sent to me and the one sent to the directors, which is noted on the office correspondence sheet. If the banks of the country have no surplus reserves they cannot increase their loans (and of course at the same time bank deposit liabilities generally) <sup>without</sup> borrowing from the reserve banks. If the deposit account increases, reserve requirements increase and they must borrow. Of course the currency requirements will also induce borrowing, but even aside from that, the increase in the required reserve will impose borrowing upon the banks if any considerable expansion in loans takes place. That is the reason why I have all along stated that what controls is our rate. The banks will not need to borrow an amount exactly corresponding to the expansion, but they will inevitably be required to borrow the reserve which they require, plus that portion to be expressed in bank notes as distinguished from bank deposits.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE June 1, 1922 192

TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Referring to Mr. Platt's address, at least you should be gratified at the evidence which it contains, that there is some weakening on the part of the Federal Reserve Board in their ~~opinion~~ <sup>opinion</sup> as to the amount of current debt owing to the people of this country by the rest of the world.

I do not feel willing to make any comment directly to Mr. Platt because they all know now pretty fully how I feel about this matter.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE June 1, 1922

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Replying to your inquiry about silver, it seems to me that there are three principal influences to be considered:

1. Buying by the East when the balance of export trade of India and other Eastern producing countries becomes decidedly favorable. They are likely to buy silver and sometimes their purchases are in immense quantities. When silver is high, they frequently sell silver and buy gold. The recent heavy decline in silver resulted in sales of gold and purchases of silver, but no one can forecast what that development will be.

2. The completion of the repurchase of silver sold under the terms of the Pittman Act will deprive the American producer of that market and the reaction will be decidedly unfavorable unless I am mistaken.

3. Probably the most important influence to cause a reduction in the value of silver is the one you mention. Token coins and small denomination paper money will for many years be used in place of silver coinage, and should we have a coincidence of no purchases of silver by the East, or even <sup>witness</sup> sales by the East, with the discontinuance of purchases under the Pittman Act, I should say we might see very much lower prices for silver. On the other hand, do not forget that silver has fooled the world more than any other commodity. So far as I know anything about it at all, and it is precious little, my judgment would coincide with yours for the above reasons.

## OFFICE CORRESPONDENCE

DATE June 1, 1922.

Mr. Snyder

SUBJECT:

FROM

Governor Strong

I have read your attached memorandum of May 26 with great interest, and want to ask you now just one question. What is the money upon which you base the statistical evidence which supports the absolute quantity theory?

Let me illustrate the question so that it will not appear to be a trap - (far be it from me to suggest that you would ever fall into a trap on this subject). Let us assume that a bank like the Bank of France issued 50 billions francs of notes by one or another device, of which 5 billions were in circulation and the other 45 billions were immediately hoarded by the French people. Would you consider that the 45 billions had as great an influence on prices as the 5 billions?

Or let us suppose, for instance, that of the \$30 billions of bank deposits in this country, one-half should suddenly be subjected to the terms of an injunction which prevented the owners from drawing any checks on those balances. Would those bank balances have the same influence on prices as would the other half?

I need no conversion to the quantity theory, but there are a few little refinements in regard to the quantity theory which a good bookkeeper needs to have explained away, before he can swallow it 100 per cent., and the principal qualification in my mind is - what money is effective and what is not effective in influencing prices?

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE June 5, 1922 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

From the attached I should imagine you infer that there is no surplus reserve of moment carried by member banks. It is the surplus reserve in which I am especially interested, as I sometime ago explained.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE June 9, 1922 1922TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

You made me a statistician by putting me in the Association. They have a dinner on the 16th of this month, but I shall not be able to attend it. I hope you understand the limitations upon my evening engagements.

BS.MM



## OFFICE CORRESPONDENCE

DATE June 9, 1922 1922To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Miss Rose

I shall read Dr. Macrosty's article at the first opportunity.

Did you know that your Miss Rose nearly carried off the James G. Cannon prize at the American Institute of Banking Commencement last night? She got first honorable mention, and one of the judges told me that they had the dickens of a time in determining whether she or the winner had submitted the best paper. I am not a bit surprised after what I have seen of her work in digesting a lot of dry as dust material that she seems able to model into something worth looking at.

BS.MM

## OFFICE CORRESPONDENCE

DATE June 9, 1922 1922To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Referring to Dr. Dernburg's comments in the Economist of May 20,  
on the autonomy of the Reichsbank, please ask Mr. Beyer to show you a  
letter which I wrote to Mr. Norman on this subject a number of months ago.  
It will interest you.

BS.MM

att.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 9, 1922 *goss*TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I believe that with a little tact it would not be hard to get regular reports of stocks of certain of the important commodities such as those upon which you base the bank's index number. I talked with Mr. Agassiz the other day, - he is quite sympathetic, and I think would be glad to take a crack at the copper situation - pig iron is another item - steel products another - and so on. We might apply it to wool, silk, etc. It is simply a question of treating the information with sufficient confidence and discretion, and I must leave it to your imagination and experience to devise the means for attempting it if you think it is worth while. All of this is brought out by considering that equation - that quantity of goods multiplied by price equals credit. We know the volume of credit - we know the price - but we don't know the quantity. We can only get a limited line on the quantity, but then a limited line is better than none at all.

BS.MM

*Here*

## OFFICE CORRESPONDENCE

DATE June 12, 1922 192  TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I am greatly interested in the memorandum attached. Is it altogether consistent with the way you feel in regard to a boom? What pleases me about the memorandum is the knowledge that you are thinking on this subject constantly and keeping me posted on your thoughts. It is our principal job just now to size things up and act accordingly.

I am sending you Prof. Friday's reply. What do you think of it?

