STAT.3600-10-21

(86)

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 5, 1923.

TO Governor Strong

SUBJECT: Prices and Demand Deposits.

FROM Mr. Snyder

No 9.)

The only thing I would suggest as an addition to your exhaustive list would probably be this:

The general level of prices, and even to a large extent wholesale prices, normally corresponds very closely to the amount of demand deposits in the commercial banks (see attached chart). Whether this be cause or effect matters little. Probably it is alternately either cause or effect, but with always this in view, that any price level must be financed, i.e. volume of bank credit seems always the limiting factor, much beyond which the price level cannot rise.

The volume of demand deposits in all banks on Professor King's recent estimate was below 8 billions in 1912-13 and, computed on the same base, it is now above 20 billions. Allowing for possible error, it seems certain that the amount is now more than double that before the war.

In the same period the volume of production, and therefore of trade (the two are synchronous except for the element of speculation), has increased more slowly than the normal rate. Indeed the index of certain selected basic commodities prepared by Mr. Stewart for the Federal Reserve Board and published in the December number of the Bulletin, page 1414, showed little increase in these particular industries in 1920 over 1913.

Of course, this is misleading, as is very clearly shown by the steady, though diminished increase in net ton miles hauled by the railways and the net tons offered. But the probable average increase seems not over about 2½ per cent. per annum, or not much over 20 per cent. above 1913 now.

If, therefore, the volume of production and trade now stands at an index figure of around, let us say 120, and the volume of deposits stands at nearly double this, or around 225, roughly speaking the general price level will fluctuate around 200.

And this appears to be the fact as regards the average of factory wages in New York State and the going rate for unskilled labor. Obviously the wage level in the long run determines the cost of production, so that the general price level can scarcely be much below this; therefore it would appear that without any further increase in loans and deposits the wholesale price level will continue to rise to something like one-third above the present figure.

The effect of this ~~would almost certainly~~ might indeed be another wild orgie of speculation.

READ AND NOTED,
B. S.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Jan. 2, 1923

TO Governor Strong

SUBJECT: John R. Commons' Statement

FROM Mr. Snyder

(Your comment on)

I fear you attached undue importance to Prof. Commons' proposed letter. It was, as he tried to make clear, merely a very rough try-out, and clearly indicated both the questions in his own mind and his lack of definite information on certain points which he wished to know about.

I personally know him only slightly, and did not know of his selection as president until after it had taken place. But I have formed the impression that he is a very sincere and earnest sort of man, and represents a point of view and has a following that should be very valuable to the Federal Reserve System.

At the sessions of the Committee in Chicago we gave him a pretty vigorous pommeling, which he took with very good grace and apparent profit.

I should like to tell you of several very interesting sessions in which we privately discussed the current problem and what the Association might do.

The thing that struck me most at Chicago was the seemingly very wide expectation of another big wave of inflation, and that the Federal Reserve would not be able to do much to check it.

READ AND NOTED,
B. S.

MISC. 4.1.

FEDERAL RESERVE BANK
OF NEW YORK

(88)

# OFFICE CORRESPONDENCE

DATE January 9, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I meant to tell you of what Colonel Ayres, of Cleveland, said to me regarding Mr. Platt's recent speech in Cleveland, wherein Platt referred to the great fall in prices in 1920 as "the greatest surprise to the Board"--that the Board never had thought of such an effect, etc.

Colonel Ayres described it as a rarely matched combination of inanity and ignorance, and remarked: "For heaven's sake, is there no way of canning such stuff?"

READ AND NOTED,
B. S.

SC.3 1 STAT.3600-10-21

(89)

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 13, 1923

To Governor Strong

SUBJECT:

FROM Mr. Snyder

Is there any way to get at, from week to week, the prevailing "line of credit" rate in London, comparable to the average which we obtain regularly from five leading banks here?

The point is that we wish to get at some definite figures to confute the idea that the Bank of England discount rate is regularly above the "commercial" rate for four to six months paper.

The so-called open market rate in London seems, as far as I can discover, more comparable to our rate on bankers' acceptances, and therefore ought not to be used as comparable to our rate on four to six months commercial paper.

Finally, is there any way of obtaining regularly the Bank of England's private rediscount rate to its regular customers?

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 15, 1923

TO Governor Strong

SUBJECT: Collier Program

FROM Mr. Snyder

I agree so heartily with all you say in your memorandum, about the so-called Collier program, that I almost wish that you felt like putting it all into a letter. That has been my view for years, and I think it is essentially the view of men of the type of Wesley Mitchell and Prof. Persons, and most of the more solid economists, including especialy, as I should like to add, Prof. Fisher.

This was also very much the idea back of Mr. Hoover's committee on business cycles and unemployment, because, as Mitchell, Persons and others hold, what we vaguely call the business cycle is essentially a price cycle, and largely dominated by that single factor. Unemployment and the rest are simply consequences or concomitants.

Perhaps it would be well worth saying this in a letter, as Collier's has a very wide circulation.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 18, 1923

TO Governor Strong

SUBJECT: Movement of Price Indices

FROM Mr. Snyder

The Department of Labor index for December shows almost no change, and so continues to show no such heavy rise as Bradstreet's, the Harvard Review index, or our own twenty basic.

But I should like to point out that this has happened a number of times before. For example, after the outbreak of the war the Bureau of Labor index showed little or no rise until October and November of 1915. But Bradstreet's had begun to shoot six or eight months before that; and the Bureau of Labor did not overtake Bradstreet's for more than a year later, i.e., the middle of 1916.

Again, in 1917, after the price fixing mandates, the Bureau of Labor index showed some decline, but Bradstreet's went shooting on up, the Bureau of Labor trailing along two or three months later. Both indices reached the same percentage peak in the war.

Again, in 1920, Bradstreet's turned downwards three months before the Bureau of Labor index, and has so far shown itself the best barometer, i.e., indicator of the trend of prices, that we have.

One thing that keeps the Bureau of Labor index down now is that it is heavily weighted with foods and farm products; and so long as the wide spread between these and the metals, textiles, etc., continues the Labor index will probably register little advance.

When this spread is cancelled it should go shooting, and I think this is what will take place.

I therefore concur in the forecast of the Harvard Bureau, that general commodity prices (and I believe, also, the cost of living) will continue

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FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 18, 1923

To Governor Strong

SUBJECT: Movement of Price Indices

FROM Mr. Snyder



to rise for at least six months.

My own view is for at least a year.

As the total of bank deposits is now pretty clearly well above the 1920 peak, I should suppose that the rise in prices would be correspondingly heavy.

MISC. 3 1 STAT. 3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 19, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I attach herewith charts showing the course of exchange and of relative purchasing power of the currencies of Scandinavia and Holland.

Of course it is always true that heavy buying or selling of exchange--what I call bill pressure--will temporarily affect the price; but obviously it cannot be for long, for the simple reason that, if it were, exports or imports would be sharply stimulated and the difference in the intrinsic or purchasing value would be rapidly cancelled.

Not for long, for example, could it be possible to buy potatoes or cotton or any other commodity 25 per cent. cheaper on one side of a boundary line than on the other. In the case of Swedish exchange you will note that the purchasing parity, as nearly as it can be computed, was reëstablished before the kroner went to par.

Precisely the same was true of Dutch exchange.

In the case of Norway the estimated intrinsic value and current exchange also now very closely coincide.

In the case of Denmark the exchange is apparently unduly depressed, and it will be interesting to see if this is not speedily corrected by a considerable rise.

I attach also the same picture for France. Does it seem to you that these are matters of pure chance; or does it seem to you probable that the exchange rate can so quickly affect imports and exports, and therefore the intrinsic value of the currencies, as to be a cause when, as a matter of fact, as a rule the change in intrinsic value precedes the change in exchange?

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE ______ 192__

To Gov Strong

SUBJECT: ______

FROM ______

Would it be of sufficient interest to ask a clipping agency for clippings on the Crissinger & other appointments, as a guage of the real interest and temper of the country in the Fed. Reserve?

C. S.

also from all over the country.

The citation for the original is:

Kemmerer, E.W. “The Economic Outlook for 1923.” Pamphlet published by The Garfield National Bank (New York, NY), 1923.

MISC. 4.1.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 23, 1923

TO Governor Strong

SUBJECT: Attached note

FROM Mr. Snyder

If the attached was typed by the author himself, it might confirm some rumors. But it shows that his Heart is Right, and might be otherwise interesting.

I'd like to ask about this a little.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 1, 1923

TO Governor Strong

SUBJECT: Index of Trade or Business Activity

FROM Mr. Snyder

Believing that the time has now come and that we now have sufficient data, we have determined to attempt the construction of a real index of trade or business activity. Our thought has been this:

Supposing we could have any data desired to construct such an index, what would we wish to know?. The main items would be such things as:

1. Total factory and farm production
2. Complete employment figures
3. Detailed rail shipments
4. Exports and imports by quantities
5. Wholesale trade by quantities
6. Retail trade by quantities
7. Building construction
8. Power production
9. Postal and street railway receipts, etc.
10. All check transactions
11. Total volume of speculation in stocks, grains, cotton, etc.

Thanks to the rapid development of the data, in part due to the activities of this department and others in the Federal Reserve System, we have now an extremely good sampling of practically every one of these items, and, after an extended discussion, have tentatively considered the following weighting for each of the items, on the basis of 100:

| | |
|---|---|
| 2 ~~Weighted index of~~ basic production, 29 commodities | 8 8 16 per cent. |
| Employment, New York State factories | 5 " |
| 1 Merchandise and miscellaneous car loadings | 4 " |
| Coal and ~~ore~~ other car loadings | 2 " |
| Exports | 5 " |
| Imports | 4 " |
| Wholesale store sales | 10 " |
| Department store sales | 10 " |
| 3 Chain and mail order houses | 6 " |
| Building construction | 4 " |
| Electric power production | 2 " |
| ?Postal receipts | 2 " |
| Debits to individual account, excluding New York | 10 " |
| ~~Index of~~ speculation in stocks, ~~bonds~~, including grains and cotton | 6 " |
| Total | 100 per cent. |

New Insurance - 2
Issue of New Securities - 2
Advertising - 2
Panama Canal traffic - 2

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FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 1, 1923

TO Governor Strong

SUBJECT: Index of Trade or Business Activity--2

FROM Mr. Snyder

Detailed study may change these proposed weightings, but the main consideration has been as to how far the figures which we have are a good sample of what we are trying to get at.

This is a wholly new field and nothing like it has been attempted before. It is impossible to carry this index by months back of 1919. But these four years have been years of extraordinary variety in every way, a great boom and a great collapse, a violent rise and fall in prices and in basic production, alongside of heavy department store sales and a record boom in automobiles and building construction, in the face of great stagnation elsewhere; and finally an extremely rapid recovery.

We feel that these four years are a fine cross section of business fluctuations and that the index we propose will give us an extremely interesting picture.

Throughout we shall attempt to eliminate the seasonal, the secular and the distortion due to prices, and fix the whole in terms of the normal growth in each item.

We should be extremely indebted for any criticisms or suggestions.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 1, 1923

TO

SUBJECT:

FROM

## INDEX OF NATIONAL TRADE AND BUSINESS ACTIVITY

new

Believing that the time has now come and that we now have sufficient data, we have ~~determined to~~ attempt ed the construction of a ~~real~~ index of total trade or business activity. Our thought has been this:

Supposing we could have any data desired to construct such an index, what would we wish to know? The main items would be such things as:

1. Total factory, farm and mine production
2. Complete employment figures
3. Detailed rail and other shipments
4. Exports and imports by quantities
5. Wholesale trade by quantities
6. Retail trade by quantities
7. Building construction
8. Power, light and gas production
9. Postal, street railway, and amusement receipts, etc.
10. All check transactions
11. Total volume of speculation in stocks, grains, cotton, etc.

Thanks to the rapid development of the data, in part due to the activities of this department and others in the Federal Reserve System, we have now an extremely good sampling of practically every one of these items, and, after an extended discussion, have tentatively considered the following weighting for each of the items, on the basis of 100:

| | | |
|---|---|---|
| 1. | Production of basic commodities, producer goods | 8 per cent |
| 2. | " " " " consumers' goods | 8 " |
| 3. | Employment in New York State factories | 5 " |
| 4. | Merchandise and miscellaneous car loadings | 4 " |
| 5. | Coal and other car loadings | 2 " |
| 6. 7. | ~~Exports~~ < Grain exports / General " | ~~5~~ 2 / 4 " |
| 7. | Imports | 4 " |
| 8. | Wholesale sales | ~~10~~ 8 " |
| 9. | Department store sales | ~~10~~ 8 " |
| 10. | Chain store sales (other than groceries) | 2 " |
| 11. | Chain groceries | 2 " |
| 12. | Mail order house~~s~~ sales | 2 " |
| 13. | Building construction (permits) | 4 " |
| 14. | Electric power production | 2 2 " |
| 15. | Postal receipts | 2 " |
| 16. | Debits to individual account outside New York | 10 8 " |
| 17. | " " " " in New York City | 6 5 " |

16. Motor cars and rail equipment

(table continued)

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE ______________ 192

TO ______________ SUBJECT: ______________

FROM ______________



| | | |
|---|---|---|
| 18. | New Life insurance | 2 per cent |
| 19. | Issue of new securities | 2 " |
| 20. | Advertising | 2 " |
| 21. | Panama Canal traffic | 2 " |
| 22. | ~~Index of~~ Speculation in stocks | 2 " |
| 23. | ~~" "~~ " in grains | 2 " 4.5 |
| 24. | ~~" "~~ " in cotton | 2 " |
| 27. | Amusement Receipts. | 2 |
| 28 | Telephone toll messages. | 2 |
| | | 100 per cent |

Detailed study may change these proposed weightings, but the main consideration has been as to how far the figures which we have are a good sample of what we are trying to get at.

~~This is a wholly new field and almost nothing like it has been so far attempted.~~ It is not possible to carry this index by months back of 1919, as most of the indices are new and do not run back of 1919. But these four years have been years of extraordinary variety in every way; a great boom and a great collapse; a violent rise and fall in prices and in basic production, alongside of heavy department store sales and a record boom in automobiles and building construction, in the face of great stagnation elsewhere; and finally an extremely rapid recovery generally.

We feel that these four years are a fine cross section of business fluctuations and that the index we propose will give us an extremely interesting picture.

Throughout we shall attempt to eliminate the usual seasonal and the secular change, and where necessary the distortion due to ~~price changes~~ changing price levels., and fix the whole in terms of the normal growth in each item.

We should be extremely indebted for any criticisms or suggestions.

MISC. 3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 5, 1923

TO Governor Strong

SUBJECT: The Question of Bank Rate Changes

FROM Mr. Snyder

JS done

In this city last week, at different times, both Prof. Bullock and Prof. Persons, of the Harvard Committee of Economic Research, expressed very strongly their view that there ought not to be any change in the Federal reserve bank rate until both the banks and the public had been well informed of such an intention and of the reasons which necessitated a change. Their position was based largely upon two especial points:

(1) That the banks of the country in the last year or more, in the absence of any strong demand for commercial loans, have loaded up heavily with securities; that business is now having a very remarkable recovery; that prices are rising very rapidly; that the demand for commercial money will soon make itself felt, and that the only way the banks can supply it is by selling their securities, or by heavy rediscounts at the reserve banks. Even selling their securities would require an extended period or else force corresponding rediscounts.

They think that, in view of the speculative character of the bond market, a raise in rediscount rates now would make the position of this market very difficult, and likewise greatly increase the difficulties of the Government in their refunding operations.

(2) They urge also the same considerations as regards the business and general public, that this public ought to be fully advised of the intentions of the Reserve Banks, as was set forth in detail in the joint article by Professors Sprague, Bullock and Donham, of Harvard, a digest of which was given the Directors last week.

Where is the prophet Bullock?

Their view is that the Federal Reserve Banks and the Board ought to define clearly and beyond any misunderstanding just what their policy is to be, months in advance of any definite action, in order that the business man may make his calculations accordingly, and that any action taken by the banks will not come as a shock to the community, or be made the pretext for a commotion, as was the case at the end of 1919. They feel that the public has a right to know what the bank policy is to be, and precisely what the banks intend to do, since their action will deeply affect the money markets and the interest rate, and through these the general course of business; that sufficiently in advance of any action the probability of that action should be explicitely set forth and the reasons governing the same.

It is fair to say, I think, that this same view is very widely held by men of standing; it has often been expressed to the writer.

(3) On quite other grounds very strong objections to an increase in the rate at the present time were expressed at a business luncheon last week. One point of view was that there should be no attempt to check the present rise in prices in this country until it was clear that sterling and

MISC. 3 1 STAT. 3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 5, 1923

TO Governor Strong

SUBJECT: The Question of Bank Rate Changes--2

FROM Mr. Snyder

Anyone is glad to have his scheme skimmed by another kind friend

a number of other currencies, like those of Sweden, Argentina, Japan, etc., went back to par, and that there was a strong prospect that these countries would lift their embargoes upon the free exchange of gold and the redemption of their currencies in gold. This was the view, of course, advocated in the last two years by Prof. Cassel, that the United States should inflate sufficiently to bring the stronger currencies back to their former gold parities, as the shortest and surest road to the fairly general restoration of the gold standard in international trade.

Still another view was that, in the present state of the public mind, any attempt on the part of the Federal Reserve Banks to regulate prices would arouse such criticism as to wreck the Federal Reserve System. It was thought especially that this opposition would come from the embattled farmers, but it is by no means clear that the latter would be the case. In a recent letter to the writer, Mr. H. A. Wallace, son of the Secretary, and now editor of Wallaces' Farmer, said:

> "I have felt that the Federal Reserve Board, in fixing its rediscount rates, should have somewhat in mind a price level which it regarded as desirable. I cannot help but feel that prices should be allowed to go up somewhat higher than they are now, and that, when the Federal Reserve Board does apply the brakes, it should apply them somewhat more gently than it did in early 1920.
>
> "I am a strong believer in the Federal Reserve System, and hope that the time may never come when the farmers will try to destroy it. Evidently, however, the agricultural and industrial interests should come to some agreement as to the fundamental policy which should guide the fixing of the rediscount rates."

In the same way, Prof. John R. Commons, of the University of Wisconsin, in a recent visit to Henry Ford and the editor of his Dearborn Independent, Mr. Cameron, found that, in theory at least, they were strongly in favor of some measures of stabilization, and even that, so far as it was practicable, the rediscount rate should be made one of the means of checking violent changes in the price level. Mr. Cameron went even to the length of opening his columns freely to any discussion of this or allied topics by members of the National Monetary Association.

Finally, Prof. Commons, among others who believe strongly in delegating this power to the Federal Reserve Banks, believes that the banks have now no specific mandate under the law to exercise such power, and that this should be the subject of immediate action in Congress, giving the banks or the Board this definite mandate, so that their action would have the full approval and authorization of the country through their chosen representatives in Congress.

See my memo. of today 2/5/23

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 5, 1923

TO Governor Strong

FROM Mr. Snyder

SUBJECT: The Question of Bank Rate Changes--3

In this connection a digest is herewith attached of an article of unusual interest, appearing in the Economist of London, in its issue of January 13, dealing with the exchange situation and the position of the Federal Reserve System. The article delineates in a remarkable way the peculiar kind of psychology which seems always to befog such a situation as now exists.

February 5, 1923.

FEDERAL RESERVE RATE POLICY

An English View

An editorial article of unusual interest appears in The Economist, of London, for its issue of January 13, on the possible or probable course of Federal Reserve policy, evidently written by someone highly conversant with conditions here. The important part of the article follows:

"Let us turn accordingly to the drift of events already perceptible in the United States.

The gold reserves of the Federal Reserve Banks amount at present to well over 70 per cent. of their deposit and note liabilities combined.

If, accordingly, the Federal Reserve Board are governed by ordinary banking principles, an immense expansion of credit and increase of prices in the United States is both immediately possible and, sooner or later, inevitable.

We in this country expect that such an expansion will, in fact, take place, and we hope for it devoutly. It would make possible our return to the prewar parity, without further disastrous deflation, consistently even with some recovery of our own price-level and a consequent easing of the Budget problem. It would reduce the real burden of our debt to the United States.

But in American eyes the prospect is necessarily less attractive. Unpopular as a period of deflation is, no one can desire that it should be succeeded by a period of equally marked inflation. And the Federal Reserve Board are emphatic that this must not occur. In other words, they declare their intention of preventing any appreciable rise in prices, be the gold reserve at their disposal what it may.

Fortunately for us, their declarations on the point are couched in vague and general terms, and the matter is one on which the utmost clarity of conception is required for effective action.

The path of every expansion of credit and increase of prices is strewn thick with illusions. There is the illusion that so long as credit is supplied to meet only the "genuine needs of trade," no inflation of prices can result; there is the illusion that the rise in prices, which, in fact, takes place, is due to other causes than credit policy, causes which seem in some way "natural."

A good article but a better digest! Some things the author of the article does not know!

All credit-controlling authorities contain members who are themselves subject to these illusions, and those members who take a different view seldom hold it with sufficient confidence to be willing to urge strongly a restrictive policy, calculated, as it seems, to nip in the bud, perhaps unnecessarily, a period of active trade. While they hesitate, the rise in prices is gathering momentum.

To these influences, it may be expected, the Federal Reserve Board will prove susceptible; they may issue appeals and warnings, but they are not likely to nerve themselves to use the unpopular weapon of a high rediscount rate before a considerable rise in prices has taken place, enough perhaps to send the sovereign in triumph back home to parity.

But what will happen then? For the story cannot end there. The potentialities of increased credit in the United States are so vast that prices might well rise 50 per cent. or more before ordinary banking principles would call for a curtailment of credit; and long before this the Federal Reserve Board will certainly take action. Probably their action will be severe enough to subject America once again to the evils of falling prices and depression. Then a situation will arise in which three features will be prominent.

First, the objective of price stability will assume an urgent importance to a public weary of the round of alternating periods of inflation and deflation.

Second, it will be established beyond a doubt that the movement of prices is powerfully affected by the action of the Federal Reserve Board.

But, thirdly, it will be established with hardly less certainty that that body must have some more definite policy than a vague determination to prevent excessive increases, if any measure of stability is to be secured.

It is not easy to predict the outcome of such a situation. One possibility is a general attack upon, and collapse of, the Federal Reserve system. But it is also possible that the Federal Reserve Board will retain their authority and will pursue their end of price stability with a new precision. They may then seek for some definite criteria for the guidance of their discount policy, and it is possible that they may adopt the devices indicated at the outset of this article; fix on an index number, fix on a par price-level, and announce that, whenever prices rise above that level (or fall below it), the re-discount rate will be put up (or down) as a matter of course.

But the point we wish to urge does not depend on events taking this particular turn. It is already the declared policy of the Federal Reserve Board to use their control of credit for the purpose of maintaining as much stability of prices as possible. What does this amount to? To an attempt to fix the purchasing power of gold, and so to stabilize prices not only for the United States but for all other countries, as and when they revert to a gold basis.

Thus the possibility of combining the virtues of stable exchanges and stable prices is already the subject of a singular experiment, which a great country is being driven to undertake, not by any taste for academic Utopias, but by the ineluctable pressure of her own necessities. For America must endeavor to control the purchasing power of gold, on paying of the alternative of a huge increase in prices, which it is the general desire of her citizens to avert."

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 8, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

There seems still a persistent and widespread belief that when business recovers there will then come a heavy demand for bank credits. It seems very difficult to realize how remarkable the recovery in trade has been and how near the country is now to a maximum of production, employment, transportation and distribution.

Equally difficult to realize, it seems, is the fact that we have already expanded the volume of bank credit to practically the same levels as the peak of 1920, and that this expansion is amply sufficient to finance the commerce of the country, even probably at a higher price level than that which now obtains.

The facts are that net demand and time deposits have undergone a very remarkable increase in the last fifteen months or more. The figures for National Banks are available only up to September 15. These show that the total must now be close to the 1920 peak. Demand deposits are about a billion lower and time deposits about a billion higher.

For the 800 Reporting Member Banks, whose returns are available to date, the low point for demand and time deposits was reached considerably later than with the National Banks. The latter came in about September, 1921; the 800 Reporting Banks on February 8 of last year, when the total stood at 13,240 million.

On January 24 this figure was almost exactly 2 billions higher.

This would mean pretty certainly that the increase to date, in a little over a year, for all the banks of the country, must be considerably above 3 billions and might now be nearing 4 billions. This is a very heavy expansion.

As to the possible volume of production, employment and trade, we know now to a near certainty that it can go but a few per cent. higher than at the peak in 1920, because in these three years the increase in population and the expansion of factory and transportation facilities cannot have been very large, in fact, probably much below the normal rate.

This department will shortly have a new index of the state of trade, or of business activity, which will give a composite figure of all our indices of production and trade, weighted according to their estimated importance. Meantime we may consider the important items.

Our index of basic production, which includes 22 of our most important industries, is now a little above normal, while the Harvard Bureau index of manufactures is 8 per cent. above an estimated normal. It is our belief that this latter is somewhat too high.

MISC. 3 1 STAT. 3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 8, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

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For the 800 Reporting Member Banks, whose returns are available to date, the low point for demand and time deposits was reached considerably later than with the National Banks. The latter came in about September, 1921; the 800 Reporting Banks on February 8 of last year, when the total stood at 13,240 million.

On January 24 this figure was almost exactly 2 billions higher.

This would mean pretty certainly that the increase to date, in a little over a year, for all the banks of the country, must be considerably above 3 billions and might now be nearing 4 billions. This is a very heavy expansion.

As to the possible volume of production, employment and trade, we know now to a near certainty that it can go but a few per cent. higher than at the peak in 1920, because in these three years the increase in population and the expansion of factory and transportation facilities cannot have been very large, in fact, probably much below the normal rate.

This department will shortly have a new index of the state of trade, or of business activity, which will give a composite figure of all our indices of production and trade, weighted according to their estimated importance. Meantime we may consider the important items.

Our index of basic production, which includes 22 of our most important industries, is now a little above normal, while the Harvard Bureau index of manufactures is 8 per cent. above an estimated normal. It is our belief that this latter is somewhat too high.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 8, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder



In recent months, and to date, car loadings, both of merchandising and of coal, have been running very heavy, making new high records, and evidently very close to the present maximum capacity of the railways.

Our index of exports and imports is not yet ready, but those of wholesale and retail store sales show clearly that business in these lines in the last six months has been at new high levels.

This has certainly been true, also, of building construction, which has in the last twelve months broken all records.

We shall soon have indices, also, of electric power production, postal receipts, speculation in stocks, grains, cotton, &c; and it seems fairly certain that most of these are at or near to a high point.

In other words, business in the last few months, if not on a boom, has at least been at very high levels, and there are as yet no indications of any reversal of trend.

So far from this, the volume of deposits (i.e., purchasing power) is steadily rising. In the 800 Reporting Banks the total increased from October 4, the high point in the stock market advance, to January 4, by nearly half a billion dollars, which was at the same rate as for the balance of the year.

Our index of 20 basic commodities continues to rise steadily, and for the month of January Prof. Fisher's new index of 200 commodities shows a rise of 8 points, to 159.

The idea, therefore, that the "recovery" in business is something <u>in the future</u> is a delusion, and so, likewise, the suppositious demands of business for credit. Adequate bank credit for the heavy expansion which has taken place has been supplied by the banks through the purchase of securities, and not in the usual form of increased bank loans.

The balance has been supplied by heavy gold imports from abroad and the increase of foreign balances in this country.

In the next year it now seems improbable that the total volume of production and trade, including all farm products, in this country, is likely to be increased by much more than, let us say, 4 or 5 per cent. above what it is now.

If the volume of credit in 1920 was sufficient to finance the nation's trade at that price level, then it seems probable that the volume of bank credit now outstanding will, of itself, finance a still further rise in prices. And if this be true it seems to follow that any further increase in bank deposits would be pure inflation, and could have no other effect.

MISC. 4.1.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE.

DATE February 13, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

In connection with the accompanying memorandum, I attach also two graphs, of the Federal Reserve Board and of the A. T. T. We believe that both of these are defective in constructions and the results not reliable, but it is still of interest to note that both of them indicate the volume of production and business above and not below normal.

MISC 3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 8, 1923

TO

SUBJECT:

FROM Mr. Snyder



As there is always a powerful momentum in price movements, as in most other phenomena involving a vast number of people, it would seem further to follow that any endeavor to check the present disturbing rise in prices, and in speculation, should be made now, if it is to have any salutary effect.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK 9358

# OFFICE CORRESPONDENCE

DATE February 13, 1923

TO Governor Strong

FROM Mr. Snyder

SUBJECT: Control of the Volume of Credit

RECEIVED FEB 17 11 05 AM '23 FEDERAL RESERVE BANK DIST. OF MAIL OF N.Y.

At your convenience, might I ask your serious consideration of the following proposals:

(1) We have established pretty clearly, I think, by our investigations here, the narrow dependence of the general level of prices, so far as they can be measured, with the volume of demand deposits or, broadly, with all bank deposits.

At the present time this total volume of deposits broadly depends, or would, at least, in normal times, upon the amount of our available gold reserves. In other words, the level of prices is, in a broad way, dependent upon the rather fortuitous supply of gold.

(2) Why should we not reverse this process and have the general level of prices determine the amount of bank credit, and impound all the surplus gold? At the present time we practically do impound all the gold in the country and issue notes against it; but the amount of notes is limited only by the demand and by the available quantity of gold.

Instead of this, why not have the note issue limited by the price level, put all the gold behind the notes, and then use these notes exclusively for bank reserves?

In other words, why not utilize our gold solely for the purposes of reserve against note issues and for foreign trade settlements? It could, of course, be available for currency, if anyone wished, but this would be as little availed of in the future probably as it is now.

(3) Would not the effect of this be to stabilize not only our own price level but that of international prices, also, to a very high degree? My idea is this:

As things are now going it would soon be possible for England, Switzerland, Sweden, Japan, Argentina, Spain and a number of other nations to lift the gold embargo and go back to a gold basis. If we can avoid another orgy of inflation, and keep our prices down to near their present levels, would not the rest of the world stabilize at about the same figure? And would we not be using our gold fund practically as a gold exchange fund for just this purpose?

At about these price levels we should, I think, more likely gain gold rather than lose it in the next few years. But suppose we should lose a billion?

We now have nearly four billions, the rest of the world not much more. If we lost a billion to them that would raise their gold fund by 20 or 25 per cent.; surely enough, if a number of the chief nations were back on a gold basis, to raise their prices sufficiently to reverse the flow and send much of this gold back to us.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 13, 1923

To Governor Strong

SUBJECT: Control of the Volume of Credit

FROM Mr. Snyder



(4) We now have a wonderful set of indices of wholesale prices, retail food prices, cost of living, volume of production, amount of unemployment, &c.; and to all these we shall now add the new index of trade activity or volume of business, which will, I believe, be one of the most valuable of all.

Surely, with the aid of all these, we could evolve a means of automatically limiting the issue of Federal reserve notes. And if these latter were made the exclusive basis of the bank reserves, this would automatically limit the total of bank credit, exactly as England used the imports and exports to stabilize their price levels for a century or more before the World War.

And is not this practically all that is needed to stabilize prices and business, and solve a large part of our present-day troubles?

And, as a practical matter, could not most of all this be done, in effect, by the Federal Reserve Board and the Reserve Banks, without any further legislation or Congressional action?

This is an idea that has been haunting me for a good while, and I should like ever so much to know your careful judgment upon it.

MISC. 3.1 STAT. 3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 14, 1923

TO Mr. Jay

SUBJECT: Stabilization of Prices

FROM Mr. Snyder

It may be laid down as a postulate of the long success of the English system of price control through the Bank of England that:

> <u>The money of reserves must be of the same kind and value as the money of current circulation; so that a demand for the second should directly affect the state of the first.</u>

1. Who holds the reserves?
2. Where (& when) wd the FRB's get their investments?
3. How restrict the note circ.?
4. Can't control be equally exercised under present plan, if due regard is paid to prices, prod., etc., in fixing rates?
5. Don't like the idea of these notes being reserves —

It was a disregard of this principle that has created a large part of our difficulties in this country. For this reason the main features of the proposed revision of the Federal Reserve Act would be as follows:

(1) To make all our currency issues, now outstanding, redeemable in gold, and the sole legal tender in this country, and the sole money of bank reserves.

(2) To put all the gold now held by the Federal Reserve Banks and the Treasury--now nearly 4 billions--in a common fund and put all of this fund behind the currency issues, thus making the latter nearly 100 per cent. gold certificates.

(3) To limit the total of the currency issue by means of an index number of prices, either of wholesale prices or a composite; checked by indices of production, employment and business activity.

(4) The active agency for this control to be the Federal Reserve Banks, and to do this by varying the earning assets of the Federal Reserve Banks, reducing this total by selling securities or lowering the total of rediscounts by raising the rediscount rate, when prices rise, and buying securities and lowering the rate as prices fall; the amount of this change to be determined automatically by the change in prices.

(5) The total issue of notes being controlled by index numbers, and these notes being the sole available bank reserve, the reserve ratio of the Federal Reserve Banks would then vary probably only within very narrow limits. The rate of rediscount would be determined, partly as now, by the state of the reserves and partly by whether the price level were rising or falling. Inasmuch as any fairly effective scheme of stabilization would take most of the incentive out of speculation, the degree of these changes would be much reduced.

(6) As to the international exchanges, and import of gold, since the gold would no longer be legal tender nor valid as bank reserves, it would flow directly into the gold fund. The effect of this could be counterbalanced by the Federal Reserve Banks selling an equal amount of securities. Long before the security holdings had been exhausted in this way the bank rate could be raised sharply.

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

f - Predictions

# OFFICE CORRESPONDENCE

DATE March 1, 1923

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Better now try to formulate the plan to fit with the text of the act and see how it "fits".

I can see no need for more law, if the public can be made to understand without more law.

And if we have more law, without the public understanding it all, then we will have still more law, and so on!

It all comes back to what people really want.

BS.MM

att.

ISC. 4.1.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 21, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I am very sorry to know about that voice. But Mr. Case says that you are quite fit otherwise and that I may send you things. So I am enclosing a draft of an article on the stabilization plan.

I should really be very much indebted if you could give it a pretty careful reading and give me your criticisms. Mark it up all you please.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 21, 1923

To Governor Strong

SUBJECT:

FROM Mr. Snyder

I was very much interested to find, from your memorandum to Mr. Case yesterday, that you shared the view I have held as to a greater degree of publicity as to rate policies, etc., and note your reference to a campaign for education as to these matters. This leads me to the following suggestion:

I have had for some time in mind a paper, or speech, on the effect of inflation as shown in the United States. The point is that we now have, for more than fifty years at least, reliable records as to the progress of production in the main lines of industry, and that we can now say definitely whether, in any given period, production was increasing at a high or a low rate.

We have had now four full years of inflation since the War closed, and three or four years of inflation preceding that; and the evidence seems to be conclusive that the rate of increase in production, either in the last four or in the last eight years, was lower than in the four years or eight years preceding 1915, and lower than the average rate of increase in the last half century.

In other words, it seems to me that, in a crucial instance, with every condition propitious for the full effect of a heavy credit expansion to do the best it could possibly, it has been shown that it was not efficacious, but the reverse.

Even the high rate of production in the twelve months preceding May, 1920, was only just a little above what would have been the normal rate of production if there had been no war at all.

And it goes without saying, of course, that the people of the United States cannot have more things to enjoy, more comforts and luxury, unless they produce them (or buy them from abroad with other products, which is the same thing).

Do you not think that these facts, simply and clearly set forth, would be a very firm and effective foundation for such a campaign of education as you speak of, and make it clear, even to the man in the street, that free and easy credit, with houp-la business, booming prices and high wages, is only a kind of national jag, for which we have to pay very dearly the next morning?

I add the further thought that if, for any official reason, with reference to the Board or otherwise, you or Mr. Jay or Mr. Case did not wish to start such a discussion, possibly I could do it from a statistical point of view, and in such a way as largely to make the facts reveal the obvious conclusion.

I think the facts I speak of would be new, and, if properly presented, arouse a good deal of interest.

MISC. 3 1 STAT. 3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 27, 1923

To Governor Strong

SUBJECT: The Effect of the Bank Rate

FROM Mr. Snyder

I did not think the increase to 4½ per cent would cause more than a ripple, and apparently that is the fact. But prices have been rising rather more rapidly since the first of the year, and I have the impression that this will continue. This means that in two or three months from now probably a further raise might seem called for.

If this should happen and the rate increase was to 5 per cent, many of the more conservative banks would be inclined to call a halt, and so you might readily have a drifting situation for a few months, with a price level which would quickly be accepted by everyone of the type of Dr. Willis, or my friend Rorty, as a "stabilization at a new level."

But the caution of the banks would soon pass and another rise in prices take place. This might readily give the desired fillip to the stock market, which, along in the fall, might show a very heavy rise with the usual fireworks, at a peak along toward the end of the year.

The situation might then practically demand a further increase in rates, say even to 6 per cent, and this might readily be accepted by the stock market as an excuse for a precipitate tumble in stocks, with a corresponding disturbance of business. But, as trade would still be good, I should look to see the price level still rising till toward summer, or considerably later. If it rose fast enough and high enough, say to well over 200 on the Bureau of Labor index, and in the meantime gold began to flow out rapidly, we might have a mild repetition of 1920, in 1924.

In other words, my feeling is that neither a 5 nor a 5½ per cent rate this year is going to control the rise in prices, because, as I have said heretofore, it is my belief that, even if the volume of bank deposits could be now limited to the present amount, the rise would still continue to probably above 175 or 180, and maybe higher.

A 6 per cent bank rate would probably check the rise, but not, as I believe, for very long. And I have the impression, which may be wrong, that while a 5 per cent rate might be accepted tranquilly, a 5½, or pretty certainly a 6 per cent rate, would meet with very bitter opposition and, I should fancy, with very strong pressure from Washington. (Cries of "Trying to kill prosperity again," etc.)

And by that time it might well be that even a 6 per cent rate would have as little efficacy as a 6 per cent rate in January, 1920, did.

That is why I hope, by possibly a year from now, to have your concurrence in the idea that some form of automatic control, under an act of Congress, must be substituted to free the Federal Reserve System from all the sinister and powerful influences that it will meet, and to relieve the Governors of the Banks and the Board from the storm of abuse and vilification which, I fear, they will arouse if they attempt to carry out a sane banking policy.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 27, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I attach Colonel Ayres' compilation of the guesses at the probable rise in prices this year, that were made at our business luncheon a month ago. I am bound to say that it was pretty much mass suggestion, I think, that the guesses were so close, for it was an around-the-table ~~suggestion~~ canvass, and not a secret ballot.

At another luncheon, the next day, several of us took a ballot on when would be the peak on this upward major price movement, i.e., preceding a serious decline. The estimates ran all the way from Colonel Ayres, this October; Colonel Rorty, next January; Prof. Persons, of Harvard, the following March; myself, in the following July; and Prof. Fisher, in September.

On the same day Kemmerer made a guess of sometime this summer; and Prof. Mitchell's guess is May to summer of next year.

# Meanwhile, I find that there is a general expectation, especially among the auto manufacturers, that things will peak this July. But Colonel Ayres tells me that there was a similar feeling last year as to last July, so this does not represent a very careful balance of probabilities.

We are tabulating the very interesting replies received from Mr. Treman's letter, sent out to a large number of jobbers and manufacturers by the Secretary of the National Hardware Association.

# Don't forget how you felt last year or 18 mos ago - Also that since these guesses were made - we have made our first move - 4 1/2 % -

MISC.3 1 STAT.3600-10-21

5910

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 27, 1923

TO Governor Strong

SUBJECT: Control of Currency Issues

FROM Mr. Snyder

I deeply appreciate your detailed criticisms of the plan for limiting the currency issue. Might I add the following:

(1) Is the idea not essentially the English system, with practically a single added factor designed to meet the present extraordinary and anomalous situation?

(a). England has practically a single currency and money of bank reserves (or had before the War), i.e., gold or Bank of England notes redeemable in gold; the sole legal tender and the sole money of bank reserves. --I propose the same thing here.

Oh yes it has!

(b) The Federal Reserve Banks have the power to manufacture reserves for the Member Banks. The Bank of England has not. --I propose the same thing here.

(c) Practically speaking, the Bank of England controlled the cyclical swings of prices (not the long-range, ten or twenty-year movements) through its rate of discount acting almost automatically through the state of the reserves. --I propose the same thing here, with only this difference:

(d) England left the gates open to the free flow of gold, and to the full effect of that gold upon her price levels. I propose a kind of tide-water gate that would permit the free inflow and outflow of gold without changing the price level, i.e.,

(e) England allows her price level to be determined by the caprice of gold production, and hence suffered a long fall and then a long rise in that price level.

What I propose is: To maintain a gold fund more than ample to redeem every dollar of currency issued, but to control that currency issue, and through this the total volume of bank credit, by another device than the caprice of gold production.

What is so "revolutionary" about that?

(2) As Governor of the Bank of England you would be, to all intents and purposes, "directed" to raise or lower your rates by the state of the reserves.

As Governor of the Federal Reserve Bank of New York, such a policy of action is impossible. You must depend upon your "judgment" and assume all the burdens and responsibilities therefor, always with the possibility that a political turn of events might unhorse you.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 27, 1923

TO Governor Strong

SUBJECT: Control of Currency Issues

FROM Mr. Snyder

(And how about the situation if any one of half a hundred men that you might think of were in your place of responsibility?)

It seems to me that what I propose is a clear, simple, scientific method by which the bank rate may be determined without recourse to fallible human judgment as to when and how much to change the rate, and one that Congress and the country could be easily educated to approve.

History shows that, in matters of business, any kind of political administration usually goes wrong, and the Federal Reserve System neither has remained nor could long remain free from political domination.

What if there were now no one like yourself, with the courage to take action when it is needful?

Where would the System then be?

As to the present situation, I will make Memo. No. 2.

(already sent.)
C.S.

MISC. 4.1.

FEDERAL RESERVE BANK
OF NEW YORK

3509

# OFFICE CORRESPONDENCE

DATE February 27, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

In view of your friend's long absence in the country, I have been extremely interested in the positiveness of some of his predictions--which, if I mistake not, will generally prove wrong.

(I recently spent a day with K. in Princeton)

# See marked passage — Maybe he has more faith in us than all those 21 doubters —

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 27, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I attach Colonel Ayres' compilation of the guesses at the probable rise in prices this year, that were made at our business luncheon a month ago. I am bound to say that it was pretty much mass suggestion, I think, that the guesses were so close, for it was an around-the-table suggestion, and not a secret ballot.

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MISC.3 1 STAT.3600-10-21

5756

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE March 1, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

At it again! Or still!

All the same, I cannot get away from the feeling, which I believe is very widely shared by some of the ablest and warmest friends of the System, that the Board and the Banks laid themselves open to these attacks by maintaining an air of secrecy, which spread the impression that something was going on that the public could not know.

A great many feel that the meetings of the Board ought to be open and transactions public, and in general the public dealt with in the frankest and most definite sort of way.

Don't you think, in the light of this experience, this would have been a great deal better and would be a great deal better now?

Is it not the dread of the unknown that inspires fear, and not that which is fully and openly and candidly discussed?

- | - . 53 -

MISC. 4.1.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE March 5, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

The attached came in Saturday's mail from Prof. Hastings, who is Secretary to the Research Committee of the Monetary Association; and entirely on his own initiative.

I should like to know your judgment about it. It seems to me that it would fit in excellently with the campaign of education about which we were speaking.

In fact, it seems to me that much of this material could come much better from outside the Federal Reserve Banks than from inside.

MISC. 4.1.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 27, 1923

TO Governor Strong

FROM Mr. Snyder

SUBJECT:

In view of your friend's long absence in the country, I have been extremely interested in the positiveness of some of his predictions--which, if I mistake not, will generally prove wrong.

March 1, 1923.

PROPOSED STATEMENT
to be issued at once by
THE NATIONAL MONETARY ASSOCIATION

The National Monetary Association is of the opinion that we are now in the early stages of an era of sharp price inflation unless definite steps are taken to check such a movement. The price index number of the Bureau of Labor shows that wholesale prices have increased about 12% during the past year, and current business news indicates a still more rapid advance in the near future.

Productive activity, according to the Index of Production of the Federal Reserve Bank of New York, is at approximately the same level as the peak attained during the last boom period and no further advance in prices can be justified on the ground that it is needed to stimulate production.

With the experiences of 1919, '20, and '21 still fresh in mind the entire country is well aware of the tremendous losses and injustices which are the certain result of such periods of inflation and deflation.

Under the present circumstances the Association feels that the commercial banks of the country, under the leadership of the Federal Reserve Banks, should exercise the various means at their disposal to prevent a further expansion of loans and thereby check the upward movement of prices. Increasing the discount rate is one of the measures at hand for accomplishing this purpose and the recent action of the Federal Reserve Banks of Boston and New York in advancing their rediscount rates is to be commended.

The Association does not hold that the present period of widespread industrial and commercial activity can be indefinitely prolonged merely by preventing a further advance in prices. It does hold, however, that the prevention of further advances will: 1. greatly mitigate the severity of the next major reaction in business; 2. materially decrease the length of the ensuing period of depression; 3. lessen industrial unrest and the losses which arise therefrom; and 4. prevent gross injustice to the great mass of the American people, since their wages and income do not increase as rapidly as prices.

(submitted by Hudson B. Hastings)

FIFTEEN NASSAU STREET
NEW YORK

March 21, 1923

Dear Governor:

Back without incident, save a very late train into Chicago. I had allowed myself four and a half hours there, and just made it. But I assure you it seemed a long and tiresome trip, compared with the going out.

I think the break of a day at Chicago was an excellent thing, and I should strongly counsel just that when you return. Three days and two nights steady on the train is a long jolt.

Mr. Case is away, but I have written him, and also delivered your messages to Mr. Jay. I explained to him and Mr. Sailer the doctor's idea of a pretty thorough rest for a fortnight or so; and so, unless you wish it otherwise, you won't be very much bothered with any matters here until we hear from you definitely that you "craves action," as Rastus Marsden says.

I called up the young lady immediately upon my arrival, and she seemed ever so glad to have a good word about you, and to know that you had found such agreeable surroundings.

I hope the radio is working grandly, and that you are having all kinds of fun out of it; and Mr. Morgan and I are going to collaborate on sending you a book or so pretty regularly, though we shall have to make a pretty rough guess as to your especial tastes.

A friend of mine told me yesterday that it is the general talk of the Street that the bank rate is to be raised again "in two weeks," and that this is the main topic of conversation. I believe that this information comes mostly from the Treasury at Washington.

Getting back did not seem half so fine as going out there, and I assure you that I had a fine time and was very loath to come away.

The lady is also very keen over the idea of a Colorado vacation, in case there is no show for Europe.

When you have something on your mind and want to amuse yourself, I hope you will blaze away in this direction.

Benjamin Strong, Esq., 2

I have written a line to Dr. Forster, to tell him what a pleasant time I had, and that Dr. Houk is a trump. He surely was.

Hope everything is going beautifully.

With all kinds of good wishes, in which the Missus would like to join,

Always yours,

Carl Snyder

P.S. -

Cash rec'd. $140

exp. $122^{80}$

Your bal. $17^{20}$

to be exp. for

Books!

FIFTEEN NASSAU STREET
NEW YORK

March 24, 1923

Dear Governor:

Miss Katharine advised me by telephone that she had found just the kind of sweater you want, that buttons up around the neck, and she also says that she is sending you two novels a week; so it is understood that she will send the stories and Mr. Morgan and I will send the others.

I picked up a copy of "Seven Splendid Sinners" and sent it along. It is just a trifle, but it narrowly missed being quite a remarkable work.

One vivid page that I recall from it is that of Louis XV sending for his young daughters to get drunk with him--a curious flash into not merely the manners of the times, as I took it, but also the curious kind of boredom or satiety that must have come to men in his position. Is it not an interesting reflection that this should have been all that was left for a man in supposedly the most envied position in France? And I suppose it has been repeated thousands of times in other cases.

You see I am in a philosophical mood, which really means I discovered that I am pining and homesick for Colorado. I took such a fancy to it. After all, there is no question that one of the needful things for certain types of people, a little overly intense perhaps in their methods of work, is occasionally to get away--and a long way--from their jobs, if they are going to keep fresh.

Still, we have got going at the moment an extremely interesting bit, and that is our index of trade and business activity. We have found that we can combine now seventeen different series of monthly data of every description, from wholesale and retail store sales to postal receipts and electric power production. For each one of these we compute an individual normal as nearly as we can, and the average seasonal trend, and then to each of the items we give a weight, varying with the importance of the material, either as a good barometer or as regards its money value, and thirdly with reference to the probable accuracy of the data.

I think this is going to give a remarkably accurate picture of actual business conditions from month to month, such as has never been obtainable before. This has only been possible very recently, with the exception of the fourth full year of most of the data involved. Before this it has been impossible to get any close idea either of the seasonal or normal secular trend of the different series. Our plan is to revise these from year to year until we shall have, I think, in two or three years more, as nearly perfect a picture of the actual volume of business and trade in the country as could be obtained even with the most minute and complete figures.

I am expecting, also, that this index, covering four years of tremendous boom and collapse, will also show beyond peradventure and any further question that the variation in the volume of trade from the height of good times to the depth of bad, is relatively small.

In a business way it looks as though things were working out very nicely. About every newspaper and postprandial prattler is chattering now about price inflation, commodity inflation, etc.--you see it simply everywhere, and the country is rapidly being educated to the idea that something must be done; and I should not be surprised if there should really be an overwhelming demand that the Federal Reserve Board should take the most vigorous methods to check it. Which would be a very curious reversal of most expectations in this regard.

It is quite possible that this same wave of caution will actually check speculation for a time, though not, I think, for long; but at any rate it will probably mean, as I suggested to you on the train, that any serious criticism of raising the rates might not come until late in the year. At present it looks as though the experience of 1920 was vividly enough in most men's minds to really make the present outlook very propitious.

Mr. Beyer is attending to the photographing of the menu, and the pictures of the banks, and I believe you were to write your family about certain others that you would like.

Mr. Catchings has had a conference with Warburg, Alexander, Rovensky, and several others, and they seem all of a mind that some educational work should be begun now, and I believe a fund has been subscribed which will be adequate for present purposes and to get things started.

Mr. Catchings was telling me he understands the Reynolds bank in Chicago, the Continental, is putting out a statement declaring that there is no inflation, but simply a vigorous business recovery, and that all this talk about inflation is nonsense. Which, if I recall, was exactly Mr. George Reynolds' view at the beginning of 1920. So you see there is need for an educational campaign--at least for bankers!

This is Saturday morning, and Miss Gross is going to type this out and send it on, as I go to Buffalo tomorrow to talk to the bankers and the Hydraulic Society there, and will not be back until Wednesday.

Mr. Jay, Mr. Case and all were so very glad to know that you had found such an agreeable spot to recuperate in, and of the excellent prospects.

I don't think there is the slightest thing you need to worry about here, or for the rest of the country.

With warmest regards,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmor Sanatorium,
Colorado Springs, Colorado.

FIFTEEN NASSAU STREET
NEW YORK

March 29, 1923

Dear Governor:

I meant last week to draw your attention to the figures on turnover in bank deposits that we gave in last week's Business Summary. Against the possibility that you did not get this, I enclose it.

We also have some elaborate computations as to velocity of deposits for the different districts and the whole country, which show almost identically the same thing, namely, that while there is a strong seasonal swing in the velocity, almost strikingly regular, the evidence for a marked cyclical variation, at least in the last four years, is rather slight. And if it would not show up in these last four years I don't know when it ever would or could.

We shall be able to work this out back to 1909, and, as I told you, we shall do this as soon as we get our new index out of the road. The latter is coming on finely and I think is going to be the most valuable single piece of work that we have done. Or, rather, it will be the summation of practically all the new work that we have done since we started. And I firmly believe that when the country and business men generally come to understand it and look for it and appreciate its meaning, the larger part of Federal Reserve Bank difficulties are going to disappear, i.e., it is going to be unmistakable, I am sure, that the supposed wide variations in the volume of trade, and hence the need of credit, are almost a complete myth.

These demands vary widely for different trades and lines of business, from season to season or even from year to year, as, for example, in the building boom now; but taken for the country as a whole I think it will be clear that the variation is not very wide.

Meanwhile, our friends in Washington have again revealed their character and capacity for the job, as you have already seen. It may interest you to see the reception which it had here by the newspapers, and I enclose one bit. Mr. Treman was quite hilarious over it. But, coming just at a time when there was a really strong and widespread feeling that the Board or the banks ought to lay down in the clearest and most unmistakable way precisely what their policy is and will be, so that the country may go about its way and govern itself accordingly, it is rather sad.

I was extremely interested in the two meetings I had in Buffalo, and especially with the hydraulic manufacturers. The latter was not a large gathering, and we talked and discussed questions very informally, and I think you would have been quite impressed with their clear understanding of the present problem as we have talked it over, their quick grasp of the difficulties of the situation and obvious approval of the principles which ought to dominate the situation now.

They do not want inflation, they dread it, and are doing the very best they can to check it in their individual lines. And I believe that is the feeling of the best element of the country everywhere, and that if the banks or the Board would boldly and concretely declare their policy they would have the approval, as I said, of more than 80 per cent of the country, the farmers included.

The heavy bear raid on the stock market seemed to make no appreciable dent and appears to indicate a very sound position there.

I have not yet found you a good book for the week, but Miss Katharine says that she is keeping you supplied with fiction.

With all kinds of good wishes,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmor Sanatorium,
Colorado Springs,
Colorado.

FIFTEEN NASSAU STREET
NEW YORK

April 5, 1923

Dear Governor:

You will be interested to know that we seem in the throes of an epidemic of talk about inflation and means of preventing it. Mr. Beyer says that you get the Evening Post, and you probably, therefore, have the remarkable editorial which appeared in Tuesday evening's issue; but against the chance that you might have missed it, I enclose it. And I have also sent you a copy of this morning's New York American, with a characteristic Hearstian editorial on the same subject. You may say that it is on nearly everybody's tongue.

Nothing could be more propitious, and salutary, and of course it makes a rational bank policy very easy. My only fear is that, after perhaps a brief reaction, and a steadying of business with possibly some decline in some lines, this mood of apprehension will pass and the same agencies will announce that the country is in a perfectly sound condition and that the inflation we have had was "healthy."

There seems to be a great deal of talk, also, of a reaction in the stock market, and it may readily take place, though that which is widely expected sometimes does not eventuate.

Mr. Catchings has had very satisfactory talks with Mr. Warburg and others, regarding financing the Monetary Association in a modest way, and we are hopeful now that the work of organization may go forward.

As you may have noted, an extraordinary situation is developing in Germany, which might readily produce a good deal of a smash over there. They are trying the amazing experiment of attempting to stabilize exchange while printing colossal sums of paper notes. I talked with Mr. Ludwig Bendix, the financial adviser of the German Embassy over here, and he simply throws up both hands in complete mystification. He says he cannot understand it at all; and this is interesting, because Mr. Bendix was one of those who believed that if they could merely stabilize their exchange over there that would be the foundation for a general reform, i.e., he was one of those who insisted that it was the fall of exchange which necessitated the printing of more marks!

My father writes me an interesting bit about the situation in Los Angeles. He says, "I never knew a people so excited over a boom as the people down here. They are growing towns over night."

I am rather puzzled to find anything of very much interest to send you. I hope you will let me know if there is anything special you would like to have.

We are having a rather cold and stormy beginning for April.

With all kinds of good wishes,

Always yours,

Carl Snyder.

Hon. Benjamin Strong,
Cragmor Sanatorium,
Colorado Springs,
Colorado.

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The citation for the original is:

“Credit Vigilance is Being Maintained.” The Journal of Commerce. (New York, NY), April 23, [1923].

FIFTEEN NASSAU STREET
NEW YORK

April 19, 1923

Dear Governor:

I have not written to you largely because, I fear, of a difficulty I have always had about buying books, and that seems to be as bad when it is for others as for myself. I have not struck anything that it seemed to me would excite you wildly, and I have felt reluctant to send you what happened to come along.

I have been thinking about you a great deal of late, and wondering how things were coming along. Governor Calkins reported you in very good spirits; but I can imagine that it might get to be a good deal of a grind to a person of your very active mind.

I believe Mr. Jay has written you, and Mr. Case said he was writing you yesterday, so there is no need for me to tell you much about the situation. It seems to be pretty much what we have so often discussed--the difficulty of getting any kind of unity of view, or action, from any body of men of diverse personal interests, training, associations and slants of mind.

The more I see of what is going on and has gone on in the last four years, the more it seems to me that, unless it was in a narrow field where tradition was very strong and the reaction of men rather instinctive, as, for example, in the case of England's banking policy, it would be very difficult to cope with any new situation by means of any committee or board. I look to the next two years to justify my belief and to demonstrate very clearly that we must get some kind of automatic rule back into the making of the bank rate, and that it cannot be left to the conflicting views and interests of several bodies of men, as it is now. I think Mr. Case has a good deal of the same feeling.

I am going over to Washington this afternoon to attend a conference with Secretary Wallace, with a number of economists like George Roberts, Wesley Mitchell and Prof. Persons. Over there I hope to have a little talk with one or two persons and may write you of the outcome.

Mr. Case says he drew your attention to a paragraph in the Whaley-Eaton Service for April 12, about regulating discount rates by means of a trade index. This is supposed to come from Mr. Hoover's department, and I don't know if it is a distant echo of our trade index, which I talked over very fully with Wesley Mitchell a couple of months ago. He was very enthusiastic about our idea, and he has been in very close touch with Hoover, spending a good deal of his time in Washington.

We have been finding ways to improve greatly, I think, our original idea so that we shall now have a combination of nineteen or twenty different series. But this naturally delays the completion of the work. But I think it will be well worth while.

Everything moves along in just about the same even tenor as in the last eighteen months. The morning papers record a new "high" for sugar, a rise of a full 20 per cent over the preceding big rise which aroused Washington to another of its futile and fantastic "investigations." I sometimes wonder whether we have advanced one foot in economic sense within the last hundred years. This is more directly suggested this morning by the panic in marks in Berlin and a violent drop in exchange. I hardly looked to see it come quite as soon as it did. But it seems at this distance as if Germany had literally gone insane.

It seems almost unbelievable that men of the business ability of Cuno and Havenstein and Max Warburg, and the rest of them there, could ever have dreamed that such a gamble could have won out. Even Mr. Ludwig Bendix, the financial adviser of the German Embassy here, who has been a faithful and constant defender of Germany's financial policy, straight through until now, threw up his hands in utter dispair when I talked to him about it last week. He showed me a letter that he had written to Max Warburg, which made clear the simply measureless morass in which Germany is now floundering.

Lansburgh, the only sane and clear headed man in Germany, apparently, writes an extremely interesting little article in the same tenor, and quotes a very telling phrase that was new to me:

"For the folly of their rulers the people must pay."

Is it not deadly true; and is not this exactly what has happened in the United States within the last four years?

I had a very interesting luncheon with George Roberts this week, and he is strongly of the view that we ought to get the rate up to 5 per cent as soon as we can. He does not believe that it would be more than a splash in the pool at the present time, and that this is the more needful as it might be much more difficult to get it up later. But he made clear that this was only his personal view and not needfully that of his bank.

Down at Atlantic City I came across, in a bookstore there, a volume that I had not seen for five or ten years, that at the time interested me very much indeed. And I am venturing to send it to you to get out of it what you can. I don't mean to suggest complete approval of it, but I know that I got some exercises out of it that I think, first and last, have been well worth while, and it occurred to me that it might fit into your program somewhat out there. So I will send it along with the request that you shy no bricks this way for my so doing.

I wonder if you have noticed how rapidly prices are rising abroad? Our English basic index, as you notice, crosses our American index this week, and the latest official index of prices in France shows a rise from the low of a year and a half ago of 38 per cent. That is distinctly greater than in this country, where even Bradstreet's shows 31 per cent.

Does not this mean that we are already afloat upon a world-wide boom, and that we are going to repeat, not merely in this country but all over the world, pretty much the same performance as 1919-'20?

I guess this is enough for today. You should know of how great an interest there is here in the smallest word of news about you, such as Governor Calkins sent.

A lady who finds it as difficult, as perhaps the majority, to adjust to all the daily trials and tribulations of this world, and to whom you are held up as a shining model, joins in very best regards and good wishes.

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmor Sanatorium,
Colorado Springs, Colorado.

Lest you should not notice it, I enclose an extremely interesting and significant advertisement in the New York Times, scattered, I suppose, all over the country, and I am having the article itself sent to you. The education of the American people in index numbers seems to be proceeding at an amazing rate, when a popular five-cent magazine can devote its leading article and editorial to a very intelligent discussion of the subject.

R E V I E W  O F  P E R I O D I C A L S

Federal Reserve Bank of New York, Reports Department

Vol. IV: No. 20 April 19, 1923.

Inquiries and suggestions regarding Review, phone Miss Rose, Autom. 341 - Bell 214
Periodicals may be obtained from Reference Library, phone Autom. 230 - Bell 343

## FEDERAL RESERVE SYSTEM

What the Reserve Board meeting accomplished
Magazine of Wall Street, 31: pp. 1063-5, 1110-11, 1114, April 14, 1923

The conference between the Federal Reserve Board and the governors of Federal Reserve banks did not lead to advances in rates, or to any announcement of rate policy. The fact that the present growth of commercial loans has proceeded without much recourse to the Federal Reserve banks would have rendered a rate increase ineffective, but now that many member banks are nearly loaned up and market rates are advancing, it is likely that advances in Federal Reserve rates will not be long deferred.

It is to be regretted that no announcement of policy was made. The Federal Reserve Board ought not to make a mystery of its intentions or to postpone their execution until the last minute. "It is a public system, and its acts are acts in which the public is deeply interested, and as to which the rank and file of the community have a right to be informed." Only by reasonabl and proper publicity can the System regain the public confidence which has bee partly lost through the attacks of demagogic Congressmen and ex-officeholders. The future policy of the Reserve System is of great importance to the country and it is to be hoped that a definite announcement will not be long delayed.

It has been suggested that a super-reserve of approximately 100 per cent. gold be placed behind Federal Reserve notes, leaving the remaining gold to protect deposits. Then when the occasion arises for the redistribution of gold, the super-reserve could be released. The legality, wisdom and success of this scheme seem doubtful. The only proper protection against the inflationary dangers of our gold holdings is a courageous and prompt policy of credit control by the Federal Reserve Board, or a policy of self-restraint on the part of banks and all users of credit, or, even better, a combination of both, resulting in keeping advances down to a level easily supported by our normal supply of gold.

A.P.Mills

## ECONOMIC AND FINANCIAL CONDITIONS

Security issues in France and in various countries, M. Galmiche
Bulletin de la Statistique Generale de la France, XII: pp. 197-221, January, 1923.

At the conclusion of a comprehensive study of security issues in France and in other countries since 1907, the writer combines the results of his investigations in a comparative table, converting into gold francs the value of stocks issued in nine different countries between 1907 and 1922. The United Kingdom, in spite of its importance, is not included in this table

(Continued)

OMS-2 150M-9-20

FEDERAL RESERVE BANK
OF NEW YORK

# INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

TIME ________ A. M. / P. M.    DATE [See Exhibit #B]

TO Mr. Strong.

DEPARTMENT / DIVISION / SECTION

**REMARKS** Will this be sufficient for a base or start-off - for what you had in mind for the World.

**FROM** O.S.

DEPARTMENT / DIVISION / SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.
TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

...E BANK
...ORK

# INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

TIME ______ A. M. / P. M.   DATE Dec. 17, '23

Gov. Strong!

DEPARTMENT
DIVISION
SECTION

**REMARKS** You see they did not like it very much.

**FROM** Notes B.S.

DEPARTMENT
DIVISION
SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.
TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

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The citation for the original is:

The Literary Review of the New York Evening Post. (New York, NY), December 8, 1923.

FIFTEEN NASSAU STREET
NEW YORK

April 24, 1923

Dear Governor:

It was mighty cheering to have a good word from you, and also to see the letter to Mr. Sailer which was duly passed around, and to have your blast on Cassel, Keynes & Company! (Then I knew you were back in form!)

I am sending Robertson's little book on "Money." I hear, by the way, that Henderson, one of the Keynes-Robertson group at Cambridge, is to be the new editor of "The Nation," London, which W. T. Layton, who succeeded Hartley Withers on "The Economist," and, as I understand it, Keynes, now have control of. I have a suspicion that it may have been Henderson, since he writes well and Layton does not, who wrote those two very clever editorials on the problem of stabilization in this and other countries, in "The Economist" last winter.

We have tried hard to find the Guyot book in town, but without success. Almost nothing of that kind comes to this country except on order. And I am pretty sure that it has not been translated. But I am sending for a copy and I will have our clever Miss Frankenstein, or Mr. Bendelari, translate some of the most savage paragraphs on your favorite authors, C. K. & Company!

Of course I don't altogether agree with you, as you know, about Mr. G. and his view. To me he seems living in another world than that in which he finds himself. For example, I don't see any parallel between the French situation now, for example, and ours or England's after our Civil or the Napoleonic Wars.

The degree of depreciation with us was, save for a very brief period, relatively slight and more like the English pound in the last three years. And is not this the heart of the whole problem, the question of degree?

(depreciation is + 70 o/o)

France today is more nearly in the position of the assignat; and with their government finance in almost as great a morass as that of Germany, I don't see any present prospect for them to pull out of it--do you?

We had a very pleasant evening over in Washington with Mr. Welliver and his friend, C. Present; George Roberts, Prof. Mitchell, Prof. Persons, Dr. Foster, B. M. Anderson, and one or two others. There was a very lively discussion, ~~and~~ between Mr. Roberts and Prof. Mitchell, and they sketched the situation almost as you see it. ~~But~~ I don't know if it did any particular good, but at least it was sufficiently jolly, and a pleasant time was had, especially by the attending guests. C. stayed til 8 30 & the last drop was gone!

I am, also bound to say that I feel that you are a little unfair to Prof. Chandler's article in the "Commerce Monthly." Not everyone can write like Mr. Roberts, you know, and in substance the article seemed to me pretty sound. Mr. Alexander was so pleased with it that he brought it over to Mr. Jay, who said he thought it one of the best he had read in a long while. I'll remind you of your own doctrine, that, the council of perfection does not run very much in this workaday world!

I got at Washington the impression that there is a very strong tide of opposition to anything that the most fearful of souls would regard as "disturbing to prosperity," and, if I mistake not from the piece which I enclose, it will be very difficult to get any kind of timely action, I believe. With C. at the "throttle", it will move very slowly, I think.

~~Furthermore,~~ I have been casting up the account this morning on the wage situation. Our index of unskilled wages stands now at 199, and the average weekly earnings in New York State factories at 212. (Base / 1913.)

Even farm wages, according to the Department of Agriculture, showed a rise of 11 per cent within the last quarter, which was a fairly stiff jump.

Last week the Industrial Conference Board reported 229 wage increases, and that on top of a long string in the months preceding. And I find there is a disposition to grant these increases freely, for industrial profits seem to be running very high.

Now do you see just how we are going to keep down for very long the general level of prices, ~~at~~ now say around 160, with wages at 200 and over and steadily rising? I confess it seems to me very difficult, for, as I said, it looks as if the present volume of bank deposits was amply sufficient to finance a considerable rise without any recourse to the Federal Reserve Banks.

We had a very interesting conference with the Agricultural Department, with Roberts, Mitchell, Persons, et al, in attendance. I gave a little account of it in the "buff sheet" this week. There seemed to be a general feeling that the farm situation was improving and that it might run very much further by fall, with much higher prices for farm products.

In other words, that the situation may likely work itself out on the old accustomed lines. Which reminds me of a very striking phrase that a friend of mine, who has just returned from England, and seeing almost all the economists over there, reported as from Prof. Cannan, to the effect that:

> "There is at least one group that, through the War and to date, has had nothing to take back or apologize for, since everything has worked out almost exactly as they said it would, and that is the Orthodox Economists."

I don't know just how absolutely true it is, but anyway it sounds good, and I think comes somewhere near the fact. At any rate, as regards Germany!

May I note, as to your observation on Ricardo, Mill, Newton and others, that, at least as far as Newton and his law are concerned, the correction for "c" in the formula is so infinitely slight that it is extremely difficult to prove that it is not so! And I have the same suspicion as to our friend, David, et al.*

Everybody joins in sending you all kinds of good wishes and congratulations on progress.

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

* And David, you know, was about the first to state, clearly, the doctrine of the relative value of currencies, in international exchange, i.e. "purchasing parities", which Mr. Guyot flouts with such scorn!

Reserve Bank of Richmond from returning as dishonored any checks drawn upon any one of banking institutions joining the injunction proceedings which the drawee bank refuses to pay except in exchange at less than par.

TO ADVANCE CLOTHING WAGES: We learn from a confidential source that negotiations are about to be begun looking toward an advance in the wages of clothing workers in this city. These wages, which advanced more than any others in the period from 1914 to 1920, have been reduced only about 10 per cent. and are still more than twice as high as before the war. While the amount of the advance has not been decided, we understand that it will be about 10 per cent. and this will put these wages back as high as they were in 1920. With this advance coupled with the recent increases in textile mills, clothing for spring, 1924, undoubtedly will be higher in price. Most fall clothing has been sold and it is now being manufactured.

Respectfully,

Shepard Morgan,
Assistant Federal Reserve Agent.

Federal Reserve Board,
Washington, D. C.

SM/EGF

WAGE TREND ADVANCING: Latest survey of wage changes in industrial establishments by the National Industrial Conference Board shows an unprecedented number of wage increases in the month from March 16 to April 15. There were no reductions reported, and there were 229 increases. This compares with 37 increases the previous month and with 42 advances two months ago. The Board says that this sudden upturn is not to be explained wholly by a labor shortage, but in part by improving industrial conditions. The New York Department of Labor informs us that total wage payments in factories in March were two and two-fifths times as large as they were prior to the war.

Respectfully,

Shepard Morgan,
Assistant Federal Reserve Agent.

Federal Reserve Board,
Washington, D. C.

SM/EGF

reduced tank wagon prices on gasoline 1 cent a gallon to 23 1/2 cents. The price of kerosene was reduced from 15 to 14 cents, and naptha 1 cent to 22 1/4 cents. These reductions followed those recently made by Standard Oil of New Jersey for New Jersey, Maryland, Virginia, and the District of Columbia. The Texas Company has met all of these reductions.

ELEVATOR PLANTS AT CAPACITY: Main plants of Otis Elevator Company are being operated at capacity in an attempt to keep up with incoming orders, according to W. D. Baldwin, chairman of the board. He said that if business continued to come in as it had recently, it would be necessary to expand the plants.

Respectfully,

Shepard Morgan,
Assistant Federal Reserve Agent.

Federal Reserve Board,
Washington, D. C.

SM/EGF

WOOLENS ADVANCE: American Woolen Company has announced advance of 11 per cent. in price of fall woolen goods. Most manufacturers have contracted for their requirements at the lower price but duplicate orders will have to be paid for at the higher levels. The advance was due to higher quotations on raw wool and to the recent advance in textile mill wages. The trade believes that this is a fair indication of the price levels which may be expected for next spring.

Respectfully,

Shepard Morgan,
Assistant Federal Reserve Agent.

Federal Reserve Board,
Washington, D. C.

SM/EGF

FIFTEEN NASSAU STREET
NEW YORK

April 26, 1923

Dear Governor:

I am having your very interesting article copied and will turn it over to Mr. Jay and Mr. Case and they will write you their views. Mr. J. is still hopeful that we may have some clear and definite statement of policy when Mr. C. takes office, but Washington is a queer place and I don't think they see the situation with quite the same eyes as we do.

As to the article itself, I should feel, personally, that anything that would tend at the present time to lessen in the public mind the responsibility of the Reserve Banks would have a rather unfortunate effect. If we are not to get some control from them then I don't know where any is coming from.

And as to the need of this control, I am enclosing a memorandum which I wrote today for Mr. Case and Mr. Jay, as to the probable effect of the wave of wage increases which seems now sweeping the country.

As to the causes enumerated on page 5, I fear there would be a good many to disagree with the statement that a number of these are "the most important and fundamental causes." I think you would find that the orthodox view of the economists is that most of these are either transient or very slow in their effects, and that for the most part they tend mutually to cancel each other more or less, so that they are neither very important nor very fundamental.

Personally, as you know, I think that we now have worked out in this bank the almost indisputable evidence that the general level of prices, as nearly as we may estimate it, is in this country very closely a "function," as the mathematicians say, of demand deposits in the banks, varying as these vary, and that, because the synchronism is so close, Occam's razor would rule out most if not all of the supposed other "causes."

The point is very simply that we now have definite proof which I think cannot be gainsaid, that in this country at least the variation in the total volume of trade from good years to bad, and boom to depression, is relatively slight; and that the demands for credit vary within about the same proportions.

Secondly, that while the variation in the rate of turnover of bank deposits has a marked seasonal swing, we fail to find any evidence of any wide cyclical swing, even in the four tumultuous years we have gone through.

This leaves then only one dominating factor, and that is simply the relation of the volume of deposits to a not greatly varying volume of trade.

It is my personal belief, Governor, that the evidence for this is now as good as for most other facts which are accepted on a statistical basis, whether it be in astronomy, physics or economics. I may add that substantially the above was clearly the opinion of Mill and Ricardo, and of most orthodox economists since their time, and denied only by a relatively few of the type of Laughlin and B. M. Anderson and Harold Moulton.

And I believe, further, that if you will restore the credit conditions prevailing from 1908 to 1915 you will restore the very remarkable price and economic stability of that period.

I would not dwell on this subject so strongly, I suppose, if I did not think that we had been piling up a bully lot of stuff in these three years that offer a real solution of the problem in which we are all interested; and of course one hates to think that this has not been worth while and is not going to be used when concievably it might be of enormous value to the whole country. Will you let this forgive your earnest and somewhat tiresome friend?

It is fine to know that you have a mood and energy for these things, for nothing else could tell so well the story of your progress. We are all delighted.

Ever yours,

Carl Snyder

Memo. on Pickett letter:

May I follow your suggestion, for this reason: I think it is clear the article was pretty unfair to Secretary Wallace, and looks like a rather nasty drive against a rival agricultural paper and a bid for popularity with the advertisers and boomsters generally.

There is much that is true in Mr. Johnson's article, but, as I understand, he got the whole of it from the Agricultural Department; and all of these things are matters on which the Department has been working on very intelligently and with a far greater intelligence than displayed by the writer of this article.

It is not true that the index of the purchasing power of the farmer's dollar was invented by Mr. Wallace. It was begun back of his administration and is simply a hang-over. Nor is there the slightest mystery as to how it is constructed or the reasons for that construction, save in the foggy or unfair mind of the writer. The comparison with the Department of Commerce figure is not a fair comparison, and altogether the article seemed to me to rather maliciously misrepresent the whole spirit and aim of the Department. I got a very fine impression of the work they are doing down there last week; and I think it would be rather hard to improve it very much, except in just the way they are doing. They are a live bunch and up on their toes.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# FICE CORRESPONDENCE

DATE April 26, 1923

TO Mr. Jay - Mr. Case - Mr. Treman SUBJECT:

FROM Mr. Snyder

A most interesting situation is developing in the widening "spread" between the average price of goods at wholesale or retail and the "cost of living," on the one hand, and wages and workers' earnings on the other. Within the last six or eight months wages have been rising considerably faster than prices, at least on the Bureau of Labor indices. Wages and earnings are approaching the 1920 basis, while prices are still much below, as is set forth in the following table:

| 1913 or 1914 = 100 | Peak 1920 | Average 1920 | Latest 1923 |
|---|---|---|---|
| Dept. of Labor, Wholesale Prices | 247 | 226 | 159 |
| Dept. of Labor, Retail Food | 219 | 204 | 142 |
| N. I. C., "Cost of Living" | 204.5 | 197.3 | 159.2 |
| Unskilled Labor Wages | 234 | 221 | 199 |
| Weekly Earnings, New York Factories | 228 | 222 | 212 |
| U. S. Dept. of Labor Wages (13 industries) | 273 | 261 | 237 |

It will be seen that, with our index of unskilled labor wages in this district and the weekly earnings of workers in New York State factories, both the peak and the average in 1920 were below the average of wholesale prices. Whereas now they are far above.

The third index of wages compiled by us is heavily weighted with wages in the textile and iron and steel industries, which ran very high in 1920, and still seem much above the averages in New York State now.

Given wide and general employment at these wages, we have a situation that has rarely been witnessed before, that is, retail food and the average cost of living in a skilled worker's family at something like 20 to 25 per cent below the average of wages and earnings. And wholesale prices nearly the same. It is a hey-day for labor!

How manufacturers and employers generally can go on raising their wages, as they are, and not rapidly advance their prices, is a puzzle. The advance in wages has been more rapid within the last month or two than at any time since the turn of the tide in 1921. Last week the Conference Board reported 229 increases in a single fortnight, which broke all records.

And in conversation with employers I have found, apparently, a general disposition to meet demands for wage increases promptly and seemingly without very much question, as though it were something that had to be done, and therefore done gracefully and quickly. I don't know when I have ever seen quite such a situation.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE April 26, 1923

TO

SUBJECT:

FROM Mr. Snyder



Some explanation may lie in the fact that profits are now running very high in many industries, and there is apparently a real increase in efficiency, in some cases to an almost unbelievable degree. The tire companies report that, partly from this increased efficiency, partly from better organization and better process work, they get four tires per man per day as against an average of about one tire in 1920. And everywhere, in the steel industries, in construction, in the Ford factories, and all around, there are reports of a very marked gain.

So, for example, in the basic industries of which we have monthly figures we have now a record level of production, while in this State and elsewhere the factories report about 10 per cent less in the number of employed than at the peak of 1920. The two sets of reports may not be accurately comparable, but they do seem to disclose a marked gain in production per man.

All this vividly illustrates, in unusual degree, that phase in what Prof. Mitchell calls the "round of events" which we term the business cycle, wherein prices are rising, profits high, and wages good. But invariably in the past this stage has been followed by another in which wages and costs rise faster than prices, profits are diminished, and prosperity comes to an end. But this last has always been due, in part at least, to an exhaustion of purchasing power, which has estopped further increases in the prices of goods. This check is not now operative. It seems difficult to convince either bankers or economists that we have had a tremendous expansion of bank credit, difficult because this has not taken the usual route of an expansion of bank loans.

With bank deposits back practically to the level of 1920, and no material difference in the total volume of trade and production, we have clearly a credit volume sufficient to finance a still further heavy expansion in prices, possibly close to the 1920 level. And this without much recourse to the Federal Reserve Banks.

Such high and rising wages create a tremendous amount of purchasing power among the workers, who constitute 50 per cent or more of the total earning population of the country. This must have and clearly is now having its natural effect in a prodigious volume of retail trade. There seems no piling up of stocks, even with the present high level of production.

Now the extraordinary thing is that the main force in this amazingly rapid recovery from the depression of 1921 has apparently been foreign investments and deposits in this country, buying back our securities which they have sold or leaving heavy balances here, from the sale of goods. This means that a turn of the tide in this direction might, under existing conditions, when the total balance of other payments seems on the whole against us, easily bring about heavy gold exports.

Does not this singular situation call for an unusual degree of caution and should not the Federal Reserve Banks take the lead in calling attention to this rapid advance in wage levels, and point out its inevitable and unescapable effect? It seems fantastic to create an enormous volume of purchasing power through high wages and full employment, and expect that these high wages will not be passed on to the consumer as rapidly as possible; and that this will not bring about another uprush of prices, to be followed inevitably by another collapse.

I cannot get away from the feeling that the situation is almost identical with 1919 and 1920, and that unless something is done now to check this headlong pace, it must result in the same disastrous collapse of three years ago.

C. 34.1 60M 1-21

FEDERAL RESERVE BANK
OF NEW YORK

SENT BY

SEND TO FILES

# COPY OF TELEGRAM

April 27, 1923

Hon. Benjamin Strong,
Cragmor Sanatorium,
Colorado Springs, Colorado.

Deeply interested in your article and have given copies to Case and Jay. Have written you regarding it and Mr. Jay has written suggesting a little delay pending developments at Washington. Best greetings.

Carl Snyder

MISC. 3 1 STAT. 3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE April 30, 1923

TO Mr. Jay (Copy for Governor Strong) SUBJECT:

FROM Mr. Snyder

With reference to your inquiry as to the ratio of money in actual circulation and net demand deposits, we make the following estimates as of July 1 of:

| 1920 | 1921 | 1922 |
|---|---|---|
| 4.87 | 5.02 (revised) | 5.80 (revised) |

As of January 1, 1923 -- 5.73 (estimate)

You will note that there is little change in the six months from last July to last January. The tendency seems to be for this ratio to show a distinct lag on rapidly rising deposits. This was naturally the case in the War, when it rose for a short time to about 7 to 1, quickly falling in 1921 to what has been the normal ratio of about 5 to 1 in the last twenty years.

This might reflect the fact that retail prices are the last to feel the effect of a heavy price rise, and that the need of a larger circulation does not occur until this takes place. On this basis the expectation might be that a heavy demand for Federal reserve circulation might not show itself until later in this or even next year.

Wager?

FIFTEEN NASSAU STREET
NEW YORK

April 30, 1923

Dear Governor:

I note your "confidential" comment on the possibility of gold exports. I did not mean to suggest any definite figure, like a billion dollars. I had no particular figure in mind.

But unless, as Mr. Wagner of the Discount Corporation suggests, foreign balances in New York continue to increase, my feeling is that, with our rapidly declining merchandise balance, we must either curtail our foreign loans or suffer large gold exports.

I note this morning that Prof. Mitchell joins the ranks of them you are pleased to call "guessers," a very respectable recruit; in fact, with the exception of B. M. Anderson, Dr. Willis and one or two others of that type, I think the economists are of pretty much the same view as Dr. Mitchell.

NB.

You intrigue me deeply with your view of what you call my "complex," and I feel like challenging it a little. Would you care for a friendly wager on the following questions:

(1) Your view is that the Federal Reserve Banks will raise their rates and prevent further inflation of prices and wages, above the present level; that we shall not have another boom and another crisis and another disastrous collapse in prices, production and employment.

As this all may take some time, I suggest as a wager that we take the first part; that within one year from date the level of prices will have another notable rise and that, for example, the Bureau of Labor index of wholesale prices, now 159, will rise above 180, if that will be a satisfactory test to you; and a pleasant dinner for eight to the loser.

(2) Further, that the loser agrees at the dinner, and thenceforth, to admit that a boom has developed, for prices could scarcely rise that much further without a boom; second, that this was the result of inflation; and third, that this inflation could not be curbed by the action of the Federal Reserve Banks; ~~and finally~~, to recognize that anything beyond a 3 or 4 per cent increase per annum in the bank deposits of the country results in a rise in prices, and that a 12 or 15 per cent rise in deposits, such as has taken place in the last year and a half, results in a pronounced inflation of prices and wages; and finally that the only possible

way to curb inflation and to prevent a topsy-turvy up and down of prices, such as we have witnessed in the past seven years, is to devise a method by which the amount of bank deposits shall vary within narrow limits and proportionally to the normal increase in the total volume of the country, which is within 3 and 4 per cent.

Loser to make full acknowledgment, and further to admit that those who, in the last year and a half, have rightly predicted the trend of the price level are not "guessers."

FIFTEEN NASSAU STREET
NEW YORK

May 1, 1923

Dear Governor:

We had a very delightful visit from Dr. Forster yesterday, with a most encouraging report as to your continued progress. I got the impression that he is wonderfully pleased with the steady improvement, and that he has no doubt of the outcome, though I did get the impression that he thought it would be hastened the less the amount of work that you do.

I heard a lecture on experimental psychology the other night by a Johns Hopkins professor, and he had a rather novel idea which I will pass on to you for what it may be worth. It was this: He says that deaf mutes, when left alone and unobserved, will, when engaged in any kind of intense thought, talk with their hands much as if conversing with someone present. This observation, he said, had led to the idea that muscular action was a concomitant of all thought, and that this seemed borne out by the idea that children alone, at play or otherwise, talk to themselves continuously. And a great many grown people will go along the street talking to themselves out loud, or at least with their lips moving.

Now, he said, experiment had shown that, even when the lips do not move, a delicate instrument applied to the muscles of the neck and larynx shows that intense thought always involves more or less muscular action, depending upon the degree of inhibition which had been developed by the individual. And he gave this as one of the reasons why thinking can make us tired just like any other kind of muscular activity. He was obviously of the school that believe that we cannot think without words. Anything less than that is a mere state of emotion or feeling. Which, if true, I suppose would mean that the less you felt inclined to go magazining, and the less you indulge that tempting proclivity, possibly the better for the progress of that throat. I meant to ask Dr. Forster about this but I did not. So I will leave that to you.

I note your threat to cut your income and go pamphleteering, but I can assure you from deep experience that it is an extremely expensive adventure all around, and pretty sterile of results. The plain facts seem to be that mighty few people are interested in economics or banking, and the most of the people who are seem to want to write and to expound their own ideas rather than read what anyone else has written. And I would ask you, Sir, to consider, if you would, the implication of my failure to convince you that we have really solved the problem experimentally, here in this office, of the relation of money and credit and prices; and that we really have the proof, and that this proof is, so to speak, simple bookkeeping, as your phrase is, and exactly of the same order of things as when you strike your balance on your books at night.

What I mean to suggest is that almost all our ideas on economics seem so deeply colored by our emotions and feelings and personal desires--so much so that I have come to think of them largely as just "wish thoughts." For example:

How many people have ever sat down and laboriously, month after month, attempted to compute the probable average level of all prices and compare this with the wage levels and rent levels and cost of living, and all the rest; and then compare each of these with the increase in bank loans or of bank deposits or of demand deposits alone; or computed the normal annual rate of increase in the volume of production and trade; or the velocity of turnover of bank deposits from month to month and year to year?

We have done all these things, and this work is now practically completed, and I think that the results are in accordance and that the proof is just as sure as, for example, that the movement of the earth or of the moon is controlled by gravitation and that their perturbations are caused by the same force.

It was a generation, Sir, after the "Principia" was published before any but a few believed in it as a great discovery, and the same thing was true of the atomic theory in chemistry, and of the theory of evolution in biology. And apparently it will be the same thing in economics.

--You see today is the first of May, and the sky is very blue, and I wish I were out in the green fields.

I note your comment on my summary of the possibility of gold exports. I did not mean to suggest any definite figure, like a billion dollars, as I had no particular figure in mind.

But unless, as Mr. Wagner of the Discount Corporation suggests this morning, foreign balances in New York are to continue to increase, my feeling is that, with our rapidly declining merchandise balance, we must either curtail our foreign loans or suffer large gold exports.

I have been developing a theory of "automatic prosperity," so long as the gold lasts. I'd like to write you about it if it still looks good overnight.

You may believe, Sir, that everyone was deeply gratified at Dr. Forster's report.

--I have posted you a little book on "The Stabilization of Business," and I shall soon send you the Mitchell Bureau book on "Business Cycles and Unemployment."

With ever so many good wishes,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

MISC. 4.1.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE May 2, 1923

To Governor Strong

SUBJECT:

FROM Mr. Snyder

The enclosed is a list of those who were invited to the Conference at Washington, and will show you, I think, that the department there is quite as keen as anyone could wish, to make the best utilization possible of the immense mass of statistics which they gather, and that they are trying very earnestly to help the farmer in every way they can. And my feeling is that they are doing a pretty good job.

Mighty glad of it — Can the other letter — to Phila & send Beyers letter to Drummond as is!

B.S.

UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS
FORMERLY BUREAU OF MARKETS AND CROP ESTIMATES AND
OFFICE OF FARM MANAGEMENT AND FARM ECONOMICS
WASHINGTON

IN REPLY REFER TO FILE

C O N F I D E N T I A L

April 7, 1923.

Mr. Carl Snyder,
New York Federal Reserve Bank,
New York City, N.Y.

Dear Mr. Snyder:

I am pleased to have your wire indicating your willingness to comply with Secretary Wallace's request that you participate in the conference in Washington, April 20 and 21, 1923. The conference will be held at Room 720, The Bieber Building, 1358 - B Street, Southwest, at ten o'clock. Within a few days we will forward you authorization for travel and transportation requests to be used for the purchase of railroad ticket and Pullman accommodation.

During the past year members of the United States Department of Agriculture and others have continually advised the producers of agricultural products to adjust their production to the demand. It is recognized that in order that producers may act intelligently, in deciding what and how much to produce, they should have more complete information than has been at their disposal as to the probable demand for the different things which they may produce and, also, with regard to what others are planning to produce. The Department of Agriculture is making an inquiry regarding farmers' intentions, the results of which will be available for the meeting. These intentions to plant or to produce livestock and such data as are being assembled with regard to stocks of farm products, what is being produced and the demands that are being and will probably be made for the different agricultural products throughout the world will be considered by the conference. It is hoped that conclusions may be reached which will aid the producers of agricultural products in making some adjustments in their plans for the coming year. We would like to have you bring such information as you can which will tend to throw light on this problem.

You will appreciate the importance of giving no publicity to this matter prior to the release by the conference.

Very truly yours,

Henry C. Taylor

Chief of Bureau.

File G.

FIFTEEN NASSAU STREET
NEW YORK

May 4, 1923

Dear Governor:

OK

My suggestion about the letter you enclosed from Drummond, of Kansas City, is that you allow Mr. Beyer's reply to stand without any further word. I get an unfavorable reaction from this whole thing, that it is pretty much a one-man affair; and, however well meaning he may be, that it is not of a great deal of importance.

I imagine these letters are sent broadcast to a great number of people, like yourself, and that no further reply is really needful. I will hold it until I have further word from you.

Colonel Mixter, Vice President of The Deere Company of Moline, was in today and reports that they are doing a very good business and at fairly satisfactory profits, and that the position of the farmer seems greatly improved and a much different atmosphere prevailing.

All this seems to be clearly borne out by the enormous increase in the sales of mail order houses, like Sears, Roebuck & Company and Montgomery, Ward & Company, for the last few months.

I am sure Wesley Mitchell is right when he says that things are going very nicely, and that the only fear is that they should be going too well.

He thinks other influences than money have *some* relation to force changes. So do I!

Would your judgment be in favor of the suggestion which I enclose? I believe the matter would have to be reported to the Board at Washington, which I think hereafter I shall call the "cheka."

Not feasible!

Thank you much, and deeply, for the very cordial personal note. I wish I were riding up a Colorado mountainside on a horse's bank, with you on another, instead of sitting here and thinking how nice it would be to be out of doors. I never did stand jail life very well, at least in the spring!

Everything seems to be going very smoothly. An excellent editorial in last night's Evening Post, which I enclose lest you might have missed that copy or may like to have an extra copy. By Mr. Franz Schneider, the financial editor who succeeded the ancient Mr. Noyes.

Thank you!

Another collapse in the mark, just as any sane human being would have known there must have been. Is there no financial sense left in Germany?

If you & I were speculators, my!

Hon. Benjamin Strong--2

Some very picturesque and well written but emotional and overstrained articles on Germany and the Ruhr situation now running in the current Saturday Evening Post, which you may have seen.

Last night I picked up an extremely convenient single-volume edition of Mill's "Economy," with some very interesting notes. Splendid reading still; and almost all of it might have been written yesterday.

And has very much been written since, in this field, worth while?

With sincere regard,

Always,

C. S.

Put

1 Money & Credit -

2 War - (Political matters generally)

3 Crop fluctuations -

4 Gold discoveries -

5 Public feeling - mood etc —

at proper values in price movements, what argument is there that will disprove my claim that while all are interdependent, - all have great influence at times, & while 1 is greatest - with 2 & 5 next, - the influence of one (1) is sometimes as "cause" (vide Germany) sometimes "Effect" (U.S.A. in 1919) pto under Leffingwell — where the real cause — & responsibility was Treas. financing & Treas^y Under Secy! You naturally imply — ~~prevent~~ inflation, & 1919 would not have happened — Imply — the "people rule" — we are not a Lukin Government — R. L. was the Govt in 1919 — all of which is not strictly Economics, but the human side of it — nor is it bunk — Either!

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The citation for the original is:

“General Business Conditions.” Harvard Economic Service (Cambridge, MA), May 5, 1923.

FIFTEEN NASSAU STREET
NEW YORK

May 8, 1923

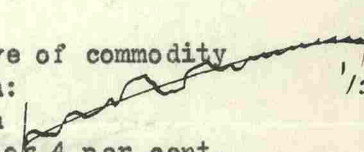
Dear Governor Strong:

The good Lord knows that it is difficult to discuss poignant problems, in which there may be a considerable variance in the points of view, without possibly growing didactic at times. And if you have spent years on a problem, with a growing delusion that it is solvable and even solved, there is equally a deadly tendency to "lecture." I can only offer in defence that I am seriously aware of the propensity, and worried when it gets the better of me!

I am enclosing a little note I wrote to Chandler, apropos of his article. Does it not seem to you quite significant that there should have been a practical dead level, even of sensitive commodity prices, at wholesale, in the three and a half years which reached to near the end of 1915, and even a year and a quarter after the War had begun; and does not this seem to suggest that most if not all of the forces which you enumerate as affecting prices tend mutually to cancel each other, and that there remains only one dominantly directing force?

My point is that in just this period there was remarkable stability in the growth of demand deposits, and that these changes about matched the annual average growth of trade, estimated at about $3\frac{1}{2}$ per cent. Further:

You can draw a curving line through the curve of commodity prices, from say 1896 to the end of 1915, this fashion:



'15

And you will find that the variations from this median line, month by month, have never exceeded more than 3 or 4 per cent. Now I think you agree that the dominant force behind the long rise in prices, from 1896 to the War, was the increasing surplus of gold. Supposing that single force removed, we should have had, would we not, a practical dead level of prices through this quarter of a century? (~20 yrs.)

And please note further: that it was only when the gold came in in a flood in 1915, and only after it had begum to swell enormously the volume of bank deposits, that this even rise of prices through a quarter of a century was sensibly disturbed.

Does not all this seem to you pretty clinching evidence?

-ff

Dr. Burgess has prepared an extended article on the question of deposit turnover, or "velocity," and when you have read it I should like very much to have your criticisms, and also to know if you have still doubts as to the significance of the figures.

I meant to note that in the little book on "Stabilizing Business," which I sent you, Mitchell makes comment upon some of your testimony in the Joint Inquiry, pp. 38-39.

Mr. Case has written you so extendedly on the rate situation and other things that there is very little to add. But I made some comments in this week's Summary on those who are prophesying that the boom is over.

I note that the new "dirt farmer member" was recommended by Senator Cummins and ex-Senator Rawson, and not by Brookhart, and if so I imagine that he is a fairly sound and capable citizen. They would scarcely recommend anyone for such an important post who was not. But I don't know that this will help much to solve our difficulty, which, as I see it, is the chronic difficulty of divided councils.*

And I am wondering if that is not the great source of weakness in the System as it now stands, and whether you will not come to the view that, because of this, some automatic rule of action will be forced upon us? My little article on the subject will appear next month, and I am hoping it may commend itself to your judgment a little more in type, and with extended revisions and modulations.

With all kinds of good wishes,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

I enclose the current letter of the Harvard folk, and have marked a few expressions that I think will cause you to raise your eye-brows, mayhap.

* Who among these will vote for a raise of rates in time? = Miller, Crissinger, Platt, James, Hamlin, Cunningham, Dawes, Mellon.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE May 10, 1923.

TO ~~Governor Strong~~ SUBJECT: The Measure of Credit Needs.

FROM Mr. Snyder

not sent

I agree entirely that it would be unwise that we (the Federal Reserve Banks) should attempt to "control the general price level,"- not enough as yet being understood to justify our attempting that role. That is clear.

But is it not equally clear that under existing conditions we ought, and ~~will~~ may be compelled by the force of circumstances, and by public opinion, to recognize that, as things stand now, the course of the general price level must be one, if not the dominant factor in determining what is adequate credit need and expansion for the country?

Furthermore, has not this implicitly always been true?