BS.MM

att.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE June 15, 1922TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Referring to the Brookhart memorandum attached. Of course I do not want to minimize the importance of the movement - in fact I personally believe that the radical movement in this country to-day is second in seriousness only to that of 1896; but behind this I think we have considerable evidence that the farmers of the country, and to some extent the laboring people, are awake to the dangers of unsound money. What I do fear is that some of the reserve bank organizations may become too closely associated with various movements which may be construed as political in character and which may subject us to the very dangers that Biddle encountered in the Second Bank of the United States. We have got to use the utmost discretion in keeping out of anything that appears to be political activities.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE June 15, 1922 192  To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Replying to the attached about a "boom". Don't forget what I have reiterated about surplus bank reserves. It is now and will continue to be the controlling factor.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE Junr 21, 1922 1922To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I attended a meeting of the gentlemen interested in the Sound Money League last night, and got from them a reaction as to the proposed pamphlet which we discussed at luncheon yesterday. They all thought it would be an excellent thing to do if done in quite a skilful way.

Won't you take this up with Mr. Jay immediately on his return and discuss the desirability of preparing a careful and comprehensive questionnaire to go to all of the reserve banks, which would furnish the information upon which such pamphlet would be based. I would like to look over the proposed questionnaire before it goes out as I have a few ideas of what it should contain.

ES.MM

## OFFICE CORRESPONDENCE

DATE June 21, 1922 1922To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Mr. Frame is an old friend of mine. He has now and then some rather queer and cranky notions, but is a most likable person. Had I the time and energy I would correspond with him now and then, but I think it is a little dangerous to run the risk of publicity.

ES.MM

att.



## OFFICE CORRESPONDENCE

DATE June 22, 1922 1922To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

With this I am sending you the report of the Financial Commission of the Genoa Conference, which I will be glad to have you read carefully and return to me with any comments that occur to you, or possibly discuss it at the first opportunity.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE June 21, 1922 192  To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I have read Governor McKelvie's letter attached. He has had a very active and at times rather disagreeable correspondence relation with Governor Harding, and I think it would be unwise for us to get in touch with him direct. As this is only a circular letter it seems to require no reply.

ES.MM

att.

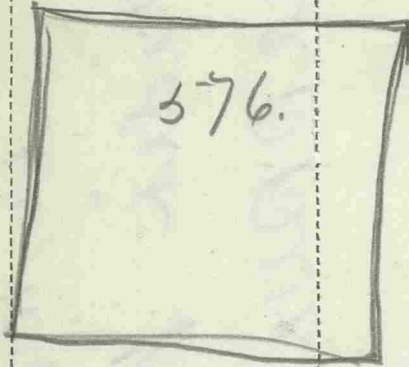
Mr Snyder.

This needs a little touch  
of humor - a reference to  
a couple credit in business,  
& a snapper at the end.

P.S.

20/ 3.000

150 mill in Troy oz.  
~~240.~~



373\*  
12\*  

---

4.48\*

4 1/2 Ks\*

## Wholesale Prices Up Sharply in May

(Bureau of The Journal of Commerce.)

WASHINGTON, June 25.—The index number of wholesale prices in the United States, compiled by the Federal Reserve Board for the purpose of international comparisons, showed that prices during May increased 9 points, or 6.0 per cent. Imported goods advanced 4 points to 119 and domestic goods increased 9 points from an index of 146 to 155. Raw materials rose 14 points, producers' goods 8 points and consumers' goods 4 points.

Index numbers of wholesale prices in the United States (average price for 1913=100):

	Goods produced.	Goods imported.	Goods exported.	Raw materials.	Pro- ducers' goods.	Con- sumers' goods.	All.
1921—							
May .....	148	105	129	139	145	152	145
June .....	140	102	126	133	140	154	142
July .....	143	103	126	134	136	162	145
August .....	144	104	127	133	133	167	146
September .....	144	106	149	133	133	162	146
October .....	143	107	146	140	132	158	145
November .....	142	103	143	141	128	157	145
December .....	140	111	141	140	127	153	142
1922—							
January .....	139	110	139	141	127	150	142
February .....	141	110	142	145	127	155	146
March .....	144	111	144	147	126	157	147
April .....	146	115	144	150	129	156	149
May .....	155	119	155	164	137	160	158

The index number is compiled from 100 wholesale price quotations for representative commodities taken in leading United States markets. In most cases weekly quotations are averaged to obtain the monthly figures, and these in turn are weighted according to the importance of the commodity before the index number is constructed. Part of the quotations used are furnished by the Bureau of Labor Statistics, the rest are compiled from trade journals and private firms of recognized authority.

# Journal of Commerce

## AND COMMERCIAL BULLETIN

MONDAY, JUNE 26, 1922. — TWENTY PAGES

### Wirth Acts to Protect Republic; Wiedfeldt May Succeed Rathenau

BERLIN, June 25 (by Associated Press).—At Saturday evening's session of the Reichstag Chancellor Wirth, reading the call to the country from the Imperial Government, said the Government's recommendation to the President of the Reichstag was that steps would be taken to insure the safety of the State and the lives and representatives of the State. The Government, he added, expected the German people to back up the Government.

A Presidential decree issued to-day declares that all meetings, processions or proclamations may be forbidden which may be contrary to law or incite to the destruction of the Republican Constitution, to any acts of violence against present or past members of the Republican Government, or to rouse the coun-

try to any such acts. The session was quite orderly. The chairman of the majority Socialist and Independent Socialist parties and a number of trade unions sent a message to Chancellor Wirth, according to a Cassel dispatch, demanding dissolution of the Reichstag and new elections, with the following programme: First, a democratic republic; second, transformation of the reichswehr and police into trustworthy republican forces; third, dissolution of all reactionary organizations.

Intervening in to-day's debate in the Reichstag on the Government's measures for the safety of the State and State officials, the Chancellor delivered a speech, of which the keynote was that the chief menace threatening the republic emanated from the Rightists. He announced that he himself had received a threatening letter

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 12, 1932

*file*

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

From the attached I gather the following:

1. That our index number of 20 basic commodities has risen from 127 in April, to 143.6 in July<sup>13</sup> - an increase of 13 per cent.