What I mean is this: when we formerly spoke of gold as the great regulator of credit, and a great stabilizer, we had always in mind in reality the effect of this gold upon prices - and practically ~~nothing~~ little else. The mechanism was that an inflow of gold produced an expansion of credit, and this expansion of credit led to a rise in prices which brought our general price level above the international level of prices. Then the gold flowed out, credit was contracted and prices fell.

Is not this an exact statement of the facts? In other words we were aiming at, and did attempt, by this mechanism, to "regulate the general price level," and that was a definite object; and that was why we prized the gold standard, that in a crude way it did achieve just this purpose, and that, as we have found to our cost in the last eight years, nothing else could do this as well.

Now that this mechanism is out of commission, we no longer have any regulator of the price level, and this means that we no longer have any serviceable measure of credit needs.

Now I do not mean to suggest that the great expansion of credit in this country (and in other countries like England) was the sole cause of the great rise in prices. But do we not all agree that this rise would have been impossible without the credit expansion? Therefore was not credit expansion at least the "enabling act" that made this great rise possible?

And likewise would the new rise in prices, since 1921, have been possible without an expansion of 4 or 5 billions of bank deposits? I at least believe that we now know enough, and have evidence enough, to say positively that this would have been equally impossible.

As a guide to credit policy Professor Sprague has proposed that we take the index of production. And we have frequently agreed that high production and full employment means that further credit expansion can only result in the inflation of prices. But the trouble with these factors as guides is that it is practically impossible, with any existing indices, to determine the point at which restraint of expansion should be exercised. Almost no general agreement on this point could be attained, as witnessed, for example, right in our own Board of Directors.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE May 10, 1923.

TO Governor Strong SUBJECT: The Measure of Credit Needs.

FROM Mr. Snyder



Is it not now true, and has it not always been true, that the one reliable guide to the regulation or control of credit has been, explicitly or implicitly, the price level; and is not this our fundamental banking principle ever since the Bank of England developed a clear rule of bank rate policy?

And in now saying that we must never attempt to "control the price level," are we not tacitly abandoning this principle, in the sense that this principle is the sole practical guide that we possess at the present time?

We are now perfecting an index of trade that will, I think, come as near being a real guide to credit needs as anything that has ever been devised. But, in the light of all our work on the rate of increase of production and trade in the last fifty years, we think it is going to show clearly that anything beyond about 3 or 4 per cent. per annum increase in active or demand deposits is in excess of the actual needs of business and can only lead to a rise in prices.

But how many persons are there here in this bank who are convinced of this, and, if so, how long would it take to educate or convince your general public of the truth of all this? And in the meantime what are we going to do?

If the banks and the board and every economist and financial writer promote the doctrine that full employment and high production cannot be enhanced by further credit expansion and that such expansion can only lead to inflation of prices, wages, and the cost of living, I believe you will have behind you at least 75 per cent. of the whole country. But, in the meantime, is there for practical purposes any other workable guide, or test, in this control of credit - I mean as to the time for <u>action</u> - than the general price level?

If every week the public reads how much the purchasing value of its dollar has receded, don't you think it is a good bet that they would back up to the limit any definite policy that would seem to promise keeping down the cost of living?

FIFTEEN NASSAU STREET
NEW YORK

May 11, 1923

Dear Governor Strong:

In the current "Economist" there is an interesting review of Hawtrey's recent book on "Monetary Reconstruction," in which it says:

> "The whole book is an exposition of a monetary theory which is perhaps not new, but which certainly has become more and more widely accepted in recent years. Mr. Hawtrey has made himself the chief exponent of its doctrine in this country; and it is commonly believed that the Treasury and the Bank of England would like to translate it into practice. 'Monetary Reconstruction' is therefore a book of much more than ordinary interest and importance."

Is this true?

You will remember it was simply a collection of his essays on the Genoa Conference, the Federal Reserve, and several other matters; and that I had it with me on the trip West. I was wondering if you had seen all of it you cared to, or if you would like us to send it to you now?

You will remember that he, also, is unable to believe that an adverse balance of trade is sufficient to account for the depreciation of a currency, to which I would like to add this:

It is fairly evident that, for example, potatoes can scarcely be of widely varying price on two sides of an imaginary line, for example, between New York and New Jersey, or, let us say, Denmark and Germany, unless there is a prohibitory tariff. And so on, ad inf. Is it not clear then that, considering all commodities exchanged between nations, the rate of exchange will and must equalize the price levels?

If, then, there is any close relation between the volume of currency and credit in a given country, and the price level, does it not follow that it is this general price level which will broadly determine the exchange rate; and that only where the balance of trade would be of such decisive proportions as to cause gold shipments of such proportions as to restrict credit and thus affect the general price level, can the balance of payments more than temporarily affect the exchange rate?

And in any event is it not clear that we shall ship gold (even to Europe!) whenever the net balance of payments is seriously against us, as it evidently was in 1919, and now, as I see it, threatens again so to become?

We are making progress with our inquiry on foreign balances and securities purchased by foreigners, and may soon have some light upon the situation.

The thermometer last night was within six degrees of freezing.

Always,

Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

You have noted by the morning papers that (in the view of the Treasury) the situation has now miraculously cleared, and that there is no danger from anything!

AMERICAN LITHO. CO. DES MOINES

HENRY C. WALLACE

**WALLACE PUBLISHING COMPANY**
DES MOINES, IOWA

JOHN P. WALLACE

# WALLACES' FARMER

Good Farming; Clear Thinking; Right Living
A Weekly Journal for Thinking Farmers

May 11, 1923.

Mr. Carl Snyder.
15 Nassau St.,
New York City.

Dear Mr. Snyder:

I am looking forward with much interest to reading your article in the American Economic Review.

of Nat. Mon. Asso.

With regard to the June 7th meeting, will say that it is very doubtful if I can get away. However, I shall make a special point of coming if I can induce Ed Cunningham to come. I feel that it would be an immensely worth while thing to get Cunningham acquainted with the fundamental problem in which we are all so much interested. Cunningham is a shrewd man who is rather more accustomed to thinking in terms of politics than in terms of economics. He has no understanding on monetary affairs. I think, however, that he will grow much more rapidly than you would expect from a man of his age. He has considerable personal magnetism and a strong following among the farmers of Iowa. The problem is to get him to work seriously studying this whole monetary situation.

x new Board memb

I shall know within three days as to whether or not he can come to the meeting with me.

HAW RH

Sincerely yours,

H A Wallace

THE ONLY IOWA FARM PAPER THAT HAS BUILT UP ITS CIRCULATION BY REQUIRING PAYMENT IN ADVANCE FOR SUBSCRIPTIONS AND STOPPING WHEN TIME IS OUT.

Carl A Snyder

Lindsay for Lunch

Place ?

Hour ? 12.20 Shm

R-2511

Book

Ersthype Study

FIFTEEN NASSAU STREET
NEW YORK

May 15, 1923

Dear Governor Strong:

This week's "Collier's," issue of May 19, has an interesting interview with Mr. Owen Young, which you may have seen, but I am having a copy sent you against the chance that you might not.

I enclose a little note from Henry A. Wallace, the son of the Secretary and Editor of "Wallace's Farmer," regarding the new "dirt farmer" member of the Board.

As I think you liked pretty well Prof. Hawtrey's article on the Federal Reserve, I have slipped out of the current number of "The Journal of the Royal Statistical Society" two little reviews of his, which you will kindly return to be restored to the magazine. Nothing much else of interest in it. You will see that Hawtrey does not share your view about Prof. Cassel, and even seems inclined to join or endorse the Firm!

That he is otherwise pretty sound, witness his little roast of Spalding's book on "The London Money Market," next following.

As you have noted in the papers, there is quite a general slump in commodity prices, especially in those like rubber, silk, cotton, iron, &c, which have had a spectacular rise in the last year. This is being widely taken as the turn of the tide, though I do not think Colonel Rorty's idea was quite fairly represented in the report of his speech in this morning's "Times."

Mr. Babson is also predicting a turn.

It seems to me that, with all this shouting of caution from the housetops, and the reaction which naturally comes from rather overdoing a good thing, the present situation will prove an acid test of the question as to whether the volume of deposits compared with the volume of trade is the dominating factor in the price situation. To take your list of five factors, we now have no war to force prices up, the fluctuation in the sum total of crops from year to year appears to be relatively small, we have no recent new gold discoveries, and "public feeling" seems decidedly on the cautious side, disinclined to increase bank loans and heeding the warnings of the prophets and the exhorters.

Would it not be a fair inference from all this that we should not reasonably expect a heavy rise in prices, say within the next twelve months or so? Yet those who hold fast to the volume of credit idea, I believe, do definitely expect such a heavy rise in prices and believe that the prophets are wrong and that the exhorters will be of nothing more than passing influence, as they were in 1919.

Personally I should feel myself deeply mistaken if this rise in prices does not come, and that the theory had been very rudely shaken. Does this look to you as a fair test, and would you accept it as such?

Mr. Donham, Dean of the Harvard Business School, brought over an interesting bit last week, ~~an~~ of what he claimed was official information, that, at the "least sign of a wane in prosperity," "they," at Washington, purpose to bring a four-billion-dollar bonus bill, and will see to it that it is properly distributed in time to get the full effect for the fall campaign; which is interesting if true, and if realized might somewhat complicate the test I have suggested. But my guess would be that the boom will be on again in full blast in the fall, and that this immediate excuse would be lacking.

The new book on "Money," by Dr. Foster and Waddill Catchings, is just out, but I have not had time to go through it very carefully as yet. If it is of sufficient interest I will send it on to you.

I note that David Friday spoke last night on "The Economic Need of Increased Production," a phrase that I seem to recall used very freely at the beginning of 1920. I wonder where he has been living in the last three years?

We continue to have the coldest spring that the oldest inhabitant can recall. I hope it is pleasanter with you out there.

With warmest regards,

Always, Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

May 15, 1923.

"Collier's Weekly" for May 19 contains an important article from Mr. Young, of which the salient paragraphs regarding credit and banking are given below. It is entitled:

"WILL PROSPERITY LAST?"

An interview with Owen D. Young, Chairman of the President's Conference on Unemployment

"The recent advance in wages in the steel and textile industries indicates that we are close to the limit of production with our available labor force. These raises mean that big employers are finding it hard to hold their men. It is especially significant that most of the increases affect unskilled labor. When big industries are bidding against each other for unskilled labor it means that the reservoir is getting low. Growth in real prosperity is based on increasing production, but if production is limited by lack of man power, we cannot push farther up on the curve except by boosting prices, selling the same thing over and over again, laying in heavy inventories on the hope of continued rise of prices, 'skyrocketing' the cost of living - inviting a buyers' strike and disastrous liquidation.

"No one can tell how long we can hold our present degree of prosperity - but we can't go much higher without kiting prices - forcing the kind of boom that brings a smash.

"To an ever-increasing extent the banker is becoming an adviser to the business man - sound advice is part of his expected service. We believe that the bankers can do a great deal to discourage the would-be borrower from dangerous overexpansion.

"The Federal Reserve Board has an even greater responsibility. It is not operating for a profit, but for the service of the whole country, and its sources of information are much more comprehensive than those of a private banker. When the Reserve system was created it was assumed that the movement of gold from one country to another would act as an automatic check on the discount rate. But the war resulted in an altogether unprecedented proportion of the world's gold supply coming to this country. Unless the Federal Reserve Board takes special steps to meet this abnormal situation, we may become as disastrously inflated on a gold basis as are the European countries by cheap paper money. If we looked only at the ratio between gold reserve and outstanding credit, we might expand rapidly, but a credit expansion which is not based on increased production means nothing but speculation, competitive bidding for labor and material - the forcing up of prices to the danger point, "Our committee was convinced that a proper coordination between the private bankers and the Federal Reserve system could be worked out, which would forewarn and forearm us against this danger, and have a real effect in stabilizing business and lengthening out this curve of prosperity."

UNIVERSITY OF MICHIGAN
ANN ARBOR
DEPARTMENT OF ECONOMICS
POLITICAL ECONOMY, SOCIOLOGY,
BUSINESS ADMINISTRATION

May 17, 1923.

Mr. Carl Snyder,
Federal Reserve Bank of New York,
New York City.

My dear Snyder:

I have read with a great deal of interest your article in Administration on "Shall we Modify our View of the Business Cycle". Of course I quite agree with your general contention that the elements of the cycle are so diverse in character that when an attempt is made to merge all in a single picture the result lacks definiteness of outline. (Certainly the picture is not as bold in character as many popular descriptions would suggest.)

I wonder, however, whether your own discussion of this truth is not going to be misleading to readers unfamiliar with details of cycle analysis. Your argument deals almost altogether with annual data and with data unadjusted for trend. This procedure has the effect of merging high and low points in a single annual figure, and of giving 1921, as compared with 1920, the benefit of a full year's accession of normal growth. Are you not going to get a simpler and more accurate picture of the business cycle if you deal largely with monthly data adjusted for trend?

It seems to me desirable, furthermore, to distinguish trade and production in discussions of the violence of cyclical fluctuations; in fact, differences in the amplitude of fluctuation of trade and production seem to me to throw a great deal of light on the course of the cycle. My own impression is that the fluctuations of trade are much smaller than has been commonly assumed. I am skeptical, however, about your implication that the fluctuations of manufacturing activity have been exaggerated. We have still a lot to learn about the volume of manufacture. This is especially true of differences in the rate of production in different lines of manufacture. Whether the manufacture of basic fabricated products in certain phases of the cycle is at greater or less pace than the manufacture of other varieties of goods has yet to be clearly demonstrated. I am by no means sure that my own index of the volume of manufacture fairly represents the <u>general</u> situation. At the same time, it seems to me by no means clear that it <u>exaggerates</u> the fluctuations of the volume of manufacture. If, for example, you will turn to the first page of Mr. Barber's article immediately following your own, you will find at the bottom of the first column the statement that annual sales tonnages in the business of Walworth Company vary "from year to year as greatly as 50%". I think it reasonably clear that the fluctuations of an industry like the machine tool trade are probably greater than the fluctuations described by any of the current indices of the volume of production. In other words, I question whether we have gone far enough to generalize concerning the violence of fluctuations in the volume of manufacturing, and I am by no means sure that we can do much better with other elements of the cycle.

All of which is designed primarily to get your own reaction. I have much enjoyed your article and, as you well know, am tremendously interested in the subject with which you have dealt. You are doing a fine service in deflating cycle theory. Meanwhile, I should like very much to know how far you are prepared to carry some of the questions you have raised in this contribution to Administration.

Cordially yours,

Edmund E. Day

EED:M

FORM NO. 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 13, 1923. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

The attached letter from the editor of Collier's explains itself. How does the platform strike you? Possibly I should say first, before you reply, that it seems to me to be a rather hazy and indefinite statement of a lot of high thoughts without much in it that is practical. The more I ponder about the problem of labor, the more I become convinced that it is inseparable from the problem of prices. Labor disputes are never really serious, long extended and disorderly except they have to do with compensation; and compensation disputes almost always arise when prices are rising and when there is a shortage of labor. On the other hand, unemployment and distress,-which is really a period when strikes are uncommon,- grow out of considerable declines in prices. Therefore, is it not a fact that a stable price level will itself be a great contribution toward labor tranquillity and contentment? This, of course, excludes a very important field of discussion, namely, "working conditions", where ordinary intelligence is about all that is required to keep men happy, provided industry is prosperous.

If you think there is any other contribution to be made to the discussion along this line, won't you give me a memorandum on it.

BS.MM

Att.

FEDERAL RESERVE BANK

OF NEW YORK

January 16, 1923

but

Editor,
Collier's Weekly,
New York City.

those many we we must become

Sir:

which are

~~In~~ Your platform ~~you~~ express so many excellent ideas, ~~but they embody~~ essentially ~~the ideas~~ that ~~most~~ thinking people have held for many years, without a great deal of effect; ~~and~~ they do not touch ~~at all~~ upon what seems to me the prime condition of industrial peace,, and that is stable economic conditions. The longer ~~I~~ study the problems of labor and of production broadly, the problems of the farmer, the manufacturer and the working man, the more ~~I become~~ convinced that they are inseparable from the problem of prices. Labor disputes, for example, are rarely very serious, long extended or disorderly, except when they have to do with compensation, and compensation disputes almost always arise when prices are rising and when there is, as a consequence, usually a shortage of labor.

Periods of falling prices, falling wages and unemployment are rarely periods of prolonged and bitter industrial struggles, but they are periods of privation and hardship for industrial workers.

On the other hand, it is almost invariably periods of falling prices that give rise to demands for fiat money and Governmental subsidies of this industry or that.

Therefore, is not the fundamental condition of industrial and national tranquility that of a reasonable stability of prices such, for example, as we seem to have reached in this country in the six or seven years preceding the disrupting effects of the great demands of war, that is, from about 1909 till towards the close of 1915? In the judgment of one of our wisest economists, Simon Newcomb, crises, hard times and unemployment are almost wholly due to a lack of adjustment between prices and wages. And this appears to be the conclusion of our economists who have studied most deeply what we vaguely call the business cycle,--that the cycle of prosperity, crisis and unemployment is very largely a price cycle, and that if we could attain to some degree of relative stability in this basic factor the rest would be easy.

But without this stability of what avail are the best laid plans for increasing efficiency, for industrial conciliation, for enlarged output, and more equable distribution?

I believe with Mr. Henry Ford that what the great body of our working men most desire is security of employment and an adequate wage that represents a fairly even and stable purchasing power. Take away these and you disturb depreciate or even destroy

the fundamentals of peace of mind to the worker, easy relations of employee and employer; upset the calculations of the wisest managers; convert business into a gambling operation; give a high premium to the speculator and the adventurer, and ~~practically destroy~~ the fruits of the highest and most enlightened type of management.

Very sincerely yours,

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 16, 1923 192

TO Mr. Synder

SUBJECT:

FROM Governor Strong

If you would care to take a hack at a letter in my style for Collier's, I will go over it with you; but don't make it too long. You might paraphrase what I put in my memorandum.

BS

BS.MM

att.

MISC. 4.1-20M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 27, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Benj. Strong

This has certainly been answered, both by our rate action, and by my other communications.

Some day soon I want to see you, and will send word. There are a few matters I want to pour into your mind, and have you promise that they will stay there, - and they will be important!

[Snyder to Strong]
[Control of Volume
of Credit Feb 13, 1923

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 27, 1923 192

TO ~~Mr. Snyder~~

SUBJECT:

FROM Benj. Strong

Much of yours of the 5th has been answered to you directly and in some memorandum I sent Shepard Morgan, which please read.

The fellows at Cambridge have gotten a bit too excited. Rate changes, even fairly definite indications of them, in advance, might do more harm than good. The experiences of 1919 taught me a lesson I'll never forget.

Now what we really need, is just what I wrote Shepard Morgan 5 headings - make it 2 or 10, I don't care, so long as we deal with the principles upon which our policies as to rates and open market operations are based.

To defer acting because there are 100,000,000 ignorant people in the country would be folly. Educate the thoughtful people and those who lead thought, in farm, in factory, and in office and in politics, and act anyway.

What's the matter with that committee that got out Better Banking? Are they dead?

MISC. 4.1-100M-9-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE March 2, 1923. 192

TO Mr. Snyder

SUBJECT:

FROM Benj. Strong

CONFIDENTIAL

This needs more thought than I can now give it, - nor until after I am West. Put all the papers with this one together and send them to me there later on. I'll then prepare something more deliberate. Am hustling from now on to clean the decks.

[Snyder to Strong
Control of Currency
Issues Feb 27, 1923]

(COPY)

Cragmor, April 21, 1923

Dear Mr. Snyder:

Of course you saw the enclosed. It pleased me greatly. Not so much what Noyes wrote, but what Yves-Guyot seems to have written, for, as you know, Cassel and Keynes, brilliant as they may be, have riled me a lot. And others as well! I put them somewhat with Sir O. Lodge, Conan Doyle, Coué, and even your friend Freud, all of whom I feel are chasing exaggerations of less importance to us than they think. Just turn to St. Luke, 15.18 and you will know why my thoughts go back to Adam Smith, Mill, Ricardo and Bagehot. How hard it is (sometimes) to stand pat,--even old Newton, after 2½ centuries, is being shaken a bit. All of this preliminary to asking you to send me the Y-G book if printed in English edition. If, as I recall, you know the author, just write him a nice letter and tell him he has cheered a dumb old cuss out here!

Yours,

B. S.

I like his looks in that picture. Looks sound to me!

Cragmor. - Apr 21/23

(Copied)

Dear Mr Snyder -

Of course you saw the Enclosed. It pleased me greatly. Not so much what Noyes wrote, but what Yves-Guyot seems to have written, for as you know, Cassel & Keynes, brilliant as they may be, have riled me a lot. And others as well! I put them somewhat with Sir O. Lodge, Conan Doyle, Coué, and even your friend Freud, all of whom I feel are chasing exaggerations of less importance to us than they think. Just turn to St Luke, 15. 18 and you will know why my thoughts go back to Adam Smith, Mill, Ricardo & Bagehot. How hard it is (sometimes) to stand pat, - Even old Newton after 2 1/2 centuries, is being shaken a bit. All of this preliminary to asking you to send me the Y-G. book if printed in English edition. If, as I recall, you know the author, just write him a nice letter & tell him he has cheered a dumb old cuss out here!

Yours

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Dear Snyder:

If Yves-Guyot's new book soaking Cassel, Keynes, et al, has been translated, will you get me a copy? It will hasten my recovery, judging from Noyes' review of it. I'll write the d- Frenchman and thank him if I can only read his book. Also, will you send me the little book on Money-- with the Lewis Carrol chapter headings? I want to look it over again.

Am getting along famously, fine weather and yet postponing mail for a time, so as to be safe-- it's my middle name.

Yours,

B. S.

Best to everybody

(COPY)

Dear Mr. Snyder:

Shall write you when I'm not so buried under "family" mail as recently. It's a stunt with no stenog. and no voice-- Am doing splendidly.

My friend, Inouye, doesn't hesitate to deflate. Bank rate 8.03%, etc. You are going to be fooled, as well as those other guessers about prices and inflation--because--unless I'm greatly mistaken--the throttle is to be used this time. They all overlooked or belittled the F. R. System.

B. S.

Tell Bullock and Mitchell a dinner is on it!

(COPY)

(About April 25, 1923)

Dear Snyder:

Read the "Commerce" and "City" in contrast and see how "City" beats "Commerce" for the average reader. Tell Chandler to come down out of the clouds and use language the common fellow uses and understands. He preaches too much on gold when he really means "representative money," bank notes and bank accounts--and will confuse folks. Note marked passages as follows:

(1) He's all wrong. Gold exports causing "extreme stringency," "deflation," etc., is piffle--some "Economists" never were bookkeepers, drat them! If we keep our heads, when gold exports arise, and larger ones, we will have 75 or 80% reserve--then this will happen, i.e., Member Banks will ship gold, and so deplete their reserves. If we did not exist they must (collectively) shrink deposits and loans sufficient to reduce required reserve by amount of gold exported. That would be deflation caused by stringency. Now, however, they will simply borrow from us,--(few people realize that our members will need to borrow when gold exports begin, even though our reserves were 100%) and it will simply depend upon our discount rate, whether money gets very stringent or not! Chandler better set this straight, or you do it for him.

(2) Piffle; just a guess. If the horse hadn't been harnessed to the wagon the wagon wouldn't have run away. Won't even argue this.

(3) This is all very good, but is too d-- dogmatic. Why not say "why," instead of "what"? Few people know the reasons lying back of this dogma! and after saying "why," better also say "how"--

(4) Same here. Say this in words that folks understand. He thinks bankers and business men are students--they're just money makers (and losers).

Pardon this untidy, sloppy scratch, but it's not as bad as

(over)

(COPY)

Chandler's (in such nice print, too!)

(About April 25, 1923)                B. S.

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(over)

MISC. 3.1 60M-4-22

Copied

FEDERAL RESERVE BANK
OF NEW YORK

About Apr. 25

With P.J.
return to Fed
proof file

# OFFICE CORRESPONDENCE

DATE ________ 192__

TO ________ SUBJECT: ________

FROM ________

Copies

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B. S.

(COPY)

April 25, 1923

Dear Snyder:

I couldn't hold in any longer today after getting a letter from Mitchell, which I sent on to Mr. Jay, and enclosed is the result. Will you please do this:

1st. Have copied out by Miss Bleecker or Miss McCarrick, who know my scrawl--

2nd. You and Burgess do some polishing--in the usual way--and supply figures and check facts needing it.

3rd. Show Jay and Case and see how they like it.

4th. Get a consensus as to wisdom of my taking bit in teeth and asking Lorimer to publish--in Sat. Evening Post.

5th. I'll take <u>all</u> responsibility and only want views.

6th. Wire me at once how it strikes you!

7th. If it looks like a go! send me two fair copies, wide space, for further dressing. It's terribly rough--I dashed it off in bed this A. M. I may make it plainer still. Just depends on how far it's wise to go--or would you follow up with a second shot?

8th. Will folks read such stuff as this?

Yours,

B. S.

Dear Mr Snyder - (Copied)

Shall write you when I'm not so buried under 'family' mail & accounts. It's a stunt with no stenog & no voice — Am doing splendidly —

My friend Inouye doesn't hesitate to deflate. Bank rate 8.3 % etc! You are going to be fooled, as well as those getting along famously, fine weather & not postponing race for a time, so as to be safe, its my middle name

Yours

B. S.

Best to Everybody —

Dear Snyder –

(Copied)

If Mrs. Guyot's new book Soaking Cassel, Keynes et al has been translated, will you get me a copy. It will hasten my recovery judging from Noyes review of it – I'll write the f– Frenchman & thank him if I can only read his book. Also will you send me the little book on Money – with the Lewis Carroll chapter headings. I want to look it over again. Am other guessers about prices & inflation — because — unless I'm greatly mistaken, — the throttle is to be used this time. They all over-looked or belittled the F.R. System —

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FEDERAL RESERVE BANK
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8th Will folks read such stuff as this

Yours

B. S.

(COPY)

*Letter not sent*

To John E. Pickett,
c/o The Country Gentleman,
Independence Square,
Philadelphia, Pa.

You may recall the story of the discussion at a farmers' gathering, where tempers were being lost in efforts to decide whether it was correct to say that a hen was "sitting" or "setting," when she felt the urge of the maternal instinct. Some farmer settled the dispute by asserting that "he allowed it were a dinged sight more important to dis-cover whether the ole hen were a-layin' or a-liein' when she cackled."

Now this tale came to my mind after reading Mr. Johnson's article in the April 21st "Country Gentleman," and the editorial thereon. We have battled with graphs, and index numbers and statistics in the Federal Reserve Banks, as well as with those who claim to represent the American farmer and his bankrupt industry, in Congress and out of Congress! I agree with you in believing Mr. Wallace's intentions to be admirable. He suffers, and so in fact do we all, from the insidious germ of over-partizanship to his job, to his "side" of the case. Every lawyer knows that a witness shades his testimony to favor the "side" by which he is called. So indeed do the judges know it!

But the poor farmer, bedeviled, befogged at times, and sometimes betrayed as well, is far from being the man held up in Congress by those who misrepresent him! I have known many of them. They are mostly upstanding, two-fisted Americans; and they are the objects of misrepresentation at times, just as they are victimized by misrepresentation. And unless signs fail, they are coming to see it.

The articles I have just read will be most helpful--at least they helped me, if pleasure is ever helpful, and I hope others like it are to follow.

Possibly you will be good enough to pass this on to Mr. Johnson; he did a good job and I'd like to thank him.

Yours very truly,

Dear Snyder:

If this is wise, have it copied out, and send to Pickett from me personally. If not wise, destroy it. If you do sent it, have two copies for Beyer to file. Of course it is not to be published!

B. S.

20

John E. Pickett.
% The Country Gentleman –
Independence Sq. Philadelphia
Pa

Not sent. (at Gov's direction)

Copied

You may recall the story of the discussion at a farmers gathering where tempers were being lost in efforts to decide whether it was correct to say that a hen was "sitting" or "setting", when she felt the urge of the maternal instinct. Some farmer settled the dispute by asserting that "he allowed it were a dinged sight more important to dis-cover whether the ole hen were a layin or a liein' when she cackled."

Now this tale came to my mind after reading Mr. Johnson's article in the April 21st "Country Gentleman" and the Editorial thereon. We have battled with graphs, and index numbers and statistics in the Federal Reserve Banks, as well as with those who claim to represent the American Farmer and his bankrupt industry, in Congress and out of Congress! I agree with you in believing Mr. Wallace's intentions to be admirable. He suffers, and so in fact do we all, from the insidious germ of over partizanship to his job, to his "side" of the case. Every lawyer knows that a witness shades his testimony to favor the "side" by which he is called. So indeed do the judges, know it!

But the poor farmer (bedeviled, befooled at times, and sometimes betr...

is far from being the man held up in Congress by those who misrepresent him. I have known many of them. They are, mostly, up-standing, two fisted Americans; and they are the objects of misrepresentation at times just as they are victimized by misrepresentation and unless signs fail they are coming to see it.

The articles I have ~~just~~ just read will be most helpful — at least they helped me if pleasure is ever helpful; and I hope others like it are to follow.

Possibly you will be good enough to pass this on to Mr Johnson; he did a good job and I'd like to thank him —

Yours very truly

Dear Snyder —

If this is wise, have it copied out, & send to Pickett from me personally. If not wise, destroy it. If you do send it, have two copies for Reyes to file — Of course it is not to be published!

B.S.

(COPY)

(About April 28, 1923)

Mr. Snyder

Your April 16th "Confidential." Permit me!--

(1) If the Commerce Dept. people made up the figures, I want to know how, before accepting the conclusions, and see the details, also!

(2) Don't be too sure. The drain will be to the neutrals and the smaller countries, Japan and East, if it comes, and I doubt if it comes very soon in large volume, and when it does, doubt if it runs to $1,000,000,000, as you hint.

(3) Don't agree at all. Their exchange will not recover on good business alone. They must have money owing them on balance, and their exchange must either be above gold par--or their currency be devalued, or both.

(4) Don't forget the interest payments, Great Britain and maybe others.

(5) Don't forget that we are going to gradually, but without any panicky haste, get a grip on this inflation affair, which I have now named the "Snyder Complex." It will all be fixed up by the time Congress meets, and we'll again turn our attention to the foreign situation, which will be our helpful red herring.

Don't think I sit here all day scrawling letters, etc. Half hour at breakfast and half hour at supper does it--save two hours in bed writing that "Price" scrawl.

I'm debating reducing my income some $50,000 a year by coming out with a line of very frank articles,--for they surely would chop off my bean!

Show this to Jay.

B. S.

Thank you for the books, old top,--and please give the same to Shep. Morgan and Ten Eyke,--I'll write them in time!

MISC. 3.1 60M-4-22 (Copied)

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Apr. 18 192

TO Mr. Snyder -

SUBJECT:

FROM

Your Apr. 16th "Confidential" Permit me! —

1.) If the Commerce Dept people made up the figures, I want to know how, before accepting the conclusions, & see the details, also!

2) Dont be too sure. The drain will be to the neutrals, & the smaller countries, Japan & East, if it comes & I doubt if it comes very soon in large volume, & when it does, doubt if it runs to $1.000.000.000 as you hint.

3) Dont agree at all. Their Exch. will not recover on good business alone. They must have money owing them on bal. — & their Exch. must either be above gold par — or their currencies be devalued or both.

4) Dont forget the interest payments, Gr. Br & may be others. —

5) Don't forget that we are going to gradually, but without any panicky haste, get a grip on this

inflation affair", which I have now named the "Snyder Complex." It will all be froze up by the time Congress meets, and we'll again turn our attention to the foreign situation, which will be our keepbal red herring.

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I'm debating reducing my income some $50.000 a year by coming out with a line of very frank articles, — for they surely would chop off my brain!

Show this to Jay

B.S.

Thank you for the books, old top, — & please give the same to Skip Morgan & Zenecke, — I'll write them in time!

(COPY)

May 4th, 1923

Dear Mr. Snyder:

After the two lectures you send me I shall not waste good paper for carrying unsound views, nor much of this either!

(1) I agree about the muscular reaction of thought, but believe it relates almost wholly to involuntary and semi-involuntary muscles, not the bone attached ones, and is explained by the extent to which they are under reflex control. Have a notion that writing stimulates them more than thought! Watching myself--am amazed at the extent to which conscious control can be extended to muscles never before (in 50 years of my life) having that experience, such as the larynx, arytenoid, vocal cords, uvula, epiglottis, etc. It may be a way of solving the constipation problem. I'd like to discuss it some day.

(2) I shall not go pamphleteering,--I only want to write two or three! Don't know enough nor write well enough to do so--despite your subtle flattery.

(3) You have neither failed nor succeeded in convincing me of the soundness of those conclusions,--because I have not seen the work,--examined the methods,--nor, in fact, heard nor read the stories in full. It has come in snatches, with my mind at the time too much engrossed in my own troubles, throat, discount rates, etc.,

(4) I shall never be converted to the idea that we should attempt to control the general price level. Not enough is yet understood (note that I don't say "known") to justify our boldly attempting that role,--becoming a super government,--thinking ourselves supermen, and failing with a crash some day.

(5) I admit (and am purposely using "I" with a modicum of "you" as indicating "confession" on the one hand, and accusation on the other), that credit, or money, is the <u>chief influence</u>, but not the only one, and suspect that "state of mind" has more to do with prices than we realize.

(6) I am damned doubtful of all these data on "velocity."

(7) You are inclined now and then to push an idea rather hard--and lead me to wonder whether I have yet contributed anything to your views from my standpoint of bookkeeper. I'm so much interested in the geography of "cause" and "effect," and you seem so much less so.

(8) I say gold won't go out 'till the exchanges make it possible. You, Keynes, Cassel, et al, think gold can be shipped to England, for instance, with the pound of present gold contents at a discount. Can't be done! At least you won't put less gold in the pound!

(9) You have sent me some nice books and

(10) I thank you! But the one about old age I have doubts about. Wouldn't fit my case, anyway--and if Forster sees it he'll take my clothes away.

(11) The increase in circulation rates is ominous,--and

(12) I have been a few weeks wrong in my program. Had a feeling, or hope (poor benighted cuss that I am), that the March Conference would result in some really educational effort. My hopes, wishes, feelings, efforts are dashed to the ground, and we can't go to 5% soon enough. I'm sorry, but it's so, and you may tell Jay and Case, but no one else.

(13) I am now convinced, after weeks of reflection in bed, under the shadow of Pike's Peak, that were it not for my sense of humor, the last eight years would have turned me into a hardened criminal or an anarchist. Like a dog I'll wander back home in the fall, and be as much amused as ever.

So good luck to all of you at the bank. My throat gets better and better!

Yours,

B. S.

(Copied)

May 4th 1923.

Dear Mr. Snyder -

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So good luck to all of you at the Bank.
My throat gets better & better!

Yours

B.S.

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE May 7, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Mr. Beyer

Mr. Strong has directed me to inform you that he would like to have copies made of all letters and memoranda of any consequence which have been sent directly to you so that they may be kept with his correspondence here in the bank.

Will you be good enough to see that copies are made, or if you prefer I can have them typed for you.

May 8, 1923

My dear Chandler:

As regards the question of "cyclical movements" in prices:

We have monthly data on only one widely sampled index of wholesale prides, the Bureau of Labor, and this carries us back only to 1900. Since then I find the following perceptible swings:

| | Duration |
|---|---|
| April, 1900 to March, '03 | 36 months |
| April, '03 to Oct., '07 | 54 " |
| Oct., '07 to Mar., '10 | 30 " |
| Mar., '10 to Apr., '12 | 24 " |

Thereafter, to November, 1915, is a perfectly flat line, i.e., for forty-two months. That is, the cycle idea in this period totally disappears.

On this slender basis, do you think we are justified in speaking of a definite cycle or of "cyclical movements" in commodity prices?

My idea is that, as Prof. Persons has shown very clearly, certain types of commodities do seem to have a definite cycle or period, as revealed in his index of ten supersensitives.

But this cycle is much less clear in Bradstreet's, for example, and extremely obscure in the Bureau of Labor index; and my idea is that if we could construct an index of the general level of prices--wholesale, retail, wages, and all the rest--the cycle idea would wholly disappear.

Even on the Bureau of Labor index the widest downward swing shown in this period was from 97 to 90. And that was after the panic of 1907. And if within a period of fifteen years we have three years and a half in which there is no swing and no "cycle," and if in the remaining period the duration of a wave varied from twenty-four to fifty-four months, does this seem to you to justify the term "cycle?"

With best regards,

Always yours,

Dr. H. A. E. Chandler,
National Bank of Commerce,
New York City.

May 21st (I think), 1923 (I'm sure)

5:50 p.m. (which is within 15 minutes of being correct)

Dear Mr. Snyder:

There is but one joke (not choke) to make about this photo and I'm not sure whether I've tried it on the first floor front or not. I'm simply imbibing an "actinic cocktail" and got snapped by a nurse. The picture is deceptive in that it was taken A.M. and I no longer wear the uniform then. Am up for breakfast and one o'clock dinner and go back to bed at two for three hours, unless the sun is good when I take a half hour sun bath tout ensemble. Am far from ill! The nurse figured 1820 calories for breakfast the other day - as follows:

banana and cream
cereal
three eggs
five slices bacon
three sausages
six pancakes
glass milk
two muffins
two cups coffee.

You might check up her bookkeeping; and I may have forgotten some of it, by now. I did forget four pats of butter.

All of this family news in grateful appreciation of your fine letters, and the news, and what not!

Now to get down to a touch of - beezniz - (poor at Yiddish), here are a few reflections. I like the word because it assumes no originality!

First. I want to see the list of those men of learning with whom you foregathered in Chicago, - and the respective dates for the "crest" of this wave; INCLUDING YOUR OWN. As you may recall, my only doubt, but a big one, was lest they had overlooked the intervention of the Federal Reserve System. The said System has been clumsy in the extreme, but helped some (New York and Boston) and the country's common sense is doing some of the rest. "Burned child, etc." Too late now to change our rate, for a bit.

Now about friend ("quan. the.")!!! Do you know who I mean? And old pal p.p.p. !!! Things are going to happen you say. I think they may; but not what some folks expect.

Starting at V. of C. (know him?) I enclose a little skit which is explained as follows:

1st Stage. Theoretical condition of banks at any given date.

2nd Stage. Same banks, theoretically, over night, sell all investments to their depositors. (Of course this never happens, but gradually the same thing occurs) Note that deposits have shrunk $6,500,000,000. Will price level (general) change?

3rd Stage. Loans and deposits increased $6,500,000,000 over 1st stage. Won't prices increase?

And yet observe that this can occur without a dollar of gold imports or a dollar increase in loans of F. R. Banks. Probably- if this did occur - (Miller would say hà! Empirical) it could not be claimed that it was the cause of any change in G. P. L.

State it differently. - How much of the total checking deposits are static and how much dynamic? Or again, if 10%, or any old %, of all money in the country is buried, it won't act on prices - and if 50% or 10%, or any old %, of all bank deposits are static, they won't. Ha! you say again - Now I have him. Law of averages, etc. - I've heard you now and then! But is there any law of averages to apply to the state of mind of all these depositors? Suppose war starts, the % of dynamic deposits might go down and static up by a large proportion, and the reverse if war ends? Is there anything like a compensating average of the state of mind of 110,000,000 people. - optimists offsetting pessimists, savers vs. spenders, workers vs. loafers, etc.? I doubt it. I know a man who had $7,000,000 in bank for five years waiting for the time to invest it. Did that act on prices? For ten years I have had $10,000 minimum balance in bank. Did that? But my expenditures every month do! This "state of mind" is some factor in a country like ours, - and in France also!

Next! How does it happen that the exchanges are weak, imports at record, exports back to prewar, travel enormous, and <u>foreign prices</u> advancing faster than ours?

Do you know what is the inspiration of the p.p.p. folks? They took us for a bunch of boobs - especially Hawtrey, - they fully expected us to "inflate", cried for it, prayed for it, and autointoxicated themselves into the conviction we would. We'll fool 'em yet. I told you nearly a year ago they tried to put up a job on us at Genoa, and when old McKenna was here, I pleasantly led him a-saunter (a la King Charles) and he gave it away without ever knowing he had. Tut tut, and a chancellor once too!

Now joking aside - the tides are swinging - watch them. Don't think that we are to lose gold like fury all at once - we won't - but we can lose some as we did in 1919 and thenstop again. And about old p.p.p. - fill in the following blanks and see where it lands you.

Mr. French finance minister says to Mr. Robineau of Bank of France, - "old p.p.p. now enables us to do so, balance of trade improved, budget balanced (?), "our price level and American are at parity on gold basis, - let's buy some "American gold and replace what we sent them via London."

So M. Robineau does as follows:

Pays out (f $x^a$ ) for \$50,000,000 dollars credit in New York, say on May 20th at that day's rate of exchange. Federal Reserve Bank of New York for his \$50,000,000 ships him x ounces of fine gold, which M. Robineau puts in his reserve, after coining, as (f $x^b$ ) and the difference between the first ( $x^a$ ) and second amount ( $x^b$ ) is his loss, equal to the discount on the franc May 20, or to the premium on gold on that date. Now the only question left is whether the egg came from the hen or the hen from the egg.

Do prices cause exchange discount and premium, or do prices result therefrom. I think somewhat both ways - but no matter which it is, - until they change their coinage, or exchange passes gold point, we cannot lose our gold.

The neutrals and possibly London and the East will get it.

All of the above is addressed to the question, where lies cause and where effect. Can prices climb and do so quite a bit before the "quantity" of money need change. I admit and always have that we can always change prices by inflating and contracting, but cannot prices change considerably without any material change in quantity of money. Personally I think our data is imperfect on that owing to weakness in bank statistics.

Don't bother about Donham. He is a blow hard anyway, at times, and don't worry about the boom. We can hold the fort if we will - and later I'm going to get up a little program to see how it looks.

Finally - with all the calamity howling by Cassel, Hawtrey, et al., let me remark that just now things seem fairly comfortable and snug in old U. S. A. - while in Sweden - Cassel or no Cassel - they are helping out busted banks still, and not so double damned prosperous. Nor can England brag so much as yet!

For the rest of this year if the Federal Reserve Banks will take a base figure of, say, $1,200,000,000 as total earning assets, - and every month or week reduce them by selling good stuff or letting bills run off equal to gold imports, - I'll bet that we will be no cause of a boom. I have urged that now for a year, and last time I did (Oct.) a learned member of the Federal Reserve Board (since out) literally shouted that he never heard such d------ nonsense. We have the stenographic record of it all! And in the end I was voted down by one vote. Jay was there and wept with me.

That article of mine may appear some day and surprise you, but much polished. That was very rough when I sent it to you.

Please send this to Beyer to copy. I've a mean habit of looking back over my correspondence and see what a d------ fool I've been. My throat is doing finely. Gets dry very often, but I'll treat that myself on my return.

Best to you all. Tell Burgess I enjoy his stuff. But it seems to me that the increase in deposits (demand) in past few months, with little gold imported, has an undue share of blame for price advances since last call!

My best to you all. This is just steam escaping at the joints.

Yours,

B. S.

P. S. Private! When we put our rate to 4 1/2 I privately wrote some of my friends in the Banks of Issue in Europe that we didn't propose to inflate on our excess gold reserves. Thought they might like something in their pipes to smoke!

P.P.S. I may take a look about out here before returning, especially the N.W. How would you like to join me!

N. B. Unless the Federal Reserve Bank intervenes directly to export gold - our members must borrow for the amount exported, and the pressure to liquidate might prove excessive and force us to repeat our open market buying of the spring of 1922. Think that thru, old scout. Gold exports are bound to crack a boom in the nose! But they can be financed by us. - I'll show you how some day - so as to easily avoid any strain. Ask the Federal Reserve Board how it can be arranged and let me know what they say!

OMS-2 150M-9-20

FEDERAL RESERVE BANK OF NEW YORK

# INTEROFFICE ROUTE SLIP

OFFICE SERVICE MESSENGER SECTION

TIME ______ A. M. / P. M. DATE ______

TO Mr Snyder

DEPARTMENT / DIVISION / SECTION

REMARKS Copy has been made for Mr Strong's file

FROM E. Beyer

DEPARTMENT / DIVISION / SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.

TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

If folks ask when I'm
away tell 'em I have
tuberculosis in my
larynx, — have had
it ten years in my
lungs — but am not
dead yet & don't
propose to be for
quite a while!
I hear some are asking,
& don't give a damn
if they know!

If folks ask why I'm away tell 'em I have tuberculosis in my larynx. - have had it ten years in my lungs - but am not dead yet and don't propose to be for quite a while ! I hear some are asking! and don't give a damn if they know!

May 21st (I think) 1923 (I'm sure)
5:50 P.M. (which is within 15 min of
being correct)

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I did forget 4 pats of butter.—

All of this family news in grateful appreciation of your fine letters, and the news – and what not!

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That article of mine may appear some day — and surprise you, but much polished. That was very rough when I sent it to you —

Please send this to Roger to copy. I've a mean habit of looking back over my correspondence & see what a d— fool I've been. My throat is doing fine. Gets dry very often, but I'll treat that myself on my return —

Best to you all. Tell Burgess I enjoy his stuff. But it seems to me that the increase in deposits (demand) in past two months, with little gold exported, has an undue share of blame for price advances since last call!

My best to you all. This is just steam escaping at the joints.

Yours

B.S.

P.S. Private! When we put our rate to 4½ I privately wrote some of my friends in the Banks of Issue in Europe that we didn't propose to inflate on our excess gold reserves. Thought they might like something in their pipes to smoke!

P.P.S. Must take a look about out here before returning, especially the N.W. How would you like to join me!

N.B. Unless the F.R. Bank intervenes directly to export gold — our members must borrow for the amount exported, and the pressure to liquidate might prove excessive or force us to repeat our open market buying of the spring of 1922. Think that thru' old scout. Gold exports are bound to crack a boom in the nose! But they can be financed by us. — Will show you how some day — so as to easily avoid any strain. Ask the F.R. Board how it can be arranged & let me know what they say!

two months, with little gold imported, has an undue share of blame for price advances since last call!

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Carl Snyder

8

Cragmor June 8th, 1923

C O P Y

Dear Mr. Foster,

Thank you most heartily for your kind note, and for "Money." Your good wishes help. I wish I might avail of your suggestion about Mr. Stewart, but I am as yet allowed neither exercise nor conversation, and they do seem to frown upon "company." It's a tedious job, but brings results.

I am about half way through the book. Its merit, to this tyro, is its simplicity and directness; not to mention that with almost all that I have read I am in hearty accord. There are a few points that I shall write you about when I have finished, and may I also ask whether you have anything on the F. R. System in prospect? If so give me warning and a scenario. I may send you a few points that most folks have not yet discovered - or if they have - are keeping it dark!

Incidentally, you are doing a fine piece of work, one much needed, and I wish I had the time and capacity to help.

If you are out here, do come and see me. I'm ruining my penmanship and the patience of all my callers, but come just the same.

Very sincerely,

Benj. Strong

P. S. Tell Catchings I'm heart and soul with him in the Monetary Assn - and hope he does not weary of well doing.

Copied

Dear Snyder -

Dont forget this! - as to the "Tidal Time Tables on Prosperity" - Comparisons with past periods are likely to be as misleading or more so, than they are instructive. Why? Because (forgive the reiteration) there was no F.R. System during the former swings. If it works well - the swings will be less violent - if badly - they'll be hell!

B.S.

(COPY)

Dear Snyder:

Don't forget this!--as to the "Tidal Times Tables on Prosperity." Comparisons with past periods are likely to be as misleading or more so, than they are instructive. Why? Because (forgive the reiteration) there was no F. R. System during the former swings. If it works well, the swings will be less violent--if badly--they'll be hell!

B. S.

(COPY)

Cragmor, June 28, 1923

Dear Mr. Snyder:

I've a lot of much enjoyed and much unanswered letters from you. Excuses are good ones! I'm now taking 2½ hours of sun on the roof, tout ensemble, besides a half hour for my throat! Then I rest all afternoon, doing little more than read the newspapers. The result is a back and front the color of mahogany and quite an empty head! Kath. arrives today, and on top of that I'm moving rapidly toward four hours of sun a day--so I'm busy as hell doing nothing!

However, here's a word. I see my N. W. trip going up in smoke. They are too intent on my cure to let me off till all brown and crisp. I'm sorry for wanted to see those wheat farmers.

About Foster's book. I'd like to send him something, but here's the trouble. Since I wrote him have still been unable to finish reading the last third or so. Too much sun. Also, I am far from convinced that we should deal, or even assume to deal, with prices as he seems to think we should. On that opinions can properly differ. After I've finished the book I might send him something. It will be very useful and is in the right style of simplicity, and I like him! As soon as possible I'll write you decently. Am up at 6 A. M. to write a few letters and get ready for Kath's arrival. Am doing finely!

Best to all at the bank.

Yours,

B.S.

Copied

FIFTEEN NASSAU STREET
NEW YORK

Cragmor. June 28/23

Dear Mr. Snyder -

Got a lot of much enjoyed & much unanswered letters from you. Excuses are good ones! I'm now taking 2 1/2 hours of sun on the roof, tout ensemble, besides a half hour for my throat! Then I rest all afternoon, doing little more than read the newspapers. The result is a back and front the color of mahogany and quite an empty head! Kath. arrives today - and on top of that I'm moving rapidly toward 4 hours of sun a day - so I'm busy as hell doing nothing!

However -- here's a word. I see Mr. W. but going up in smoke. They are too intent on my cure to let me off till all brown & crisp. I'm sorry for wanted to see those wheat farmers

About Watkins book. I'd like to send him something but here's the trouble. Since I wrote him have still been unable to finish reading the last 1/3 or so. Too much sun. Also I am far from convinced that we should deal, or even assume to deal with prices as he seems to think we should. On that opinions can properly differ. After I've finished the book, I might send him something. It will be very useful & is in the right style of simplicity, & I like him! As soon as possible I'll write him directly. Am up at 6 am. to write a few letters & get ready for Kath's arrival. Am doing fine!

Best to all at the bank

Ben

B.S.

(Copied)

FIFTEEN NASSAU STREET
NEW YORK

Sunday

Dear Mr. Snyder—

Please give your lady my greetings! I put the message here as I have forgotten it in former letters, after slamming at folks, etc. I enjoy your letters, but why chide me for poking Chandler? You know he can do better stuff than that article, and you know also that I dont sit on any pinnacle of intellectual superiority in judging, either. Couldnt if I wanted to.— Cant even spell half the time!

About that firm you have joined, C. K. & Co.— they propose reducing the amount of gold in the coins do they? Have you found the place where they plainly say so?

and especially in their earlier pronouncements! The coin must some day be changed, I agree but the so called purch-power parity, without the change in the coin, — is a myth & you will some day agree — or do now. —

I can't write much now. All day & I'm going on the roof. But your word about that streak of mine puzzles me & I await your letter with interest.

Do you think our friends in W. have streak enough to do anything to me — even if they wanted to? Should I break loose just now? Nit!

Good bye & my best —

B. S.

Am doing finely —

Its only ordinary courtesy & decency that keeps me quiet — not timidity. Nothing to be afraid of!

(COPY)

Sunday

Dear Mr. Snyder:

Please give your lady my greetings! I put the message here as I have forgotten it in former letters, after slamming at folks, etc. I enjoy your letters, but why chide me for poking Chandler? You know he can do better stuff than that article, and you know also that I don't sit on any pinnacle of intellectual superiority in judging, either. Couldn't if I wanted to,--can't even spell half the time!

About that firm you have joined, C. K. & Co., they propose reducing the amount of gold in the coins, do they? Have you found the place where they plainly say so? And especially in their earlier pronouncements? The coins must some day be changed, I agree--but the so-called purchasing power parity, without the change in the coin, in a myth and you will some day agree--or do now.

I can't write much now. Nice day and I'm going on the roof. But your wire about that shriek of mine puzzles me and I await your letter with interest.

Do you think our friends in W. have spunk enough to do anything to me--even if they wanted to? Should I break loose just now? Nit!

Good-bye and my best,

B. S.

Am doing finely.

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(COPY)

Cragmor, July 3, 1923

Dear Mr. Snyder:

I have a lot of interesting letters from you, all enjoyed, but am now so deeply enmeshed in my treatment, sun baths, etc., that I have mighty little time to write. Pardon the brevity of this.

I would like Hawtrey's new book. Much of it I have read.

Your plan of stabilization must be discussed. Writing is too hard and imperfect.

The trip in the N. W. is devilish uncertain. I have greatly wanted to make it but prudence indicates I must stay here my full six months.

Your memo. on Strauss's letter is too cryptic without the letter to see what he was driving at.

My sun baths (now nearly 4 hours a day) also interfere with reading--so I have not yet finished Foster's book. I wrote him when about half through. Also, don't recall quite what I wrote. I like the book, but cannot agree with his, your and all the college fraternity going to the extreme of having us regulate, stabilize or fix prices (meaning general level). It's <u>bad</u> talk, will hurt us and <u>not</u> fix the price problem. This is dogmatic and argument must come later--except--people generally know nothing of "general price level," and first thing we know Mr. Wheat Producer will want his price put up while Misses Sugar Consumeresses will want sugar prices put down. Let's stick to credit and do what we can at that job. It's enough without having price fixing thrust upon us! I'll let you know about Foster's book when I finish. But I like what he and Catchings are doing!

Thank you for the books. Yves-Guyot has not come yet. Do send me Willis' book. I want to glance through it and see how bad it is. He hates us and me, but I sometimes think he hates himself first and most!

Again, many thanks for your letters, for which this is a poor return. I now have Kath. here--which helps. Also, am doing very well indeed. Throat looks fine. Still allowed no exercise!

My best to you, and to all at the bank. And to your boss.

Yours,

B. S.

(Copied)

FIFTEEN NASSAU STREET
NEW YORK

Cragmor. July 3/23

Dear Mr. Snyder

I have a lot of interesting letters from you, all enjoyed, but am now so deeply enmeshed in my treatment, sun baths etc, that I have mighty little time to write. Pardon the brevity of this.

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Again many thanks for your letters - for which this is a poor return. I now have Kath. here, - which helps. Also am doing very well indeed. Throat looks fine. Doc allows no exercise!

My best to you, & to all at the bank. And to your boss.

Yours.

B.S.

MISC. 3.1 60M-4-22

Copied

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 11 1923

TO Mr Snyder.

SUBJECT:

FROM B.S.

Dear Mr Snyder.

My comment on "Tidal Quiz Tables" was badly expressed but I meant this:- Your examination of prices etc seems designed to disclose whether there is or is not a regular rhythm or sequence with fairly regular periods of fluctuation etc: And you take deposits, loans, stocks etc to show that there is not or that forecasts are hazardous etc: But nowhere do you point out that such a conclusion cannot be safely drawn, without any chart, because the whole credit system of the country has undergone a violent revolution which makes all such bases of prognostication valueless. That is exactly what

MISC. 3.1 60M-4-22

Copied

FEDERAL RESERVE BANK
OF NEW YORK

**OFFICE CORRESPONDENCE**

DATE July 11 1923

TO Mr Snyder. SUBJECT:

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Babson went wrong & where Bullock will if he doesn't mind his Ps. In past years there was no influence or control at all. Now there is one, which may do good, or harm — but which is certain — whatever it does, to make comparisons of pre F.R. System & post F.R. System movements most misleading.

That's the point! Few writers realize how great our influence will be & has been!

I think Gower's guess was best of the lot as to when the swing would halt. — Don't forget that with all our faults & mistakes, we have done better than all others, even

MISC. 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE ______ 192__

TO ______ SUBJECT: ______

FROM ______

Japan, in our Credit policy & in getting business going & contentment restored, Nature did a lot of it - the F.R. System Some, politicians Nothing!

Good luck

B.S.

P.S. I have always felt that the transfer of demand to time deposits @ 3% reserve, needed watching. The F.R. Bd is just getting out a new regulation. These figures should be in their hands with a recommendation & Soon! Speak to P.J.

Mr Snyder

(COPY)

July 11, 1923

Dear Mr. Snyder:

My comment on "Tidal Time Tables" was badly expressed, but I meant this:--your examination of prices, etc., seems designed to disclose whether there is or is not a regular rhythm or sequence with fairly regular periods of fluctuation, etc. And you take pig iron, stocks, etc., to show that there is not and that forecasts are hazardous, etc. But nowhere do you point out that such a conclusion could be safely drawn, without any chart, because the whole credit system of the country has undergone a violent revolution, which makes all such bases of prognostication valueless. That is exactly where Babson went wrong and where Bullock will if he doesn't mind his step. In past years there was no influence or control at all. Now there is one, which may do good, or harm--but which is certain--whatever it does--to make comparisons of pre F. R. System and post F. R. System movements most misleading.

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I think your guess was best of the lot as to when the swing would halt. Don't forget that with all our faults and mistakes we have done better than all others, even Japan, in our credit policy and in getting business going and contentment restored. Nature did a lot of it--the F. R. System some; politicians nothing!

Good luck,

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MISC. 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE (July 12) 192[3]

TO Mr. Snyder.

SUBJECT:

FROM BS.

Copied

Dear Mr. Snyder:

Thank you for yours of the 10th

I want Willis' book, even if it's a curiosity. One must have freaks with a circus.

Those pages from the "Journal etc" are no doubt here, but I have not yet found them. Sorry. Sure they didn't go back?

Now I don't like the talk about stabilizing gold, or purchasing power of money, or prices being stabalized by the F. R. System at all. It is bound to lead to confusion, heart burn & headache. Look at sugar & wheat as examples. Also wages & bldg costs.

Our job is credit. It makes no difference if it's a deposit or a bank note. If we regulate and keep fairly constant the volume of this credit - always with due regard to food imports & Exports, which is a part of the Credit problem, - we are doing our whole duty. Other price influences may then be dealt with by Hoover et al. They are not our job. Of course we should ~~with~~ watch prices, - and production & consumption & speculation: & lots of things to insure that our "plan" is correct in regulating volume. To come boldly forward, & volunteer to take the price problem onto our backs, & then fail, as we would surely do - is just criminal suicide. Lets deal with people & things as they are & not as one or another of us assumes as they should be" or "as we would like them to be".

Don't forget that the "General Price Level" is only the Students affair in this world. Prices to all others mean to the housewife, cost of rents & supplies, to the

MISC. 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE ______ 192__

TO ______ SUBJECT: ______

FROM ______

workman - wages; to the farmer, what he produces etc. They each complain of one microscopic piece of the picture & some will always be complaining.

Harp upon & stick to credit! Its our job - forget prices - & our share of the job will be well done. It has been pretty well done the past year or so too!

Your letter indicates you need no convincing. Read my arguments and urgings with the Governors & you'll see where I stand. How I wish I could write!

Yours.

B.S.

(COPY)

July 12, 1923

Dear Mr. Snyder:

Thank you for yours of the 10th. I want Willis' book, even if it's a curiosity. One must have freaks with a circus.

Those pages from the "Journal," etc., are no doubt here, but I have not found them. Sorry. Sure they didn't go back?

Now I don't like the talk about stabilizing gold, or purchasing power of money, or prices being stabilized by the F. R. System, at all. It is bound to lead to confusion, heartburn and headache. Look at sugar and wheat as examples,--also wages and building costs.

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Yours,

B. S.

Dear Mr. Snyder:

Why wouldn't it be a good plan to take these figures, - our Earning assets, - (F. R. System) and the figures on transfer of demand to time deposits - & see what potential Expansion is suggested by the 3 factors

B S.

OMS-2 150M-9-20

FEDERAL RESERVE BANK OF NEW YORK

# INTEROFFICE ROUTE SLIP

OFFICE SERVICE MESSENGER SECTION

TIME _____ A. M. P. M. DATE _____

TO Gov. Strong

DEPARTMENT DIVISION SECTION

REMARKS RECEIVED-2 354

JUL 13 3 40 PM 23

FROM Assistant

BANK Reports

DEPARTMENT DIVISION SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.

TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

GOLD IMPORTS TO AND EXPORTS FROM THE UNITED STATES

AND GOLD RESERVES OF FEDERAL RESERVE SYSTEM

---------------

(In Thousands)
of Dollars.

| | | Gold Imports | Gold Exports | Excess of Imports | Total Gold Reserves F.R.System (End of Mo.) | Increase in Reserves |
|---|---|---|---|---|---|---|
| 1921 | Dec. 28 | | | | 2,869,600 | |
| 1922 | January | 26,571 | 863 | 25,708 | 2,911,528 | 41,928 |
| | February | 28,739 | 1,732 | 27,007 | 2,951,434 | 39,906 |
| | March | 33,488 | 963 | 32,525 | 2,975,355 | 23,921 |
| | April | 12,244 | 1,579 | 10,665 | 2,994,776 | 19,421 |
| | May | 8,994 | 3,407 | 5,587 | 3,007,621 | 12,845 |
| | June | 12,969 | 1,601 | 11,368 | 3,020,868 | 13,247 |
| | July | 42,987 | 645 | 42,342 | 3,071,424 | 50,556 |
| | August | 19,092 | 956 | 18,136 | 3,063,414 | 8,010 |
| | September | 29,316 | 1,399 | 27,917 | 3,076,943 | 13,529 |
| | October | 20,866 | 17,592 | 3,274 | 3,078,049 | 1,106 |
| | November | 18,308 | 3,431 | 14,877 | 3,072,858 | 5,101 |
| | December | 26,440 | 2,710 | 23,730 | 3,049,451 | 23,407 |
| 1923 | January | 32,820 | 8,472 | 24,348 | 3,075,810 | 26,359 |
| | February | 8,383 | 1,399 | 6,984 | 3,072,813 | 2,997 |
| | March | 15,951 | 10,392 | 5,559 | 3,069,495 | 3,318 |
| | April | 9,188 | 655 | 8,533 | 3,080,579 | 11,084 |
| | May | 45,357 | 824 | 44,533 | 3,108,762 | 28,183 |
| | June | 19,434 | 548 | 18,886 | 3,087,703 | 21,059 |
| | | 411,147 | 59,168 | 351,979 | | 218,103 |

July 13, 1923.

I'm returning the reading you last sent - Liked the "Nation" very much -

Letter from Lord d'Abernon of Aug. 8, 1923 (in file)

Dear Mr. Snyder —

The new index has a big look. How sound are the foundations?
Curious how nice the position of the curve is now, — & why not keep it there?

Yours

B.S.

I weighed 194 with 6 lbs of clothes on yesterday.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 1, 1923. 192

TO Mr. Synder

SUBJECT:

FROM Governor Strong

Here is another report from Miles. He will be here soon for Christmas.

M 4043

BS.MM
att.

MISC. 4 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 1, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Dear Mr. Snyder:

What's this? A touch? I await your advice, but the papers have not come.

B. S.

All new to me.
Like to see plans.
C. S.

Hold until papers come

3-1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 7, 1923 192

TO Mr. Snyder SUBJECT:

FROM Governor Strong

I still do not get the figure that I want on wheat. The flour figure is complete. My point is this: The stocks of wheat are represented by unground wheat in elevators, cars, etc., and on the farms. It is claimed that we do have on hand 150,000,000 bushels in excess of what we should have. If the actual visible stock of wheat (not flour) is 150,000,000 bushels, the surplus stock of wheat over a normal supply would be 150,000,000 bushels, less what is the normal working stock of unground wheat in the elevators, etc. Certainly we always have a stock of wheat on hand, just as we always have a stock of cotton or any other prime commodity, and in order to find the surplus we must deduct the normal supply from the total supply and see what the abnormal is. I want to find out, if possible to get it, what is the visible supply of unused wheat on hand this year, and what is a normal supply at this season of the year - in years when we have not experienced in this country and throughout the world an excess of production. Possibly an average for a period of years would be the way to get it. The difference will be surplus!

BS.MM

att.

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 20, 1923. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Better let this go. - I'm not keen about such affairs.

BS.MM

att.

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 20, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Again your friend Rorty!

There are so many of these economic ~~schemes~~ afloat that I get confused as to who and what they all are. I just can't contribute to everything - if they want a contribution - and can't be an endorser of everything! If they just want to tack my name on to something, won't you please advise me?

If this is a part of Moulton's enterprise - which it doesn't, however, seem to be - I must say that I am a bit jolted in my appreciation of their ability, after reading Moulton's book on Germany's capacity to pay.

BS.MM
att.

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 19, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

The decline in £ should soon be reflected in the index of "sensitives". With Sterling 12% or more below par the relative level would be say

| | | |
|---|---|---|
| British | about | 162 or 3 |
| U. S. A. | " | 145 or 6 |

Watch it and see what happens.

Further, I suspect the "wise" ones in Wall Street look for a business setback and have set the stage to "let go". How does it strike you?

BS.MM

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 24, 1923. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Just what I wanted. Keep these handy for me in case I want them later.

[Calvert to Snyder
Wheat Nov 9, 1923]

BB.MM

att,

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 20, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Professor Bullock hangs on hard (so do you) to the <u>fear</u> that we are in for an inflation boom. Barring a tariff issue, I can't see that politics* will be any influence on business, the next six months.

* domestic

BS.MM
att.

MISC. 3-1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 1, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I think it would be a good plan to get up a questionnaire for the Department of Commerce. On the other hand, I think it would be a mistake to have us given credit publicly for any work that we do in this connection. If you understood, as well as I do, after long experience, the reluctance which all bankers feel about giving any information which is to be turned over to any Department of the Government, you would know that a public statement by the Department of Commerce that we had helped to compile this information would greatly increase the difficulty which we might later encounter in getting information in response to any questionnaire. As a friend of mine once said- "It's better to get a thing done than to get credit for doing it."

BS.MM

att.

TRANSLATION OF INCOMING CABLEGRAM

London, England

December 4, 1923

Federal Reserve Bank of New York

New York N Y

No. 41 Money easy Friday Treasury bills averaged £3.5.3 Tap rate 3 per cent. Three months' bills quoted at 3 1/4 Stock markets rather more confident but very little business pending election Times index figure for November shows rise of 4.3 to 168.1 This increase is the greatest for two years and the new level is higher than any since October 1921 Increase due chiefly to food and industrial materials specially cotton

BANK OF ENGLAND

Dr Snyder

May this not be proving the point I made, - or is it simply coincidence

B.S.

SC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 10, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I really think it will be impossible for me to do the War College job this year - it is too much of a drag on one's voice in that wretched hall.

Do you feel like corresponding with Colonel Simonds about it and making arrangements for the sort of address they like? I might attend and answer a few questions if that seems worth while, but I couldn't do much talking.

BS.MM

MISC.3.1-200M-9-20

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 13, 1923.

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

The question is - Did the chicken first come from the egg; or did the egg come from the chicken? Does a falling exchange put prices up; or does an advance in prices put exchange down? You know that great school of modern impractical economists abroad who discussed purchasing power parity so learnedly had certain notions on this subject, and I am wondering how they reconcile with the fact that the balance of payments adverse to Great Britain (service of the debt and export of capital principally throw it out of balance) actually seems in this instance to have depressed sterling, with a subsequent important advance in the price index in England. Is exchange a cause of price movement; or a result of price movement? You know, there are some of us who think that it is sometimes cause and sometimes effect. Again there are some who think differently. What do you think?

BS.MM

att.

C 3 1 STAT. 3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 13, 1923

TO Mr. Snyder

SUBJECT: Japanese Relations

FROM Governor Strong

If it does not involve too much work, I would like to have a little study made of the extent of the economic dependence of Japan upon this country, which means:

1. The amount and character of their imports from us.
2. The amount and character of their exports to us.
3. The amount of financing they do in this country.
4. The amount of the reserves held in this country.
5. The amount of the carrying trade in Japanese vessels with this country.
6. The amount of tourist travel to Japan.
7. The probable amount of Japanese remittances from this country to Japan.

Other items may occur to you.

Is it possible to get at something of this sort without too much work?

Of course the figures will be important as to their imports and exports if we show the proportion of each commodity exported or imported with this country to the total with all countries. For instance, what proportion of their silk do we buy, and what proportion of their cotton imports do they buy from us?

It was not easy to get all the things that you wanted. Will this suffice?

MISC. 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 27, 1923. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I remember my father telling me that after the panic of 1873 he had seen oats growing between the cobble stones on Broadway at Wall Street. The city was absolutely dead. The decline in wages following the Civil War advance was about coincident with the 1873 panic and the enormous liquidation that followed. The fairly stable wages from 1870 - 1873, which also appears in wholesale prices, doubtless was due to the fair degree of stability which resulted or was accompanied by the adjustment of prices to the premium on gold. It seems to me that the conclusion which you draw from the comparison of the two charts is not complete without more clearly stating that there seems little likelihood of a decline in wages unless we have a period of liquidation, and little likelihood of liquidation without credit restriction, and little likelihood of credit restriction with such a large volume of potential credit in the country unless we have gold exports, and little likelihood of gold exports until foreign currencies are readjusted to a new gold standard, and therefore little likelihood of wage reductions. I could go a long way on this without reservation.

BS.MM

att.

C. 3.1 60M-6-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 27, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

In the second paragraph of your confidential memorandum on "What is the General Level of Prices?", you mention paper money inflation as having been invented in about 1690. This may be literally true, but there was a species of inflation in India in the 13th Century, which is exceedingly interesting, although, as I recall, it occurred with metal money. One of the slave Kings - I think it was Kutb himself - who, as you recall occupied the ancient city of Delhi before it was moved, invented a device for issuing a small copper coin which was a representative coin and redeemable for a given value of gold. Due either to his extensive wars, which may have led to overissues of the copper coins, or, as some have suggested, to very extensive counterfeiting of the copper coins, this metal currency depreciated tremendously in value, and in order to allay the distrust, and avoid a great upheavel, he sacrificed a great part of his fortune in actually redeeming these coins in gold, notwithstanding that there were many of them spurious. The question of whether it was paper or metal is unimportant, but it might be interesting to look into this very ancient history of currency inflation.

The memorandum is a very interesting one. I am wondering, however, if it does not involve a species of duplication in carrying wages into a price level including commodities, which already include wages.

BS.MM

att.

FIFTEEN NASSAU STREET
NEW YORK

May 22, 1923

Dear Governor Strong:

I have your inquiry about the new Board member. I have already sent you young Mr. Wallace's letter, and he evidently knows him very well; and I am enclosing herewith a note from Senator Cummins. It was stated in the papers, you remember, that it was mainly due to Senator Cummins that the appointment was made, and in writing him about the meeting of the Monetary Association I asked him also about Mr. Cunningham. I should imagine the latter was at least a great improvement over what I have heard of the late Mr. Campbell.

I presume you saw the editorial in the "Evening Post," on "Politics and the Federal Reserve System." I gather from what Mr. Case said that Mr. Schneider had been talking with your friend R. C. L. and had imbibed some of his notions about the increase in investment holdings last year.

We had an extremely interesting visit last week from Prof. Kuczynski, economist, of Berlin, who told us of his very interesting experiences in Paris this winter. He was there on an unofficial mission to try to effect some rapprochement with the French economists, Gide and Jeze, et al, and reports that their views were very close to those of Loucheur, and that these in turn were very close to what Germany was prepared to offer. He said:

"If last December it could have been left to men of the type of Loucheur, or to the economists of France, the whole matter could have been fixed up within forty-eight hours."

He thinks that the French occupation of the Ruhr has greatly complicated the situation, and deeply embittered German sentiment, as well as inflamed the French idea of the partition of Germany, so he is far from optimistic at the present time.

Mr. K. told us also much that was very illuminating as to political conditions in Germany. He says that France itself was largely responsible for Cuno, as they believed they could get nothing from the socialist government, and that the thing to do was to put the industrialists in the saddle.

Now the latter, according to Prof. K., are precisely the people who have been fighting the idea of reparations payments the hardest; they have profited enormously and in some cases colossally by the policy of inflation, and they are now determined to ride it to the last stretch. He says that it is well known in Germany, and half acknowledged, that it was Stinnes himself who took the Reichsbank by surprise in April and smashed up its scheme for stabilizing the mark, through the purchase of enormous quantities of sterling exchange. This precipitated the prevailing distrust and led to another collapse.

Of course he represents what might be termed the more liberal sentiment of Germany. He is or was a man of property, as well as of very high ideals, and he looks upon the whole proceeding now simply as a vast plunder of the German people by a crowd of ruthless industrialists. He is here to lecture in Washington and at the University of Chicago.

I have been very much puzzled by the movement of demand and time deposits in the banks, and commented on the same last week. I am apprehensive that it is going to upset what looked like a very good index as to the probable course of prices, through the transfer of the inactive demand deposits to nominal time deposits, and so changing the apparent movement.

I note that your friend, Mr. V., has been asking bankers some questions, and among others wishes to know:

"Why do they have little recourse to the credit facilities of the Federal Reserve System, and charge our merchants more than twice as much as merchant borrowers pay in London?" etc.

I ask, Do the angels weep?

If this is the limit of our "economic ignorance," where shall we look for light?

Mr. Morgan has returned from another little bout with his throat, and the happy family is complete again. And it looks as if spring might be here.

With warmest regards,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

HENRY C. WALLACE

**WALLACE PUBLISHING COMPANY**
DES MOINES, IOWA

JOHN P. WALLACE

# WALLACES' FARMER

Good Farming; Clear Thinking; Right Living
A Weekly Journal for Thinking Farmers

May 23, 1923.

Mr. Carl Snyder,
New York Federal Reserve Bank,
New York City.

Dear Mr. Snyder:

I find that Cunningham has made a very definite resolution to keep his mouth tightly closed until he finds out more about his new job. He realizes that there is a chance for the dirt farmer member of the Federal Reserve Board to say something which might be misconstrued. I talked with him for an hour or so concerning the Monetary Association and various methods of stabilizing the dollar. He took quite an interest and said he would be glad to talk with our people a year from now when he knew more.

HAW RH

Very truly,

H A Wallace

It looks now as tho it would be impossible for me to attend the June 7 meeting

FIFTEEN NASSAU STREET
NEW YORK

May 28, 1923

Dear Governor Strong:

We were all deeply interested in the latest bulletin of your progress, with the accompanying photograph and the buoyant spirits implied. It is splendid to know things are turning out so well, and you may be certain that it is a source of deep satisfaction to everyone here in the bank. A great many have inquired from time to time, and I was very glad to have your message to give them.

Actinic cocktails seem to have an inspiring effect, and the evidences of this effect have inspired me with the certain conviction that I am sadly in need of them myself. That is a feeling you know we usually have at about this time of the year!

I am properly flattered by your suggestion of a trip into the Northwest when you finish up there, and if the fates are propitious, and the way is open, I can tell you that I should enjoy nothing better than to take such a trip with you. It is many years since I have been through that country, but I used to know it very well all the way from Denver and San Francisco north. It would be extremely interesting to go back and see it again now, with all the changes that must have taken place. I knew some of it, at least, when it was still rather in the pioneering stage, and spent one summer cruising around in those wonderful woods of Washington, and up into the Monte Christo mines that seemed to promise so much and yielded so little. (An inv. of $3.000.000 salvage about $150.000.)

I have always thought that the Puget Sound country was far and away the finest climate of any part of the United States. To me infinitely more attractive, for example, than Southern California, which I found enervating, and even at times depressing. I can remember some of those "white mornings," as I used to call them, off in Washington, when the air was singularly still and cool and almost an enchantment. I'd like to go back.

For the immediate, there is a lady who has deeply set her heart on a little trip to Scotland and Wales this summer, and as I did not have a full vacation last year, nor any this winter, I am in hopes that the council may squeeze me an extra week or two this summer, so that I may save my job. I am presenting it as distressingly urgent and really pathetic.

The walls of Jericho have been deeply shaken by the blasts of the trumpet in your latest, and the ranks will have to be re-formed for an adequate reply. Loose in file

Meanwhile, as a diversion, I am enclosing a reprint of a little article which seems to have stirred up some of my friends a good deal. As the subject may interest you, I enclose a criticism of Prof. Day, who has been associated with Persons in the Harvard work, and a copy of my reply thereto.

I have to add, however, that our index numbers of various phases of trade, expressed in percentages of the estimated normal line of growth, are running extremely high and possibly may combine ~~and~~ to show a much wider swing in the total volume of trade than I had thought probable. At any rate, we will soon have some rather definite facts and figures instead of the guesswork that has been almost alone available hitherto, and that will be some gain.

Next Thursday a week we are to have our annual golf championship meet, and I assure you we shall miss your lead-off very much indeed. In touching recognition of previous high records in such endeavors, they have agreed to award me a handicap, the equivalent of 120, which, however inadequate, will at least make the results more solacing.

Believe me, while I spar for a little time, with best regards,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

May 25, 1923

Dr. Edmund E. Day,
Dean, Department of Economics,
University of Michigan,
Ann Arbor, Michigan.

My dear Day:

Best thanks for your very interesting note of May 17. Of course I agree with you entirely that annual data should not be used where monthly are available, or unadjusted for trend.

My only defense would be that, first of all, it just happened that most things were at a pretty high peak throughout the calendar year of 1920. Railway traffic, for example, was still very high up to December, and then underwent a violent slump, as did a great many other things, with the result that we just happened to have two sharply contrasted calendar years. That would be the only possible excuse for the comparisons I made, except:

(2) A number of important ~~other~~ things are, of course, available only annually.

Finally, as to the adjustment for trend, that for all industry, we agree, is in the neighborhood of only $3\frac{1}{2}$ or 4 per cent per annum, and for very few industries much more than 6 or 8 per cent at the outside. And, on the other hand, we know that the slope for crop area moves still more slowly, about 2 per cent per annum.

Next, Prof. King's study in unemployment work, sampling a considerable number of industries, did seem to suggest that, at least in 1921, the larger industries suffered much more than the smaller industries, so that I really think there is some ground for believing that the figures which we have available for production at present are not representative of general production, save in a few important lines. My feeling is they are to be taken with some caution.

Moreover, following the extreme unemployment of 1921, we made a number of inquiries, endeavoring to find out what had become of the men who had been dropped from the factory rolls. A number of large companies, like the Pierce-Arrow of Buffalo, actually had instituted such an inquiry because, when they came to resume operations more extensively, they found that it was very difficult to get back their old men, and were curious to know what had become of them. What they found, and what a number of other industries found, was that the workers had gone into other occupations as, for example, the Pierce-Arrow employes had turned automobile mechanics, or opened a little garage, or gone back to the blacksmith shop, or turned painters or carpenters or plumbers, whatever their trade might be, and very largely on their own account. And the curious thing was that, even in the depression, they appeared to be doing so well that they were loath to go back to factory work.

Even those who had not gone into business for themselves reported that they had done a lot of odd jobs, repainting their homes, making enlargements, doing a lot of things of that sort.

Next, consider the vast quantity of services rendered, of every kind and description, all the way from lawyers and doctors and dentists to domestic service and all its like, that never get into any kind of quantitative statistics; all the collegiate work and National, State and Municipal employment, that changes little from year to year.

Don't you think that all these very familiar and obvious considerations do make it clear that in our figures we have only the extremes of data and not any golden mean; and should not this breed a little caution? The wide swings seem to be more in the production of permanent or producers' goods, and that is why you find such big swings as that which you cite of the Walworth Company, in the machine tool trade.

Archer W. Douglas writes to report identically the same thing with the Simmons hardware business, and the figures on building construction bear all this out very clearly. Our index of the actual volume of building will show a swing within two years of from below 30 per cent to above 180 per cent. And we know the wide swings in the purchases of the railroads and dozens of other things.

How to strike a fair balance is something beyond me. We have been working for a year or more and will soon have ready a long inquiry in this direction. But even here we feel that we have been able to get only the more striking and widely fluctuating data that scarcely portrays the real evenness of the flow of the vast volume of goods and services in this country.

I want to say, however, that there was one phrase in the little article in "Administration," which does not seem to have conveyed the meaning I meant. That was in Paragraph 7, as to the question of a sharply defined and regular "business cycle."

What the context clearly shows I had in mind was a doubt as to <u>the</u> "business cycle," as opposed to various cyclic movements in the different trades. But even here I may be wrong.

What I most wanted to bring out was that the variation from ebb to flood was probably very much less than popular imagination has painted, and that we were in danger of being misled through data that gave a quite exaggerated picture; and that even in the worst depression which we had known in a full generation the colossal tide of consumption and human activity went on.

If it did not, then I should think that the main problem which we have to deal with here, the credit problem, would be an extremely difficult one, and the possibility of regaining any great economic stability rather remote.

As a matter of fact, I believe that the work we have done, and that you and many others have done, all combines to show that the variation in the credit need is like the variation in the total volume of the nation's trade, relatively slight; that it may be fairly well anticipated, and that in the light of our present knowledge we ought to be able to solve our problem at no distant date.

This thought was the background of another article which appears in the June number of the "American Economic Review." It is purposely done without too much detail, and I should appreciate it very deeply if you could find time to give it a reading and your consideration, and then let me have your criticisms.

I hope the new work opens up agreeably.

With all kinds of good wishes,

Always yours,

little points throughout the book where modification would be advisable, but in most cases we feel that they are relatively unimportant, so that to mention them in detail would imply a divergence of opinion and give a wrong impression, for we find ourselves in almost entire agreement with Mr. Spurgeon's point of view, and with his method of setting out what he has to say. Perhaps, however, we may suggest that in some places a diagram would have simplified the explanation, and that in dealing with contingent assurances it would be well in the next edition to make it clear that, where mortality is changing rapidly, as it is in the first few years of assurance, there is a danger in using any formula of approximate integration unless the early period is treated specially. It would also be advisable to set out at an early stage in this chapter an exact expression for the assurance, payable at the end of the year of death. Even although an exact expression may seldom be required in practice, the student ought to have it before him.

As has been indicated above, the book will be used chiefly by actuarial students, but it ought to appeal to a far larger circle of readers, and it can be most strongly recommended to anyone who is interested in statistical subjects connected with mortality assurances, &c. It is a new work and not a mere revision of an older one, and it comes from the pen of one who has had considerable experience of the difficulties that a student has to face.

Both books are printed by the Cambridge University Press, and no review of them would be complete without referring to the excellent way in which they are printed. There are a few slips which will have to be corrected, but these are not of the kind to create any real difficulty. W. P. E.

2.—*Money and Foreign Exchange after* 1914. By Prof. G. Cassel. viii + 287 pp. London: Constable, 1922. Price 10*s.* 6*d.* net.

The present economic troubles of the world are due above all to monetary causes. Some degree of monetary disorder is perhaps inseparable from the financial strain of a great war, but the evil has been intensified because there has been no adequate and generally accepted doctrine on the subject of currency for the guidance of the economic and political leaders who have been responsible for taking action. They have been brought up to regard the gold standard as the ultimate basis of currency theory, and the balance of trade as that of the foreign exchanges.

Systematic treatises on the theory of the subject do not help, because men of affairs do not read them. They can only be influenced through the medium of controversial literature, which seizes hold of their half-thought-out ideas, exposes fallacies by an appeal partly to fact and partly to theory, and points the way to practical action.

In this Prof. Cassel is an adept, and his latest book is an important contribution to the process of enlightenment. The book is a historical survey, accompanied by theoretical exposition and by a critical examination of the views of those in authority. The explanations of their policy given by those who control the central banks of Europe and America are mercilessly pilloried, and Prof. Cassel's analysis of them helps us to understand the deplorable failure of the civilized world to deal with its monetary problems.

Prof. Cassel's constructive views are well known. This book contains a clear and concise exposition of the theory of purchasing-power parities, and of the relation of the foreign exchange problem to discount policy. The purpose of discount policy must be the stabilization of the purchasing power of the currency unit. "The "supply of credit must be so regulated that no rise in prices, and, "naturally, no fall in prices either, takes place." But the unit so stabilized is to be a *gold* unit, and "it is absolutely essential that "the central banks should co-operate with one another in suitably "limiting their demands for gold reserves. These demands must "not be too small, but neither must they be too large; they must "be constantly adapted on reasonable lines to the market situation, "so that a practically unaltered gold value may be maintained."

Perhaps, in treating of discount policy, Prof. Cassel lays a little too much stress on long-term investment in fixed capital. He is, of course, on unassailable ground when he contends that the banks must see to it "that bank currency is not arbitrarily created merely "to meet capital requirements which cannot be met with available "savings." Here (as the context shows) he is not thinking of circulating capital. But is it not in the financing of stocks of commodities that the greatest danger of credit expansion arises, and that the influence of the discount rate makes itself most easily and rapidly felt? It is this preoccupation with long-term investment that leads Prof. Cassel to the dangerous conclusion that "an "effective limitation of excessive demands for capital can generally "only take place by applying a higher discount rate for a longer "period."

For how long a period? A year would be very short in comparison with the term of an investment in fixed capital. Yet the 7 per cent. rediscount rate of the American Federal Reserve Board in 1920–21 only lasted a year, and Prof. Cassel supplies us with some forcible criticisms of that policy in his book. Indeed he regards the policy of restriction as intended "to force goods upon "the market." Thus, when he comes to a concrete case he looks for the effect of discount policy in the region, not of fixed, but of circulating capital.

Naturally much of the historical part of the book deals with Sweden and her two Scandinavian neighbours. In particular there is a very interesting chapter on the exclusion of gold—the policy, that is, of suspending the free coinage of gold and the purchase of gold by the central banks at a fixed price. Prof. Cassel shows how the benefits of the exclusion policy were thrown away through the inability of the three Scandinavian central banks to resist the movement towards inflation. R. G. H.



3.—*La Monnaie, le Crédit et le Change.* By Auguste Arnauné. (Sixth edition.) x + 291 pp. Paris: F. Alcan, 1922. Price 15 frs. net.

This is the first of two volumes, the work having now outgrown the limits of a single volume, which were still appropriate when the fifth edition appeared in 1913. The descriptions of particular currency systems, which form Parts II and III, will appear in a second volume now in preparation.

Those who are acquainted with the former editions of the book are aware that it is an extremely solid and informative work. M. Arnauné's strong point is in his wide knowledge of his subject. From the point of view of monetary theory he is one of the old guard of the classical school. He builds upon Mill, Bagehot, Goschen and Macleod.

His doctrine recognizes no source of value for money or for credit instruments, save in the precious metals. "A promise to pay—"and a note is nothing else—must fall in value when payment "according to the conditions agreed becomes or is expected to "become impossible, for a period which cannot be foreseen" (p. 250). Even subsidiary coin derives its value from the "credit" of the government which issues it (p. 237).

The quantity theory is thrust aside, notwithstanding the respectable vogue which it enjoyed in the nineteenth century. To admit that the value of the unit can be sustained by a limitation of the issue would be to allow it a dangerous independence of gold. If an excessive circulation depreciates the value of the note, that is because it leads people to fear inconvertibility (pp. 251–2). The maintenance of the rupee at 1*s.* 4*d.* from 1899 to 1917 is attributed, not to the limitation of the issue, but to a persistently favourable balance of trade (p, 266).

If M. Arnauné regards gold as the sole source of the value of money, no one will be surprised to find that his treatment of the foreign exchanges rests entirely on the balance of payments.

To prepare a new edition of the book and adapt this theoretical equipment to the events which have passed since 1914 is to sew a piece of new cloth on an old garment. The value of the explanatory and narrative portions (new and old) remains, but to latter-day thought on the problems of currency the book contributes nothing.

R. G. H.

4.—*The London Money Market.* By W. F. Spalding. xv + 215 + 11 pp. London: Pitman, 1922. Price 10*s.* 6*d.* net.

Readers of Mr. Spalding's other works will know that he possesses a very extensive and intimate knowledge of the business of the City of London. This new book of his contains evidence of his special knowledge, but there is rather too much repetition of what he has already said elsewhere.

The book suffers also from a want of coherence. On p. 2 Mr. Spalding propounds the questions: "What is the Money

"Market? Where is it? What do you do in it? What was its "origin? and Where did it start?" These questions he never really answers.

Scraps of history about Lombard Street and the goldsmiths bring us down to the foundation of the Bank of England. Then we skip from 1694 to 1844, and from 1844 we skip again to the present day.

If Mr. Spalding never tells us what was the origin of the money market and when it started, that is because he apparently has the very haziest idea of what the money market is. He seems at one time to regard it as coextensive with the entire banking community of the City, yet at another he refers to it quite naturally in the more limited significance usually attributed to it.

A book about the money market, that is to say, about the organization that exists in the City for dealing in discounts and short loans, must, no doubt, include a description of other branches of London financial business. But Mr. Spalding is content to describe these other branches without making clear their relations to the money market proper.

In Chap. VI he comes to a topic which really does belong to his subject—what he calls the "short loan fund" of the London money market. But instead of giving a connected and straightforward description of what is, after all, not a supernaturally complicated piece of organization, he hesitates before it, calls it "puzzling" and "elusive," and refers to mysterious (and apparently very futile) controversies among bankers as to what the so-called "fund" is. He never seems able to look at the matter through the medium of the balance-sheets, which show the short loans as assets in the case of the banks and as liabilities in the case of the discount houses. The banks, as it were, thrust out a portion of the available stock of bills into the hands of the dealers to form a market, and make good the gap in their assets with the short loans.

Mr. Spalding is, without doubt, quite at home with a bank balance-sheet in practical business, but that does not save him from taking amazing liberties with it when he has to write about it. He actually (p. 55) adds the total of the deposits to the total of cash in hand!

When we find in Clare's *Money Market Primer* the statement that, up to the amount of the Government debt to the Bank of England "the Bank's note issue is guaranteed by the Government "and in every way corresponds to a State issue," we may regret that Clare went so far astray on a question of fact; but we do not blame him for thinking, in the circumstances of the early 'nineties, that a State note issue, at any rate a British State note issue, was something specially sound and deserving of confidence. But what are we to think of Mr. Spalding, who uncritically repeats the error of fact, and, looking back over the wreckage of the currencies of Europe, pays the same deference to a State issue?

R. G. H.

FIFTEEN NASSAU STREET
NEW YORK

June 8, 1923

Dear Governor Strong:

We have had a spell of very hot, muggy, thunderstormy weather that has seriously put a damper upon my thoughts about your various queries, and besides that we had yesterday the meeting of the Monetary Association, very interesting and an extremely successful meeting, at which Ogden Mills, Prof. Kuczynski, and a number of others spoke.

But the newspaper accounts of it were, it seemed to me, about the last word of misreporting. Lest you see only the "Times," I enclose two or three others, to show you how varied were the impressions it gave.

As for the "report" which I made, which was played up rather conspicuously, that consumed about six minutes, at a business meeting, when there were not more than thirty or forty present, and was of the most routine sort.

Prof. Fisher, who is also quoted, spoke for about six or eight minutes in discussion of one of the morning papers, and that was the extent of his participation.

Ogden Mills made a characteristic Republican stump speech, Colonel Ayres gave a series of gloomy predictions, and Jenks gave a little account of his experiences in Europe with the German Committee, &c. Nevertheless, there were a number of really informative papers on various points, and the sessions were unusually well attended, and I think the feeling was that it had really made some impression.

Colonel Ayres' prediction was based upon the proposition that booms last for twenty-five months, followed by fifteen months of decline and depression, and that, therefore, the crest of the present wave would come next September and the trough of the depression, as he put it, in 1924, about Election Day. I confess I was rather staggered at the positiveness of his predictions, and likewise the premises on which they were based. I see very little to support the idea of a twenty-five and fifteen months "periodogram," and it seemed to me a matter of regret that he should have taken this occasion to make such prophecies.

But, as someone remarked afterwards, none of the speakers in the evening more than barely touched upon the topic for discussion; but as the speeches were otherwise fairly brief and interesting I suppose that we could not complain.

Mr. Catchings reports that there is a surprising interest in the purposes of the Association among manufacturers and others, and that five or six of them, including men like Mr. Erskine, the President of the Studebaker, have already become supporting members at $100 per year. There seems to be a genuine interest in the question of economic stability, and to many it even seems to be the paramount question at the present time.

Mr. Gephart, of the First National of St. Louis, was here to preside at one of the meetings, and reports that conditions in the Southwest are extremely prosperous save perhaps in Oklahoma, , and generally much improved throughout the Middle West.

Mr. Cheney, the Secretary of the Knit Goods Association, was in this morning, and reports that, on account of the labor shortage, their mills have hardly averaged much more than 75 per cent of their estimated normal production, and that some of the mills have even turned aside from filling further immediate orders, to get to work on their fall production, fearing that there might be an unusual shortage if they did not. He reports stocks as necessarily low with the dealers and jobbers, and that the manufacturers are going very slow on future commitments, and also not joining in any raid for labor.

We hear a great deal of this sort of thing here, and I think it is highly salutary and promises well for the continuance of the present swing, possibly not on quite as high a level as at the present time, but still very satisfactory. This is why, with fairly cheap money, abundant credit, apparently rather low stocks, or at least no heavy accumulation, and the general disposition to act cautiously, I find it difficult to believe that prosperity is passing or that we are now in for a depression.

The Harvard folk continue to predict a very prosperous year, and continuance well into next year at least.

I enclose a further bit regarding the new Board member, and it looks as if he was a very good politician with a very level head.

I hope things are going very pleasantly, and that you are finding the summer climate there agreeable. Mr. Gephart tells me that he expects to spend part of his summer in Colorado Springs.

With ever so many good wishes,

Always,

Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Col.

Not so positive as in his speech!

# The Cleveland Trust Company
# BUSINESS BULLETIN

Prepared and Published by
The Cleveland Trust Co.

Volume 4. No. 6
June 15, 1923

THERE have been 13 periods of prosperity, and 12 intervening periods of depression in this country during the 44 years that have elapsed since our national money went back to a gold basis after the Civil War. Some of the depressions have been long and serious, while others have been brief and relatively unimportant. Similarly, some of the prosperities have persisted for several years, and have carried business along in great volume, while others have lifted industrial and commercial activities only a little above normal, and kept them there only a short time.

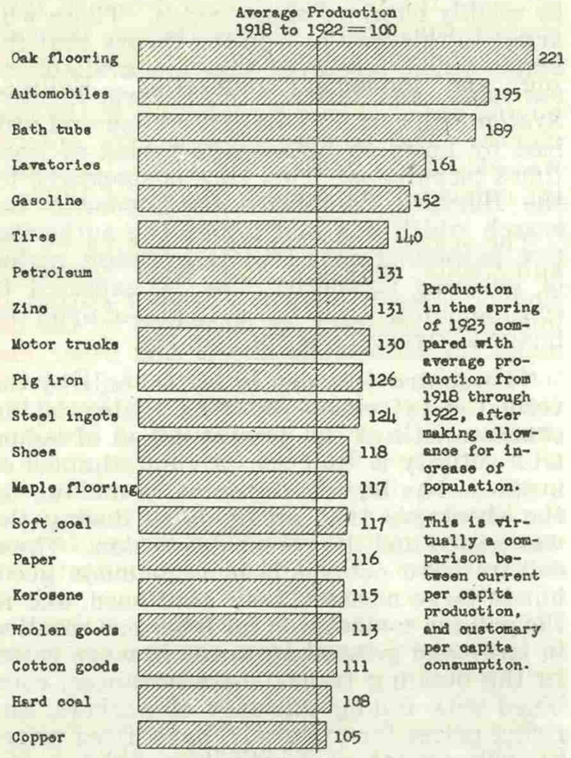
A study of the data of this long series of recurring periods of good times and bad times discloses the interesting fact that a sustained and lengthy period of prosperity has never followed a great depression. The rule has been that great prosperities are followed by great depressions, but that great depressions are followed by brief prosperities. Since the depression through which we have just passed was one of the most severe of recent times, it is worth while to consider whether or not the rule will be altered in the present instance, and the existing period of prosperity prove to be long sustained and of large volume.

Two opposing sets of arguments are being expressed in current financial publications and in the weekly letters of business services regarding the prospects for the conservation of this period of prosperity. Those who think it is not destined to endure for any very extended period point out that industrial production is running ahead of normal consumption, farmers are receiving relatively low prices for their products, spring weather has been exceptionally unfavorable for the crops, wholesale prices have been falling for more than two months, wage increases have become almost universal, the cost of building has risen to such heights that new operations are being suspended or postponed, and our export trade is exceeded by our imports. They point out that these matters are all fundamentals, and that they are not in sound condition.