2. That the index number of 20 basic commodities in England has risen 12 per cent. since April 1, 1932.

127.61 ✓  
137.42

3. That wholesale prices according to the Federal Reserve Board's figures have risen 9 points between April and May, and 16 points since last December, and that living costs as of May show practically no increase from the low point established this year.

This strikes me as a perfectly natural development, but I am also impressed with the fact that from now on, the various indices of living costs which might indicate something of the range of retail prices, rents, etc. are important figures to watch.

I hope you will send me the figures regularly in a pre-digested pill form so that I won't have to read too much.

*All I correct!*

BS.MM

att.

*BS.*

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 26, 1922 192

To Mr. Snyder

SUBJECT:

FROM Governor Strong

Referring to the attached note from Mr. Gilbert, it refers to a speech which he is proposing to make to the Montana bankers a few weeks from now, in which he will endeavor to expose the Ford money plan.

I am anxious that he should incorporate in it a concise and easily understood statement of the way inflation - and subsequently deflation - bears most heavily upon the laboring man, the wage earner and the small producer.

Could you get up something for me to send to him?

BS.MM  
att.

RECORDED



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE July 31, 1922 192\_\_TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Will you have prepared and sent to me a statement showing the total gold holdings of the Bank of England, divided between the issue department and the banking department, by weeks. And a similar statement alongside of it showing the total gold reserves behind the currency notes. I would like to have this go back for some weeks - say eight or ten - and to have the figures sent to me every week regularly when received from abroad. Possibly a statement could be prepared which can be sent back to the department so that the figures each week are simply added to the old figures for ready comparison.

I would like the same figures on the same statement, if possible, for the Bank of France and the Reichsbank.

ES.MM

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE August 11, 1922

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Will you be good enough to read over the attached correspondence with Professor Sprague, and have some one prepare the tables described in my letter. There is no particular hurry about it.

*Discount rates should be shown for the period.*

BS.MM

att.

DATE August 11, 1922

## OFFICE CORRESPONDENCE

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I would like to read the Lansburgh article when it is fully translated.

There is just a slight difference between you and me in our understanding of a balanced budget. I think myself that domestic loans must be resorted to by some of the European nations for a good while and that taxation cannot be wholly relied upon without inevitably stifling production and trade. France is a good example of financing of budget deficits without actual currency inflation. These are all questions of degree - each case to be treated according to its special circumstances, but note printing must stop before any move towards a return to the gold standard is possible.

ES.MM

att.

## OFFICE CORRESPONDENCE

DATE August 10, 1922 192

TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Please note the attached memorandum regarding the available supply of coal and my letter to Mr. Hoover on the subject.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE August 14, 1922 192

To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

The attached confidential statement from Mr. Hoover is rather interesting in regard to the coal supply. *[See Hoover file]*

ES.MM

## OFFICE CORRESPONDENCE

DATE Aug. 14, 1922 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

*filed*

Replying to the attached, I think that Mr. Page's test is interesting and has a good deal of value, but of course it is no more than a test because we know so little about the variations in consumption under such conditions as have arisen since April, when the strike began. As to complaints of shortness of coal, I think they are growing very rapidly unless I am mistaken. Something like 40 furnaces have been shut down for want of coal deliveries, and only to-day 16 small manufacturing plants in Paterson had to close for lack of fuel.

Your can keep the attached figures for future reference.

BS.MM  
att.

DATE Aug. 14, 1922

## OFFICE CORRESPONDENCE

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I would like to see an analysis of the investment accounts of the banks of the country for the period of a year past, or if the figures happen to be already prepared for a longer period.

To give a picture of what has been going on, I think we should see comparative figures of the reporting banks at not too frequent intervals, dividing their investments between Government obligations and other forms of investment, and that we should introduce the figures for all the banks from the reports of January and July which the Comptroller gets twice a year.

It would be interesting to see just how fast the banks of the country have been absorbing investment securities in order to keep idle funds earning something, and what kind of investment securities they are taking.

BS.MM

## OFFICE CORRESPONDENCE

DATE Aug. 14, 1922

Mr. Snyder

SUBJECT: *Inventories x*

Governor Strong

FROM

Have you ever considered sending some one to look over the financial statements in our credit department to get an indication of what changes are taking place in the inventories of large concerns. I suppose we have 20,000 or 30,000 statements in the credit department, going back now for a number of years, where inventory comparisons would be possible for large industrial and trading concerns, or even for groups of concerns representing the different trades. This of course would merely show the trend, but you will recall that the trend which was disclosed by examination of these statements for the years 1918 - 1919 - 1920 was exceedingly significant as indicating that the country was getting overstocked a bit at high prices. Of course, the price factor cannot be corrected but the financial statements will nevertheless disclose in some industries an important trend as to inventory.

ES.MM



FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 16, 1922. 1922

TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Mr. Wadsworth would like copies of the translations of Lansburgh's  
articles, if you have spare copies. ✓ Could you let me have them to send to  
Washington?

The one I have I want to keep for the present.

BS.MM

RECEIVED  
AUG 16 1922  
77111

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Aug. 16, 1922 1922TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor StrongCONFIDENTIAL

I am sending you herewith memorandum on rate action of 1919 of the Federal Reserve Bank of New York. I would be interested in having your comments after you have read it.

Will you be sure that no one sees the memorandum but yourself, and that it is returned to me.

BS.MM

att.

FRASER  
B  
C  
M  
D  
6823/1922

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Aug. 17, 1922 1922TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Thank you for your memorandum of to-day in regard to our rate policy of 1919. I think myself that some data should be inserted which does not appear, especially that relating to the proposal to advance rates in July. Also, some correspondence which I have at my home. I will keep the memorandum in my file together with your comments, and next week I hope you will not mind taking a look at the additions yourself.

Thank you for the papers you sent, which I read with interest, and return herewith.

BS.MM  
att.