Those commentators who look for a long period of prosperity point out that industrial production is going ahead in large volume, that good profits are being earned, that goods produced are being consumed, that there has been little speculative buying, and above all that money is so easy that ample credit can be readily obtained at low rates. Those who argue in this way hold to the theory that the ample credit resources that are available in our banks and through the Federal Reserve System will certainly be called upon and utilized by business before this period of good times terminates. This view is sponsored by the Harvard Committee on Economic Research which has just issued the authoritative pronouncement that the present period of business prosperity may be expected to continue until strain has been placed upon the financial structure of the country.

This controversy can be settled only by the verdict of future events. The distinguishing characteristic of the present period of industrial activity is that the driving stimulus of business has largely consisted in making up the shortages that accumulated during the war period and the recent depression. These deficits have not yet been fully made good, but in large measure they have been, and in the process competition for labor has resulted in large and general advances in wage rates. In the building trades these advances, combined with falling efficiency of workers, and rising prices for materials, have lifted prices to such a point as greatly to restrict operations. In other lines forward buying has been sharply checked. In the security markets several important groups of stocks have rather clearly passed over the tops of their price movements, and those of the other groups have apparently done so. The weight of evidence seems to indicate that the old rule that short prosperities follow big depressions will again hold good in the present instance, and that no long extended continuance of such conditions as have maintained in the spring of 1923 is to be expected, despite our great gold surplus and our ample credit resources.

**Production and Consumption** Production of raw materials and finished manufactures is going forward in amounts distinctly in excess of the customary, or normal, consuming power of the country. There is nothing surprising about this, for production in times of prosperity is always in greater volume than in periods of slow or depressed business. A period of prosperity is essentially one in which production and purchasing are carried on in more than normal amounts, and such periods come to an end when the shortages that accumulated during the previous depression have been made up, when costs of production increase so rapidly as to cut down profits, and when volumes of output become so great, and so diverse in different lines, as to exceed the purchasing power that is available to consume them.




The bars of the diagram express in percentages the recent rates of output in 20 lines of manufacture and mining as compared with their average rates of output during the five years from 1918 through 1922. The greatest comparative rates of output are in lines connected with building or with the automotive industries, and reflect the unprecedented booms in those fields of production.

In each case the average monthly output for the five year period from 1918 through 1922 is considered as 100 per cent, and the length of the bar shows how much greater are the recent rates of production after they have been reduced to allow for the increase in population.

The comparison is important because the production of the five year period may fairly be taken as representing roughly the normal rates of consumption of such articles as are here dealt with. During 1918 manufacturing and mining were producing at rates far above normal. In 1919 production was close to a theoretical normal, and in 1920 it was again well above it. In 1921, and the first part of 1922, commodities of these sorts were produced in amounts well below normal, but by the end of 1922 they were again back above that level. For the entire five year period the average is close to the theoretical normal line of production, and hence fairly representative of customary per capita consumption.

Careful computations show that after allowance has been made for the increase in population, the present rates of production are well above the customary rates of consumption. It must be remembered, too, that during the five year period used for the purposes of this comparison our export trade was of huge proportions, and that during the first part of the period we were also meeting the extraordinary demands of war. The meaning of all this is that the factories and the mines of the country are now producing goods at a rate that cannot be indefinitely maintained.

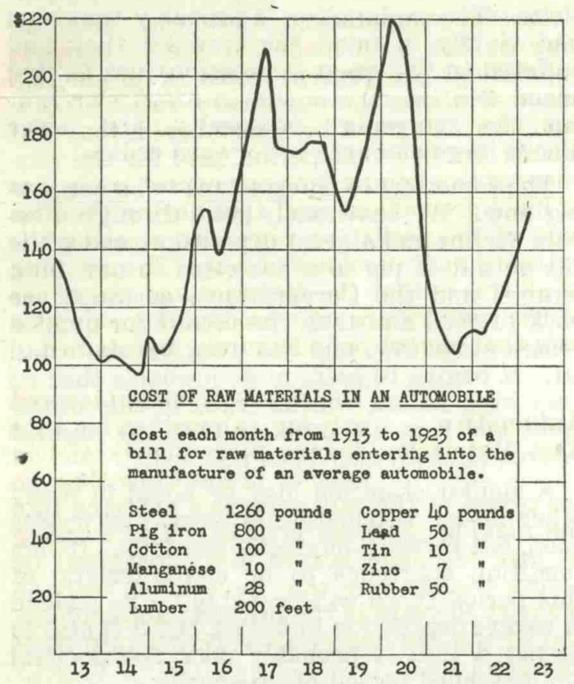
**Automotive Raw Materials** The prices of manufactured articles almost always change more slowly and in smaller proportions than do the prices of the raw materials entering into the making of those articles. The working of this economic law is well illustrated by noting the changes that have taken place in the past 10 years in the prices of automobiles, and of the raw materials entering into their manufacture.

If we consider the average price of 25 standard makes of touring cars as being equal to 100 at the beginning of 1913, the records of the industry show that it fell until it was only 79 at the beginning of 1916, and then rose steadily until it was 131 in January of 1921. Since then a series of reductions has carried it down to 96 at the beginning of 1923.

During this period the prices of the raw materials entering into the average car have moved earlier and more violently, and their changes are shown by the line in the diagram in which the prices have been plotted by months. The lowest point was reached late in 1914, when the cost for a typical, but incomplete, bill of raw materials amounted to only $97. From that point costs increased rapidly and irregularly, until they had mounted to $210 by the summer of 1917, and to $220 by the spring of 1920.

THE CLEVELAND TRUST COMPANY BUSINESS BULLETIN

Meanwhile the prices of cars had continued to drop for about a year after the raw materials had turned up from the bottom, and they continued to rise for about a year after the raw material prices had turned down from the top. There was about a year of lag between the price movements of the materials and those of the automobiles, and the price changes of the finished articles were also far less violent, for the increase in the price of the materials from the bottom to the top was 127 per cent, while that of the automobiles was only 66 per cent. Even this comparison is hardly fair, for the automobiles had steadily improved in quality.




During the past year and a half the prices of the raw materials have been rapidly rising again after the great fall of 1920 and 1921. Car prices have of late begun to rise also, and some 17 makes have announced small advances. Because of the intense competition within the industry it does not seem likely that these advances in car prices will be great or very numerous, but automobile makers are confronted with serious problems of narrowing profit margins.

**Iron and Steel** The production of iron and steel continues to register new high records despite some slowing down in a number of other important lines. During May the output of pig iron reached the enormous total of 3,866,000 tons, and this is the highest record in the history of the industry. The daily output was at the rate of 125,000 tons as compared with the peak record of war times in September of 1918 of 114,000 tons per day. No immediate check in the present great rate of activity seems to be in prospect, for 10 additional furnaces were put in blast during May.

Since the beginning of June there has been some real improvement of sentiment in the iron and steel trade. Increased buying has appeared for a number of products, chiefly bars, plates, shapes, and pig iron. Pressure for immediate delivery is still strong, there is little duplicate ordering, and almost no cancellations, and there are sufficient orders on mill books to sustain large scale operations for a number of months to come.

Producers of steel are carefully trying to estimate the probable future demands from leading consumers. These include the railroads, and the automobile, petroleum, building, and implement industries. Railroad buying has slackened considerably in the past month. The number of new cars ordered was only 2,200 in May, which was the smallest number ordered since August of 1922.

The seasonal slackening of buying by the automobile industry has been unusually small. The curtailment of motor output in immediate prospect, as measured by the demand for automobile sheets and other materials, does not exceed 10 per cent. Demand from the petroleum industry continues impressive. Crude oil production is breaking all records and the need for tubular goods is great. An important development in the steel trade has been the recent increase in demand for structural steel and for reinforcing concrete bars. Demand from manufacturers of agricultural implements continues strong. The tin plate market is extremely active due to the large demand from can makers in expectation of a good canning season.

Steel market stability has been enhanced by two recent developments. One is the check in the advance of prices. The other is the disappearance of the car shortage. In 1920 freight congestion during the spring and summer seriously hampered activity in the steel trade. Fears that this condition would be repeated in 1923 have faded before the steady improvement in the railroad situation.

Iron and steel average prices stopped rising in the first week of May. Since then they have receded about two per cent. Virtually all premium prices have disappeared, as buying for future delivery has diminished. Average prices for leading iron and steel products now are about 77 per cent above 1913 levels, and 42 per cent above the low point reached in March 1922. The reduction of Belgian and French foundry pig iron to $25 a ton, continental ports, may result in increased imports. During March, imports of pig iron amounted to 72,000 tons. For three months the total was 192,000 tons against 10,100 in the corresponding period of 1922.

**Earnings, Orders and Output** The swings of business from prosperity down to depression and back again, are illustrated in the diagram at the foot of this page. The dashed line represents the average daily pig iron production of the country each month during the past 22 years, and constitutes a good index of the activity of the entire iron and steel industry. The solid line shows the unfilled orders of the United States Steel Corporation, and its slumps and booms represent the six depressions and the seven periods of prosperity occurring during the 22 years that the Corporation has been in existence. The lowest, dotted line shows the earnings of the Corporation. It moves up and down through the same swings as the other two lines, showing some tendency to make its highest records after the orders and production have begun to fall off, but to reach its lowest points at about the same time that they do.

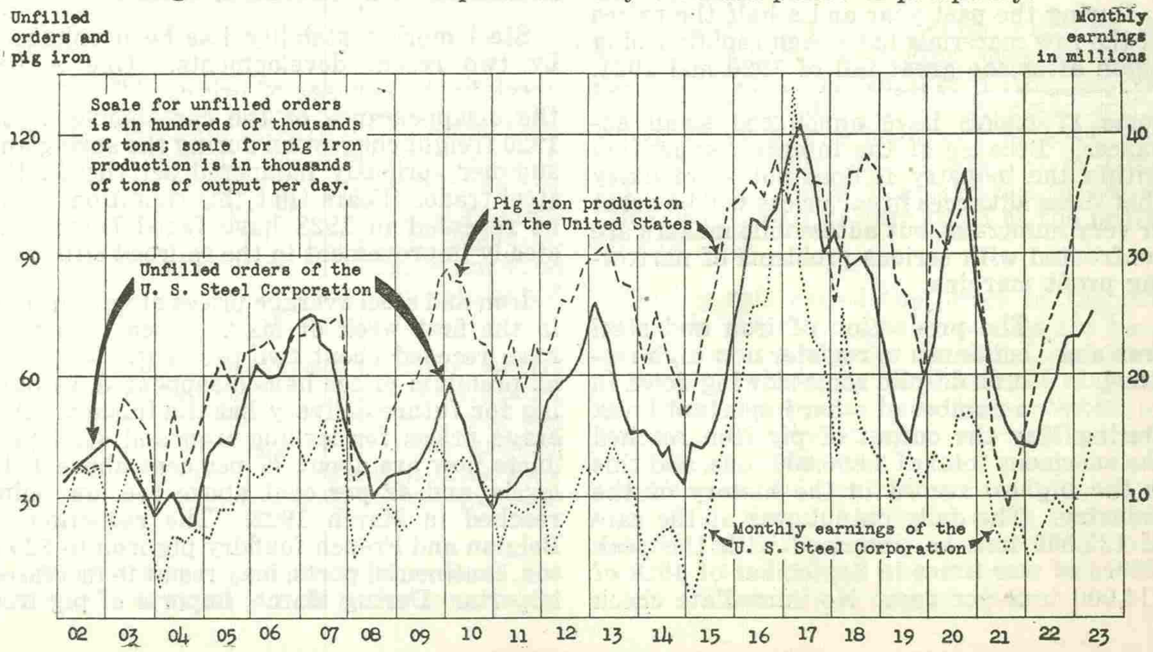
The violence of the movements of these three curves shows why the changes of the business cycle are important to general business and especially to industries related to iron and steel. The records show that during ordinary transitions from prosperity to depression, and omitting the war period, the Corporation's earnings have on the average declined so far that at the bottoms they have been only one-quarter as great as at the peaks, and in 1915 they fell so low as to be only one-ninth as great as they had been in 1913.

In most of the cases the change from the peak of earnings to the bottom of depression has taken place in from two to 10 months. This condition is largely responsible for the hazards of business, and it results in alternate periods of employment and forced idleness among industrial workers. Our fundamental industry suffers recurring periods of collapse, springing from sources beyond its control, and which suddenly cut its output in two and reduce its earnings by 75 per cent.

One fact relating to unfilled orders merits special comment at this time. During 1909, following the severe depression of 1908, pig iron output made new high records, and the earnings of the Corporation were good, but unfilled orders never reached large proportions. The explanation is probably that men had vividly in mind the troubles they had suffered in the great depression just behind them, and they remained cautious throughout the succeeding prosperity, and never placed large amounts of forward orders.

The same sort of thing seems to be happening now. We have lately gone through a severe decline and a great depression, and while the output of pig iron has risen to new high figures, and the Corporation's earnings are back to good amounts, the record for unfilled orders stays low, and has even begun to fall off. It begins to seem most probable that no very high record will be made in this movement and it is not unlikely that the highest figures have already been reached.

A similar situation may be noted in many other lines. Production is large, and profits good, but forward buying is cautious. If this condition continues to be characteristic of this period there will probably be no sudden or severe depression to follow, but it is also to be noted that it probably does not portend any extended period of prosperity.




The Cleveland Trust Company

June 1, 1923

Hollins N. Randolph, Esq.,
Randolph & Parker,
422 Healey Building,
Atlanta, Georgia.

Dear Sir:

Governor Strong is away, and as your convention is so near I am sending this line, and at the same time forwarding your note to the Governor.

I think you will find a very solid background for your address in the studies in the balance of international payments made by Prof. John H. Williams, and published in the Harvard Review of Economic Statistics for last July. I have an idea that the Atlanta Reserve Bank has this publication, or would know of someone in Atlanta who has. These studies have seemed to dissipate the idea that there were outstanding last year any enormous foreign credit balances, and the steady inflow of gold since these alarming estimates were made has seemed to pretty thoroughly confirm the conclusions which Prof. Williams has drawn.

Likewise, it would seem to be clear that the losses which this country sustained in its foreign relations, shipments abroad, &c, in 1920 and after, have been grossly exaggerated and may possibly not have averaged any more than the losses sustained by the manufacturers and wholesale merchants through the drop in prices in this country.

Personally I have known of several instances of large accounts of foreign clients, who were unable to pay up promptly, which were settled satisfactorily on a long-time basis, and I have an idea that there were a great number of adjustments and arrangements of this sort.

Next, I think you would be much interested, also, in the reviews prepared by Prof. J. S. Davis, for the same Harvard publication, on the economic and business situation of Europe, the latest of which has been published in the last current number of the Review. I made a rather careful survey of European conditions at first hand two years ago, and nothing that has happened since has changed the view that one gained in actual contact with the manufacturers and merchants over there, that conditions were steadily on the mend, and even in some cases improving very rapidly, that the political and reparations issues had grotesquely overshadowed the actual disturbances, and that most of the talk about "reconstruction" in Europe rested upon the most superficial and imaginary foundations.

As to our foreign trade, as you probably know it appears to have been declining slightly through the last four or five years, in relative value, but this decline has been minimal as compared with the impression which one would get from studying merely the dollar values.

In some lines, as in the export of cereals, the last two years have broken all records, and in general the differences between the peak of 1920 and the depression of '21-'22 have been apparently much less than the differences in domestic trade in this country. In other words, our export trade throughout the last four or five years has really been on a fairly steady basis, with not much change in the total of quantities, although some lines have gone up while others have gone down.

In the financial field Austria has shown that the stabilization problem is relatively simple, as soon as reparations questions are out of the way, and there have been some hopes here that the acute situation brought by the Ruhr occupation might speedily lead to some final settlement. But so long as this remains in the hands of politicians, largely ignorant and self-seeking, no one can possibly make even a guess.

At a hazard I should say that the view expressed by Prof. Davis that Europe is well on the road to recovery was fully justified, and that we might look rather to a return to normal growth in our trade there than otherwise. Our grain exports will probably decline from the record levels of the last two years, but other things will take their place, and meanwhile their exports to us are steadily rising.

So much foolish and fantastically exaggerated stuff has been written about the European situation that it is difficult to gain a sane view of conditions over there, but personally I can see no reason why we should not begin again to extend adequate credits to Europe, on private account, and with the marked revival of international trade which is now in progress probably this will come of its own accord.

If there is any further thought we could supply you from here, if you would kindly advise me we should be very glad to serve you.

Believe me,

Very truly yours,

Carl Snyder,
General Statistician

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FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE June 8, 1923

TO Mr. Jay copy for Mr Strauss

SUBJECT: Mr. Albert Strauss' letter

FROM Mr. Snyder

I am sure most people who think about such matters are very clearly convinced of the intimate relations between the stock market and interest rates, and equally of the same close relationship between interest rates and the flow of gold, even at the present time. So I feel that Mr. Strauss takes an extreme view, that is shared by few.

As to his letter to Mr. Alexander, these facts may be pertinent:

(1) After the War began there was no appreciable rise in the general level, even of commodity prices at wholesale, the most sensitive barometer of all, until October or November of 1915, nearly a year after the War's demands had set in with great intensity.

(2) There was no appreciable rise in the general level of prices, as wages, rents, retail prices, and the so-called "cost of living," until long after this, that is, late in 1916, and even then only gradual.

(3) In the meantime, there were very heavy gold imports, beginning at the end of 1914, and on the basis of these gold imports a very heavy expansion of credit, beginning early in 1915 and continuing steadily up to and through our entry into the War.

Therefore, it seems to me that, in the most crucial and decisive instance that we have, and likewise the most recent, that Mr. Strauss is distinctly wrong when he assumes that a rise in prices precedes an expansion of bank credits. Distinctly the reverse was true, and so much so, I believe, that no one conversant with the facts could doubt at least the time relationship between credit expansion and prices.

FIFTEEN NASSAU STREET
NEW YORK

June 15, 1923

Dear Governor Strong:

I am enclosing a map of the Northwest country, that has been sent me this week, which seems to me one of the most attractively gotten up maps I have seen in a long while. It just makes you want to go and explore!

As the trip to Europe is still in doubt, the lady's thoughts have been turning to Wyoming and the Yellowstone, though I don't myself take very keenly to the idea of a trip across the plains in August. I have tried it before.

We might take a boat across the Great Lakes to Duluth, which would cut out a little of it, and then go on West. Judged at this distance, would the latter part of August fit in with your book at all?

(1) I will reply to one of your inquiries, and that was as to the probable peak of prosperity, which a number of your friends made last winter. In order of proximity:

| | |
|---|---|
| Kemmerer | Summer of '23 |
| Ayres | October, '23 |
| Chandler | "Soon, if European settlement is reached" |
| Persons | March, '24 |
| Snyder | July, '24 |
| Commons | August, '24 |
| Fisher | September, '24 |

Ayres has since fixed his date at September of this year.

N.B.- a bit of a "come back"!

(2) I have been reluctant to attempt an answer to your second point, as to what would happen if the banks were to sell off their securities heavily and bank deposits were to fall, largely because, as I regret to note, it is a wholly theoretical and quite improbable problem. Going back a generation, the banks have steadily increased their holdings of securities, with the exception of 1920-'21, when there was a good deal of pressure, or talk, to "get the banks out of Government securities." Even then the selling was not heavy, and the holdings were rapidly replaced in the next twelve months, so that they are now at the peak.

But to answer your theoretical question, I should say that if you would reduce your deposits at any time, or by any means, by as much as, say, 16 per cent, (which has been about the normal for several of our serious depressions) you would bring on a major depression and a considerable fall in prices, and especially in commodity prices at wholesale, and produce something like a panic, as at the end of 1920--the so-called "merchandise panic." And I should imagine that the extent of this fall in prices would depend somewhat upon whether the preceding rise had been unusually rapid, and whether any large set of prices, like commodities at wholesale, were widely out of line with the rest of prices, retail prices, wages, rents, &c, and in swinging back toward their normal relationship would have a tendency to drop below the general price level, as it seems to me was quite probably the case in the last year or two.

2. So far as we have any definite knowledge, the general practice of depositors does not greatly change in times of depression or prosperity, and at least until recently the proportion of inactive demand deposits did not seem to vary greatly, i.e., save in the larger cities the velocity of demand deposits, or rate of turnover, does not appear to vary widely from good times to bad.

But within the last few years apparently there has been a steady conversion of these inactive deposits to time or savings deposits, which may have an interesting effect upon the correlation between the volume of demand deposits and the general price level. About this I have already written you. I have the impression that the main difference of my point of view from your own is that a careful study of the available evidence seems to suggest, to my mind at least, that your "state of mind of depositors," &c, is not an important factor.

But this is simply an impression, and you know my reluctance to journey much into the field of pure theory. It is a point on which I should like to have more evidence.

In the same way I have felt that this "state of mind" at any time would only exercise its effect for a few brief months at the most, as, for example, in the summer of 1919, when there was also a decided halt in the rapid rise of prices. The latter was resumed when the pressure of an excess of purchasing power again began to be felt. And, believing that we again have much the same condition, that is why I am unable to follow Colonel Ayres and many others in their belief that the crest of prices and prosperity is either near or already past.

(3) As to whether "prices can climb and do so quite a bit before the 'quantity' of money need change:"

On this point I enclose a brief memo. to Mr. Jay on a letter written by Albert Strauss, dealing with what seems to be the clearest and

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(3) As to whether "prices can climb and do so quite a bit before the 'quantity' of money need change:"

On this point I enclose a brief memo. to Mr. Jay on a letter written by Albert Strauss, dealing with what seems to be the clearest and most decisive case of which we have any record. So far as I know, all the evidence seems to be that the volume of purchasing power must always rise before prices rise, and have always done so, and I personally find it very difficult to conceive the contrary.

Is it not clear that prices rise when demand is active, and is it not equally clear that an active demand must always be accompanied by if not preceded by an expansion of purchasing power? And if we have no evidence to the contrary, would not this require a negative answer to your hypothetical question?

(4) As you know, I am in full agreement with your plan of keeping the earning assets of the Federal Reserve System at a level and counteracting the effect of gold imports by a corresponding reduction. In fact, it is practically on just that idea that I built the little article which you criticized at length last February.

About the only difference I know of is my feeling that it will be very difficult, with a political organization such as we now have, for our banking system to secure unity of action in time to have the proper effect, and that we should gain a great deal if we could introduce an automatic rule, such as we practically had before the War, when gold exports exercised such an automatic, though very clumsy and tardy, effect.

And would not such an automatic control, by means of index numbers, take the whole question of the time for action out of politics and relieve the Board and the Banks of an immense and very difficult responsibility, wherein human judgment is apt to be clouded by extremely diverse interests and experiences, and wherein general agreement, therefore, is extremely difficult to obtain?

And would not this also take the whole question of discount rates and all out of the field of politics and acrimonious controversy, and entirely remove the apprehension or belief in "Wall Street" or "big banking" control of the System, and help enormously to promote good feeling? Is there not a question of political advantage that we have very little considered thus far?

As things sometimes look very differently in print than in a rough typewritten draft, I am enclosing a reprint of the article in the "American Economic;" and I should be extremely interested to know whether the idea appeals to you any more favorably after you have read it again.

You will note that I have made a number of modifications, largely in response to your criticisms.

I have been quite agreeably surprised at the degree of interest which seems to have been aroused by the one-day session of our Monetary Association, and the discussion it has given rise to.

Perhaps you would like to read the whole of Mr. Gephart's paper, from which I quoted this week in the Summary, and I am enclosing that also.

We have been trying to make some exact estimate of the actual expansibility of bank credit on the basis of a given amount of cash held by the banks, now as compared with just before the Federal Reserve System began. It is a difficult question and seems to turn a good deal upon the amount of float which could formerly be regarded as a part of the banks' "reserves." If you have any thoughts upon the matter we should be very glad to have them, especially as to how much this float was and what proportion of it was utilized in the calculations of reserves.

Our amazingly cool spring has continued up to the present, though it is warm enough today.

With all kinds of good wishes,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

FIFTEEN NASSAU STREET
NEW YORK

June 20, 1923

Dear Governor Strong:

I am a little puzzled by your comments on "Tidal Time Tables of Prosperity," for, if I follow you aright, you have an impression different from what I meant to convey; so I am enclosing the sheet again with a paragraph or two marked. For I should not like to have this impression remain. The memo. had especially in mind Colonel Ayres' very positive predictions, which were almost wholly upon the "count of months" basis.

It seems to me, also, that it is an extremely difficult question to determine how far the influence of the Federal Reserve extends. For example, if the discount rate had been raised in April, the sharp reaction both in commodity prices and in the stock market, and the lull of business which is now taking place, would probably have been widely described as an effect of that action, would it not? And, as a matter of fact, the reaction came anyway, without any discount raise (just as, if you will be good enough to recall, your humble servant suggested that it might).

So I have often wondered if the course of events, say in 1919-'20, would have been very materially different, even to the absence of a pronounced banking panic, if we had had no Reserve Banks, for you remember that in August of 1920 gold was already beginning to flow back into the country, and thus materially relieve the strain which was then developing.

I enclose also a little address by Walter Leaf, on the exchange question. You will note that he does not, as I take it, view the P. P. Ps quite with your eyes. I still find it difficult to believe that transactions which might represent a few per cent of the total exchanges between two nations, in a year, are able to control and dominate the respective levels of prices, in the two countries, of enormous quantities of produce and manufactures exchanged by these countries. Does it not seem much more reasonable that the levels of wages and costs of production in the respective countries determine the prices at which these goods are exchanged, where there is not a common monetary standard and you have either a paper or silver currency matched against gold or paper against paper; and that these wages and costs of production and prices will be in turn controlled and determined by internal conditions in each of the countries, and that one of the vital factors, if not the wholly dominating and determining factor, is the relationship between the volume of money and credit in each country and the volume of its exchanges of goods.

And is it not unreasonable to suppose that relatively small payments and transactions as, for example, the payment of the British debt to the United States, can have anything more than a transitory influence upon these price levels?

I have been very much interested in following up the line of thought developed in the little memo. on "Transformations in American Banking." It seems really a remarkable phenomenon. I have had great difficulty for a good while in believing that it was more than a transitory condition, but when you draw it out in long-term trends, as we have, running back of the War and back of the Federal Reserve System, and see that it was already in operation before 1910, I am rather inclined to think that it is a definite fact upon which we may count, and I wonder if this change from more or less permanent bank financing of private enterprise to the freer use of bonds and debentures, and the purchase of these by the banks, will not lead to more liquid and possibly sounder banking conditions.

I am glad you like the Foster and Catchings book, for, although they drifted off into the fields of theory and hypothesis in their chapters on "The Circuit Flow of Money," taken as a whole I thought it was a pretty good and very useful book, especially just at the present time.

Apropos of this, I happened yesterday to be looking up for Mr. Morgan a passage in David Ricardo, and was noting again the beginning of his chapter on "Currency and Money," to the effect that "so much has been written upon these subjects, and the facts regarding them are now so widely known, that I shall content myself with only a brief chapter." Does it not seem supreme irony now, or was it really true that intelligent men were then far better instructed upon these matters than they are today?

1819!

You have doubtless noted the strength of Ford in the "Collier's Weekly" ballot.

We are having our first spell of hot weather, and I hope you are duly thankful that you are out of it.

With warmest regards,

Always yours,

Carl Snyder

Me[illegible] 7 June 16



Another very sensitive barometer is, of course, the run of prices of stocks on the exchanges. For this the best continuous index is the average monthly price of industrial stocks, which we have compiled from 1872. The following table gives the approximate

Duration of Bull Markets

| | |
|---|---|
| 1877-'81 | 49 months |
| 1885-'93 | 96 months |
| 1896-'01 | 57 months |
| 1903-'06 | 25 months |
| 1908-'10 | 25 months |
| 1914-'16 | 24 months |
| 1916-'19 | 23 months |

It will be seen that between periods of prosperity, as measured by a high level of pig iron production and prices for industrial stocks, there is almost no relationship disclosed. For example, during the last long run of "pig iron prosperity," from the beginning of 1915 until nearly the end of 1920, the stock market had two distinct booms, culminating in 1916 and 1919. In the previous period of pig iron activity industrial stocks generally reached a high point at the end of 1909, while pig iron production continued high, at or above normal for three years thereafter. Distinctly, then, the stock market is not, as is popularly assumed, prophetic of one of our most important and most sensitive industries, showing perhaps greater ups and downs than almost any other great industry that could be found.

It would seem to follow, therefore, that even if, as several of our business prophets so firmly believe, the high point of the latest bull movement in stocks was reached last March, a high level of trade activity, and especially of pig iron production, might for aught the records of the past would suggest continue without serious depression for three years or more.

But in the mind of the writer these essentially historical methods of forecasting are of rather less value for anticipation of the future than the racing charts of "past performances" of the race track. If they were of serious reliability, they would be worth such uncounted millions that they must long ago have been discovered and proved out. They are not.

The last serious panic which we had, of 1907, was followed by a remarkably quick recovery in trade and production and an unusually long period of prosperity and economic stability.

The next preceding serious panic, of 1893, was followed by an equally sharp recovery, but lasting only a few months and trailing off into a long period of depression lasting nearly four years. Who at the time could truly have foreseen that the recovery of '95 was to be brief, and of 1909 long sustained?

And, equally, who now can positively say which will be true of the still sharper recovery of 1922-'23? Clearly it is the fundamental factors which will determine this and not any mechanical precedent. We have no kind of machinery which will foretell the future, nothing which will take the place of a careful balance of probabilities. Just when a seeming regularity seems to have been established in either trade activity, or in the stock market, is just when it seems fatally the case that this regularity will be broken.

It is the unchanged view of the writer that the fundamental factors now favor the long trend of prosperity, if the present boom does not, as in 1919-'20, become excessive; and that, in any event, its peak will not be reached in the present year.

FIFTEEN NASSAU STREET
NEW YORK

June 27, 1923

Dear Governor Strong:

I am sending you today the little book by Yves-Guyot, on "The Problems of Deflation," which you asked for some weeks ago and has just come. And, as you asked, Miss Frankenstein has translated a number of salient passages therefrom, bearing upon the idea of your friends, Cassel, Keynes & Company. If these tempt you to read further, there may be someone there who would be delighted to read it off for you--Dr. Forster's wife is herself French, and a very intelligent woman. Or, if you like, Miss Frankenstein can make further translations for you.

You will remember that Guyot is now eighty years old, and that most of his ideas are those which were prevelent when he came upon the scene in 1870. Most of what I have read has seemed to me at least to have extremely little understanding of the real proposals of Cassel or of Keynes, or of the new knowledge of the relation of money and prices which the War and its aftermath have provided.

So far as Cassel is concerned, and his attitude of two years ago and now, I think it is fair to say that no one could have ventured to predict that the whole level of English prices and wages could have fallen so terrifically in a year and a half, as they have, and that therefore the relative value of the paper pound and the dollar could have risen so greatly. I cannot help thinking that this fall has been very disastrous for the industry and social welfare of England. It has meant immense unemployment, debauching of a large part of the population through national doles, and, what seems to us at this distance, a crushing burden of taxation; altogether a condition which will very seriously affect the fortunes of that country.

And I still cannot escape the view that all this and much else could have largely been avoided by a financial policy that did not mean handing over billions of her wealth to bondholders.

On quite another subject, we have had this week the official publication of the German Government on Germany's present industrial position and the effect of the War. Some of the figures and comparisons which are given are of quite real interest. For example that, measured in gold marks, the armies of occupation have already levied a greater cost upon Germany than the entire French reparations of 1871, and more than eighteen times the cost of German occupation of France at that time.

They likewise undertake to show that the total reparations payments of all kinds by Germany to date have amounted to forty-two milliards, or "billions," of gold marks, or ten times the French reparations payments of 1871.

There is much else, some of it perhaps specious and propagandist, that really does give a striking picture of the extent to which Germany has been crippled in comparison with her pre-war industry and income. Certainly she has paid very dearly and it looks as if the pendulum might swing now in the opposite direction, in view of the implacable position of France. And does not Millerand's speech to the newspaper men rather indicate that France is beginning to feel this pressure already?

Dr. Willis' heavy volume on the Federal Reserve System is just out--1750 pages of closely printed text, much of it in solid nonpariel, all the documents and endless quotations and drafts, along with much characteristic comment and pretty much the whole thing designed to show that the Act as passed was the work of the House Committee and Chairman Glass, and, be very sure, of the hand that held the hand of Glass.

I have hesitated to send it to you, first because there is not a great deal in it that is new, even Willis' criticisms and opinions having pretty much appeared in print before. The price is $10, and I do not think that the circulation of it will be very large.

There has been a very sharp drop in street loans in the last five or six weeks, amounting to nearly 250 millions out of a total of close to 1650 millions. This has been about equally divided between loans for correspondents and for the New York banks. There has also been some drawing down of balances to correspondents since the first of the year, which is largely seasonal. This drop in street loans is quite a little more, so far, than the drop in last November and December, and it will be interesting to see how far the liquidation which appears to have started will run.

The grain and meat situation is one of the most curious and puzzling which we have had in a long time. It is very striking how grain and meat prices have been steadily below the level of other prices now for more than two years, in spite of the enormous grain exports and large meat exports throughout this period. There are many things in this world, apparently, that statistics are not ready to explain, as yet.

See File

I forwarded you a little note from Prof. Foster, and I don't think it would do any harm, if you were so moved, to allow them to use a sentence or two from your letter.

We have just been having another hot blast, with a cyclone to end it, and today a cool day in which one rather dazedly wonders just why an entirely perfect creation should seem to involve so much of human discomfort as to require the best precepts of philosophy to enable one to adjust to it easily.

With very best regards,

Always, Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

I have been tempted to send you a small & rather light volume of psycho stuff that I found rather amusing — But I forbore. — I wish I knew what really would interest you.

— You read I suppose of the scopolamin tests, on criminals at San Quentin. Extraordinarily interesting, if confirmed!

Referred to in letter of Mr Snyder 5/28/23

No. 6-15-23

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# The Stabilization of Gold: A Plan

CARL SNYDER

pared to assume the responsibility for seeing that open price work of equally efficient character is carried on by some less objectionable agency, either private or public. To put a ban upon open price activities without offering something in their stead would tend to discourage a valuable incentive directed toward the achievement of greater efficiency in bargaining. The greater the development of efficiency in bargaining, the nearer is the approach of actual competitive conditions to ideal competitive conditions.

If future observation and experience point to the conclusion that members of open price associations are securing too liberal returns on their investment in business education, at the expense of the ignorance of buyers, the proper solution would seem to lie, not necessarily in prohibiting them from engaging in open price activity, but in widening the sphere of open price influence so that not only members of open price associations may receive the benefit of it, but also all others who have a direct interest in the competitive situation. With all bargainers equally well equipped with scientific business information, no group of men associated for the purpose of disseminating information of this character among its membership would be in a position of dominance in any industry, for they no longer would possess a monopoly of such information. If the necessary machinery could be constructed for putting both buyers and sellers in every industry in possession of all information necessary to make them intelligent bargainers, one of the most serious causes of friction of the many that now prevent actual competitive conditions from approaching ideal competitive conditions would tend to be eliminated. Whether the function of collecting, compiling and disseminating business statistics should be left in the hands of associations of business men in each of the industries, without, however, confining membership to one bargaining group as is now the case in the manufacturing field, but extending it to include the group of buyers, or whether this function should be turned over to the government to administer, is a question that will not be discussed here. The perplexing and complex character of the issues here involved are such as to call for independent treatment.

MILTON N. NELSON.

*University of Illinois.*

# THE STABILIZATION OF GOLD: A PLAN

In proposing an international convention, for the restoration of gold as the common standard of international trade, the Economic Section of the Genoa Conference of April, 1922, presided over by Sir Robert Horne, the British Chancellor of the Exchequer, said:

The purpose of the convention would be to centralize and coördinate the demand for gold, and so to avoid those wide fluctuations in the purchasing power of gold which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves.

And again, in Section 11 of these resolutions, the Committee accented this proposal when it declared:

Credit will be regulated not only with a view to maintaining the currencies at par with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold.

The Committee framing these resolutions comprised some of the ablest economists of Europe. As to the first resolution, several facts may be noted:

(1) The metallic reserves of England, France, and several other of the chief commercial nations, are, like those of the United States, greater today by far than before the War.

(2) The aggregate value in gold of the more stable of the depreciated currencies, like those of France, Belgium, Italy, Czecho-Slovakia, etc., tends to be roughly equivalent to the value which their pre-war currencies had in gold (though their purchasing power would show a depreciation by about one third, just as does that of the United States, due to the universal decline in the value of gold in goods).

(3) It follows that the stabilization of the principal currencies of Europe at or near their present gold parity would involve no great demand for metallic reserves, as for the most part these are now ample.

(4) The currencies of France, Belgium, Italy and some other nations are depreciated by 70 per cent or more. The return of these currencies to pre-war gold parity, without scaling their outstanding debt proportionally, would involve such a colossal enhancement of this burden as to be almost inconceivable. The burden of taxation necessary for such a step would be overwhelming.

(5) The currencies of seven or eight of the principal commercial countries of the world are now above or very close to their former gold par: England, Holland, Switzerland, Sweden, Spain, Argentina, Uruguay, Japan, and we may also include Canada, since it has an independent currency system. Scarcely any of these countries require a larger metallic reserve than they now possess.

(6) Some of these countries, like Sweden and the United States,





have redundant gold reserves, the excess gold of this country alone amounting now to nearly two billions of dollars. Sweden has done its best to prevent the further increase of its gold reserves, and the United States would be vastly better off if it could lose a full half of its present gold stock.

It seems to follow that: *There does not seem now, nor for years to come, more than a remote chance for any kind of "competitive effort" of the nations to secure further gold reserves.*

So far from this, it is now clear that for nearly twenty years before the War there was an excessive production of gold, adding needlessly to the world's metallic stock and accomplishing nothing but an inflationary rise in prices, amounting in the United States, according to the Bureau of Labor index, to a full 50 per cent within a space of fifteen years, from 1897 to 1912. This excessive production still continues.

This rise in prices in the twenty years before the War was world wide, and therefore nowhere due to local conditions. It follows that there is now, as there was before the War, a redundant quantity of gold in the world; and the chief fiscal problem of the nations is not how to "conserve" this gold but how to impound it or otherwise prevent it from promoting further inflation.

Nowhere is this problem more acute than in the United States. The reasons for this are as follows: (1) The lowering of the reserve requirements through the establishment of the federal reserve system, especially by the war amendments of June, 1917, aimed to "economize" the use of gold for bank reserves in the United States; and it was estimated that we might easily dispense with, or "release," from 200 to 300 millions of dollars in this way. (2) Instead of this, the War and its aftermath have brought us near to two billions of *additional* gold, bringing our estimated gold holdings up, now, near to four billions, in dollars. All the rest of the monetary stock of the world is only a little more than this. It is fair to say that a more fantastic financial situation probably never developed in any modern commercial nation. (3) So far from any present prospect of losing any large part of this excessive gold hoard within the near future, the probabilities seem to be that, unless we should indulge in very heavy loans to foreign countries, we may possibly gain rather than lose gold in the next few years. The balance of foreign trade, and now of interest and other payments, is still clearly in our favor, and the only way now that we could lose much of this gold would be through another great inflation of prices in this country, like that of 1919-1920, and a consequent drastic curtailment of our export trade.

Both of these latter possibilities might easily entail another financial depression in the United States, and work great hardship. Yet only a few of our statesmen or economists have given serious attention to this curious predicament, or to what might be done to avoid the consequences of this excessive load of gold.

Various proposals have, indeed, been made as to what this country might do: (1) Impound an arbitrary amount of this gold, *e.g.*, a billion dollars, and remove it from the reserve account of the federal reserve banks; or (2) Open large credits, *i.e.*, make large loans to approved central banks in Europe; or (3) Establish branches in London, Paris and other points abroad, as is permissible under the Federal Reserve act, and through these purchase foreign bills to the amount of a billion dollars or more, or simply buy these bills through the central banks of London, Paris, and elsewhere; or (4) Make large gold loans to those foreign nations which will undertake to redeem their currencies in gold and lift any embargo upon its free exchange. It is obvious that all of these various proposals are designed to meet a momentary situation; that they are simply expedients and not an endeavor to dominate the situation through the working of a well-established economic principle. Yet, such an effective principle is at hand, as I shall endeavor to show.

It is well known that, in a country like the United States, the general level of prices, so far as this may be ascertained by the various indices of prices, and even prices at wholesale taken over a sufficient period, is narrowly dependent upon the total purchasing power of the nation, which is largely represented by the total of bank deposits. In turn, these deposits, save for the import from abroad of gold or other currencies, are largely created by bank loans; and the total of the liabilities thus established is narrowly limited by the amount of bank reserves. Formerly this was the actual gold or specie reserves of the banks. Now it is largely the amount of gold, and other specie, held by the federal reserve banks. In other words, in a broad way and in normal times (not through and since the War) the average of all prices is proportional to the banks' reserves of gold.

The proposal here in view is to reverse this sequence and utilize the average of prices to limit the gold reserves, and then impound the surplus for the fund hereafter described. This could be done in the following way:

We now have an admirable set of indices of prices at wholesale, and especially the Department of Labor index; and these indices, it has been shown by the exhaustive researches of Fisher, Mitchell, Persons, and others, are accurate and reliable to a degree no one had ever before believed. Side by side with the indices of wholesale prices we have others of retail food prices; of the estimated cost of living in a skilled worker's family; of artisans' and unskilled workers' wages; of the current volume of mine and factory manufacture; and of the degree of employment in the chief industries of the nation.



Finally, it would not be difficult now to construct a tolerably accurate and reliable index showing monthly the state of trade or of general business activity, and such an index is now in preparation.

With the aid of all these, one checking the other; the volume of production and trade checked by the index of employment; the cost of living by the average of wages (they cannot long remain far apart); and finally the ratio of bank deposits to the general price level, it should not, in turn, be difficult to establish an index figure wherewith automatically to control the amount of currency to be issued, and therefore, as here proposed, the total of bank credit.

We still cling to the fetish of a "gold standard," despite the fact that for more than a century many of our ablest economists and approved financial writers have seriously considered other and more stable standards of value. More than a hundred years ago Ricardo, the greatest of them all, laid it down that the ideal currency would be a strictly limited paper currency, the amount or volume of which should not be determined by the caprice of the production or quantities available of this or that precious metal.

Now, in Ricardo's day index numbers, so highly perfected and so universally in use in our own time, were practically unknown. Ricardo's proposal was that the volume or quantity of the issue should be regulated by the state of the exchanges—that a depreciated exchange should indicate a redundancy of issue, and an appreciation, a deficit. This method might serve very well in a country like England, whose foreign trade and especially whose foreign monetary exchanges form so large a part of the total trade and exchanges of the nation. It could scarcely serve so well in a country like the United States, where upwards of 92 per cent of her total of products are consumed at home, and whose international monetary exchanges are still, speaking relatively, extremely small—possibly not more than 1 or 2 per cent, at the outside, of the total of the monetary exchanges of the country.

In the quite astonishing array of index numbers which we now possess, of wholesale and retail prices, wages, production, employment, wholesale and retail trade, volume of goods transported, etc., coupled with most exhaustive bank statements for the whole country, we now have a far more accurate and reliable guide for automatic determination of the currency issue than the foreign exchanges could possibly be; so accurate, indeed, that we now know definitely when and at what rate our currency is depreciating or appreciating, and have little or no need to refer, for this, to the foreign exchanges, as in Ricardo's time.

But it will at once be said that this is virtually abandoning the gold standard. The answer is that it is nothing of the sort. Every dollar of our currency would still be redeemable in gold to the last dollar of gold we possess. And all of this currency would then be, as it is not now, fully redeemable, and full legal tender, and the sole legal tender of the country. The only difference whatever would be that we would substitute a strictly limited gold standard currency for gold itself in our bank reserves, and thus practically double the amount of gold available as a redemption fund for the currency itself. That would be all.

So far as practically any citizen of the United States is concerned, he would in his daily transactions never know the difference, for there is next to no gold in circulation, or even in the banks of the United States. We now have gold certificates and federal reserve notes, which are practically gold certificates; and national bank notes, which are redeemable in gold; and we should have all of these still, unless we should desire to consolidate all of these issues into a single kind. What then should we do with our 4 billions in gold? First of all, it would serve exactly as it does now, as a fund for the redemption of any kind of currency issued by this country. There would not be the slightest restriction, as there is none now, upon the withdrawal of any amount of gold, upon presentation of these currency notes. Second, it would serve, exactly as it does now, as a fund for the settlement of foreign exchanges. Simply it would no longer serve *directly* as bank reserves. Therefore, the whole of our gold fund would be available for the two purposes for which it is most desirable, *viz.*, for the maintenance of our currency at a gold par, and secondly for the settlement of our foreign trade balances.

But consider the vital difference which this change would make in the present situation. This gold fund could then grow as high as Haman's gallows, but it could not hang us in the noose of a huge inflation, as it threatens now to do. It could then no longer threaten the wreck of our prosperity and the fortunes of millions of men by the depression which a great gold movement outward might easily precipitate. The capricious inflow or outflow of gold would no longer determine our price level. We could lose a billion of gold in twelve months without undermining credit, paralyzing industry, and without putting millions of men out of gainful employment, as this outflow of only 400 millions strongly helped to do in 1920.

With the general level of prices established upon an even keel, the prices of individual commodities and wages and salaries and interest rates would indeed fluctuate widely among themselves, just as they do now under the varying pressure of demand and supply, but in a greatly lessened degree. But instead of having a topsy turvy situation, such as we have now, with prices at wholesale about 60 per cent above pre-war level; the cost of living about 60 per cent, common wages about 80 per cent, and factory earnings about 100 per cent higher; and farm products, and especially grain prices, only 40 per cent higher; all of



these would tend mutually to equalize about something like a common level, wherein the prosperity of every class and section of the country would be assured.

We should no longer have interest rates reaching as high as 8 and 9 and 10 per cent, even for established enterprises, and 4 or 5 per cent twelve months later, as was the case in 1920 and 1921; or at least this would be, with a federal reserve system conducted wisely and with foresight, an extremely rare occurrence.

We should no longer have an appalling and endless number of strikes and wage disputes, and tie-ups and traffic blockades; for almost every strike and wage dispute grows out of a changing level of the purchasing power of money, and if this level of purchasing power can be made fairly stable, a large part of our labor troubles, so called, would disappear. And with this would come a corresponding opening to all the talents of our inventors and discoverers and engineers and efficiency and production experts, giving them a wide-open opportunity to get at ways to enhance the man product per hour; to distribute the product more equably; to diversify and lighten human toil.

But the fruits of this sweeping change would not accrue to the United States alone. They would, by virtue of the strange and almost miraculous situation in which this country finds itself at the present time, accrue almost equally to all the other commercial nations. For it is in our power, by virtue of our vast hoard of gold, to stabilize the price level, not merely for this country but practically for all international trade; and this means practically for all the countries with which we do business.

I have already noted that we possess now nearly half the world's visible stock of monetary gold; and I have shown likewise that this total stock of the world's gold is not merely adequate for all our purposes but even, to some extent, redundant and liable to cause a further inflation of price levels if it is allowed to wreak its natural effects under our present system of leaving the purchasing power of our currencies more or less to the caprice of gold discoveries and mining costs.

We have nearly 4 billions of the yellow metal; all of the other nations only 4 or 5 billions more. Supposing that our prices are now or should be, at the time when we introduced the new system, a little above the level of the other principal countries. Then obviously our export trade will tend to decline, our imports to augment and the balance of trade to be turned against us just as it always has been. And then, precisely as now, we should lose gold.

Let us even suppose that we lost a billion. At the present time such an outflow from this country might easily precipitate a crisis and perhaps a prolonged depression like that of 1893-1898 in the United States. But instead of this we should simply then have 3 billions in no!

our gold redemption fund (still vastly more than we need) instead of 4 billions; and the rest of the commercial countries would have 5 or 6 billions of gold instead of 4 or 5, as now.

In the commercial nations that had then returned to the gold standard and a free gold exchange, the volume of their gold would broadly determine their general levels of prices; and under the system of free exchange these price levels would be very nearly the same, just as they were for a century before the outbreak of the World War (and just as they now are, very nearly, measured in a common standard of gold).

An increase of a billion dollars in the gold holdings of these nations would in due course raise their price levels by an average of from 20 to 25 per cent. The effect of this rise in prices would be almost inevitably to bring on a speculative boom, which would carry their price levels above those of the United States. Then the tide would be reversed, just as, generation after generation, it has been in all international trade. Again their goods would become dear to us and ours relatively cheap to them. Again, the balance would turn in our favor. Again the gold would flow back to the United States. But not into the ordinary channels of trade. Not into the banks, as now. Not into the federal reserve system. Not into any channel where, as is now the case, it could produce a profound revolution in prices and an utter upsetting of all our economic and social arrangements, as did the import of a total of two billions of gold during and since the War in this country.

no!

Under this new arrangement the gold would flow back into the gold redemption fund, because gold metal, of itself, would no longer be legal tender in this country, nor lawful bank reserves. And there it would stay until it was again required for the needs of international trade, or such mild demands as were made upon it by timid people who would rather possess stamped bits of the yellow metal than certificates of equal purchasing power, exactly such as we chiefly carry about now. The whole billion could flow back and it could produce no disturbance of the price levels, promote no wild orgies of speculation, such as a general rise in prices always brings about, and seems to threaten again at this very moment. This billion could come, and yet another billion more, and, conceivably, yet a billion beyond that; and still it would produce, neither in this or in any of the other countries, any deep disturbance of the economic or social order.

And now as to the need: Speaking in 1919, with the havoc wrought by the War's upheaval in mind, and only dimly visioning the world-wide collapse that was soon to follow, Wesley C. Mitchell, one of our ablest and best-balanced economic minds, had this to say:

> One cannot conclude a survey of the violent changes in prices during the War and of the grave uncertainties of the near future without reflecting upon the badness of the best existing monetary systems.
>
> The United States has maintained the gold standard without serious hesitation and has reorganized its banking system on approved lines. Nevertheless we have had price fluctuations almost as violent as those of the greenback period.
>
> These fluctuations have caused unmerited suffering to millions of families and have heaped unearned riches upon thousands. They have caused wasteful struggles, encouraged extravagance among some, and created the class of 'new poor.' They have promoted speculation and reduced the efficiency of management and labor.
>
> We are poorer in goods, more quarrelsome in spirit, less ready to work because of these fluctuations. All this has happened and is irretrievable. But within a few years fresh changes may happen just as evil in their consequences.
>
> This wretched record and this wretched prospect are a grave indictment of our present form of economic organization. Have we not sufficient constructive imagination and practical sagacity to develop a better monetary system?



In the same year, Lord d'Abernon, banker and diplomat, and one of the most experienced of English statesmen, in an address in the House of Lords said, on this same question:

> I hold that it is more vital and more urgent than any question now before the country. It transcends and pervades all other problems. Unless right views are attained on this, all efforts towards reform in other directions will be overborne and submerged.

Nearly four years have passed, and we seem little nearer the solution of these problems than we were then.

### *The Practical Details*

In brief, what is here proposed is:

(1) To make all note issues, government or federal reserve, fully redeemable in gold and full legal tender, and the sole legal tender and the sole money of bank reserves. Gold itself would then cease to be, directly, legal tender, though practically it would be, of course, just the same as now. And this change would in no way affect contracts now existing, to pay in gold, or the making of future contracts.

(2) To put all the gold now in the Treasury and the federal reserve banks in a common redemption fund, used exclusively for the redemption of the currency. This would, in effect, make all the currency issues now outstanding (less than 4 billions) practically gold certificates. And this provision, of course, would mean the repeal of the requirements in the Federal Reserve act, of gold reserves against federal reserve notes and deposits.

(3) To control or restrict the total issue of this gold standard cur-

rency by means of an index number of prices, checked by other index numbers of production, employment, and trade. The index number of prices might well be the present Bureau of Labor index of wholesale prices, on the theory that the check applied must be applied early, and that the movement of wholesale prices is much more rapid and always precedes in time any movement of the general price level. This index should be checked by indices of production and employment, on the theory that at times prices might be rising rapidly, with employment below normal; but this would happen rarely.

(4) Control of the note issue to be through the medium of the federal reserve banks, which should be required by law, on a change in the price level of, let us say, 3 per cent (or whatever figure might be decided upon) to raise or lower the rate of rediscount by 1 per cent, or in the same way to raise or to lower their holdings of securities and acceptances by, let us say, some conventional figure like 100 million dollars, as might be agreed upon; or both. The changes in the bank rate and security holdings might be at a mildly progressive rate as, for example, a change of 1 per cent in the rate for the first 3 per cent change in the price index, another 1 per cent for the next 2 points change in the price index, etc. But in practice this would scarcely be needful, or only for emergencies. For example, if, starting from the beginning of 1919, when prices began to rise at the rate of 2 and 3 per cent a month, this arrangement would have brought the rate of rediscount up to 10 per cent within six months, and this would certainly have been sufficient to have checked inflation by, let us say, October of 1919. In fact, with this automatic check it seems probable that inflation could not have gone on for more than three or four months.

(5) It seems clear that this control must be automatic and free from the possibility of intervention by any kind of influence, political, financial, or otherwise. It seems evident, from our experience, that this is the one possible means of obtaining such control.

(6) Finally, all exports or imports of gold or currency required by law to be registered and certified, and when a given amount of currency has been, for example, exported or presented to the Treasury or banks for redemption or for gold exports, the federal reserve banks to increase their holdings of securities by a corresponding amount (say in lots of 50 or 100 millions) ; and vice versa.

The idea, in sum, is to keep the amount of currency and credit in balance with the price level, and maintain the latter at as nearly a constant figure as is practically possible. It is not generally known or realized that in the years just before the War, and extending even past the first year of the War, this country at least had reached a





quite extraordinary degree of economic stability, beyond that perhaps of any similar period in a century and more. In the seven years from the end of 1908 to late in 1915, the annual averages, even of commodities at wholesale, varied by only four points, on the Bureau of Labor index (from 97 to 101).

Investigations carried out by the writer in the last three years seem to indicate distinctly that this high degree of economic stability could again be attained, rather quickly, and by the simplest of means, as has here been briefly sketched.

CARL SNYDER.

## REVIEWS AND NEW BOOKS

### General Works, Theory and Its History

*A Critique of Economics: Doctrinal and Methodological.* By O. FRED BOUCKE. (New York: The Macmillan Company. 1922. Pp. ix, 305.)

In this small book, which is a companion volume and "in a sense a continuation" of his recent *Development of Economics*, Professor Boucke undertakes a summary of the historical background of modern economics and a criticism of both its principles and its methodology. His basic contention is that the development of modern psychology has destroyed the logical foundations of the science in the form in which the present age has inherited it from the eighteenth and nineteenth centuries, and has forced a repudiation of old doctrines and a reëxamination of the concepts and methods of thought in this field. Part I of the book, dealing with Principles, is frankly critical in the destructive sense. It attempts merely to show the inconsistencies and untenability in view of present knowledge of facts of the accepted doctrines of marginalistic economic theory. Part II aims to go beyond mere criticism and indicate the lines along which the author hopes to see built up a sound methodology.

The most valuable portions of the book in the reviewer's opinion are the introductory chapter on the Problem, showing how current economic doctrine developed out of a sensationalistic psychology framed on the analogy of the Newtonian mechanics, and the criticism of the resulting theory of valuation in the first chapter of part I. The argument here is remarkable for the mastery of philosophical literature displayed and for incisive analysis and clear statement. These chapters should demonstrate to the satisfaction of anyone not already convinced that economic theory cannot be a mechanistic science of values and, indeed, that no such science is possible in view of the modern psychological conception of our affective and conative consciousness.

In regard to the remainder of the book, and especially to the inference that the great bulk of extant economic theory must be thrown away and done over, there is more room for difference of opinion. The subsequent chapters of part I deal with Price, Distribution, and Production. The criticisms of doctrine presented are undoubtedly sound as regards the form of statement of economic theories met with in the great majority of textbooks and other works. But there is room for question as to how essential after all the psychological assumptions, or any psychological assumptions, really are for the substantial body of economic theory. From Cournot to Wesley Mitchell authoritative voices have not been wanting to advocate an objective formulation of



economic relations, and the recent able study of the whole subject by Professor Z. C. Dickinson shows the same tendency. It may be suggested that the truth of our assumed psychology is not vital as long as men in the mass behave "as if" they were actuated by motives of the character described; this would be analogous to the treatment of force in mechanics. My own view is that the psychology of valuation is important for economic criticism rather than economic theory, and is tributary to ethics rather than economics. It is not clear, even after reading Professor Boucke's *Critique* that the laws of diminishing (price) productivity and of imputation are not valid scientific principles in a purely objective interpretation, or that expenses of production have no useful import if restricted to the representation of sacrificed alternatives measured in terms of price. We must not lose sight of the fact of overwhelming practical importance, that *if* we cannot give some intelligible meaning to values, costs and productivities as measurable and comparable quantities,then an intelligent organization of economic activity is impossible and meaningless, and the whole science of economics is reduced to the position of an academic exercise.

The real issue with regard to the older economics is better brought to the fore by the discussion of Methodology in part II of the *Critique*. This discussion centers around the meaning of law and causality, and the most important positive conclusion is that in the social sciences we rarely find connections of the nature of definite functional relations, but must be content with *correlations* of larger or smaller magnitude. This term correlation is a more accurate expression for what the economist has meant by saying that his laws are "tendencies," real but only partial causes. Professor Boucke rightly insists that there must be a certain minimum correlation before we can consider a relation significant. It is undoubtedly just to face the older economic theory with peremptory questions on this head, to insist that in the future more effort must be made to find out something about the actual importance of the different tendencies and to take account of enough factors in a complex situation to constitute a substantial contribution toward a complete explanation. It is also right to demand that more regard be had to concrete content and less to pure form in working out principles. Thus the desire for wealth as a motive is open to the criticism that the content of the term wealth is all to be determined after the event.

This discussion of methodology deals with difficult material and at many points the author's phraseology is perplexing. It is needless to say that most of the problems of philosophy and logic are raised first and last. But the book as a whole is well worth careful reading, and with a large part of the author's conclusions the thoughtful reader will be forced to agree.

FRANK H. KNIGHT.

*University of Iowa.*

NEW BOOKS

BONAR, J. *Philosophy and political economy in some of their historical relations.* Third edition. (London: Allen & Unwin. 1922. Pp. 424.)

BUER, M. C. *Economics for beginners.* (London: Routledge. New York: Dutton. 1921. Pp. 220. 4s. 6d.)

This little volume is a British attempt to adapt the subject-matter of economics for presentation to young students. The author has broken up his exposition into chapters of three or four pages each and has made considerable use of diagrams. One misses the lists of exercises and questions customary in American texts. Part I deals with questions of value and distribution; Part II, with money, banking, and foreign trade; and Part III, with larger questions of welfare and the economic functions of the state.

The preface carries a disclaimer of originality except as to arrangement. Here the "originality consists merely in postponing the exposition of some of the more difficult parts of the subject, even at some sacrifice of logical arrangement." In question of theory the author acknowledges indebtedness to the writings and teachings of Professor Edwin Cannan. The book is so essentially British in its point of view, its illustrations, and its reference to war-time experience that it seems improbable that it could be successfully used in secondary schools in the United States.

C. E. P.

CUMBERLAND, M. and HARRISON, R. *The new economics.* (London: Palmer. 1922. Pp. xii, 145. 6s.)

DANE, E. *The common sense of economic science.* (London: Mills & Boon, Ltd. 1922. Pp. 220. 5s.)

DIEHL, K. *Sozialwissenschaftliche Erläuterungen zu David Ricardos Grundgesetzen der Volkswirtschaft und Besteuerung.* Part II: *Lohntheorie, Zins- und Unternehmergewinn; Handelspolitik; Krisen; Steuerehre.* Third edition. (Leipzig: Felix Meiner. 1922. Pp. viii, 529. 350 M.)

DIETZEL, H. *Technischer Fortschrift und Freiheit der Wirtschaft.* Staatswissenschaftliche Untersuchungen, Heft 7. (Bonn: Schroeder. 1922. Pp. 62.)

FISH, J. C. L. *Engineering economics. First principles.* Second edition. (New York: McGraw-Hill. 1922. Pp. xi, 311. $3.)

GIDE and RIST. *Histoire des doctrines économiques.* Fourth edition. (Bordeaux: Y. Cadoret. 1922. 25 fr.)

HAURAND, P. W. *Das Nationalökonomische System von Heinrich Pesch.* (München-Gladbach: Volksvereins Verlag. 1922. 27 M.)

HILDEBRAND, B. *Die Nationalökonomie der Gegenwart (1848) und Zukunft und andere gesammelte Schriften.* Vol. I. (Jena: Fischer. 1922. Pp. xxvi, 388.)

FIFTEEN NASSAU STREET
NEW YORK

July 10, 1923

Dear Governor Strong:

It was good to have such a breezy and buoyant letter from you as that of July 3.

I am sending the Willis book, but I am afraid you will be disappointed in it. Most of his criticisms have been published over and over again in the J. C. and in his articles in the "Journal of Political Science."

If I cannot get you a copy of the Hawtrey book at once I will send you the Library copy and replace that later. Which reminds me that I did enclose four pages from the "Journal of the Royal Statistical Society," and if they happen to be handy we'd be glad of their return.

There is a fine review of Hawtrey's book in the current number of the "Economic Journal," and what you say prompts me to subjoin a couple of paragraphs from it.

I have thought a great deal about the point you raised, that it will muddle people's minds to talk about stabilizing prices, when they will think of "fixing prices," and especially prices of certain articles, like wheat or cotton, as you suggest.

Would it help any to talk, as I did in my little article, about stabilizing the value of gold? That is a good ways from "price fixing," as registered in the popular mind. I took my cue, as you know, from the Genoa Conference proposals, which, as I understand it, were largely written by Hawtrey. But I believe you agree with me that he is off in the feeling that there is going to be any big scramble for gold within the next few years at least.

It is very hard for some people to realize what an immense store of gold has been piled up within the last thirty years, more than all the accumulations of the world for centuries before; and that the volume of gold production is now much less important than it was then. Cassel makes very effective use of this in his book, which I suppose will soon be out now in English.

of Cambridge Univ.

The review I spoke of, of Hawtrey's book, was from Dennis Robertson, who wrote that lovely little book on "Money," with the Alice-in-Wonderland chapter heads, and what he wrote about the present situation was this:

> "The currency system which Mr. Hawtrey proposes for the world may be briefly outlined as follows. Each country so soon as practicable is to give its currency a defined value in terms of gold, whether (as in our own case) the old value or (as in that of most of the ex-belligerents) a new value more in accord with market conditions. Care must be taken not to choose such a high value as to lead to a breakdown, nor (though this danger is disappearing) such a low value as to necessitate a great increase in home prices and wages. To ensure economy of gold, the values thus determined are to be maintained by means of a gold exchange standard: the participating countries are to hold balances in one another's currencies, and movements of relative prices and exchanges are normally to be corrected by the sale or purchase of these balances rather than by the export or import of gold. But the system is still incomplete; for there is still the danger that the value of gold itself will be subject to violent fluctuation, either owing to the ill-judged efforts of ambitious countries to secure metallic reserves, or (as in the last three years) owing to vagaries of policy or ineffectiveness on the part of the monster which has swallowed two-fifths of the world's monetary gold--the Federal Reserve system. Hence the value of gold itself must be kept stable by means of a concerted discount policy on the part of the various central banks.
>
> "There is little doubt that Mr. Hawtrey, like Professor Cassel, deserves well of the world for harping continuously on this one theme. Bankers, as he points out, have been for so long accustomed to regard the regulation of gold reserves as the main object of discount policy and the effect on trade activity as an incidental and sometimes pernicious by-product, that it needs something like a revolution of thought to induce them to use the old weapon consciously and continuously for well-defined

ends. And Mr. Hawtrey makes great demands on them; for they are not to be allowed (like Professor Fisher's gold-dealers) to pin their faith to a mere mechanical index-number, but must take account of every feature of the trade situation. Nevertheless it is clear that in the long run nothing else will serve. The old method of regulating credit with reference to reserve proportions was at the best clumsy and slow in its operation upon trade, and under modern conditions may lead, as the present position of the Federal Reserve system shows, to preposterous results. Man must take another step forward in the exercise of control over material forces. What with Mr. Hawtrey and the Stevenson Committee and Dr. Stopes, what a long way we have moved from the days when the invisible hand could be trusted to do all things well!"

Is it not clear that we have got now to think of the volume of credit and of its "virtue," as we have slowly educated the masses to think of the currency? No sane person would now think of proposing that any private agency or set of them, like the banks, should be given the right of an unlimited issue of currency, for we know full well the result.

Must we not educate the people (and shall I add, tne bankers?) to see that the same thing identically is true of the credit volume, and that we must find some means of controlling that credit volume as carefully and jealously as we would the currency itself?

I think you will be interested in the little chart of the total value of the German currency, which we constructed for this week's Business Summary. I did not realize until we got the figures made up how colossally the paper mark issue was overvalued in foreign exchange in the first few months after the War, and what a magnificent opportunity it presented for a speculation upon approved and highly orthodox economic principles.

But is it not, after all, very hard to believe that an economic principle can be almost as rigid and valid and practical as the laws of physics or chemistry?

I find myself rather thinking that we are about at the end of the little setback in business and prices, and that from now on the trend will be steadily upward. But maybe I am a little previous.

With warmest regards,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Colorado Springs, Colorado.

FIFTEEN NASSAU STREET
NEW YORK

July 19, 1923

Dear Governor Strong:

I am enclosing herewith a very curious paper which was given at a recent meeting of the Philadelphia Academy of Political Science, and reprinted here. The writer has had a number of articles in the "Saturday Evening Post," of the same tenor. The President of the Statistics Company tells me that their reprint has occasioned a quite amazing demand, and that they are now running off their third impression in a little over a week. I should imagine it is the sort of thing that might be greedily snapped up by the Ford-Edison people, and could be used with great effect.

Germany is, as you know, Ford's favorite illustration of his belief that industry does not need bond holders or "idle shareholders," and that these are a curse to enterprise. It is a highly specious and captivating sort of propaganda, and I should think that if you really were in the writing mood here was a subject worthy of your pen.

No fear about that "ability to write." I know of no one who is able to put his thoughts more clearly and precisely than yourself. As you have observed, it is the thoughts that I sometimes want to except to a little, and not the form or the clearness of expression--if you will allow me to put it so, what seems to me occasionally a contradiction between the traditional banker's views and the very clear and perfectly orthodox economic views which you otherwise hold; the effect, so it seems to me, of a long-time association that is hard to get away from.

As to your recent memo.: needless to say I agree perfectly with your thesis that "our job is credit." But I am wondering a little how much "sticking to that" is going to help our position or make it much easier.

What I mean is that there are only two reasons now that could justify a rise in the bank rate within, say, the next year or two. One is an overextended bank position, which with our heavy reserves is for some time to come very improbable; or, secondly, rapidly rising prices which might or might not be accompanied by any considerable expansion of our rediscounts.

And after all with, for all intents, unlimited bank reserves, is there any other test of a sound credit position or "inflation," now, than a rise in prices?

I am in hopes that our new index of the volume of trade will provide such a test, eventually, but I doubt if it can do it now, and anyway it would take a long time to justify a bank rate based upon this index or any other index of production and distribution which we have.

Meanwhile, there is, I believe, a large body of very intelligent opinion arising in this country that seeks some way out of this topsy turvy condition such as we have had in the last four years; and it is interested in "credit" only from one point of view, and that is as the unrestrained use of credit promotes or permits tremendous ups and downs of price levels. And I believe with Mr. Robertson, of Cambridge, that this is a situation with which our bankers must deal, especially if we are going to have 96-cent wheat, and $16 a day for plasterers, and elect Magnus Johnsons to the Senate by 75,000 majority. ---Don't you?

I gave the figures on the transfer of inactive accounts to time deposits in Buffalo to Mr. Jay. But I understand from him and from Mr. Kenzel that this general question was gone into extendedly at the last Governors' Conference, and that they were able to see no easy means of meeting this situation save by a change in the law; and it did not seem very clear to them that such a thing is needed.

In an interview on his return, our friend, Brookhart, of Iowa, is quoted as saying that he had had repeated conversations with Trotsky, who "reminds him very strongly of Mr. Paul M. Warburg," and that he was "a very able economist and perfectly sound." And the joy of the thing is that with Brookhart, Johnson, Shipstead, Ladd, Frazier, LaFollette, et al, it only needs one or two more of these birds to gain for them the balance of power in the Senate.

We are having, so far, a rather cool summer and I hope it is the same with you.

With warmest regards,

Always,

Carl Snyder

Carl Snyder

FIFTEEN NASSAU STREET
NEW YORK

July 27, 1923

Dear Governor Strong:

I am enclosing you a brief memorandum on the question of what effect this transfer of inactive demand deposits to time deposits has on the "potential expansibility" of the System. If I get it right, it seems to me that the probability is that it would not be very great unless gold were paid out in sufficient quantities to meet any additional demands for hand to hand currency, in which case of course the calculation would be quite different.

And of course this latter is just what has happened, and if this were kept up, what you might call the immediate potential would be very heavily increased. But in the end the effect would be, I believe, about as I suggested. I should like very much to know your judgment about it.

I think in the new Board member, Mr. Cunningham, we have a very serious and thoughtful man who means to do the right thing if he can. I met him with Governor Crissinger when I was over there on the Agricultural Conference, and was to see him later for a talk about the wheat situation. I did not find the time, and wrote him the enclosed, and I think you will be interested in his reply as indicating his type of mind.

The Board has given me permission to make up two weeks of unused vacation time, and we are sailing next Saturday, August 4, on the "Franconia" for a little three or four-weeks outing in Wales and Scotland. I expect to be back around the eighth of September. I shall be in London only a few days probably, but I hope to see Withers and a few others if there is any chance.

You have probably noticed George Reynolds' very gloomy interviews when he returned this week from Europe. As a general rule, wars and revolutions and periods of disturbance tend to arise on the crest of the economic wave, or just following it, and not so much in periods of relative adversity. I confess that I cannot see Germany in any position to make war for a good while to come, or with any disposition to, nor England in a mood to look on idly, as Reynolds suggests,--do you?

I enclose a piece from a farm paper which Mr. Webber sends me from Minneapolis, illustrating the kind of thing that is stirring up the present farm feeling. But you probably noted an admirable blast from the "Breeders' Gazette," of Chicago, trying to set the situation out in a little more rational light.

As a people we are certainly given to much hysteria, are we not? I am told that at least some large interests here are beginning to turn bullish, and believe that the reaction has about run its term.

I have to write a review of Dr. Willis' book for the Evening Post, and I find it very difficult.

If there is any message that you would like to have me give the folks in London, you will let me know. I hope that all goes well.

With many good wishes,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE July 27, 1923

TO Governor Strong

SUBJECT: Effect of Transfer of Inactive Accounts

FROM Mr. Snyder

It is not easy to compute what would be the "potential expansion" from a heavy transfer of inactive demand deposits to "time deposits."

For last December 29 the Comptroller's Report gave the amount of "net deposits on which reserves are computed," for the whole System, at 18,966 millions, and the required reserves as 1851 millions, or very close to 10 per cent.

On the same date demand deposits were given at 14,816 millions and time deposits as 7,645 millions, or a total of 22,461 millions.

The gross of time and demand deposits as given is higher by 3 billions and more than the net amount upon which reserves are computed. But this would make no very great difference in the calculation, which is as follows:

For every 5 dollars of demand deposits, approximately 1 dollar of hand to hand currency is required, and this must be supplied by the Federal Reserve Banks unless there is a source of outside supply, as at present in the incoming gold. Assuming no outside sources of currency, an arbitrary transfer of inactive accounts to time deposits would increase this ratio of deposits to currency approximately in a corresponding degree, so that if, for example, demand and time deposits were made equal, or say about 11 billions each, the ratio of the currency required would probably rise to about 3½ to 1, since on the theory that the proportion of inactive demand deposits was really as high as this, so that they could be easily transferred, the real ratio now is not 5 to 1, but, say, 3½ to 1.

This would not very vitally affect the expansive power of a dollar of gold in the Federal Reserve Banks.

At the present time that expansive power is apparently between 10 and 11 to 1. This is on the theory that all new loans based upon rediscounts at the Federal Reserve Banks would become demand deposits. If by any artifice a considerable part of these new deposits were converted into time deposits, this would increase the apparent potential expansibility; but this effect would be counteracted by the higher rate of hand to hand currency required, so that, in a rough way, I should doubt very much if any such device could materially enhance the present power of expansibility.

This is not very definite, but after going over the problem pretty carefully I have concluded that the question you raise is not capable of any very definite answer. It is much more complicated than it looks.

FEDERAL RESERVE BANK
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Carl Snyder

**FEDERAL RESERVE BANK**

**OF NEW YORK**

Homeward Bound.
S. S. "Caronia."
Sept. IO.

Dear Governor Strong:

This has been a rather long break; but there has been very little to record. We did mostly one night stands, through North Wales, the Lake Country, and then up into Scotland for a fleeting glimpse of the heather and the moors. Then down through Durham, York and Ely for a sight of some of the old cathedrals, of which I am extremely fond; and then Cambridge and London, with a bit of motoring up to Windsor and to Oxford: and that was about all.

Almost everyone of interest was away on vacation and so I saw very few. Gov Norman came back the day before I left, looking very well and fit, altho I understand he has not been well. I had a little chat with him him, and seemed to cheer him up greatly by telling him it seemed to be the general belief in the States that we should pass the Bonus bill this winter.

The policy of the Bank has been pretty steadily under fire from several different angles, and from a remark that N. made to Dr Chandler, who was also in London that week, I gather they have been a good deal nettled, and perhaps a little apprehensive as to the outcome, as to whether the result would justify their steady determination to put the pound back to par, short of "producing a convulsion,"as N. phrased it.

Much the most active criticism has come from Keynes and his group. They have now control of the "Nation," and one of K's young protogees has been made Editor, altho I imagine K. is the real director of policies. They are making a very live paper of it, and I shall send you a few copies which may be of interest.

I met Henderson, the active Editor and spent an evening with him, a very keen, cool young chap of the sort they do so well over there; and at Cambridge I met also young Robertson, who did that delightful volume on "Money" and one of the Group that is trying to revive the Liberal party with Lloyd George elbowed out. They had a very novel "Summer School", as they called it, at Cambridge this August, and you will find a full account of it, with speeches by Brand and a number of others, in the papers I am sending. It created a good deal of a stir.

I had a visit also with Brand just as he was going away, and with Hartley withers, who has married and has a new baby of which he is enormously pround. W. is just bringing out a new book in which he says he has a chapter on Stabilization and a discussion of my article thereon.

Keynes, I am told, is also at work on a new book on the same subject, in which I believe he is to take a strong stand against the policy of trying to force the pound back to par as suicidal, and declaring for a "managed" currency, as they phrase it, and no return to a fixed gold standard--letting the U. S. hold the bag.

Henderson, by the way was the author of those two very striking articles on the Federal Reserve System and the prospects for inflation in the U. S. that appeared last February in the "Economist." W. T. Layton, the new Editor of the "E." is very close to the Keynes groupn and so, in a way is Hawtry.

It is altogether a very strong and able bunch, and with two influential papers and much literary talent I fear they will give some of the old dry bones a bit of a jolt--as a former Editor of the "Economist," Mr Bagehot, did just fifty years ago.

Also at Cambridge I had just a glimpse of the extraordinary new work that is being done there by Sir Earnest Rutherford and his co-workers in the field of Atomic Physics. They believe they now have definite evidence of the break up of at least six different "elements, so-called and this by ex-

# FEDERAL RESERVE BANK

## OF NEW YORK

and it is being done by some of the ablest physicists now living, it means that science, and not fakes and moonbeam chasers, ~~are~~ is now definitely on the road to the transmutation of the elements, at will.

One remarkable thing about it is that gold, it is now known, stands in its atomic structure and composition just between mercury and lead, and it would apparently require only knocking out an electron or two, that is an atomm of electricity, to transform the one into the others. Which would mean an almost ironic realization of the dream of the ancient Alchemists, who labored to identically the same end.

Certainly this seems sure, that once the nature and composition of a substance being known, its artificial production is rarely very far off. This new work is the culmination of twenty years of fascinating research, at Cambridge and elsewhere and undoubtedly represents one of the greatest triumphs of physical science. It looks as if the day is not far distant when gold will be made in the laboratory, from other and cheaper substances, and that the day of the "precious" metals will then be at an end.

When this will be is still in the realms of conjecture; but research in this field has been going forward at an amazing rate in the last twenty years and my feeling is that it will not be very long. At any rate we can pretty certainly look forward to the time when gold can no longer be employed as a measure of value, and indeed it has seemed to me that in these days of perfected index numbers, such a use was already an anachronism. Keynes and his group may be only just a little ahed of events,

From the few I had any chance to talk to about political matters, I got the impression of much pessimism as to any near settlement of the German difficulty, and that France seems committed to its rule or ruin policy, and determined to break up Germany if it can.

The mark, as you have noted, has finally gone all to pieces, and your friend Havenstein is having a hard time of it as he now has to bear the brunt of the failure. The new Finance Minister seems to be a man with a clear head and wanting to do the right thing; but he found his hands tied by the change in the law last year, forced by the Reparations Commission, which made the Reichsbank independent of the Government. An odd sort of flim-flam.

On the other hand Austria seems to be taking on a new lease of life and returning to something like its former normal life; which is a very agreeable confirmation of my firm belief that there was never anything very wrong there save its monetary insanity, and that identically the same thing could have been done at any time , in Germany, ,with the same results, if only they had had the sense and the desire. I fear both were lacking.

Brand, Withers, Norman, Mr Lubbock and all of those I saw asked after you with great interest, and were deeply sympathetic that you had been having such a time of it. I have had no word of any kind from New York, and it has distressed me not to have any sort of news of you. I hope everything has been going along all right. I have been reading of the new Dreyer vaccine, which is said to be especially efficacious in the case of infected glands. I doubt not that Dr Forster has been watching it, for he struck me as a very live wire and a very keen mind, open to all the four winds.

With all sorts of hopes for a speedy return,

Always,

Carl Snyder.

FEDERAL RESERVE BANK

OF NEW YORK

Sept 14th.

I am wondering if I have been a little asleep at the switch. I have just been reading ~~an~~ another article on the new Dreyer vaccine, and there learned for the first time that Dreyer belongs at Oxford and that the vaccine is already being tried out on an extensive scale. I had read an article about it in a journal I brought along with me on the trip, but it gave no hint as to where Dreyer belonged, and from the peculiar way he spells his first name, Georges, I took it that of course he was a foreigner; and for the rest the article was not at all arousing, and gave little hint that it may be a momentous discovery.

I was twice at Oxford, but as almost everyone was away on vacation I met no one who was apt to speak about it. Now I see in a line in the ships paper this morning that a Chicago physician is making a flying trip to Oxford to get some of the vaccine. Possibly I could not have obtained it anyway, but I might at least have had a try, and maybe brought home a little for Dr Forster to experiment with. But I deeply hope that any need of it has been well passed already, in your case, and that therefore it will make little difference that I should have learned about it all too late, to do anything with it.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Sept. 20, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

It occurs to me you might like to see the enclosed note from d'Abernon, whom I met two years ago, and found him an extremely interesting and active mind; and also in the two papers he attaches.

And, lest you might not have seen it, I am also enclosing an article from Robert Crozier Long who, you will recall, is the Berlin correspondent of the <u>Economist</u> of London, and a very cool and exceptionally well informed man.

I thought the address by Hirsch quite significant of return sanity, and Bonn's also, in its way.

Ans Sept. 30/23

Carl Snyder

FIFTEEN NASSAU STREET
NEW YORK

September 24, 1923

Dear Governor Strong:

You will have a quiet smile at the following paragraph which occurs in Dr. Willis' department in the "Magazine of Wall Street," to which he is now a regular contributor, and in which I was told he has an interest. I will not offend you with the whole magazine.

The article is headed "Banking Policy of the New Administration--Question of Strengthening Federal Reserve Board," wherein he says:

"There is a general anxiety to know what will be done with regard to the Federal Reserve Board, and how far if at all that body can be reorganized.

"One proposal that has been considered to some extent is that of naming a new Governor for the Board at the time of the next vacancy which occurs during the coming summer. According to this forecast, a new member who should be a practical banker of standing would be induced to accept membership with the understanding that he would at once be named Governor. As the governorship of the Board was originally intended to pass from one member to another at short intervals, there would be in this no reflection upon the existing governor who would then have held the office nearly a year and a half.

"The first incumbent of the governorship, Mr. Hamlin, held it for two years only. How this plan will work out, if at all, there is as yet no official intimation, though it seems clear that the problem of strengthening the Board is under advisement.""

I don't know whether he evolved this entirely from his inner malevolence; he goes a good deal to Washington, and that may be the gossip for aught I know.

Dr. Gay asked me for a review of his book for the <u>Evening Post</u>, and I wrote it with a good deal of reluctance. It seemed to me stronger to let his chronic discontent show in the paragraphs quoted rather than to attempt to confute his statements. Mr. Clark, of the Journal of the American Bankers' Association, also asked me for a little article on it, but unless you feel that it is worth while I have no especial inclination for it.

As regards the attitude of the new Administration, I am told it is possible that Dwight Morrow may be of a good deal of influence with Coolidge. As you may know, they were classmates at Amherst, and graduated together, and I am told that sometime before the last Chicago Convention Morrow had Coolidge in grooming and invited various friends in to meet him whenever he was in the city. It seems to be the general idea that Coolidge would like very much to have the nomination, and that he is a good politician and plays the game. But it seems also the view that the potency of Mr. Crissinger's influence has been greatly reduced.

I hope there is really something in the Willis paragraph, for unless I read the portents all wrong things are gathering for a new upswing in business and a renewed expansion of credit.

We have received a net of 167 millions of new gold, so far this year, and despite many predictions it continues to come. It seems as though it was almost certain that this influence must eventually be felt, as I have suggested in a little piece for the Business Summary this week.

These are not the views, I believe, of Mr. Woolley and other of our directors who seem to think that the business men of the country can be depended upon to handle the situation properly, as, they feel, they did last spring. And they believe also that it was a great gain that the bank rate was not raised in March.

I have been wondering if this is not a mistaken view and whether it will not be rather difficult to raise the rate in case there should be need, after that experience.

I had it in mind to send you Prof. Moulton's new book on "Germany's Capacity to Pay," that you might see what a curious bit of, as I feel, specious pleading it is--if it is not more. As a first publication of the new Institute of Economics, it is rather regrettable, for it reads more like German propaganda than a careful work of inquiry.

Mr. Morgan sails on Saturday, and we shall miss him very much.

--The last exterior work on the new bank building approaches completion, and it begins to take on its deeply impressive character as a building.

It is splendid to know how steady has been your progress, and I deeply hope there will be no interruption.

With very best regards,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Cragmore Sanatorium,
Colorado Springs, Colorado.

Ans Sep 30/23

FIFTEEN NASSAU STREET
NEW YORK

September 25, 1923

Dear Governor Strong:

I am quite perturbed to find, in a file of my correspondence with you which I was looking up, the original copy of my letter of July 27, signed and folded as if it had been sent. But how it could get back here if it had been sent to you I have no mortal idea.

I would be very much disturbed if it never reached you, and I had given the impression that I had gone off to Europe without ever sending you a line; and so, against the possibility that it had not been sent, I am enclosing it herewith.

I hope that you hardly think that I would have been capable of that sort of thing, but nevertheless it would certainly look as if I had been very careless if I had merely sent you some memoranda and enclosures, without any further word.

I am very glad to learn from a memorandum from Mr. Beyer that you are well enough to leave the sanatorium and enjoy a change of fare.

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Colorado Springs,
Colorado.

Carl Snyder

FIFTEEN NASSAU STREET
NEW YORK

October 8, 1923

Dear Governor Strong:

Thank you for the return of the two German pieces that d'Abernon sent. Did you not think that Hirsch's analysis of the fall of the mark, and the absurdly slight influence which the actual reparations payments had, was very convincing?

Prof. Bullock has sent over your memo. of September 12, and we shall make copies and return the same to him, as you suggest. It is a very interesting and extremely concise and precise presentation of the question. Needless to say, I agree in practically every line.

The only suggestion I should like to make would be that, in so very precise a statement, I should like it made a little clearer that in such times as the last eight years there is often only a very indefinite relation between "prices," i.e., of commodities, and the "general price level," i.e., of all payments including retail prices, wages, rents, interest payments, speculation of every kind, and all the rest.

Commodity prices, at wholesale, like the prices of individual articles, may range widely above or below the general level of prices, just, for example, as they are now and as they were in 1920 and in 1921.

And I should venture a doubt if this general price level, not prices of commodities, is ever seriously affected by people's moods, or the changes in supply and demand, which we now know are, for the vast bulk of things consumed, relatively slight from year to year, <u>unless</u> these things effect a corresponding change in the volume of purchasing power, largely represented by bank credits; do you think?

For example, apparently we had more of real overproduction of goods last winter and early spring than in the corresponding period of 1919-'20, but so far as I can find, though there has been a sharp fluctuation in commodity prices at wholesale, I can find no probable change in the general level of all prices; and correspondingly only a very slight change throughout the present year in the total of bank credit.

In the one case, in 1920 we had a violent fall, both in commodity prices and in the general price level, and this latter seemed to run pretty closely with the decline in the volume of bank credit.

As to the question of bank policy, I wonder how many of the committee or of the Board have any such clear-cut and logical idea of procedure as you here set forth. And is not the lack of such the real danger?

As to the review of Dr. Willis' book, which appeared in the "Evening Post Supplement" last Saturday, I did not feel that it was the place for a controversy. If it is worth while to make a detailed criticism of it, Mr. Clark would be very glad to have that for the "Journal of the American Bankers' Association."

I hear, as you may have, a rather interesting bit that the line-up in the Board now runs pretty generally the four new members of the Board, including Dawes, against the three older members.

Always yours,

Carl Snyder

Glad you liked the "Nation". I have a hunch they are going a good ways.

Hon. Benjamin Strong,
Colorado Springs,
Colorado.

Snyder

FIFTEEN NASSAU STREET
NEW YORK

File

October 15, 1923

Dear Governor Strong:

I have your enclosure from Colonel Logan, and will have a digest of the article made, although it is itself little more than a digest of the book. But I should like to know if any Frenchman ever expressed his full agreement with the conclusions of this book, and I was interested enough to write the enclosed little note to Colonel Logan asking him as to its authorship.

I have been doing a little review of this book for the American Economic, and it is certain that if it had been done by a thorough-going German for American consumption it would not have been very much different in material or tone.

I have also your flattering comment on the new index, and have endeavored to answer your question in a little piece for the Business Summary this week. I enclose the original, since it is considerably easier to read.

It is very reassuring to know you think "it has a big look," for that was just the question in my mind, whether it would seem such to others than to statisticians. I will say that among this latter breed it is occasioning great interest and will be the subject of discussion at the first monthly dinner of the season of the American Statistical Association, at the Aldine Club, on Friday evening, November 2, at 6:30 P. M.

Prof. Kemmerer will preside and the principal speakers will be Prof. Persons, Prof. W. I. King, Walter M. Stewart, David Friday, Colonel Ayres, and yours truly. I don't suppose any fortunate chance would make it possible for you to attend, but we should be delighted if you could.

As to the review of Willis' book, first of all, he has always treated us up here with great consideration, and my personal relations with him have been very pleasant; and, secondly, it did not seem to me wise that anyone from the New York Bank should display too much animus towards his book, since he whacks us rather vigorously. I shall pass on your suggestion to Mr. Warburg.

You will be deeply interested in the progress made on the new building, and I am quite sure that its noble aspect will join with the rest of us in welcoming your return.

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Colorado Springs,
Colorado.

October 15, 1923

Hon. John A. Logan, Jr.,
18 rue de Tilsett,
Paris, France.

My dear Mr. Logan:

Governor Strong has sent on to me the review in French of the book, "Germany's Capacity to Pay," which you enclosed to him.

Might I ask if this review was published, or is a private document, and if its source may be known? I am asking because I have to review the book myself, and I should be interested to know if any French economist of standing would subscribe to the doctrines and findings of this book. Along with much careful and well studied work, it seemed to me to be virtually a statement of the most extreme German position, even to condoning the policy of inflation. It certainly goes far beyond the views of some of Germany's ablest economists.

Believe me,

Very sincerely,

Confidential
October 15, 1923

THE FOUNDATIONS OF THE NEW INDEX OF TRADE

Governor Strong writes:

> "The new index has a big look. How sound are the foundations?"

The only way to answer this question is to review the materials and the method. In a memorandum to Governor Strong last winter, in which the new undertaking was set forth, we said:

> "Supposing we could have any data desired to construct such an index, what would we wish to know? The main items would be such things as:
>
> "1. Total factory, farm, and mine production
> 2. Complete employment figures
> 3. Detailed rail and other shipments
> 4. Exports and imports by quantities
> 5. Wholesale trade by quantities
> 6. Retail trade by quantities
> 7. Building construction, public works, plant expansion, &c
> 8. Power, light, and gas production
> 9. Telephone, postal, street railway, and amusement receipts, &c
> 10. All check and money transactions
> 11. Volume of speculation in stocks, grains, cotton, land, &c
> 12. All professional, personal, and governmental services"

The actual material which is available is as follows:

(1) Excellent monthly figures of production in almost every one of the chief lines of industry. This material differs in value but covers so wide a range, and being without any inherent bias, the probable errors are mutually compensated.

(2) Our employment figures relate to factory employment only, in New York ~~City~~ State. But these are a good sampling of factory employment for the country, as is shown by the figures compiled for the whole country by the Federal Bureau of Labor, the Wisconsin, Massachusetts, and other reports. We have no

index for the vast mass of employment in stores, offices, Government service, and the like, but we shall eventually be able to include figures for railway service, farm labor, and so forth.

(3) Car loading figures are an accurate record of actual loadings for the whole country, but do not, of course, give variations in the value of these loadings. This, however, is largely seasonal and not of great consequence.

(4) Exports and imports by quantities are available for more than half the total. But careful study of this question convinced us that the actual dollar figures corrected for the probable price change gave us a more accurate index than the quantity figures alone. The separate index for grain exports is, of course, in quantities.

(5) The reports for wholesale trade used are those gathered by this department for this Federal district, and seem to be, judging from the figures for other districts, an excellent sampling for the country. Here, again, variations in prices must be allowed for, and this was made the matter of a detailed study.

(6) The same is true for the department store sales, which are those from this district only. The other reports on retail trade are from the chain stores and chain groceries, and the mail order houses, extending all over the country. All of these retail figures are in dollars and the question of compensating, in each of the different reports, for the variations in prices was difficult but we believe not insuperable.

(7) Building Construction. Our material here relates to building permits in 158 chief cities of the country, and while these figures do not give an accurate record of actual construction for the particular months reported, they do give a good index of the state of the country's mind for that month in this particular field.

(8) Electric power production is an industry of rapidly growing importance and of such wide ramifications that its variations afford an extremely sensitive barometer of urban and suburban travel, store and house lighting, small factory activity, &c.

(9) Other excellent indexes of the currents of trade and industrial activity are to be found in the figures for telephone toll service, in postal receipts, expenditures for all kinds of amusements, new life insurance written, and advertising lineage in the newspapers and in the magazines. They give a clue to many activities that other indexes do not.

(10) The issue of new securities is another barometer of the condition of the country highly sensitive to external as well as internal influences. And still more sensitive are our new indexes of speculation in stocks, grains, and cotton. Speculation is a vital part of the machinery by which the trade of the nation is carried on, and the aggregate of these three should give us a trustworthy barometer in this field.

(11) Finally, we have bank clearings divided, as is customary, between New York City and the cities outside of New York, since, very roughly, these two divisions are nearly equal. Bank clearings are subject, like all dollar figures, to the variations in the general level of prices, and this has required a very careful study in order to make the figures comparable.

For the vast mass of economic activities represented by every variety of professional and personal service, governmental undertaking, public instruction, and all the rest, we have relatively little data. But this we do know very definitely, that in general they vary far less than most of the other lines of industry, and therefore, if we could include them in our index, they would tend to dampen the apparent variations very considerably. Our indexes are almost all of the wider variables and not of the even movers.

In brief, it is clear that we have a very wide sampling, of great variety, of the nation's total trade and exchange; and while more complete data might considerably reduce the extent of the changes shown, this would not alter the general picture, but merely flatten it. In other words, the whole vast current of national trade may flow on at a more even pace than is depicted by our index. But the ripples or waves in its surface would correspond closely to the wavy line of our index.

So, for example, if the extreme of depression in our national activity is shown by our index to be on the order of, say, 10 per cent. below normal, absolutely complete data might reveal that the reality was only, say, 5 per cent. less than the predicted or anticipated normal. But the time and the trend, in other words, the shape of the line, would be the same.

We know definitely, moreover, that the variations shown are the maxima, or the outside limits; therefore, that if, for example, we read, as has been frequently printed within the last two years, that "business is 30 per cent. below normal" (or even more!), we now know that this is simply nonsense, and nothing more.

We are confirmed in our belief as to the adequacy of the data available, and therefore the reliability of our index, by the remarkable concordance which was noted last week between the composite results of our twenty-eight weighted series and the figures for outside bank clearings when these are corrected for the variations in the price level. The computation as to both was undertaken with no possible knowledge as to how closely they would agree.

The fact that if a moving average was taken of the two lines, in order to smooth out the possible exaggerations of any given month as compared with the adjacent month, the two lines would be nearly parallel, has afforded a high measure of confidence that the results are trustworthy; and, as noted, we are using this correspondence to compute a new measure of the variations in trade throughout the quarter of a century preceding.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE October 29, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

This dinner will be at the Aldine Club in a large and comfortable room that will seat six hundred, and we shall have probably between three hundred and four hundred. It ought not to be overly smoky, but you know dinners.

There would be no need for you to stay the whole thing out, and if you wanted you could come just for so much of the speaking as you wanted to hear.

MISC. 3.1 50M-11-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE October 29, 1923.

TO Mr. Carl Snyder

SUBJECT: Stocks and Consumption of Flour.

FROM Charles P. Calvert

I consulted Mr. A.L. Russell, who was one of the chief advisors to the United States Grain Corporation and who is considered an authority on conditions in the grain and flour markets, in order to obtain information on the stocks of flour on hand and the probable consumption.

Mr. Russell has computed from data available, which include the estimated stocks held by mills, the amount in transit, and the amount at the principal terminals, an index of stocks on hand. This does not include, however, the amount held by wholesale dealers and other large consumers and distributors. While stocks on October 1 were larger than at any other time this year, the increase has not been at all alarming and he believes that stocks at the present time are just about a fair normal supply.

Mr. Russell has also compiled figures which show the estimated domestic consumption of flour plus exports. These figures only show the "apparent disappearance" of flour from the mills and terminals but are a close approximation of the consumption. The supply on hand is normally equivalent to slightly less than one month's demand. His figures are as follows:

| 1923 | Stock on Hand Barrels | Estimated Consumption (Apparent Disappearance) |
|---|---|---|
| January ................ | 7,700,000 | 8,560,000 |
| February ................ | 7,400,000 | 7,994,000 |
| March ................... | 7,700,000 | 8,852,000 |
| April ................... | 8,050,000 | 8,427,000 |
| May ..................... | 7,457,000 | 8,701,000 |
| June .................... | 6,800,000 | 7,445,000 |
| July .................... | 6,900,000 | 8,442,000 |
| August ................. | 8,100,000 | 11,162,000 |
| September .............. | 7,700,000 | 9,341,000 |
| October ................ | 8,800,000 | |

I asked about the amount of speculation in flour and wheat at the present time. Mr. Russell said that such speculation is now at a minimum and that it is not a factor in influencing prices. He said that most interest at present is attached to the proposal to grant Germany a credit of $50,000,000 for the purchase of grain and flour from this country, which is now under consideration. There is a difference of opinion in the industry as to the feasibility of granting such a credit, some holding that it would be a good thing, while others are opposed to the artificial regulation of prices that would naturally follow such action.