*Vol. on "Financing the War" - Am Acad of P.S.S. Sc.  
2 articles from N.Y. Tribune.*

## OFFICE CORRESPONDENCE

DATE Aug. 18, 1922

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Thank you for the attached. It is all doubtless very true and I can go along with you in what you write except on one or two points. One is that I do not think anything would be gained by shutting off foreign loans. It would just make bad blood and would be something in the nature of biting off our economic noses in order to spite our economic faces.

Also I have a little doubt as to whether it would be possible to successfully engineer another Disarmament Conference. The Treaties produced by the last conference have not been ratified by most of the other nations as yet, and I have a suspicion that failure of ratification in some cases is simply a lever which they are seeking to apply to us. I do not want to embark upon a competition of being disagreeable to each other.

BS.MM

enc.

## OFFICE CORRESPONDENCE

DATE Aug. 18, 1922 192\_\_TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

*file*

If you will drop into my office some day soon, I will show you the notes that I used at Oneonta to give you an idea of one sort of a talk, which struck me as interesting to country bankers, at least judging by the close attention they gave to what I said.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE Aug. 24, 1922 192TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong"Wealth and Taxable Capacity"

Chapter four of this book, dealing with the limits of taxable capacity, struck me as very excellent, and I should think that it should be brought to the attention of the Treasury Department.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE Aug. 24, 1922 192TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

It seems to me that we should follow up the figures that we made sometime ago as to the increase in time deposits and bring them down to date. I am anxious to see just what effect that is having upon the reserve position.

ES.MM

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Aug. 24, 1922 192TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I am returning Ricardo's works, part of which I was anxious to read, but I found the greater part of the volume uncut, and decided that I would ask you if some one in the Library could not look up a copy of this volume for me personally which I could purchase, as I hesitated to cut the pages and to keep the book out of the Library as long as I would need to do.

BS.MM

att.



DATE Aug. 25, 1922

## CORRESPONDENCE

TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I have read the two memoranda attached, with much interest. Colonel Ayres' statement is clear enough and sound enough, except in possibly one respect, which is touched upon in your own memorandum. There is no very strong sentiment favoring cancellation, nor on the other hand is there probably any very strong sentiment that would demand full collection, that is, "the pound of flesh". What is needed is the right kind of leadership in forming public opinion. Your program would undoubtedly be helpful in that direction; but it would require the support of the most influential men in the country, and I do not think that it should be associated with similar committees in other countries which are debtors to us, or in fact in any other countries. It would be interpreted as propaganda for selfish purposes. I am not altogether sure that I favor outright cancellation myself on any terms, but any adjustment of a generous nature which I would strongly favor, must necessarily be based upon some such conditions as outlined by Colonel Ayres. My own notion all along has been that if these debtor nations would only send people over here and establish contact with the Commission, they should be able to furnish us with a body of facts so convincing that the Commission could in turn go to Congress through the voice of the President, with a definite and concrete proposal that would carry great weight; - but would political factors interfere? Of that no one can judge, although I doubt if they would if the Administration would take a definite and constructive leadership. The whole question of a generous treatment of the debt has been definitely set back by the unfortunate Balfour note.

BS.MM

September 5, 1922.

Dear Mr. Snyder:

Thank you for your note of Friday. I was very sorry to miss seeing you before you left for your holiday, but business in Washington kept me tied up as tight as a drum.

I am trying to arrange a meeting with Mr. Strauss some day this week.

Things in Washington are not as black as they look, I am very glad to say.

Yours sincerely,

Mr. Carl Snyder,  
~~c/o Colonel George W. Mixter,~~  
Lake Placid, New York.

BS.MM

## OFFICE CORRESPONDENCE

DATE Sept. 6, 1922 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I want to have a chat with you about the statement of  
America's attitude, on your return to the bank.

BS.MM

## OFFICE CORRESPONDENCE

DATE September 21, 1922 102To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Benj. Strong

Referring to the attached summary of Dr. Lansburgh article,  
don't you think it would be a good plan to send this along to Wadsworth  
in the Treasury.

HAMMER  
BOND

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Sept. 27

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

During the year 1919 or 1920 (I think the early part of the latter), I sent some very short paragraphs to the Federal Reserve Club Magazine. I wish very much you would read them over and get a general idea of their character, or at least the thought which inspired them, and help me out by writing a set of twelve good wholesome paragraphs to be published in each of the next twelve numbers. If you can't dig up twelve at once, won't you write a few for me.

I'll promise to change them without mercy! On the other hand I send you my sincere apologies for this cowardly way of answering Mrs. Gibson's request. I simply have not got the time to do justice to the subject, and I know that you can help me and will be glad to do so.

BS:MM

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Sept. 30, 1922 192To Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I am returning the Journal of Commerce and Commercial Bulletin containing Keynes' article on the theory of exchange explained in relation to doctrine of purchasing power parities.

BS.MM

att.

DATE Sept. 30, 1922

## OFFICE CORRESPONDENCE

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

A few months ago in a leisure moment in the country I started to write out by hand some comments on Mr. Edison's idea of money and finished only a draft of the first chapter. Sometime I want to finish a discussion of the complete plan. In the meantime, will you refresh your memory as to Edison's scheme by reading Garet Garrett's comments upon it, and then read my draft and let me know if you think the idea correctly catches his scheme <sup>at</sup> its weak point. I think it does, but I would like to have you check it up.

BS.MM

att.

Oct. 5, 1922

## OFFICE CORRESPONDENCE

DATE

Mr. Snyder

SUBJECT

Governor Strong

Referring to the attached, if the five year period to which you refer can be considered a standard by which future conditions should be measured, then you are adopting a standard which it seems to me would be suitable for an idealist to reflect about, but not for a distressed and disordered world to expect to realize. The water is going to be agitated for a long time, and the most skillful policy in the world by the Federal Reserve System, it seems to me, would be incapable of overcoming the influences of which we may be the involuntary victims for many years.