I attach a diagram which shows the fluctuations in stocks on hand and the estimated consumption during the current year.

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE October 30, 1923

To Governor Strong

SUBJECT: Stocks of Wheat Flour

FROM Mr. Snyder

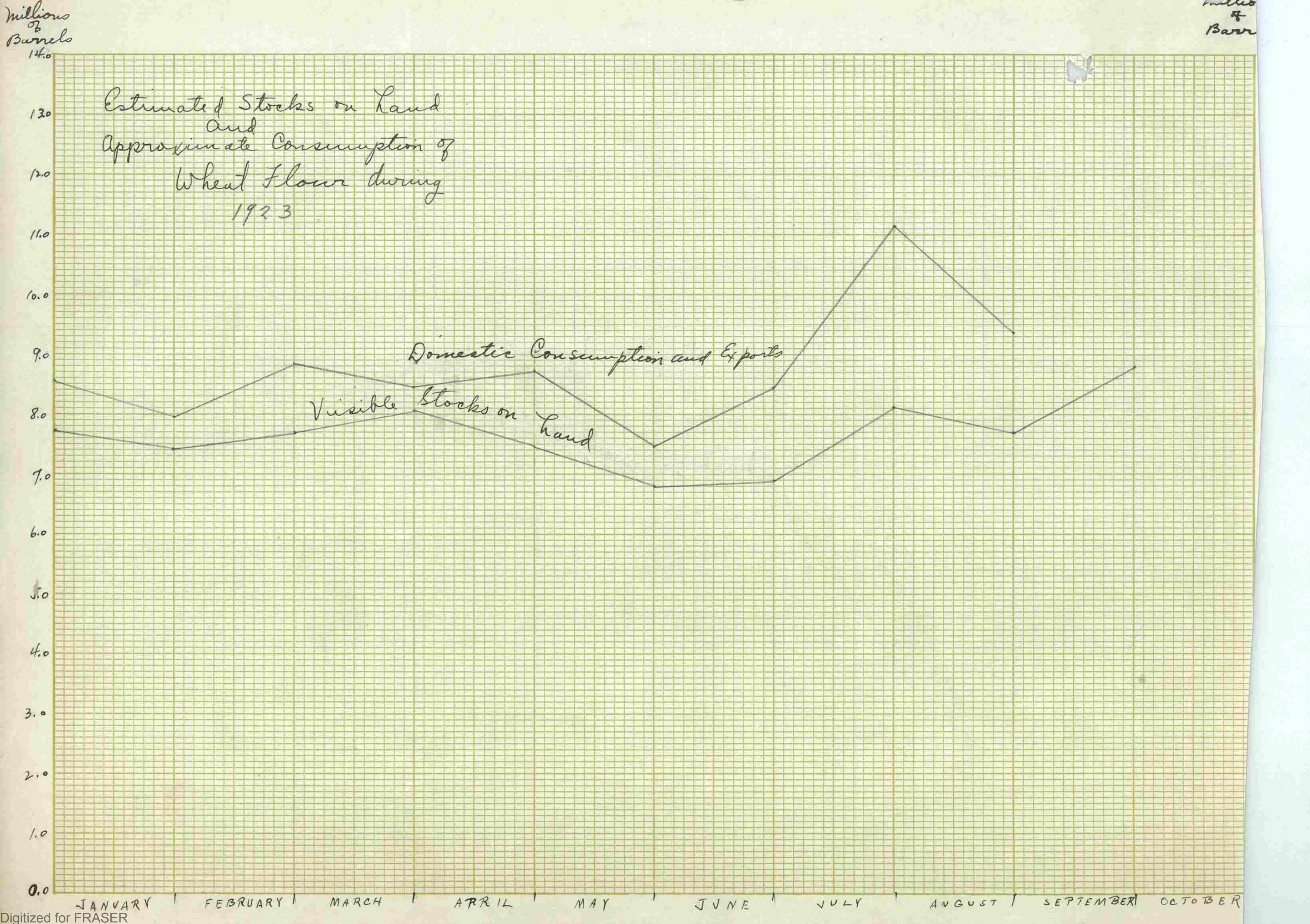
In the Business Summary this week we shall give a paragraph on the result of the investigation we endeavored to make as to probable stocks of wheat flour, as per your inquiry in a letter to Mr. Jay.

Our best avenues for this have been the Atlantic and Pacific Grocery Company, with their eight thousand stores, as a sample of retailers' stocks, and, on the other hand, Mr. Russell, who specializes in this sort of work, and who was Mr. Hoover's statistician in the grain corporation, and probably has a more detailed knowledge of the subject than any other person in New York.

I do not need to tell you of the extreme difficulty of obtaining any very trustworthy and far-reaching information on such a subject. But it is clear that in the trade there is no belief in any great depletion of flour stocks. I should add, too, that this is a question that is closely watched by jobbers and large trading companies, like the Armour Grain Company, and that reliable information upon this subject might readily be worth to them, on a gamble, some millions of dollars. I very much doubt if we should be able to obtain anything trustworthy here that would not be accessible to them, and very well known to them.

There are 2 points - 1st If our "Stock" of wheat is 150 mm bu. our "Surplus Stock" would be 150 minus the usual floating supply. How much is "usual" at this season - or say in July. 2d Are grocers & other stocks of flour high - low - or normal!

See attached. B.S.


Millions of Barrels
Millions of Barrels
Estimated Stocks on Hand and Approximate Consumption of Wheat Flour during 1923
14.0
13.0
12.0
11.0
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
Domestic Consumption and Exports
Visible Stocks on Hand
JANUARY
FEBRUARY
MARCH
APRIL
MAY
JUNE
JULY
AUGUST
SEPTEMBER
OCTOBER

FIFTEEN NASSAU STREET
NEW YORK

October 2, 1923

Dear Governor Strong:

I hope, if it is not too much of an effort, that you can take a little look at a brief report on our new index in the Business Summary this week, which I hope will come to you safely.

I have been mulling over it a bit and it really seems very striking how any very wide departure from the normal line seems to exert a pretty strong pull in the opposite direction. And the wider the swing out the wider the recoil. I have a kind of superstitious notion that we have got hold of something pretty good and unlike anything that we have ever struck before.

Certainly it seemed to work out in the way indicated this spring, in a quite remarkable way. I felt it pretty strongly at the time, that our production figures were running very much too high, and that the pace was too fast. But I did not have the courage of the data, so to speak.

Despite a little drop in our index of 20 basic commodities this week, the textiles hold very strong, and they have proven extremely good barometers the last few years. I do not seem to escape the feeling that things are in for another strong upward swing, both in commodity markets and the stock markets and in business generally; and that this will carry with it pretty heavy demands for credit.

I do not think you could have any lovelier weather out there than we are having now. It makes jail life rather dour.

With warmest regards,

Always yours,

Carl Snyder

Hon. Benjamin Strong,
Colorado Springs,
Colorado.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 5, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

The signed article which appeared in the Evening Post of Saturday was simply the press summary which was asked for from each of the speakers on Friday (Am. Stat. dinner) evening, and which was supplied to all the newspapers which wished to use them; and even a supply of charts was given to the Press Committee. I did not know until the advertisement appeared that the Post intended to make an article of it, and they are such very good friends of the Bank that it was rather hard to ask them to use it differently.

Didn't see it - Send it down!

No harm in this that I see BS

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 7, 1923 192

TO Governor Strong SUBJECT:

FROM Mr. Snyder

Mr. Clark asks if it would be possible to give him the substance of my talk last Friday night, describing our new index, for the next number of the "Journal of the American Bankers' Association." Would there be any objection to my doing this?

MISC. 3.1 50M-11-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 9, 1923.

TO Mr. Snyder

SUBJECT: Wheat.

FROM C.P. Calvert

| | | (Bushels) |
|---|---|---|
| The carry over of wheat on July 1, 1922 was .......... | 80,000,000 | |
| The 1922 crop was .................................. | 862,000,000 | |
| Wheat and flour imports in 1922 were ................ | 20,000,000 | |
| Making a total of .................................. | | 962,000,000 |
| Exports during 1922 were ........................... | 222,000,000 | |
| Consumption (apparent disappearance) in 1922 was ..... | 640,000,000 | |
| Making a total of .................................. | | 862,000,000 |
| And the resulting carry over on July 1, 1923 was ..... | 100,000,000 | |
| To which is added the 1923 crop (November estimate)... | 782,000,000 | |
| And assume that imports will be the same as in 1922... | 20,000,000 | |
| Making a total of .................................. | | 902,000,000 |
| Assuming that consumption will be the same as last year (and it will probably be somewhat larger) .................. | | 640,000,000 |
| This will leave for exports and carry over ................ | | 262,000,000 |
| Exports during the first four months of the 1923 cereal year ................................ | 73,000,000 | |
| If this rate is maintained throughout the remaining eight months, after making allowance for seasonal variations, the exports during that period will be | 110,000,000 | |
| Or a total for the year of ........................ | | 183,000,000 |
| And the probable carry over will be ...................... | | 79,000,000 |

It is difficult to estimate the normal carry over, as this varies with the size of the crop each year. During the five year period from 1911 to 1915 inclusive the average carry over, as compiled by the Department of Agriculture, was 80,000,000 bushels. During the five year period from 1919 to 1923 inclusive the average carry over was 84,000,000. In 1916 the carry over was 164,000,000 following an exceptionally large crop. In 1917 and in 1918 the carry over was 47,000,000 and 28,000,000 bushels respectively, reduced because the Grain Corporation was in charge of the situation. Taking these figures into considera-

MISC. 3.1 50M-11-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 9, 1923.

TO Mr. Snyder

SUBJECT: Wheat.

FROM C.P. Calvert



tion it appears that a carry over of 79,000,000 bushels, following a yield of 782,000,000 bushels, is about a normal one.

The above figures have been furnished me by Mr. A.L. Russell. No account has been taken of increased use of wheat for feeding and of the fact that owing to the quality of the 1923 crop it will take about 12,000,000 more bushels for the usual flour production.

Second, in regard to the stocks of flour held by grocers and others, I can find no authoritative data. It is interesting to note, however, that production during the past three months has been 42,731,000 barrels, as compared with 43,975,000 in 1922 and with 47,200,000 in 1921. There has been no important reason why production should have been curtailed, as wheat prices were moderate and labor plentiful. Therefore, assuming that consumption has been about the same, it would become apparent that present stocks, slightly below those of the same time last year, are just about normal.

MISC. 4.1.100M-9-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 8 192

To Mr. Snyder.

SUBJECT:

FROM Calvert

I learn in confidence that the Department of Commerce has some figures which show that there is a tremendous world surplus of wheat and that they were preparing to release these for publication. Some people heard of it and pretested. Mr. Julius H. Barnes, president of the United States Chamber of Commerce, consulted Mr. A. L. Russell, who is one of the best informed men in the country on wheat and flour, and Mr Russell has written a letter to Mr. Barnes, which in turn, will be sent to the Department of Commerce, as a protest against the publication of the original figures without very careful study. I have obtained a copy of this letter and I attach it. It should be regarded as strictly confidential.

STRICTLY CONFIDENTIAL.

November 7th, 1923.

Mr. Julius H. Barnes,
42 Broadway,
New York City.

Dear Mr. Barnes:

Regarding the world's export and import wheat requirements which we were discussing today, I offer the following suggestion:

United States last year exported 220,000,000 bu., imported about 20,000,000 bu. wheat and flour, an increased carryover of 20,000,000 bu. This year the crop as officially estimated is 82,000,000 bu. short of last year, which would reduce the apparent surplus to 140,000,000 bu. ignoring any question of excess feeding, possibility of decrease in acreage next year, estimated from 10 to 15 1/2%, and also the fact that owing to the quality it will apparently take about 12,000,000 bu. more wheat to make the usual flour production.

Canada - crop estimate this year 470,000,000 bu. Carryover July 1st, 42,000,000 bu. Assuming the same carryover next year less last year's domestic use, would leave an export surplus of 330,000,000 bu. providing there is no serious weather and rain damage, owing to the huge size of the crop and the consequent inability to protect.

Argentina has exported 38,000,000 bu. of wheat since July 1st, and will probably export 45,000,000 bu. by January 1st. The crop estimate 248,000,000 bu. cabled today, less domestic requirements of 70,000,000 bu. would give a surplus of 178,000,000 bu. of which the average exports from January 1 to July 1 are about 70%, or 126,000,000 bu. plus the exports of old wheat already mentioned, would give a supply for the year of 171,000,000 bu.

Australia revised crop estimates just received indicate an export surplus of about 50,000,000 to 55,000,000 bu. for current year, counting old wheat shipped July 1 to January 1, and 80% of the surplus January 1 to July 1.

India has exported only 20,000,000 bu. in seven months following two record crops. Assuming that India has 48,000,000 bu. of surplus this year, does not agree with the actual movement so far and the Indian wheat consumption the past few years.

Estimates of the Russian and Danubian surplus are apparently guess work. If the extreme propaganda is accepted, Russia has an immense surplus, yet exports from Russia, Danube, and all other countries, other than those named above, since July 1st have been only 8,000,000 bu.

On the basis of the above comments, the world's supplies would appear to be:

| | |
|---|---|
| United States | 140,000,000 bu. |
| Canada | 330,000,000 bu. |
| Argentina | 171,000,000 bu. |
| Australia | 55,000,000 bu. |

| | |
|---|---|
| India | 36,000,000 bu. |
| Russia and others | 30,000,000 bu. |
| Total | 762,000,000 bu. |

Never in the history of the trade has it been possible to export all the reserves carried over from the previous year, and all the crop surplus from the new crop in all countries within any twelve months.

Broomhall assumes a world's surplus of 960,000,000 bu. and world's requirements this year of 656,000,000 bu. His estimate of 960,000,000 bu. surplus seems to be arrived at by including all the old surpluses and assuming that nothing will be carried over July 1 next.

World disappearance of imported wheat in the first third of the cereal year has been at the rate of nearly 650,000,000 bu. or almost as large as for the corresponding time last year.

Yours very truly,

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 17, 1923

TO Governor Strong

SUBJECT: Inflation in England

FROM Mr. Snyder

You will be interested in these two articles in the Economist and the Nation, taking such radically different points of view, although Layton, , who succeeded Hartley Withers as Editor of the Economist, rather believes and works with the Keynes or Cambridge group.

Incidentally it is very interesting to see how the English price level, and our own as reflected in our two indexes of basic commodities for this country and England have, shall I say, reflected, or forecasted the course of sterling exchange, lately?

\# What with all the other complications it rather looks as if the "back to par for sterling" programme was likely to have pretty hard sledding, with the Federation of British Industries backing up the assault of the Cambridge group.

\# Certainly much harder with £ at 4.30 than it seemed at 4.70

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 20, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

1662

Our English index of twenty basic commodities has in it many imported and several distinctly American products, and is, therefore, automatically very sharply influenced by the course of sterling, so that such a relation as you suggest ought generally to obtain. It is comparison of the wider price indexes, which are not so much influenced in this way, that should give a clue to the direction of English price levels, and therefore, so it seems to me, of the course of exchange.

But have not our "general" price levels (so far as we know them) also corresponded?

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 20, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

As I understand it from Mr. Jay, Dr. Stewart would now like to suppress all of the indexes of production and trade which this bank has been publishing, some of them now for two years or more. May I ask you if you would look over the attached letter and give me your judgment about it?

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 20, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

1663

In the Harvard Letter I did not mean to refer to their view as to the influence of politics, but their view as to the course of trade in the next eight or ten months. The views here expressed I do not think are especially those of Prof. Bullock, but rather of Prof. Persons and his assistants.

I'll not have an opinion until about 3 P.M. on Dec 5th (in other words after a meeting we are to have in Wash'n)

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 21, 1923

TO Governor Strong

SUBJECT: New Economic Foundation

FROM Mr. Snyder

I suppose this is part of a campaign for subscriptions eventually, but all they ask now is an expression of approval. They have done a fine work and have a valuable organization, and I attach herewith just a suggestion.

This has nothing whatever to do with the Institute of Economics of Washington, founded by Mr. Brookings, of St. Louis, and in which, I understand, Mr. Houston and Mr. Paul Warburg are his chief advisers. Mr. Moulton is the director.

Now I see who, what & why it is. I've read some of the "products"

B.S.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 22, 1923

TO Governor Strong

SUBJECT: Effect of Incoming Gold

FROM Mr. Snyder

If you mean that incoming gold would almost inevitably become credits at the Federal Reserve Banks, and in that way be used as bank reserves, I would, of course, entirely agree.

Still, if all this gold had been steadily put into circulation, with the consequent withdrawal of Federal reserve notes, would not this go a long way towards counteracting the credit expansion?

No! The credit expansion results from the reserve credit, which is not changed by our paying out the gold!

4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# FFICE CORRESPONDENCE

DATE November 23, 1923

TO Governor Strong

SUBJECT: Washington Meeting of December 5

FROM Mr. Snyder

I do not know what foreknowledge the meeting in Washington on December 5 may have, but I should like modestly to offer my own belief that we have now in this Bank more accurate and reliable means of judging both the condition and the trend of business conditions than anythihg that is to be found in Washington or any other place.

Personally I have rarely found any kind of oral reports of business as apt to be either reliable or accurate; and I should like to root a little for the idea that we now possess, here in this Bank, the opportunity for both of these latter.

---

I was very much interested in the impression you got of Moulton and McGuire's book. Prof. Dewey, of the American Economic, asked me to review it and I wanted to rip it up hard. But you can't do that with your friends.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 26, 1923

TO Governor Strong

SUBJECT: The Prospect for Business

FROM Mr. Snyder

In the Summary for tomorrow morning I have set forth all our indexes which are available to date, with a very brief comment on the outlook, so far as I can see it.

I'd be glad to show you the basis for my belief that railway traffic, and probably the general production of the country, this year, are scarcely as high as they would have been, at the pre-war rate of growth, if there had been no war and no post-war collapse.

Will try and stop this am.

11/28/23.

B.S.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 26, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

This from Logan is an answer to a line of acknowledgment in which I asked if it would be agreeable to tell me the author of the review of Moulton and McGuire's book. I could scarcely believe he was a Frenchman, although it was written in French.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 28, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

Please advise me if there is any reason why we should not get up a new questionnaire, as Mr. Jones suggests? Incidentally, they gave us no credit on the work last year.

MISC. 3 1 STAT. 3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE November 28, 1923

TO Governor Strong

SUBJECT: Normal Growth of Bank Resources

FROM Mr. Snyder

As you will see from the attached chart, it is very difficult, if not impossible, to get anything like a "normal" rate of growth for bank resources, influenced as they are so deeply by the changes in general price levels.

So, for example, you will note that the rate of growth from '96 to 1907 was very rapid indeed; but in that period the average of commodity prices rose about 40 per cent. Thereafter, to the end of 1915, the rise in prices was much slower, and, as you will see, bank resources also increased at a much slower rate.

Personally I think that a much more reliable base is growth of demand deposits in National Banks, which are a very good sampling of the whole banking system and quite consistently very near to 50 per cent of the whole. We have these back to 1909 and the rate of growth of these to the end of 1915--six years--was about 3¾ per cent per annum.

You will see that this is just a little bit above our estimate of the normal annual growth of the general trade and business of the country, which we figure at from 3 to 3½ per cent. The extra ½ per cent or so might readily be due to the slowly increasing use of bank money in business transactions.

Now, if this rate of growth for demand deposits had been continued to the present year they would have amounted by now, as you see by the chart attached, to very close to 6 billions, and the actual figure is a little under 9. Not to take the thing too narrowly, this would imply a price level about 50 per cent above the end of 1915. But the actual general price level, taking in wages, retail prices, rents, etc., as well as wholesale commodity prices, is probably higher than that, say 60 or 65 per cent, so my own thought is that business has scarcely advanced at quite its normal rate in these eight years.

It may be, too, that the wholesale switching of inactive accounts into time deposits within the last few years makes the figures for demand deposits relatively too low; and if this were so it would about account for the present price levels.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE December 4, 1923

To Governor Strong

SUBJECT:

FROM Mr. Snyder

Lest it should not come to you promptly, I am attaching some pages from the Business Summary this week, detailing some very surprising results of a comparison between our index of the Volume of Trade and our computations as to the velocity of bank deposits.

Of course we have here only a sampling of eight cities; but they are extremely good samples, as far as they go, as you will see. In this district, Albany, Syracuse, Rochester and Buffalo each represent a notably different type of city, and for the larger cities of the country at large we could hardly have done better than with Boston, Chicago and San Francisco.

But I am very much in hopes now that this computation has become so interesting that we will be able to stir the other districts up to similar compilations, and possibly through these get a rather good measure of business activity in each one of the twelve Federal Reserve Districts.

In the present chart I would call your attention to the very striking result, not only as to the general direction of the curves but as to the actual percentages of deviation from the average shown. For deposit turnover we took simply the average of the first four years. If we had taken the full five years to date, I think the peak and bottom points would have turned out almost identically. We shall try it.

I am wondering if you would have any chance to talk with Dr. Stewart about this while you are over there, and also, perchance, with Mr. Miller; and see if this new evidence, or confirmation, at all impresses them.

Had no chance. He is coming here later & I suggest you do so. Merry Christmas!

B.S.

MISC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE December 10, 1923

TO Governor Strong
SUBJECT:

FROM Mr. Snyder

Naturally an index of commodity prices at wholesale, in a heavily importing country like England, will be deeply affected by the rates of exchange. Such an index as our English 20 basic would respond almost synchronously; a larger index, like the <u>Times</u> index, less so; and a general index of finished commodities and all, still less. An index of general prices, including wages, rents, etc., at times possibly not at all. My belief is that it is these latter, i.e., the general costs of production, which in the long run determine the rate of exchange. Otherwise, how could it happen that the general price level corresponds pretty closely to the volume of currency; or why should sterling exchange fluctuate around $4.00 to $4.50, while the franc is between 5 and 6 cents? Why should one be depreciated 10 per cent and the other 60 to 70 per cent?

Surely it could hardly be contended that the widely and sometimes wildly fluctuating volume of payments between countries could steadily maintain the exchange figure about a certain general norm unless there was another and independent reason as to why that norm should be; don't you think?

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE December 10, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

With reference to the War College lecture: it is you they want, and in whom they would be interested. I should like to repeat my suggestion that we get up the material for you and that I go down with you and read it, or give the substance of it, and then let them ask questions of you. That would entail no very great strain, if you would like to do it, and I assure you it would be altogether agreeable to me.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE December 11, 1923

TO Governor Strong

SUBJECT: The Wheat Situation

FROM Mr. Snyder

I attach herewith a letter and two circulars regarding the wheat situation. That by Snow is a very able and interesting document and, as you know, he is the dean of the corps. It seems to me that this goes a long way towards explaining the situation.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE December 12, 1923

TO Governor Strong

SUBJECT: English Wages

FROM Mr. Snyder

Here is an extremely interesting little bit as to the cause of unemployment in England. You remember that old Simon Newcomb, about the wisest economist we ever had, insisted that crises and depressions were always the result of a dislocation of costs, wages and prices, and mainly between wages and prices, and that if we could adjust the latter as rapidly as we could adjust prices there would be no depressions.

Note also the amusing little letter from the delightful Prof. Cannan on the preceding page.

Very interesting

MISC. 3. 1-50M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE December 13, 1923

TO Mr. C. Snyder

SUBJECT:

FROM Geo. B. Roberts

I am forwarding attached the final tabulated returns from the inquiry which we made last year into certain invisible items of the International Balance Sheet of the United States, together with an analysis of the replies showing the banks which responded and indicating the extent to which the questions were answered.

In this connection it seems to me that we should carefully reconsider the advisability of forwarding a similar questionnaire this year as requested by the Department of Commerce. These statistics are unusually burdensome for the reporting banks to compile, and furthermore are of a confidential character which makes banks extremely reluctant in many cases to give them out. It will be recalled that decided objections to the questionnaire were raised in some quarters last year.

Furthermore, the figures themselves have proved to be of doubtful value. Mr. Kenzel has stated to me that he regards them as entirely untrustworthy. A glance at the attached sheet giving the Analysis of Returns as reported by the individual banks will show that in a considerable number of cases the questions were answered indefinitely or not at all. It is especially noteworthy that among those which did not reply was J. P. Morgan & Co, while the National City Bank gave figures for only one of the questions.

There is undoubtedly a feeling in some quarters that the Federal Reserve Banks have been a little too liberal in the circulation of questionnaires. It seems to me that in view of this feeling and the unsatisfactory results on our last questionnaire on foreign balances ~~that~~ we would do well to abandon an attempt to obtain similar figures this year.

Number A2

Mr. J. H. Case,
Deputy Governor, Federal Reserve Bank of New York,
New York City.

Dear Sir:

The questions which you asked us in your letter of May 1, together with our answers, are as follows:

1. Your total balances at credit of foreign clients on the first business day of April of the present year and on the same date for 1922 and 1921.

| Answer: | 1921 | 1922 | 1923 |
|---|---|---|---|
| Net debit | $32,027.54 | Cr.$10,325,153.09 | $887,646.59 |

2. Your total amount of loans and securities held for account of foreign clients for the same three dates as number 1.

Answer: 2,446,000 Par. 2750 000 Par 3300000 Par

Diff between par and market may be ignored; it will probably be near enough for our purposes.

3. The total value in dollars of foreign stocks and bonds which you have imported into this country during the calendar years of 1921 and 1922.

| Answer: | 1921 | 1922 |
|---|---|---|
| | $5520.-- | none |

4. The total value in dollars of foreign currencies other than gold which you have imported into this country during the calendar years of 1921 and 1922.

| Answer: | 1921 | 1922 |
|---|---|---|
| | none | none |

5. The total amount of American securities bought by you in this country for foreign account and shipped abroad during the calendar years of 1921 and 1922.

| Answer: | 1921 | 1922 |
|---|---|---|
| | none | 10,000. |

6. The total amount of American securities purchased by you abroad and imported into this country during the calendar years of 1921 and 1922.

| Answer: | 1921 | 1922 |
|---|---|---|
| | none | none |

It is understood that, owing to the confidential character of the information contained herein, it is unnecessary for us to sign this letter, the number in the upper right hand corner being a sufficient identification.

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Answer: 2,446,000 Par. 2750 000 Par 3300000 Par

3. The total value in dollars of foreign stocks and bonds which you have imported into this country during the calendar years of 1921 and 1922.

| Answer: | 1921 | 1922 |
|---|---|---|
| | $5520.-- | none |

4. The total value in dollars of foreign currencies other than gold which you have imported into this country during the calendar years of 1921 and 1922.

| Answer: | 1921 | 1922 |
|---|---|---|
| | none | none |

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| Answer: | 1921 | 1922 |
|---|---|---|
| | none | 10,000. |

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| Answer: | 1921 | 1922 |
|---|---|---|
| | none | none |

It is understood that, owing to the confidential character of the information contained herein, it is unnecessary for us to sign this letter, the number in the upper right hand corner being a sufficient identification.

Question 1

Total credit balances of foreign clients (both individuals and others) on November 30, 1923 and on the same date for 1922.

Question 1a

Total debit balances of foreign clients (both individual and others) on November 30, 1923 and on the same date for 1922.

Question 2

Total amount of loans and securities held for foreign clients, whether for safekeeping or as collateral, for the same dates as number 1.

Question 3

The total cost in dollars of foreign securities (other than new issues and excluding dollar loans) which you have imported into this country during the years ending November 30, 1922 and 1923, on your own account or for clients.

Question 4

The total cost in dollars of foreign securities, excluding dollar loans, bought by you in this country for foreign account during the years ending 1922 and 1923, whether shipped abroad or not.

Question 5

The total cost of all dollar securities, including Government securities of all kinds, bought by you in this country for foreign account, during the years ending Nov. 30, 1922 and 1923, whether shipped abroad or not.

Question 6

The total cost of dollar securities bought by you from foreigners, during the years ending Nov. 30, 1922 and 1923, whether or not imported into this country during the calendar year. This should include amounts bought for American clients as well as for yourselves.

Question 7

The total cost in dollars of foreign currencies other than gold which you have imported into this country during the years ending Nov. 30, 1922 and 1923. 4

ANALYSIS OF RETURNS

ON THE

INVISIBLE ITEMS IN THE FOREIGN BALANCE SHEET OF THE UNITED STATES*

| ALL OTHER | QUESTION 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| American Express Company | Yes | Indefinite | Yes | Yes | Yes | Yes |
| Blair & Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Boissevain & Company | Ind. | Ind. | Ind. | Ind. | Ind. | Ind. |
| Brown Bros. & Company | Yes | Yes | Yes | Indefinite | Yes | Yes |
| Chase Securities Corporation | Yes | Yes | Yes | Yes | Yes | Yes |
| Dillon Read & Company | Yes | No | Yes | Yes | Yes | Yes |
| Goldman Sachs & Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Guttag Bros. | No | No | No | Yes | No | No |
| Hallgarten & Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Handy & Harman | Yes | Yes | Yes | Indefinite | Yes | Yes |
| Harriman & Company | Ind. | Ind. | Ind. | Ind. | Ind. | Ind. |
| Harris Forbes & Company | Ind. | Ind. | Ind. | Ind. | Ind. | Ind. |
| Hayden, Stone & Company | No | No | No | No | No | No |
| Heidelbach Ickelheimer & Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Iselin & Company, A. | Ind. | Ind. | Ind. | Ind. | Ind. | Ind. |
| Kissel, Kinnecut & Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Kountze Bros. | Ind. | Ind. | Ind. | Ind. | Ind. | Ind. |
| Kuhn, Loeb & Company | Yes | Yes | Yes | Yes | Yes | Ind. |
| Ladenburg, Thalman & Company | Yes | Indefinite | Ind. | Ind. | Ind. | Ind. |
| Lazard Freres & Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Leach & Company, A. B. | No | No | No | No | No | No |
| Lee Higginson & Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Vincent, Maguire & Company | No | No | No | No | No | No |
| Morgan & Company, J. P. | No | No | No | No | No | No |
| National City Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Neilson & Lundbeck | Yes | Yes | Yes | Yes | Yes | Yes |
| Perrara & Co., Lionello | Yes | Yes | Yes | Yes | Yes | Yes |
| Pynchon & Company | Ind. | Ind. | Ind. | Ind. | Ind. | Ind. |
| Redmond & Company | No | No | No | No | No | No |
| Richards & Company, C. B. | Yes | Yes | Yes | Yes | Yes | Yes |
| Salomon Bros. & Hutzler | Yes | Yes | Yes | Yes | Yes | Yes |
| Schall & Co., William | Yes | Yes | Yes | Yes | Yes | Yes |
| Smithers & Company, J. S. | Yes | Yes | Yes | Yes | Yes | Yes |
| Sutro Bros. & Company | No | No | No | No | No | No |
| Speyer & Company | Yes | Yes | Yes | Indefinite | Yes | Yes |
| Trask & Company, Spencer | Ind. | Ind. | Ind. | Ind. | Ind. | Ind. |
| Wollman & Company, W. G. | No | No | No | No | No | No |
| Wood Grundy & Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Zimmerman & Forshay | Yes | Yes | Yes | Yes | Yes | Yes |
| Bache & Company, J. S. | No | No | No | No | No | No |
| Barton Griscom & Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Harris Winthrop & Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Turnure & Company, Lawrence | No | No | No | No | No | No |
| Seligman & Company, J. & W. | Yes | Yes | Yes | Yes | Indefinite | Yes |
| White & Company, J. S. | Yes | Yes | Yes | Yes | Yes | Yes |
| Winslow Lanier & Company | Yes | Yes | Yes | Yes | Yes | Yes |

*12 Banks failed to return questionnaires. These were entered under the classification "No."

"Ind." indicates Indefinite.

| BANKS LOCATED IN NEW YORK CITY | QUESTION 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| American Exchange National Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| Bankers Trust Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Bank of America | Yes | Yes | Yes | Yes | Yes | Yes |
| Bank of New York & Trust Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Bank of the Manhattan Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Bank of the United States | Yes | Yes | Yes | Yes | Yes | Yes |
| Battery Park National Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| Central Union Trust Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Chase National Bank | Yes | Yes | Yes | Yes | Indefinite | Yes |
| Chatham & Phenix National Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| Chemical National Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| Corn Exchange Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| Equitable Trust Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Farmers Loan & Trust Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Fifth Avenue Bank | No | No | No | No | No | No |
| First National Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| Guaranty Trust Company | Yes | Yes | No | Yes | No | No |
| Hanover National Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| Harriman National Bank | Yes | No | No | No | No | No |
| Irving Bank-Columbia Trust Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Mechanics & Metals National Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| Metropolitan Trust Company | Yes | Yes | Yes | Yes | Yes | Yes |
| National Bank of Commerce | Yes | Yes | Yes | Yes | Yes | Yes |
| National City Bank | Yes | Ind. | Ind. | Ind. | Ind. | Ind. |
| National Park Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| New York Trust Company | Yes | Yes | Yes | Yes | Yes | Yes |
| Public National Bank | Yes | No | No | No | No | No |
| Seaboard National Bank | Yes | Yes | Ind. | Ind. | Yes | Yes |
| United States Trust Company | Yes | Yes | Ind. | Yes | Ind. | Ind. |
| U. S. Mortgage & Trust Company | Yes | Yes | Yes | Yes | Yes | Yes |
| W. R. Grace & Co's Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| **FOREIGN BANKS** | | | | | | |
| Anglo-So-American Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| Asia Banking Corporation | Yes | Yes | Yes | Yes | Yes | Yes |
| Banca Commerciale Italiana | Yes | Yes | Yes | Yes | Yes | Yes |
| Bank of Montreal | Yes | Yes | Yes | Yes | Yes | Yes |
| Bank of Nova Scotia | No | No | No | No | No | No |
| Canadian Bank of Commerce | Yes | Ind. | Ind. | Ind. | Ind. | Ind. |
| Chartered Bk of India, Aus. & China | Yes | Yes | Yes | Yes | Yes | Yes |
| Credito Italiano | Yes | Yes | Yes | Yes | Yes | Yes |
| Dominion Bank | No | No | No | No | No | No |
| Hong Kong & Shanghai Banking Corp. | Yes | Yes | Yes | Yes | Yes | Yes |
| International Acceptance Bank | Yes | Yes | Yes | Yes | Yes | Yes |
| International Banking Corporation | Yes | Ind. | Ind. | Ind. | Yes | Yes |
| London & Brazilian Bank, Ltd. | Yes | Ind. | Yes | Yes | Yes | Yes |
| London & River Plate, Ltd. | Yes | Yes | Yes | Yes | Yes | Yes |
| Royal Bank of Canada | Yes | Ind. | Yes | Ind. | Yes | Yes |
| Yokohama Specie Bank, Ltd. | Yes | Yes | Yes | Yes | Yes | Yes |

FINAL REPORT

OF THE

INVISIBLE ITEMS IN THE FOREIGN BALANCE SHEET OF THE UNITED STATES

(93 Questionnaires sent out)

| | Information Supplied | Information Declined | Information Indefinite | Total | First Business Day of April 1921 | 1922 | 1923 | Net Increase or Decrease April 1921 To April 1922 | Net Increase or Decrease April 1922 To April 1923 |
|---|---|---|---|---|---|---|---|---|---|
| **Question 1**<br>Your total balances at credit of foreign clients on the first business day of April of the present year and on the same date for 1922 and 1921. | 73 | 13 | 7 | 93 | $403,248,520 | $446,482,177 | $442,589,560 | $43,233,657 | $ 3,892,617 |
| **Question 2**<br>Your total amount of loans and securities held for account of foreign clients for the same three dates as number 1. | 63 | 16 | 14 | 93 | 690,573,743 | 721,985,220 | 911,091,001 | 31,411,477 | 189,105,781 |

| | Information Supplied | Information Declined | Information Indefinite | Total | During the Calendar Years 1921 | 1922 | Net Increase or Decrease Calendar Year 1921 to 1922 |
|---|---|---|---|---|---|---|---|
| **Question 3**<br>The total value in dollars of foreign stocks and bonds which you have imported into this country during the calendar years of 1921 and 1922. | 64 | 16 | 13 | 93 | 226,936,896 | 326,141,715 | 99,204,819 |
| **Question 4**<br>The total value in dollars of foreign currencies other than gold which you have imported into this country during the calendar years of 1921 and 1922. | 63 | 14 | 16 | 93 | 3,135,444 | 2,990,833 | 144,611 |
| **Question 5**<br>The total amount of American securities bought by you in this country for foreign account and shipped abroad during the calendar years of 1921 and 1922. | 64 | 16 | 13 | 93 | 41,676,292 | 60,929,094 | 19,252,802 |
| **Question 6**<br>The total amount of American securities purchased by you abroad and imported into this country during the calendar years of 1921 and 1922. | 65 | 16 | 12 | 93 | 25,838,457 | 34,162,018 | 8,323,561 |

C. 3 1 STAT. 3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE December 13, 1923.

TO Governor Strong

SUBJECT: Foreign Exchange and Price Levels

FROM Mr. Snyder

My notion about your conundrum would be:

(1) In a country importing sufficiently, falling exchange from bill pressure would tend to put prices up and vice versa; but

(2) The exchanges could not affect the general price level of a country very much for very long, because

(3) The general price level is necessarily a ratio between the quantity of circulating media in a country and the volume of its trade; but

(4) The exchanges might affect an index of commodity prices at wholesale very much; and

(5) Especially a list of commodities in which imported commodities played a very large part.

Personally I am not very much interested in this question because we are dealing simply with a question of minor and short time fluctuations.

What seems to me the important thing is to determine is the general level about which the exchanges will fluctuate? That, I think, was in general what Cassel, Keynes, and other writers upon the subject usually had in mind.

This is a statistical problem, capable of a definite answer. So far as I can see the other question, as to fluctuations, is not.

May I add:

X From about 1896 to 1913, for example, prices in England rose 40 to 50 per cent. In that time, of course, the exchange rates remained practically unchanged. No one then suggested in this, or in any similar case, that the exchange rate was the cause of the rise in prices.

X But what did our prices do?

MISC. 4.1.100M-9-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE December 13, 1923

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

Mr. Case has raised a rather strong objection to our sending out this new questionnaire for the Department of Commerce. First of all, he thinks the figures are of very little value, and secondly that it is a real annoyance to the banks. May I ask your judgment?

I attach Mr. Robert's memorandum.

300-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE December 31, 1923

TO Governor Strong

SUBJECT: Invention of Inflation

FROM Mr. Snyder

(1) I think you are quite right about inflation probably antedating its discovery in America. I recalled after I wrote the paragraph a vague reference to some Chinese experiments, quite far back.

That is almost always the case with almost all great inventions.

(2) As to our index of the General Price Level, that is simply such a price index that, used as a devisor, will bring bank clearings into line with the normal trend of growth of bank clearings for the preceding twenty or thirty years.

It is a composite of four primary price indexes, so weighted as to attain this result. It may have the duplication, of wages, of which you speak. But it is none the less the average of all payments entering into bank clearings.

This is clear because, worked backwards by dividing actual bank debits through by our Index of the Volume of Trade, we get the same line.

Noted
BS.

ЭC.3 1 STAT.3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# [OF]FICE CORRESPONDENCE

DATE December 31, 1923

[TO] Governor Strong

SUBJECT: Wages and Booms

[FRO]M Mr.Snyder

I note your very interesting story of oats growing amid the cobblestones of Wall Street, and though I should scarcely look to see them do so well under the more difficult conditions of asphalt, I have for some time been wondering if there were vague prospects of another '73 (or '93).

I attach some fragrant forecasts and begin to catch the scent of another boom which, I apprehend, may not be nipped in the bud by excessive caution or the superior acumen of last spring, nor, I should imagine, by any probable increase in rates; possibly another year of extravagant automobile production and building construction, with the rise in prices which we did not get this year. And,if it comes early enough, the soldier bonus, passed by Congress over the President's veto, and a general atmosphere of happy hilarity.

And then gold exports. And <u>then</u> the natural workings of the violent and unnatural spread between the cost of living and farm prices and factory and urban wages generally. And then, possibly-----

You see I am becoming a little superstitious--?

Dont be too sure!—

Have you read Keynes new book?

Form 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 13, 1923.

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

The attached letter from the editor of Collier's explains itself. How does the platform strike you? Possibly I should say first, before you reply, that it seems to me to be a rather hazy and indefinite statement of a lot of high thoughts without much in it that is practical. The more I ponder about the problem of labor, the more I become convinced that it is inseparable from the problem of prices. Labor disputes are never really serious, long extended and disorderly except they have to do with compensation; and compensation disputes almost always arise when prices are rising and when there is a shortage of labor. On the other hand, unemployment and distress,-which is really a period when strikes are uncommon,- grow out of considerable declines in prices. Therefore, is it not a fact that a stable price level will itself be a great contribution toward labor tranquillity and contentment? This, of course, excludes a very important field of discussion, namely, "working conditions", where ordinary intelligence is about all that is required to keep men happy, provided industry is prosperous.

If you think there is any other contribution to be made to the discussion along this line, won't you give me a memorandum on it.

BS.MM

Att.

FEDERAL RESERVE BANK

OF NEW YORK

January 16, 1923

Editor,
Collier's Weekly,
New York City.

Sir:

~~In~~ Your platform ~~you~~ express so many excellent ideas, ~~but they embody~~ which are essentially ~~the ideas~~ those that ~~most~~ many thinking people have held for many years, but without a great deal of effect; ~~and~~ they do not touch ~~at all~~ upon what seems to me the prime condition of industrial peace,, and that is stable economic conditions. The longer ~~I~~ we study the problems of labor and of production broadly, the problems of the farmer, the manufacturer and the working man, the more ~~I become~~ we must become convinced that they are inseparable from the problem of prices. Labor disputes, for example, are rarely very serious, long extended or disorderly, except when they have to do with compensation, and compensation disputes almost always arise when prices are rising and when there is, as a consequence, usually a shortage of labor.

Periods of falling prices, falling wages and unemployment are rarely periods of prolonged and bitter industrial struggles, but they are periods of privation and hardship for industrial workers.

On the other hand, it is almost invariably periods of falling prices that give rise to demands for fiat money and Governmental subsidies of this industry or that.

Therefore, is not the fundamental condition of industrial and national tranquility that of a reasonable stability of prices such, for example, as we seemed to have reached in this country in the six or seven years preceding the disrupting effects of the great demands of war, that is, from about 1909 till towards the close of 1915? In the judgment of one of our wisest economists, Simon Newcomb, crises, hard times and unemployment are almost wholly due to a lack of adjustment between prices and wages. And this appears to be the conclusion of our economists who have studied most deeply what we vaguely call the business cycle,--that the cycle of prosperity, crisis and unemployment is very largely a price cycle, and that if we could attain to some degree of relative stability in this basic factor the rest would be easy.

But without this stability of what avail are the best laid plans for increasing efficiency, for industrial conciliation, for enlarged output, and more equable distribution?

I believe with Mr. Henry Ford that what the great body of our working men most desire is security of employment and an adequate wage, that represents a fairly even and stable purchasing power. Take away these and you disturb depreciate or even destroy

the fundamentals of peace of mind to the worker, easy relations of employee and employer; upset the calculations of the wisest managers; convert business into a gambling operation; give a high premium to the speculator and the adventurer, and ~~practically destroy~~ the fruits of the highest and most enlightened type of management.

Very sincerely yours,

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE January 16, 1923 192

TO Mr. Synder

SUBJECT:

FROM Governor Strong

If you would care to take a hack at a letter in my style for Collier's, I will go over it with you; but don't make it too long. You might paraphrase what I put in my memorandum.

B S

BS.MM

att.

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 27, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Benj. Strong

This has certainly been answered, both by our rate action, and by my other communications.

Some day soon I want to see you, and will send word. There are a few matters I want to pour into your mind, and have you promise that they will stay there, - and they will be important!

[Snyder to Strong]
[Control of Volume of Credit Feb 13, 1923

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE February 27, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Benj. Strong

Much of yours of the 5th has been answered to you directly and in some memorandum I sent Shepard Morgan, which please read.

The fellows at Cambridge have gotten a bit too excited. Rate changes, even fairly definite indications of them, in advance, might do more harm than good. The experiences of 1919 taught me a lesson I'll never forget.

Now what we really need, is just what I wrote Shepard Morgan 5 headings - make it 2 or 10, I don't care, so long as we deal with the principles upon which our policies as to rates and open market operations are based.

To defer acting because there are 100,000,000 ignorant people in the country would be folly. Educate the thoughtful people and those who lead thought, in farm, in factory, and in office and in politics, and act anyway.

What's the matter with that committee that got out Better Banking? Are they dead?

MISC. 4.1-100M-9-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE March 2, 1923. 192

TO Mr. Snyder

SUBJECT:

FROM Benj. Strong

CONFIDENTIAL

This needs more thought than I can now give it, - nor until after I am West. Put all the papers with this one together and send them to me there later on. I'll then prepare something more deliberate. Am hustling from now on to clean the decks.

[Snyder to Strong
Control of Currency
Issues Feb 27, 1923]

(COPY)

Cragmor, April 21, 1923

Dear Mr. Snyder:

Of course you saw the enclosed. It pleased me greatly. Not so much what Noyes wrote, but what Yves-Guyot seems to have written, for, as you know, Cassel and Keynes, brilliant as they may be, have riled me a lot. And others as well! I put them somewhat with Sir O. Lodge, Conan Doyle, Coué, and even your friend Freud, all of whom I feel are chasing exaggerations of less importance to us than they think. Just turn to St. Luke, 15.18 and you will know why my thoughts go back to Adam Smith, Mill, Ricardo and Bagehot. How hard it is (sometimes) to stand pat,--even old Newton, after 2½ centuries, is being shaken a bit. All of this preliminary to asking you to send me the Y-G book if printed in English edition. If, as I recall, you know the author, just write him a nice letter and tell him he has cheered a dumb old cuss out here!

Yours,

B. S.

I like his looks in that picture. Looks sound to me!

Cragmor. — Apr 21/23

(Copied)

Dear Mr Snyder—

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Yours

B. S.

I like his looks in that picture. Looks sound

(COPY)

Dear Snyder:

If Yves-Guyot's new book soaking Cassel, Keynes, et al, has been translated, will you get me a copy? It will hasten my recovery, judging from Noyes' review of it. I'll write the d-Frenchman and thank him if I can only read his book. Also, will you send me the little book on Money--with the Lewis Carrol chapter headings? I want to look it over again.

Am getting along famously, fine weather and yet postponing mail for a time, so as to be safe--it's my middle name.

Yours,

B. S.

Best to everybody

(COPY)

Dear Mr. Snyder:

Shall write you when I'm not so buried under "family" mail as recently. It's a stunt with no stenog. and no voice-- Am doing splendidly.

My friend, Inouye, doesn't hesitate to deflate. Bank rate 8.03%, etc. You are going to be fooled, as well as those other guessers about prices and inflation--because--unless I'm greatly mistaken--the throttle is to be used this time. They all overlooked or belittled the F. R. System.

B. S.

Tell Bullock and Mitchell a dinner is on it!

(COPY)

(About April 25, 1923)

Dear Snyder:

Read the "Commerce" and "City" in contrast and see how "City" beats "Commerce" for the average reader. Tell Chandler to come down out of the clouds and use language the common fellow uses and understands. He preaches too much on gold when he really means "representative money," bank notes and bank accounts--and will confuse folks. Note marked passages as follows:

(1) He's all wrong. Gold exports causing "extreme stringency," "deflation," etc., is piffle--some "Economists" never were bookkeepers, drat them! If we keep our heads, when gold exports arise, and larger ones, we will have 75 or 80% reserve--then this will happen, i.e., Member Banks will ship gold, and so deplete their reserves. If we did not exist they must (collectively) shrink deposits and loans sufficient to reduce required reserve by amount of gold exported. That would be deflation caused by stringency. Now, however, they will simply borrow from us,--(few people realize that our members will need to borrow when gold exports begin, even though our reserves were 100%) and it will simply depend upon our discount rate, whether money gets very stringent or not! Chandler better set this straight, or you do it for him.

(2) Piffle; just a guess. If the horse hadn't been harnessed to the wagon the wagon wouldn't have run away. Won't even argue this.