But it's a good thing to have in mind, and I am going to ask you if this chart cannot be reproduced in sufficient numbers to enable me to pass it around in Washington among some of the Governors so that they may think about it.

The curves will need to be explained a little more elaborately, or they may not be understood; so I suggest the addition of a legend explaining what each curve means.

BS.MM

att.



## OFFICE CORRESPONDENCE

DATE Oct. 5, 1922TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Thank you for the attached. The chart is very illuminating. The difficulty with it arose from my being color blind rather than from the lines being wrong.

BS.MM

att.

1349  
6481

## OFFICE CORRESPONDENCE

DATE Oct. 6, 1922.TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I am sending you very confidentially a communication from my friend Mr. Basil Miles, and an interesting report on matters in Germany. Please read and hold it in strict confidence, and return the enclosure to Mr. Beyer for my confidential file.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE Oct. 19, 1922

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Replying to your memorandum, the following thoughts occur to me:

1. There is no especial virtue in not having a University education any more than there is special virtue in having one so far as knowledge or wisdom goes, but I would rather incline to the view that a University, like anything else, is a good thing if not overdone; so that I would be inclined to put men like Cannan, Keynes, Cassel, Lansburgh, Kemmerer, Sprague and King in a little different class from Bagehot, Mill, Ricardo, et al, because certainly the former have stuck to their Universities and University atmosphere longer than did any of the last three named.

2. The division is neither implacable nor insuperable, but is rather to be described as natural. I am not attempting a definition or differentiation here, but the real point is that a man reflects the atmosphere, the environment and system in which he lives. Men of thought are rarely practical. Practical men who are engaged in making money in a competitive system are rarely thoughtful. Between the two we rock along, but it may be well to reflect that were all men both practical and thoughtful we wouldn't rock at all but we might stand still.

I think again I must suggest your rereading Emerson's essay on Compensation.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE Oct. 19, 1922To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I am not going to Boston, but Professor Sprague is coming to New York Friday night. I may want you to join us in a little discussion sometime Saturday. How are your engagements?

BS.MM

FEDERAL RESERVE BANK  
OF NEW YORK

22

OFFICE CORRESPONDENCE

DATE Oct. 19, 1922

TO Mr. Snyder

SUBJECT: Col. Ayres' Letter of  
Oct. 17, 1922

FROM Governor Strong

Referring to Colonel Ayres views attached, I am always afraid of prophets, and this is illustrated by the two items which I have marked.

How does he know that the money circulation will rise, and that bank loans will rise? In other words, how does he know what we are going to do about our rates and credit policy?

I am afraid of these prophets as I say, and I believe they do harm. He might be correct in every one of his contentions, however, if he really knew anything about those two items, and I have a lurking suspicion that we know a little more here than anybody else.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 19, 1922

Mr. Snyder

TO

SUBJECT:

Governor Strong

FROM

I do not receive the regular reports from the Department of Statistics and Research of the Bank of Japan. The one received October 17 contained a statement of much importance, and I should appreciate your giving directions that these should always be sent to me.

In this connection, can you have prepared for me a table showing the fluctuations in Japanese exchange for this year beginning with January first, together with any information which we have as to gold movements between Japan and this country.

I would also like to have the monthly figures for this year of the Japanese foreign trade balance, -imports and exports. In case we are called upon to inquire of some of our Japanese friends, please be sure that caution is used in doing so and that it is simply made as a regular routine inquiry for the use of our Statistics Department.

BS .MM

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Oct. 20, 1922

TO Mr. Snyder  
FROM Governor StrongSUBJECT: The Control of Inflation  
*(A memo. for Mr. Jay. asked  
at the Board's next conf.)*

I am retaining your memorandum because I want to look at it later. But in the meantime we are not far apart - if at all. In fact, I think I now have a pretty definite idea of what I would like to see the Boston, New York and Philadelphia banks do and on the whole I would be quite satisfied to have the other reserve banks do nothing if the three banks named could adopt the policy which I expect to be able to propose sometime during November.

BS.MM

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Oct. 20, 1922

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

read  
I have/the notes of your Harvard address and see nothing unsafe at all. I do, however, get this impression: That it may leave in the minds of some of your hearers the feeling that you are attempting to demonstrate that there was not a *Considerable* ~~sufficient~~ variation in volume of business over the recent period of expansion, depression and recovery, whereas people who suffered great losses will be reluctant to admit that.

It is a little like the surgeon stating that the operation was successful but the patient died. In other words, the argument, it strikes me, would be more complete if you frankly stated that there was no very great change in the volume of business done but there was a very great change in the level of prices at which that volume took place. Possibly that is in your mind to bring out, but if not you <sup>may</sup> ~~will~~ <sup>decided</sup> have to use the soft pedal in that aspect of the matter out of deference to the views I have expressed of the dangers <sup>discussing</sup> of inflation.

BS.MM

att.



FEDERAL RESERVE BANK  
OF NEW YORK

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## OFFICE CORRESPONDENCE

DATE Oct. 30, 1922 192  To Mr. Snyder

SUBJECT: \_\_\_\_\_

From Governor Strong

I should be delighted to meet Professor Bullock as well as Professor Persons any time that it can be arranged. I leave it all to you.

BS.MM

## OFFICE CORRESPONDENCE

DATE Oct. 30, 1922 192  To Mr. Snyder

SUBJECT: \_\_\_\_\_

From Governor Strong

I think Mr. Reed must mean "credit balances". So far as I am aware the large joint stock banks never discounted at the Bank of England, except to a limited extent when the war started.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE Oct. 30, 1922 192  To Mr. Snyder

SUBJECT: \_\_\_\_\_

From Governor Strong

Please read the attached comments from Mr. Gilbert and return to me with anything that occurs to you. I think that he is about right.

BS.MM

att.

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## OFFICE CORRESPONDENCE

DATE Nov. 1, 1922 192  To Mr. Snyder

SUBJECT: \_\_\_\_\_

From Governor Strong

I surmise that your assumption about the increase in loans in October is only partly correct - and part of it may have been due to shifting; but I think the explanation of most of the increase is the Treasury loan. It is one of the vicious things about this scheme of payment by credit, but I don't see how it can be avoided.

BS.MM

att.

FEDERAL RESERVE BANK  
OF NEW YORK

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## OFFICE CORRESPONDENCE

DATE Nov. 1, 1922 192  To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

Please read the attached copy of a letter which is very confidential, that I sent some days ago to Mr. Gilbert, and a letter just received from Mr. Wadsworth in connection with it.

Whenever Mr. Jacobson comes to New York we must prepare for discussion of this whole subject.

BS.MM

att.

FEDERAL RESERVE BANK  
OF NEW YORK

4X

## OFFICE CORRESPONDENCE

DATE Nov. 2, 1922 192  TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I am just reading Reed's book on the Federal Reserve System and making notes on the margin of matters that call for comment. It will be some days before I finish and then I will let you have the result.

BS.MM

## OFFICE CORRESPONDENCE

DATE Nov. 2, 1922 192  To Mr. Snyder

SUBJECT: \_\_\_\_\_

Governor Strong

From \_\_\_\_\_

I do not know who Mr. Drummond is, but if it is proper to do so, possibly you could prepare a letter for me to sign, thanking him for sending me the publication and expressing some opinion about it.

BS.MM

att.

## OFFICE CORRESPONDENCE

DATE Nov. 2, 1922

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Replying to the attached memorandum, my recollection is that the general tendency of prices - which as you say was downward in the 90s - did not take a turn upward until somewhere between 1901 - 1903, from which time it was almost continuous until 1920.

In considering what is now taking place, I think we must carefully consider the relation between the movement of goods, on the one hand, (which would include of course production) *on the other hand* and the price level.

The reports of car loadings would indicate a much larger movement of goods, would probably indicate increase in production of goods, and the question is whether the rise in prices now taking place is a natural and wholesome recovery from subnormal or whether it is that character of advance which can be described as the conversion of a normal expansion into an unsound inflation.

In my talk with Professor Sprague, I gathered quite definitely that he felt that the present course of production and prices was legitimate, but that it needed watching and that sometime within the next few months we might need to take affirmative action to tighten up supplies of credit. I am glad to have everything that you send me and anything that you can send me which will aid in throwing light on this matter. Please observe - as you doubtless have - that our policy in liquidating investments, which has the effect of forcing the member banks to discount with us is indeed no less than a tax upon bank earnings; that it is being felt; that the general level of interest rates has advanced from 1/2 to 3/4 of 1 per cent. at least, if not in some departments fully 1 per cent; that the speculative advance in the stock market seems for the moment to have been arrested; that bond values have considerably declined; and the only question is whether the policy which we are now executing will be effective in checking



FEDERAL RESERVE BANK  
OF NEW YORK

Nov. 2, 1933

## OFFICE CORRESPONDENCE

DATE

TO Mr. Snyder

SUBJECT:

FROM Governor Strong 2

speculation, or whether we must soon resort to increased discount rates. I am still on the fence, but ready to jump at any time when the conviction justifies doing so.

BS.MM

att.

12

## OFFICE CORRESPONDENCE

DATE Nov. 3, 1922 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

File

of Buffalo  
Mr. Walter P. Cook is a very warm friend of mine. He sends me the attached newspaper account of an enterprise in which he is interested, and if it calls for a nice letter of congratulation or something of that sort, won't you have one prepared for me.

BS.MM  
att.

(49)

## OFFICE CORRESPONDENCE

DATE Nov. 3, 1922 192TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

The attached reprint of an article by Anna Youngman reaches me in an envelope which indicates that Miss Youngman is employed by the Federal Reserve Board. This is the first I knew about it. I have not read the article, but if in any respect what she quotes from me is not correctly commented on or interpreted, I want to write her about it. Will you kindly have it read with this in mind, and greatly oblige

BS.MM

att.

48

## OFFICE CORRESPONDENCE

DATE Nov. 3, 1922 192TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I am attaching a confidential letter from Mr. Gilbert with an important memorandum on the subject of the gold reserves of the Soviet Government, which you might read and then pass through to the file where papers relating to this matter, I believe are filed together. We may have occasion to refer to it again before very long.

BS.MM

att.

DATE Nov. 6, 1922

## OFFICE CORRESPONDENCE

TO Mr. Snyder  
FROM Governor Strong

SUBJECT: *Lapole*

I have read your memorandum of November 3, attached, and will ask you to return all the papers to me after considering the following:

You have I believe confused two things. One is the nation's true income and the extent to which that income may be taken from its people by taxation. And the other is the ability of that nation to convert a bearable fund of taxation into a foreign payment.

Every foreign payment made by a government must be provided ultimately out of taxes, even though it may temporarily be financed by loans placed in foreign countries or even at home. But a nation might well be unable to make foreign payments to the extent required to meet foreign obligations, even though its people at home were capable of paying domestic taxes which would nominally cover foreign payments,-- of course, I mean would cover the foreign payments at some given exchange rate which was within the bounds of reason.

One could assume a nation developing greater domestic prosperity with a large national income and a high standard of living, and a large capacity of its people to pay taxes, but nevertheless with a stone wall around it which was so impenetrable to foreign trade and financial intercourse that it would be incapable of making any considerable foreign payments without seriously depressing the exchange. Such conditions, for instance, having arisen in other countries like Brazil <sup>in recent</sup> ~~at the present time~~. I think somewhat the same condition can be considered to have arisen in the Philippines and in Cuba in recent times.

As I view it, the capacity of a nation to make foreign payments depends upon two things - one is the command of credit in foreign countries which may arise from the various types of international transactions with which

Nov. 6, 1922

OFFICE CORRESPONDENCE

DATE

TO Mr. Snyder

SUBJECT

FROM Governor Strong

we are all familiar, and second, the capacity of the nation to pay taxes which are equal to the requirements of the government to buy these foreign credits with the amount of domestic taxes so collected.