(3) This is all very good, but is too d-- dogmatic. Why not say "why," instead of "what"? Few people know the reasons lying back of this dogma! and after saying "why," better also say "how"--

(4) Same here. Say this in words that folks understand. He thinks bankers and business men are students--they're just money makers (and losers).

Pardon this untidy, sloppy scratch, but it's not as bad as

(over)

(COPY)

Chandler's (in such nice print, too!)

(About April 25, 1923) B. S.

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(over)

MISC. 3.1 60M-4-22

Copied

FEDERAL RESERVE BANK
OF NEW YORK

About Apr. 25

With P.J. return to Fund property

**OFFICE CORRESPONDENCE**

DATE ________ 192__

TO ________ SUBJECT: ________

FROM ________

Copies

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reduce required reserve by amount of gold exported. ~~Under~~ That would be deflation caused by stringency. Now however, — they will quickly borrow from us, — (few people realize that our members will need to borrow when gold exports begin, even though our reserves were 100%) and it will simply depend upon our discount rate whether money gets very stringent or not. Chandler better set this straight or I'll do it for him —

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FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE ______ 192__

TO ______ SUBJECT: ______

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Pardon this untidy, sloppy scratch but its not as bad as Chandlers - (&a such nice print too!)

B. S.

(COPY)

April 25, 1923

Dear Snyder:

I couldn't hold in any longer today after getting a letter from Mitchell, which I sent on to Mr. Jay, and enclosed is the result. Will you please do this:

1st. Have copied out by Miss Bleecker or Miss McCarrick, who know my scrawl--

2nd. You and Burgess do some polishing--in the usual way--and supply figures and check facts needing it.

3rd. Show Jay and Case and see how they like it.

4th. Get a consensus as to wisdom of my taking bit in teeth and asking Lorimer to publish--in Sat. Evening Post.

5th. I'll take <u>all</u> responsibility and only want views.

6th. Wire me at once how it strikes you!

7th. If it looks like a go! send me two fair copies, wide space, for further dressing. It's terribly rough--I dashed it off in bed this A. M. I may make it plainer still. Just depends on how far it's wise to go--or would you follow up with a second shot?

8th. Will folks read such stuff as this?

Yours,

B. S.

Dear Mr Snyder -  (Copied)

Shall write you when I'm not so buried under "family" mail & accounts. It's a stunt with no Stenog & no voice - Am doing splendidly - -

My friend Inouye doesn't hesitate to deflate. Bank rate 8.3 % etc! You are going to be fooled, as well as those

getting along famously, fine weather &
not postponing race for a time, so as
to be safe, it's my middle name

Yours

B.S.

Best to Everybody —

Dear Snyder — (Copied)

If Yves. Guyot's new book Soaking Cassel, Keynes et al has been translated, will you get me a copy. It will hasten my recovery judging from Noyes review of it — Lee writes the d— Frenchman & thank him if I can only read his book. Also will you send me the little book on Money — with the Lewis Carroll chapter headings. I want to look it over again. Ann other guessers about prices & inflation — because — unless I'm greatly mistaken, — the throttle is to be used this time. They all overlooked or belittled the F. R. System —

B. S.

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TO

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FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE ______ 192__

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8th Will folks read such stuff as this

Yours

B. S.

(COPY)

Letter not sent

To John E. Pickett,
c/o The Country Gentleman,
Independence Square,
Philadelphia, Pa.

You may recall the story of the discussion at a farmers' gathering, where tempers were being lost in efforts to decide whether it was correct to say that a hen was "sitting" or "setting," when she felt the urge of the maternal instinct. Some farmer settled the dispute by asserting that "he allowed it were a dinged sight more important to dis-cover whether the ole hen were a-layin' or a-liein' when she cackled."

Now this tale came to my mind after reading Mr. Johnson's article in the April 21st "Country Gentleman," and the editorial thereon. We have battled with graphs, and index numbers and statistics in the Federal Reserve Banks, as well as with those who claim to represent the American farmer and his bankrupt industry, in Congress and out of Congress! I agree with you in believing Mr. Wallace's intentions to be admirable. He suffers, and so in fact do we all, from the insidious germ of over-partizanship to his job, to his "side" of the case. Every lawyer knows that a witness shades his testimony to favor the "side" by which he is called. So indeed do the judges know it!

But the poor farmer, bedeviled, befogged at times, and sometimes betrayed as well, is far from being the man held up in Congress by those who misrepresent him! I have known many of them. They are mostly upstanding, two-fisted Americans; and they are the objects of misrepresentation at times, just as they are victimized by misrepresentation. And unless signs fail, they are coming to see it.

The articles I have just read will be most helpful--at least they helped me, if pleasure is ever helpful, and I hope others like it are to follow.

Possibly you will be good enough to pass this on to Mr. Johnson; he did a good job and I'd like to thank him.

Yours very truly,

Dear Snyder:

If this is wise, have it copied out, and send to Pickett from me personally. If not wise, destroy it. If you do sent it, have two copies for Beyer to file. Of course it is not to be published!

B. S.

20

John E. Pickett.
% The Country Gentleman –
Independence Sq. Philadelphia
Pa

Copied

Not sent. (at Gov's direction)

You may recall the story of the discussion at a farmers gathering where tempers were being lost in efforts to decide whether it was correct to say that a hen was "sitting" or "setting", when she felt the urge of the maternal instinct. Some farmer settled the disputed by asserting that "he allowed it were a dinged sight more important to dis-cover whether the ole hen were a layin or a liein' when she cackled."

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B.S.

(COPY)

(About April 28, 1923)

Mr. Snyder

Your April 16th "Confidential." Permit me!--

(1) If the Commerce Dept. people made up the figures, I want to know how, before accepting the conclusions, and see the details, also!

(2) Don't be too sure. The drain will be to the neutrals and the smaller countries, Japan and East, if it comes, and I doubt if it comes very soon in large volume, and when it does, doubt if it runs to $1,000,000,000, as you hint.

(3) Don't agree at all. Their exchange will not recover on good business alone. They must have money owing them on balance, and their exchange must either be above gold par--or their currency be devalued, or both.

(4) Don't forget the interest payments, Great Britain and maybe others.

(5) Don't forget that we are going to gradually, but without any panicky haste, get a grip on this inflation affair, which I have now named the "Snyder Complex." It will all be fixed up by the time Congress meets, and we'll again turn our attention to the foreign situation, which will be our helpful red herring.

Don't think I sit here all day scrawling letters, etc. Half hour at breakfast and half hour at supper does it--save two hours in bed writing that "Price" scrawl.

I'm debating reducing my income some $50,000 a year by coming out with a line of very frank articles,--for they surely would chop off my bean!

Show this to Jay.

B. S.

Thank you for the books, old top,--and please give the same to Shep. Morgan and Ten Eyke,--I'll write them in time!

MISC. 3.1 60M-4-22 (Copied)

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Apr. 18 192

TO Mr. Snyder -

SUBJECT:

FROM

Your Apr. 16th "Confidential" Permit me! —

1.) If the Commerce Dept people made up the figures, I want to know how, before accepting the conclusions, & see the details, also!

2) Dont be too sure. The drain will be to the neutrals, & the smaller Countries, Japan & East, if it comes & I doubt if it comes very soon in large volume, & when it does, doubt if it runs to $1.000.000.000 as you hint.

3) Dont agree at all. Their Exch. will not recover on good business alone. They must have money owing them on balce. — & their Exch. must either be above gold par — or their currencies be devalued or both.

4) Dont forget the interest payments, Gr. Br & may be others.

5) Don't forget that we are going to gradually, but without any panicky haste, get a grip on this

inflation affair", which I have now named the "Snyder Complex." It will all be fixed up by the time Congress meets, and we'll again turn our attention to the foreign situation, which will be our "Kickball" red herring.

Dont think I sit here all day scrawling letters etc. Half hour at Bkfst & half hour at Supper does it — saves two hours in bed writing that "Price" scrawl.

I'm debating reducing my income some $50.000 a year by coming out with a line of very frank articles, — for they surely would chop off my bean.

Show this to Jay

B. S.

Thank you for the books, old top, — & please give the same to Shep Morgan & Ten Eyke, — I'll write them in time!

(COPY)

May 4th, 1923

Dear Mr. Snyder:

After the two lectures you send me I shall not waste good paper for carrying unsound views, nor much of this either!

(1) I agree about the muscular reaction of thought, but believe it relates almost wholly to involuntary and semi-involuntary muscles, not the bone attached ones, and is explained by the extent to which they are under reflex control. Have a notion that writing stimulates them more than thought! Watching myself--am amazed at the extent to which conscious control can be extended to muscles never before (in 50 years of my life) having that experience, such as the larynx, arytenoid, vocal cords, uvula, epiglottis, etc. It may be a way of solving the constipation problem. I'd like to discuss it some day.

(2) I shall not go pamphleteering,--I only want to write two or three! Don't know enough nor write well enough to do so--despite your subtle flattery.

(3) You have neither failed nor succeeded in convincing me of the soundness of those conclusions,--because I have not seen the work,--examined the methods,--nor, in fact, heard nor read the stories in full. It has come in snatches, with my mind at the time too much engrossed in my own troubles, throat, discount rates, etc.,

(4) I shall never be converted to the idea that we should attempt to control the general price level. Not enough is yet understood (note that I don't say "known") to justify our boldly attempting that role,--becoming a super government,--thinking ourselves supermen, and failing with a crash some day.

(5) I admit (and am purposely using "I" with a modicum of "you" as indicating "confession" on the one hand, and accusation on the other), that credit, or money, is the <u>chief influence</u>, but not the only one, and suspect that "state of mind" has more to do with prices than we realize.

(6) I am damned doubtful of all these data on "velocity."

(7) You are inclined now and then to push an idea rather hard--and lead me to wonder whether I have yet contributed anything to your views from my standpoint of bookkeeper. I'm so much interested in the geography of "cause" and "effect," and you seem so much less so.

(8) I say gold won't go out 'till the exchanges make it possible. You, Keynes, Cassel, et al, think gold can be shipped to England, for instance, with the pound of present gold contents at a discount. Can't be done! At least you won't put less gold in the pound!

(9) You have sent me some nice books and

(10) I thank you! But the one about old age I have doubts about. Wouldn't fit my case, anyway--and if Forster sees it he'll take my clothes away.

(11) The increase in circulation rates is ominous,--and

(12) I have been a few weeks wrong in my program. Had a feeling, or hope (poor benighted cuss that I am), that the March Conference would result in some really educational effort. My hopes, wishes, feelings, efforts are dashed to the ground, and we can't go to 5% soon enough. I'm sorry, but it's so, and you may tell Jay and Case, but no one else.

(13) I am now convinced, after weeks of reflection in bed, under the shadow of Pike's Peak, that were it not for my sense of humor, the last eight years would have turned me into a hardened criminal or an anarchist. Like a dog I'll wander back home in the fall, and be as much amused as ever.

So good luck to all of you at the bank. My throat gets better and better!

Yours,

B. S.

(Copied)

May 4th 1923.

Dear Mr. Snyder -

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So good luck to all of you at the Bank.
My throat gets better & better!

Yours

B. S.

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE May 7, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Mr. Beyer

Mr. Strong has directed me to inform you that he would like to have copies made of all letters and memoranda of any consequence which have been sent directly to you so that they may be kept with his correspondence here in the bank.

Will you be good enough to see that copies are made, or if you prefer I can have them typed for you.

May 8, 1923

My dear Chandler:

As regards the question of "cyclical movements" in prices:

We have monthly data on only one widely sampled index of wholesale prides, the Bureau of Labor, and this carries us back only to 1900. Since then I find the following perceptible swings:

| | Duration |
|---|---|
| April, 1900 to March, '03 | 36 months |
| April, '03 to Oct., '07 | 54 " |
| Oct., '07 to Mar., '10 | 30 " |
| Mar., '10 to Apr., '12 | 24 " |

Thereafter, to November, 1915, is a perfectly flat line, i.e., for forty-two months. That is, the cycle idea in this period totally disappears.

On this slender basis, do you think we are justified in speaking of a definite cycle or of "cyclical movements" in commodity prices?

My idea is that, as Prof. Persons has shown very clearly, certain types of commodities do seem to have a definite cycle or period, as revealed in his index of ten supersensitives.

But this cycle is much less clear in Bradstreet's, for example, and extremely obscure in the Bureau of Labor index; and my idea is that if we could construct an index of the general level of prices--wholesale, retail, wages, and all the rest--the cycle idea would wholly disappear.

Even on the Bureau of Labor index the widest downward swing shown in this period was from 97 to 90. And that was after the panic of 1907. And if within a period of fifteen years we have three years and a half in which there is no swing and no "cycle," and if in the remaining period the duration of a wave varied from twenty-four to fifty-four months, does this seem to you to justify the term "cycle?"

With best regards,

Always yours,

Dr. H. A. E. Chandler,
National Bank of Commerce,
New York City.

May 21st (I think), 1923 (I'm sure)

5:50 p.m. (which is within 15 minutes of being correct)

Dear Mr. Snyder:

There is but one joke (not choke) to make about this photo and I'm not sure whether I've tried it on the first floor front or not. I'm simply imbibing an "actinic cocktail" and got snapped by a nurse. The picture is deceptive in that it was taken A.M. and I no longer wear the uniform then. Am up for breakfast and one o'clock dinner and go back to bed at two for three hours, unless the sun is good when I take a half hour sun bath tout ensemble. Am far from ill! The nurse figured 1820 calories for breakfast the other day - as follows:

banana and cream
cereal
three eggs
five slices bacon
three sausages
six pancakes
glass milk
two muffins
two cups coffee.

You might check up her bookkeeping; and I may have forgotten some of it, by now. I did forget four pats of butter.

All of this family news in grateful appreciation of your fine letters, and the news, and what not!

Now to get down to a touch of - beezniz - (poor at Yiddish), here are a few reflections. I like the word because it assumes no originality!

First. I want to see the list of those men of learning with whom you foregathered in Chicago, - and the respective dates for the "crest" of this wave; INCLUDING YOUR OWN. As you may recall, my only doubt, but a big one, was lest they had overlooked the intervention of the Federal Reserve System. The said System has been clumsy in the extreme, but helped some (New York and Boston) and the country's common sense is doing some of the rest. "Burned child, etc." Too late now to change our rate, for a bit.

Now about friend ("quan. the.")!!! Do you know who I mean? And old pal p.p.p. !!! Things are going to happen you say. I think they may; but not what some folks expect.

Starting at V. of C. (know him?) I enclose a little skit which is explained as follows:

1st Stage. Theoretical condition of banks at any given date.

2nd Stage. Same banks, theoretically, over night, sell all investments to their depositors. (Of course this never happens, but gradually the same thing occurs) Note that deposits have shrunk $6,500,000,000. Will price level (general) change?

3rd Stage. Loans and deposits increased $6,500,000,000 over 1st stage. Won't prices increase?

And yet observe that this can occur without a dollar of gold imports or a dollar increase in loans of F. R. Banks. Probably- if this did occur - (Miller would say ha! Empirical) it could not be claimed that it was the cause of any change in G. P. L.

State it differently. - How much of the total checking deposits are static and how much dynamic? Or again, if 10%, or any old %, of all money in the country is buried, it won't act on prices - and if 50% or 10%, or any old %, of all bank deposits are static, they won't. Ha! you say again - Now I have him. Law of averages, etc. - I've heard you now and then! But is there any law of averages to apply to the state of mind of all these depositors? Suppose war starts, the % of dynamic deposits might go down and static up by a large proportion, and the reverse if war ends? Is there anything like a compensating average of the state of mind of 110,000,000 people. - optimists offsetting pessimists, savers vs. spenders, workers vs. loafers, etc.? I doubt it. I know a man who had $7,000,000 in bank for five years waiting for the time to invest it. Did that act on prices? For ten years I have had $10,000 minimum balance in bank. Did that? But my expenditures every month do! This "state of mind" is some factor in a country like ours, - and in France also!

Next! How does it happen that the exchanges are weak, imports at record, exports back to prewar, travel enormous, and foreign prices advancing faster than ours?

Do you know what is the inspiration of the p.p.p. folks? They took us for a bunch of boobs - especially Hawtrey, - they fully expected us to "inflate", cried for it, prayed for it, and autointoxicated themselves into the conviction we would. We'll fool 'em yet. I told you nearly a year ago they tried to put up a job on us at Genoa, and when old McKenna was here, I pleasantly led him a-saunter (a la King Charles) and he gave it away without ever knowing he had. Tut tut, and a chancellor once too!

Now joking aside - the tides are swinging - watch them. Don't think that we are to lose gold like fury all at once - we won't - but we can lose some as we did in 1919 and thenstop again. And about old p.p.p. - fill in the following blanks and see where it lands you.

Mr. French finance minister says to Mr. Robineau of Bank of France, - "old p.p.p. now enables us to do so, balance of trade improved, budget balanced (?), "our price level and American are at parity on gold basis, - let's buy some "American gold and replace what we sent them via London."

So M. Robineau does as follows:

Pays out (f x [a] ) for $50,000,000 dollars credit in New York, say on May 20th at that day's rate of exchange. Federal Reserve Bank of New York for his $50,000,000 ships him x ounces of fine gold, which M. Robineau puts in his reserve, after coining, as (f x [b] ) and the difference between the first ( x[a] ) and second amount ( x [b] ) is his loss, equal to the discount on the franc May 20, or to the premium on gold on that date. Now the only question left is whether the egg came from the hen or the hen from the egg.

Do prices cause exchange discount and premium, or do prices result therefrom. I think somewhat both ways - but no matter which it is, - until they change their coinage, or exchange passes gold point, we cannot lose our gold.

The neutrals and possibly London and the East will get it.

All of the above is addressed to the question, where lies cause and where effect. Can prices climb and do so quite a bit before the "quantity" of money need change. I admit and always have that we can always change prices by inflating and contracting, but cannot prices change considerably without any material change in quantity of money. Personally I think our data is imperfect on that owing to weakness in bank statistics.

Don't bother about Donham. He is a blow hard anyway, at times, and don't worry about the boom. We can hold the fort if we will - and later I'm going to get up a little program to see how it looks.

Finally - with all the calamity howling by Cassel, Hawtrey, et al., let me remark that just now things seem fairly comfortable and snug in old U. S. A. - while in Sweden - Cassel or no Cassel - they are helping out busted banks still, and not so double damned prosperous. Nor can England brag so much as yet!

For the rest of this year if the Federal Reserve Banks will take a base figure of, say, $1,200,000,000 as total earning assets, - and every month or week reduce them by selling good stuff or letting bills run off equal to gold imports, - I'll bet that we will be no cause of a boom. I have urged that now for a year, and last time I did (Oct.) a learned member of the Federal Reserve Board (since out) literally shouted that he never heard such d------ nonsense. We have the stenographic record of it all! And in the end I was voted down by one vote. Jay was there and wept with me.

That article of mine may appear some day and surprise you, but much polished. That was very rough when I sent it to you.

Please send this to Beyer to copy. I've a mean habit of looking back over my correspondence and see what a d------ fool I've been. My throat is doing finely. Gets dry very often, but I'll treat that myself on my return.

Best to you all. Tell Burgess I enjoy his stuff. But it seems to me that the increase in deposits (demand) in past few months, with little gold imported, has an undue share of blame for price advances since last call!

My best to you all. This is just steam escaping at the joints.

Yours,

B. S.

P. S. Private! When we put our rate to 4 1/2 I privately wrote some of my friends in the Banks of Issue in Europe that we didn't propose to inflate on our excess gold reserves. Thought they might like something in their pipes to smoke!

P.P.S. I may take a look about out here before returning, especially the N.W. How would you like to join me!

N. B. Unless the Federal Reserve Bank intervenes directly to export gold - our members must borrow for the amount exported, and the pressure to liquidate might prove excessive and force us to repeat our open market buying of the spring of 1922. Think that thru, old scout. Gold exports are bound to crack a boom in the nose! But they can be financed by us. - I'll show you how some day - so as to easily avoid any strain. Ask the Federal Reserve Board how it can be arranged and let me know what they say!

OMS-2 150M-9-20

FEDERAL RESERVE BANK OF NEW YORK

# INTEROFFICE ROUTE SLIP

OFFICE SERVICE MESSENGER SECTION

TIME ________ A. M. P. M. DATE ________

TO Mr Snyder

DEPARTMENT DIVISION SECTION

REMARKS Copy has been made for Mr Strong's files

FROM E. Beyer

DEPARTMENT DIVISION SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.

TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

If folks ask where I'm
away tell 'em I have
tuberculosis in my
larynx, — have had
it ten years in my
lungs — but am not
dead yet & don't
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quite a while!
I hear some are asking,
& don't give a damn
if they know!

If folks ask why I'm away tell 'em I have tuberculosis in my larynx. - have had it ten years in my lungs - but am not dead yet and don't propose to be for quite a while ! I hear some are asking! and don't give a damn if they know!

May 21st (I think) 1923 (I'm sure)
5⁵⁰ P.M. (which is within 15 min of being correct)

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I did forget 4 pats of butter.—

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And yet observe that this can occur without a dollar of gold imports or a dollar increase in loans of F.R. Banks. Probably if this did occur - (Mister Jones say ha! Eureka!)

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by Cassel, Hawtrey et al, let me remark that just now things seem fairly comfortable & snug in old U.S.A. — while in Sweden — Cassel or no Cassel — they are keeping out busted banks still, & not so double damned prosperous. Nor can England brag so much as yet!

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Yours —

B.S.

P.S. Private! When we put our rate to 4½ I privately wrote some of my friends in the Banks of Issue in Europe that we didn't propose to inflate on our excess gold reserves. Thought they might like something in their pipes to smoke!

P.P.S. I may take a look about out here before returning, especially the N.W. How would you like to join me!

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P.S. Private! When we put our rate to 4½ I privately wrote some of my friends in the Banks of Issue in Europe that we didn't propose to inflate on our excess gold reserves. Thought they might like something in their pipes to smoke!

P.P.S. I may take a look about out here before returning, especially the N.W. How would you like to join me!

N.B. Unless the F.R. Bank intervenes directly to export gold - our members must borrow for the amount exported, and the pressure to liquidate might prove excessive & force us to repeat our open market buying of the spring of 1922. Think that thru' old scout. Gold exports are bound to crack a boom in the nose! But they can be financed by us. - I'll show you how some day - so as to easily avoid any strain. Ask the F.R. Board how it can be arranged & let me know what they say!

Carl Snyder

8

Cragmor June 8th, 1923

COPY

Dear Mr. Foster,

Thank you most heartily for your kind note, and for "Money." Your good wishes help. I wish I might avail of your suggestion about Mr. Stewart, but I am as yet allowed neither exercise nor conversation, and they do seem to frown upon "company." It's a tedious job, but brings results.

I am about half way through the book. Its merit, to this tyro, is its simplicity and directness; not to mention that with almost all that I have read I am in hearty accord. There are a few points that I shall write you about when I have finished, and may I also ask whether you have anything on the F. R. System in prospect? If so give me warning and a scenario. I may send you a few points that most folks have not yet discovered - or if they have - are keeping it dark!

Incidentally, you are doing a fine piece of work, one much needed, and I wish I had the time and capacity to help.

If you are out here, do come and see me. I'm ruining my penmanship and the patience of all my callers, but come just the same.

Very sincerely,

Benj. Strong

P. S. Tell Catchings I'm heart and soul with him in the Monetary Assn - and hope he does not weary of well doing.

Copied

Dear Snyder -

Dont forget this! -
as to the "Tidal Time Tables on Prosperity" - Comparisons with past periods are likely to be as misleading or more so, than they are instructive. Why? Because (forgive the reiteration) there was no F.R. System during the former swings. If it works well - the swings will be less violent - if badly - they'll be hell!

B.S.

(COPY)

Dear Snyder:

Don't forget this!--as to the "Tidal Times Tables on Prosperity." Comparisons with past periods are likely to be as misleading or more so, than they are instructive. Why? Because (forgive the reiteration) there was no F. R. System during the former swings. If it works well, the swings will be less violent--if badly--they'll be hell!

B. S.

(COPY)

Cragmor, June 28, 1923

Dear Mr. Snyder:

I've a lot of much enjoyed and much unanswered letters from you. Excuses are good ones! I'm now taking 2½ hours of sun on the roof, tout ensemble, besides a half hour for my throat! Then I rest all afternoon, doing little more than read the newspapers. The result is a back and front the color of mahogany and quite an empty head! Kath. arrives today, and on top of that I'm moving rapidly toward four hours of sun a day--so I'm busy as hell doing nothing!

However, here's a word. I see my N. W. trip going up in smoke. They are too intent on my cure to let me off till all brown and crisp. I'm sorry for wanted to see those wheat farmers.

About Foster's book. I'd like to send him something, but here's the trouble. Since I wrote him have still been unable to finish reading the last third or so. Too much sun. Also, I am far from convinced that we should deal, or even assume to deal, with prices as he seems to think we should. On that opinions can properly differ. After I've finished the book I might send him something. It will be very useful and is in the right style of simplicity, and I like him! As soon as possible I'll write you decently. Am up at 6 A. M. to write a few letters and get ready for Kath's arrival. Am doing finely!

Best to all at the bank.

Yours,

B.S.

Copied

FIFTEEN NASSAU STREET
NEW YORK

Cragmor. June 28/23

Dear Mr. Snyder -

Got a lot of much enjoyed & much unanswered letters from you. Excuses are good ones! Am now taking 2½ hours of sun on the roof, tout ensemble, besides a half hour for my throat! Then I rest all afternoon, doing little more than read the newspapers. The result is a back and front the color of mahogany and quite an empty head! Kath. arrives today - and on top of that I'm moving rapidly toward 4 hours of sun a day - so I'm busy as hell doing nothing!

However -- here's a word. See me now - but going up in smoke. They are too intent on my cure to let me off till all brown & crisp. I'm sorry for wanted to see those wheat farmers

About Watkins book. I'd like to send him something but here's the trouble. Since I wrote him have still been unable to finish reading the last 1/3 or so. Too much sun. Also I am far from convinced that we should deal, or even assume to deal with prices as he seems to think we should. On that opinions can properly differ. After I've finished the book, I might send him something. It will be very useful & is in the right style of simplicity, & I like him! As soon as possible I'll write him decently. Am up at 6 a.m. to write a few letters & get ready for Kath's arrival. Am doing finely!

Best to all at the bank

Ever

B. S.

(Copied)

FIFTEEN NASSAU STREET
NEW YORK

Sunday

Dear Mr. Snyder—

Please give your lady my greetings! I put the message here as I have forgotten it in former letters, after slamming at folks, etc. I enjoy your letters, but why chide me for poking Chandler? You know he can do better stuff than that article; and you know also that I dont sit on any pinnacle of intellectual lucidity in judging, either. Couldnt if I wanted to.— Cant even spell half the time!

About that form you have joined, C. K. & Co.— they propose reducing the amount of gold in the coins do they? Have you found the place where they plainly say so?

and especially in their earlier pronouncements!
The coin must some day be changed, I agree
but the so called purch-power parity, with-
out the change in the coin, - is a myth &
you will some day agree - or do now. -

I can't write much now. All day & I'm
going on the roof. But your word about that
shriek of mine puzzles me & I await
your letter with interest.

Do you think our friends in W. have
spunk enough to do anything to me -
even if they wanted to? Should I break
loose just now? Nit!

Good bye & my best -

B. S.

Am doing finely -
It's only ordinary courtesy & decency that
keeps me quiet - not timidity. Nothing to
be afraid of!

(COPY)

Sunday

Dear Mr. Snyder:

Please give your lady my greetings! I put the message here as I have forgotten it in former letters, after slamming at folks, etc. I enjoy your letters, but why chide me for poking Chandler? You know he can do better stuff than that article, and you know also that I don't sit on any pinnacle of intellectual superiority in judging, either. Couldn't if I wanted to,--can't even spell half the time!

About that firm you have joined, C. K. & Co., they propose reducing the amount of gold in the coins, do they? Have you found the place where they plainly say so? And especially in their earlier pronouncements? The coins must some day be changed, I agree--but the so-called purchasing power parity, without the change in the coin, in a myth and you will some day agree--or do now.

I can't write much now. Nice day and I'm going on the roof. But your wire about that shriek of mine puzzles me and I await your letter with interest.

Do you think our friends in W. have spunk enough to do anything to me--even if they wanted to? Should I break loose just now? Nit!

Good-bye and my best,

B. S.

Am doing finely.

It's only ordinary courtesy and decency that keeps me quiet, not timidity. Nothing to be afraid of!

(COPY)

Cragmor, July 3, 1923

Dear Mr. Snyder:

I have a lot of interesting letters from you, all enjoyed, but am now so deeply enmeshed in my treatment, sun baths, etc., that I have mighty little time to write. Pardon the brevity of this.

I would like Hawtrey's new book. Much of it I have read.

Your plan of stabilization must be discussed. Writing is too hard and imperfect.

The trip in the N. W. is devilish uncertain. I have greatly wanted to make it but prudence indicates I must stay here my full six months.

Your memo. on Strauss's letter is too cryptic without the letter to see what he was driving at.

My sun baths (now nearly 4 hours a day) also interfere with reading--so I have not yet finished Foster's book. I wrote him when about half through. Also, don't recall quite what I wrote. I like the book, but cannot agree with his, your and all the college fraternity going to the extreme of having us regulate, stabilize or fix prices (meaning general level). It's <u>bad</u> talk, will hurt us and <u>not</u> fix the price problem. This is dogmatic and argument must come later--except--people generally know nothing of "general price level," and first thing we know Mr. Wheat Producer will want his price put up while Misses Sugar Consumeresses will want sugar prices put down. Let's stick to credit and do what we can at that job. It's enough without having price fixing thrust upon us! I'll let you know about Foster's book when I finish. But I like what he and Catchings are doing!

Thank you for the books. Yves-Guyot has not come yet. Do send me Willis' book. I want to glance through it and see how bad it is. He hates us and me, but I sometimes think he hates himself first and most!

Again, many thanks for your letters, for which this is a poor return. I now have Kath. here--which helps. Also, am doing very well indeed. Throat looks fine. Still allowed no exercise!

My best to you, and to all at the bank. And to your boss.

Yours,

B. S.

(Copied)

FIFTEEN NASSAU STREET
NEW YORK

Cragmor. July 3/23

Dear Mr. Snyder

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Thank you for the books. Yves-Guyot has not yet come. Do send me Willis' book. I want to glance three it & see how bad it is. It hates us and me, but I sometimes think he hates himself first & most!

Again many thanks for your letters — for which this is a poor return. I now have Kath. here, — which helps. Also am doing very well indeed. Throat looks fine. Stell allows no exercise!

My best to you, & to all at the bank. And to your boss.

Yours.

B.S.

MISC. 3.1 60M-4-22

Copied

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE July 11 1923

TO Mr Snyder.

SUBJECT:

FROM B.S.

Dear Mr Snyder.

My comment on "Tidal Price Tables" was badly expressed but I meant this:- Your examination of prices etc seems designed to disclose whether there is or is not a regular rhythm or sequence with fairly regular periods of fluctuation etc: And you take pig iron, stocks etc to show that there is not or that forecasts are hazardous etc. But nowhere do you point out that such a conclusion cannot be safely drawn, without any chart, because the whole credit system of the country has undergone a violent revolution which makes all such bases of prognostication valueless. That is exactly where

MISC. 3.1 60M-4-22

Copied

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE July 11 1923

TO Mr Snyder. SUBJECT:

FROM B.S.

Dear Mr Snyder.

My comment on "Tidal Ruins Tables" was badly expressed but I meant this:- Your examination of prices etc seems designed to disclose whether there is or is not a regular rhythm or sequence with fairly regular periods of fluctuation etc: and you take pig iron; stocks etc to show that there is not or that forecasts are hazardous etc: But nowhere do you point out that such a conclusion cannot be safely drawn, without any chart, because the whole credit system of the country has undergone a violent revolution which makes all such bases of prognostication valueless. That is exactly where

Babson went wrong & where Bullock will if he doesn't mind his Steps. In past years there was no influence or control at all. Now there is one, which may do good, or harm — but which is certain — whatever it does, to make comparisons of pre F.R. System & post F.R. System movements most misleading.

That's the point! Few writers realize how great our influence will be & has been!

I think Gowe Press was best of the lot as to when the swing would halt. Don't forget that with all our faults & mistakes, we have done better than all others, even

MISC. 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE 192

TO

SUBJECT:

FROM

Japan, in our credit policy & in getting business going & contentment restored, Nature did a lot of it - the F.R. System some, politicians nothing!

Good luck

B.S.

P.S. I have always felt that the transfer of demand to time deposits @ 3% reserve, needed watching. The F.R. Bd is just getting out a new regulation. These figures should be in their hands with a recommendation & soon! Speak to P.J.

Mr. Snyder

(COPY)

July 11, 1923

Dear Mr. Snyder:

My comment on "Tidal Time Tables" was badly expressed, but I meant this:--your examination of prices, etc., seems designed to disclose whether there is or is not a regular rhythm or sequence with fairly regular periods of fluctuation, etc. And you take pig iron, stocks, etc., to show that there is not and that forecasts are hazardous, etc. But nowhere do you point out that such a conclusion could be safely drawn, without any chart, because the whole credit system of the country has undergone a violent revolution, which makes all such bases of prognostication valueless. That is exactly where Babson went wrong and where Bullock will if he doesn't mind his step. In past years there was no influence or control at all. Now there is one, which may do good, or harm--but which is certain--whatever it does--to make comparisons of pre F. R. System and post F. R. System movements most misleading.

That's the point! Few writers realize how great our influence will be and has been!

I think your guess was best of the lot as to when the swing would halt. Don't forget that with all our faults and mistakes we have done better than all others, even Japan, in our credit policy and in getting business going and contentment restored. Nature did a lot of it--the F. R. System some; politicians nothing!

Good luck,

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P. S. I have always felt that the transfer of demand to time deposits at 3% reserve, needed watching. The F. R. Board is just getting out a new regulation. These figures should be in their hands with a recommendation and soon! Speak to P. J.

MISC. 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE (July 12) 192[3]

To Mr. Snyder.

SUBJECT:

FROM B.S.

Copied

Dear Mr. Snyder:-

Thank you for yours of the 10th. I want Willis' book, even if it's a curiosity. One must have freaks with a circus.

Those pages from the "Journal etc." are no doubt here, but I have not yet found them. Sorry. Sure they didn't go back?

Now I don't like the talk about stabilizing gold, or purchasing power of money, or prices being stabalized by the F.R. System at all. It is bound to lead to confusion, heart burn & headache. Look at sugar & wheat as examples. - also wages & bldg costs.

Our job is credit. It makes no difference if it's a deposit or a bank note. If we regulate and keep fairly constant the volume of this credit - always with due regard to good imports & Exports, which is a part of the Credit Problem, — we are doing our whole duty. Other price influences may then be dealt with by Hoover et al. — They are not our job. Of course we should ~~watch~~ watch prices, — and production & consumption & speculation: & lots of things to insure that our "plan" is correct in regulating volume. To come boldly forward, & volunteer to take the price problem onto our backs, & then fail, as we would surely do — is just criminal suicide. Lets deal with people & things as they are & not as one or another of us assumes as they should be" or "as we would like them to be".

Don't forget that Mr. General Price Level" is only the students affair in this world. Prices to all others mean to the housewife, cost of rents & supplies, to the

MISC. 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE ______ 192__

TO ______ SUBJECT: ______

FROM ______

workman — wages; to the farmer, what he produces etc. They each complain of one microscopic piece of the picture & some will always be complaining.

Harp upon & stick to Credit! Its our job — forget prices — & our share of the job will be well done. It has been pretty well done the past year or so too!

Your letter indicates you need no convincing. Read my arguments and urgings with the Governors & you'll see where I stand. How I wish I could write!

Yours.

B.S.

(COPY)

July 12, 1923

Dear Mr. Snyder:

Thank you for yours of the 10th. I want Willis' book, even if it's a curiosity. One must have freaks with a circus.

Those pages from the "Journal," etc., are no doubt here, but I have not found them. Sorry. Sure they didn't go back?

Now I don't like the talk about stabilizing gold, or purchasing power of money, or prices being stabilized by the F. R. System, at all. It is bound to lead to confusion, heartburn and headache. Look at sugar and wheat as examples,--also wages and building costs.

Our job is credit. It makes no difference if it's a deposit or a bank note. If we regulate and keep fairly constant the volume of this credit,--always with due regard to gold imports and exports, which is a part of the credit problem,--we are doing our whole duty. Other price influences may then be dealt with by Hoover, et al. They are not our job. Of course we should watch prices,--and production and consumption and speculation, and lots of things, to insure that our "play" is correct in regulating volume. To come boldly forward, and volunteer to take the price problem onto our backs, and then fail, as we would surely do--is just criminal suicide. Let's deal with people and things as they are and not as one or another of us assumes "as they should be" or "as we would like them to be."

Don't forget that Mr. General Price Level is only the student's affair in this world. Prices to all others mean, to the housewife, cost of rents and supplies; to the workman, wages; to the farmer, what he produces, etc. They each complain of one microscopic piece of the picture and some will always be complaining.

Harp upon and stick to credit! It's our job--forget prices--and our share of the job will be well done. It has been pretty well done the past year or so, too!

Your letter indicates you need no convincing. Read my arguments and urgings with the Governors and you'll see where I stand. How I wish I could write!

Yours,

B. S.

Dear Mr. Snyder:

Why wouldn't it be a good plan to take these figures, - our Earning assets, - (F. R. System) and the figures on transfer of demand to time deposits - & see what potential Expansion is suggested by the 3 factors

B.S.

OMS-2 150M-9-20

FEDERAL RESERVE BANK
OF NEW YORK

# INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

TIME ______ A. M. / P. M. DATE ______

TO Gov. Strong

DEPARTMENT
DIVISION
SECTION

REMARKS RECEIVED-2 354

JUL 13 3 40 PM 23

FROM Curtant

BANK Reports

DEPARTMENT
DIVISION
SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.
TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

GOLD IMPORTS TO AND EXPORTS FROM THE UNITED STATES

AND GOLD RESERVES OF FEDERAL RESERVE SYSTEM

---------------

(In Thousands)
of Dollars.

| | | Gold Imports | Gold Exports | Excess of Imports | Total Gold Reserves F.R.System (End of Mo.) | Increase in Reserves |
|---|---|---|---|---|---|---|
| 1921 | Dec. 28 | | | | 2,869,600 | |
| 1922 | January | 26,571 | 863 | 25,708 | 2,911,528 | 41,928 |
| | February | 28,739 | 1,732 | 27,007 | 2,951,434 | 39,906 |
| | March | 33,488 | 963 | 32,525 | 2,975,355 | 23,921 |
| | April | 12,244 | 1,579 | 10,665 | 2,994,776 | 19,421 |
| | May | 8,994 | 3,407 | 5,587 | 3,007,621 | 12,845 |
| | June | 12,969 | 1,601 | 11,368 | 3,020,868 | 13,247 |
| | July | 42,987 | 645 | 42,342 | 3,071,424 | 50,556 |
| | August | 19,092 | 956 | 18,136 | 3,063,414 | 8,010 |
| | September | 29,316 | 1,399 | 27,917 | 3,076,943 | 13,529 |
| | October | 20,866 | 17,592 | 3,274 | 3,078,049 | 1,106 |
| | November | 18,308 | 3,431 | 14,877 | 3,072,858 | 5,101 |
| | December | 26,440 | 2,710 | 23,730 | 3,049,451 | 23,407 |
| 1923 | January | 32,820 | 8,472 | 24,348 | 3,075,810 | 26,359 |
| | February | 8,383 | 1,399 | 6,984 | 3,072,813 | 2,997 |
| | March | 15,951 | 10,392 | 5,559 | 3,069,495 | 3,318 |
| | April | 9,188 | 655 | 8,533 | 3,080,579 | 11,084 |
| | May | 45,357 | 824 | 44,533 | 3,108,762 | 28,183 |
| | June | 19,434 | 548 | 18,886 | 3,087,703 | 21,059 |
| | | 411,147 | 59,168 | 351,979 | | 218,103 |

July 13, 1923.

I'm returning the reading you last sent - Liked the "Nation" very much -

Letter from Lord d'Abernon of Aug. 8, 1923 (in file)

Dear Mr. Snyder —

The new index has a big look. How sound are the foundations? Curious how nice the position of the curve is now, — & why not keep it there?

Yours

B.S.

I weighed 194 with 6 lbs of clothes on yesterday.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 1, 1923. 192

TO Mr. Synder

SUBJECT:

FROM Governor Strong

Here is another report from Miles. He will be here soon for Christmas.

H
M, 4043

BS.MM
att.

MISC. 4. 1-100M-3-23

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 1, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Dear Mr. Snyder:

What's this? A touch? I await your advice, but the papers have not come.

B. S.

All news to me.
Like to see plans.
C. S.

Hold until papers come

3-1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 7, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I still do not get the figure that I want on wheat. The flour figure is complete. My point is this: The stocks of wheat are represented by unground wheat in elevators, cars, etc., and on the farms. It is claimed that we do have on hand 150,000,000 bushels in excess of what we should have. If the actual visible stock of wheat (not flour) is 150,000,000 bushels, the surplus stock of wheat over a normal supply would be 150,000,000 bushels, less what is the normal working stock of unground wheat in the elevators, etc. Certainly we always have a stock of wheat on hand, just as we always have a stock of cotton or any other prime commodity, and in order to find the surplus we must deduct the normal supply from the total supply and see what the abnormal is. I want to find out, if possible to get it, what is the visible supply of unused wheat on hand this year, and what is a normal supply at this season of the year - in years when we have not experienced in this country and throughout the world an excess of production. Possibly an average for a period of years would be the way to get it. The difference will be surplus!

BS.MM

att.

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 20, 1923. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Better let this go. - I'm not keen about such affairs.

BS.MM

att.

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 20, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Again your friend Rorty!

There are so many of these economic schemes afloat that I get confused as to who and what they all are. I just can't contribute to everything - if they want a contribution - and can't be an endorser of everything! If they just want to tack my name on to something, won't you please advise me?

If this is a part of Moulton's enterprise - which it doesn't, however, seem to be - I must say that I am a bit jolted in my appreciation of their ability, after reading Moulton's book on Germany's capacity to pay.

BS.MM
att.

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 19, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

The decline in £ should soon be reflected in the index of "sensitives". With Sterling 12% or more below par the relative level would be say

| | | |
|---|---|---|
| British | about | 162 or 3 |
| U. S. A. | " | 145 or 6 |

Watch it and see what happens.

Further, I suspect the "wise" ones in Wall Street look for a business setback and have set the stage to "let go". How does it strike you?

BS.MM

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

F

# OFFICE CORRESPONDENCE

DATE Nov. 24, 1923. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Just what I wanted. Keep these handy for me in case I want them later.

[Calvert to Snyder
Wheat Nov 9, 1923]

BB.MM

att,

MISC. 4.1-30M 10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Nov. 20, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Professor Bullock hangs on hard (so do you) to the fear that we are in for an inflation boom. Barring a tariff issue, I can't see that politics* will be any influence on business, the next six months.

* domestic

BS.MM
att.

MISC. 3-1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 1, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I think it would be a good plan to get up a questionnaire for the Department of Commerce. On the other hand, I think it would be a mistake to have us given credit publicly for any work that we do in this connection. If you understood, as well as I do, after long experience, the reluctance which all bankers feel about giving any information which is to be turned over to any Department of the Government, you would know that a public statement by the Department of Commerce that we had helped to compile this information would greatly increase the difficulty which we might later encounter in getting information in response to any questionnaire. As a friend of mine once said- "It's better to get a thing done than to get credit for doing it."

BS.MM

att.

TRANSLATION OF INCOMING CABLEGRAM

London, England

December 4, 1923

Federal Reserve Bank of New York

New York N Y

No. 41 Money easy Friday Treasury bills averaged £3.5.3 Tap rate 3 per cent. Three months' bills quoted at 3 1/4 Stock markets rather more confident but very little business pending election Times index figure for November shows rise of 4.3 to 168.1 This increase is the greatest for two years and the new level is higher than any since October 1921 Increase due chiefly to food and industrial materials specially cotton

BANK OF ENGLAND

Mr Snyder

Does this not be proving the point I made, - or is it simply coincidence

B S.

SC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 10, 1923 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I really think it will be impossible for me to do the War College job this year - it is too much of a drag on one's voice in that wretched hall.

Do you feel like corresponding with Colonel Simonds about it and making arrangements for the sort of address they like? I might attend and answer a few questions if that seems worth while, but I couldn't do much talking.

BS.MM

MISC.3.1-200M-9-20

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 13, 1923.

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

The question is - Did the chicken first come from the egg; or did the egg come from the chicken? Does a falling exchange put prices up; or does an advance in prices put exchange down? You know that great school of modern impractical economists abroad who discussed purchasing power parity so learnedly had certain notions on this subject, and I am wondering how they reconcile with the fact that the balance of payments adverse to Great Britain (service of the debt and export of capital principally throw it out of balance) actually seems in this instance to have depressed sterling, with a subsequent important advance in the price index in England. Is exchange a cause of price movement; or a result of price movement? You know, there are some of us who think that it is sometimes cause and sometimes effect. Again there are some who think differently. What do you think?

BS.MM

att.

C 3 1 STAT. 3600-10-21

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 13, 1923

TO Mr. Snyder

SUBJECT: Japanese Relations

FROM Governor Strong

If it does not involve too much work, I would like to have a little study made of the extent of the economic dependence of Japan upon this country, which means:

1. The amount and character of their imports from us.
2. The amount and character of their exports to us.
3. The amount of financing they do in this country.
4. The amount of the reserves held in this country.
5. The amount of the carrying trade in Japanese vessels with this country.
6. The amount of tourist travel to Japan.
7. The probable amount of Japanese remittances from this country to Japan.

Other items may occur to you.

Is it possible to get at something of this sort without too much work?

Of course the figures will be important as to their imports and exports if we show the proportion of each commodity exported or imported with this country to the total with all countries. For instance, what proportion of their silk do we buy, and what proportion of their cotton imports do they buy from us?

It was not easy to get all the things that you wanted. Will this suffice?

MISC. 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 27, 1923. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I remember my father telling me that after the panic of 1873 he had seen oats growing between the cobble stones on Broadway at Wall Street. The city was absolutely dead. The decline in wages following the Civil War advance was about coincident with the 1873 panic and the enormous liquidation that followed. The fairly stable wages from 1870 - 1873, which also appears in wholesale prices, doubtless was due to the fair degree of stability which resulted or was accompanied by the adjustment of prices to the premium on gold. It seems to me that the conclusion which you draw from the comparison of the two charts is not complete without more clearly stating that there seems little likelihood of a decline in wages unless we have a period of liquidation, and little likelihood of liquidation without credit restriction, and little likelihood of credit restriction with such a large volume of potential credit in the country unless we have gold exports, and little likelihood of gold exports until foreign currencies are readjusted to a new gold standard, and therefore little likelihood of wage reductions. I could go a long way on this without reservation.

BS.MM

att.

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F. R. C. 3.1 60M-4-22

FEDERAL RESERVE BANK
OF NEW YORK

# OFFICE CORRESPONDENCE

DATE Dec. 27, 1923 192

To Mr. Snyder SUBJECT:

FROM Governor Strong

In the second paragraph of your confidential memorandum on "What is the General Level of Prices?", you mention paper money inflation as having been invented in about 1690. This may be literally true, but there was a species of inflation in India in the 13th Century, which is exceedingly interesting, although, as I recall, it occurred with metal money. One of the slave Kings - I think it was Kutb himself - who, as you recall occupied the ancient city of Delhi before it was moved, invented a device for issuing a small copper coin which was a representative coin and redeemable for a given value of gold. Due either to his extensive wars, which may have led to overissues of the copper coins, or, as some have suggested, to very extensive counterfeiting of the copper coins, this metal currency depreciated tremendously in value, and in order to allay the distrust, and avoid a great upheaval, he sacrificed a great part of his fortune in actually redeeming these coins in gold, notwithstanding that there were many of them spurious. The question of whether it was paper or metal is unimportant, but it might be interesting to look into this very ancient history of currency inflation.

The memorandum is a very interesting one. I am wondering, however, if it does not involve a species of duplication in carrying wages into a price level including commodities, which already include wages.

BS.MM

att.