Would not the picture be a little clearer if we assume that Germany, for instance, with two billion gold marks a year to pay abroad, collected taxes from all of her people ratably in domestic currency for domestic payments and in foreign currency for foreign payments? If the taxes were equitably apportioned it would mean that all of those who acquired foreign currency as the result of trade or other transactions which would give them profits, would pay to the government the tax in the foreign currency in which the profits were received, and that the rest of the tax ratably would be paid by those who derived profits from trade and otherwise from their domestic business; and under those circumstances would not the limitations upon the bearable amount of taxes be the amount of foreign currencies which German citizens could command as the result of their foreign transactions?

Any other theory would suppose that a nation could make foreign payments out of domestic currencies without any regard whatever to the amount of foreign currencies which the citizens of the country acquired as the result of trade, etc., and that I think we are assured is a fallacy.

In other words, there are two limiting factors upon the ability of a nation to make foreign payments - one is <sup>the</sup> a capacity of the people to pay taxes; in other words, the limit which relates to the whole of the national income. And the second is the limitation which is imposed by the natural and inevitable limitation of the country's trade and <sup>Exchanges</sup> ~~increases~~ with the rest of the world, which is what produces credits abroad. At least so it appears to me unless a

Subside for...  
the

FEDERAL RESERVE BANK  
OF NEW YORK

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## OFFICE CORRESPONDENCE

DATE Nov. 15, 1922 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

The correspondence that I am sending you to-day from Mr. Gilbert, also discussions which I have had with him, with members of the Federal Reserve Board and with Mr. Stewart in Washington, my talk with Professor Sprague, and again the discussion we had with Professor Bullock, all indicate the real need - in fact the urgency - of a better and more comprehensive analysis of what has been going on in the whole credit situation during the past twelve months. I was interested in the suggestion that Professor Young was proposing to take this up right away. How would it do for you to arrange a meeting with Professor Young and Mr. Stewart when the general outline of an investigation could be discussed and then go at it and do it thoroughly, but by such progressive work that we would get the benefit of the work or some part of it in the near future, so that we might have a <sup>further</sup> full guide to our credit policy. This is the sort of work which is most helpful to us.

BS.MM  
Att.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 24, 1924 19

To Governor Strong

SUBJECT: Army War College Address

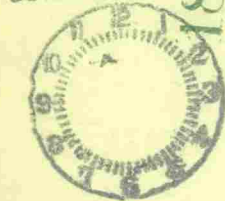
FROM Mr. Snyder

NOV 24 10 51 AM 1924  
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DISTRIBUTION & MAIL ROOM

I appreciate very much the suggestion. But, first of all, those things inevitably use up a lot of valuable time, and secondly I feel that they would much prefer hearing someone new to them.

If no other name presents itself to you, I should imagine that

Prof. Chandler might undertake it.



NOV 24 1924



FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Nov. 26, 1923 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM \_\_\_\_\_

Governor Strong

The attached correspondence with Colonel Simonds of the War College explains itself. This affords opportunity to prepare a very interesting lecture. I would like to deliver it personally myself, but hesitate to promise to do so on account of my voice.

You will note that the topics afford opportunity for an interesting development of the subject. Won't you let me know who should make the talk in my place? Would you care to do so? In any event, I must have someone help me get it out.

BS.MM

att.

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FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Nov. 29, 1922 192  TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I certainly would not reply to the attached inquiry from the New York University, which strikes me as being about as unintelligent as any that I have seen on this subject.

Might it not be a good plan to get in touch with some one in that organization that you may know, and try to get them to escape the pitfall towards which they seem to be headed?

I would like to see what they produce whenever it is produced, just as a matter of curiosity. On the basis of this questionnaire it would be of no value whatever.

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE Dec. 1, 1922 192

To Mr. Snyder  
FROM Governor Strong  
SUBJECT: Prices, Wages and Credit Volume

I have read your memorandum twice. My thought is that, given a stated quantity of goods and a stated volume of credit, the question in which we are interested then becomes a rather simple one, namely, what changes in these two factors are to be anticipated which may affect the price level? Obviously, changes in the relative levels of prices of different classes of goods and services can change from time to time; for instance, the prices of foodstuffs will advance, whereas the prices of building materials may decline. But speaking of the general price level, what influences will affect it provided no change in the volume of credit takes place? Is it not fairly obvious that there are two most important factors involved? The principal one is the attitude of people generally; whether they become optimistic and want to buy goods; or whether they become depressed and want to sell goods. In the first instance, there will be a pressure for a larger volume of credit. In the second instance, there will be a reduction in the volume of credit. But if we keep the credit volume unchanged, assuming that we are able to do so, then will we not see simply the fluctuation of prices within a rather narrow range, allowing always for the readjustments in the prices of classes of things referred to, and that the only large swing of prices for which we could accept any responsibility would be due to some change in our policy which would make borrowing easy, on the one hand, or which might require contraction, on the other hand? This is very clumsily expressed, and I would like to talk it out with you; but it is in general my reaction from your memorandum.

-----

This leads next to your memorandum of November 28, and the subject of the Annual Review. The price changes there referred to appear to my mind roughly to present a composition of,

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE December 1, 1922 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

-2-

First - The reaction from a decline which brought many basic commodities out of line with the general price level;

Second - The influence of gold imports; and

Third - Some influence - how much one cannot possibly estimate - due to establishing the volume of credit in the banking system at a figure which is represented by a total of earning assets fixed, say last spring, at round a billion and a quarter.

In other words, if we had made no investments, the Reserve Bank's earning assets might to-day be one-half of what they are. Or, in other words, the liquidation would have gone further than it did go, the general price level would have been established lower than it was, and in consequence the hardship of further price readjustments would have been more serious to the country as a whole than it has been this year.

If the quantity of credit and currency is in the long run so important to prices - as I think you regard it (possibly more than I do) - then we should regard present prices as reflecting the volume of credit which has been maintained at so steady a level recently, represented by the total of our earning assets (\$1,250,000,000), plus the influence of gold imports. And going a step further it means that a price stabilization is taking place at a level permitted by a total of earning assets of say a billion and a quarter, rather than a total of one-half of that or twice that. If prices are to be stabilized at some level, then our credit volume must be stabilized at some level. If we arbitrarily say a billion and a quarter, then we must accept the consequences of some price advances from the abnormally low level which was at one time out of line with that volume of credit. Again this is very rough and of course leaves out of consideration a good many influences, especially the change from despondency to hopefulness. In other words, why not let our credit volume remain unchanged and keep it so, and let prices take care of themselves? They will anyway!

FEDERAL RESERVE BANK  
OF NEW YORK

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## OFFICE CORRESPONDENCE

DATE Dec. 1, 1922 192To Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I think you ought to read the enclosed correspondence from Colonel Logan if you have time, and pass it on to Miss Rose as she may want to diget the same, and then return it to Mr. Beyer for my confidential file.

BS.MM

att.

BOND  
WILF

FEDERAL RESERVE BANK  
OF NEW YORK

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## OFFICE CORRESPONDENCE

DATE Dec. 1, 1922 1922TO Mr. Snyder

SUBJECT: \_\_\_\_\_

FROM Governor Strong

I suggest keeping Mr. Barnes' Detroit address, as some of the figures in it are certainly interesting, to say the least.

BS.MM

att.

BOND

HAWK

OFFICE CORRESPONDENCE

DATE Dec. 19, 1922

Mr. Snyder

SUBJECT:

FROM Governor Strong

I have read the attached memorandum which I understand comes from Mr. Stewart. It seems to be a re-hash of much of our recent discussions and especially the discussion that took place at the recent Washington conference.

I am not sure that it calls for any comment from us, but probably Mr. Jay would like to read it and he may indeed want to comment upon it.

Does Mr. Stewart expect to hear from me about the memorandum?

BS.M.M.

att.

This was from  
Golden wessel aird  
not from Stewart  
G

## OFFICE CORRESPONDENCE

DATE Dec. 19, 1922

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I have read the attached with a good deal of interest. Aside from any other condition, it seems to me that the almost complete absence of unemployment, coupled with the transportation situation, where we find that facilities are taxed to the limit, is a pretty complete exhibition of the fact that production is well up to the top. My own mind is about made up as to what we should do, and I am hoping to take it up with our friends in Washington very soon.



Dec. 26, 1922

DATE

## OFFICE CORRESPONDENCE

Mr. Snyder

SUBJECT:

Governor Strong

FROM

CONFIDENTIAL

Your friend Mr. Commons' paper does not impress me at all favorably. The following comments explain why:

(1) In writing to Mr. Ford, one should not refer to the gold standard in the bare terms that he uses. Mr. Ford does not know enough about the gold standard. He probably looks upon it with the same intelligence that ignorant people display towards ghosts.

(2)a Mr. Commons' references <sup>to</sup> the Federal Reserve Board are stupidly superficial. He ought to know by this time that the Federal Reserve Board did not run the Treasury and it was not superior to the Government.

These comments under (2) can be extended through a b c d e and f; all presenting a wholly unfair picture of the Federal Reserve System, addressed to one of its chief enemies and well calculated to do more harm than good. It strikes me as peculiarly stupid to pin this whole situation upon the Federal Reserve Board. You certainly know the facts well enough to realize that such a letter as this is bound to do harm.

(3) Again Mr. Commons shows complete lack of understanding of what happened in 1919. Inflation was brought about by the system of finance employed by the Treasury. In other words, through selling certificates of indebtedness to banks, which created bank deposits and which in turn were used for all sorts of business purposes which promoted inflation.

Dec. 26, 1922

OFFICE CORRESPONDENCE

DATE

Mr. Snyder

SUBJECT

Governor Strong

FROM

-2-

(4) Such a general statement about the policy of the Federal Reserve System is not justified by the facts. The only case where the action of the Board was too slow was after the end of the war when it was not their action at all but really the policy of the Treasury. If he thinks that we are too slow in changing our rates now, I would like to have him submit evidence which would be convincing to the country that anything in the nature of inflation of prices due to an excess supply of credit furnished by the Federal Reserve System had in fact arisen at all, unless indeed within the last few weeks, and I doubt if it has even then.

(5) He says he would not call it inflation when prices are rising to the point where all labor is fully employed. Is not that exactly what has been happening recently, and has not the full employment of labor only been accomplished in the last thirty days or so?

(6) I do not know what he means by the difference between access to markets afforded to farmers and to manufacturers on borrowings of from one to three years. If this were somewhat elaborated I might understand it.

(7) The intimation that the Federal Reserve System had been guilty of artificially inflating prices outrageously cannot be sustained. If prices were outrageously inflated as the result of inflation of credit, the Federal Reserve System was not responsible.

(8) Where did Mr. Commons get the authority or qualification to say what has been in the minds of the Federal Reserve Board as to prices?

So far as I am aware the Federal Reserve System has never dep: the

Dec. 26, 1922

## OFFICE CORRESPONDENCE

DATE

Mr. Snyder

SUBJECT:

Governor Strong

FROM

-3-

important relationship between the volume of credit and prices, but has always taken the position that the direct responsibility of the System was as to the volume of credit, and if the volume of credit were kept stable then that portion of responsibility for price changes which rests upon credit will have been dealt with by the policy of the Federal Reserve System and the other factors which enter into prices would operate as they always operate; and all of those other factors are largely beyond the control of those responsible for credit.

On the whole, Mr. Commons' letter impresses me as exhibiting an unintelligent prejudice against the Federal Reserve System, very little knowledge of what transpired, and convinces me that he is a dangerous man to have at the head of your organization or to correspond in a representative capacity with such a man as Mr. Ford.

BS.MM

att.