

GEORGE J. SEAY
RICHMOND, VIRGINIA

January 28, 1915
B. J. Strong, Jr.
JAN 29 1915
PERSONAL

Dear Mr Strong:

I am asking the bankers of Richmond to meet our directors at luncheon at my home on next Thursday which is our regular board day.

You should receive by this same mail an invitation to join us, and I am writing this to say that it would give me very great pleasure if you can manage to do so.

I have just received a message from Mr McDougall saying that Mr Harding had requested our clearance Committee to meet a similar Committee of the Reserve Board on that day.

I answered explaining that it was

board day and that I had arranged for
this luncheon, asking him to use his best
efforts to fix upon some other day, in which
I sincerely hope he will be successful,
& that another day will suit all the others
as well.

I should be greatly distressed to
miss any part of that successful meeting.
My interest in it is absorbing.

Washington is only three hours from
Richmond, and it may be that the day
arranged for the meeting will fit in
well with a visit to Richmond.

Should you not be able to spare much
time I will say that there is a train
returning to Washington at 4 P.M. and
one at 8:20 P.M.

I shall be delighted if you can be
with us.

Sincerely yours
George J. Selig

FILING DEPT.

235

FEB 2 - 1915

FEDERAL RESERVE BANK

BENJ. STRONG, JR.
PERSONAL.

January 30, 1915.

My dear Governor Seay:-

I am sending you, under separate cover, a set of circular letters and forms issued by the Gold Fund Committee advising contributors in regard to the distribution of the Fund, which are self-explanatory.

A large number of the contributors have taken advantage of the "Second" way as set forth in the Committee's circular of January 27, 1915, desiring a check of the Federal Reserve Bank of New York in lieu of the actual gold.

We are therefore issuing our cashiers checks to contributors desiring our checks and receiving a draft on the Assistant Treasurer of the United States in New York to offset the amount of checks so issued.

It was originally intended to request member banks to deposit with the Federal Reserve Bank in their district the check issued to them, but as the majority seem to desire to have checks issued to their New York correspondents for their accounts instead, it will be impossible for us to determine the amount of the checks which will be deposited with the various Federal Reserve Banks.

Respectfully,

Governor.

George J. Seay, Esq.,
Governor, Federal Reserve Bank,
Richmond, Va.

*Same letter
sent to each
Governor*

MAILING DEPT.

JAN 30 1915

FEDERAL RESERVE BANK

BENJ. STRONG, Jr.
PERSONAL.

Jan. 29th, 1915.

My dear Governor Seay:

It is disappointing to learn that you will not be able to attend the meeting in Washington on the 4th, and you will also understand, I judge, that on that account, I am unable to accept your kind invitation for luncheon that day.

Later on, I hope to have the pleasure of seeing you in Richmond, but for this week and some weeks to come, I am going to be pretty hard pressed for time.

With many thanks for wishing to have me with you and meet your Richmond friends, I am,

Very truly yours,

Governor.

George J. Seay, Esq.,
Governor, Federal Reserve Bank,
Richmond, Va.

BSJr/VCM-7

FEDERAL RESERVE BANK OF RICHMOND

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February 1, 1915.

FEDERAL RESERVE BANK
OF NEW YORK

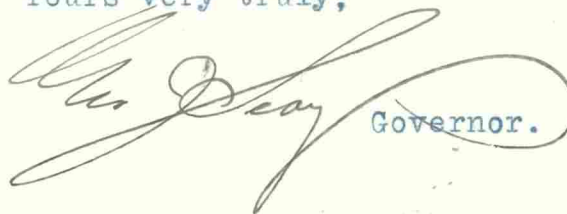
Benjamin Strong, Jr., Esq., Governor,
Federal Reserve Bank of New York,
New York, N. Y.

BENJ. STRONG, JR.
PERSONAL.

Dear Governor Strong:

Please accept our thanks for your letter of the
30th and for the circular matter relating to the distribution
of the Gold Fund.

Yours very truly,


Governor.

FEDERAL RESERVE BANK OF NEW YORK
FEB 2 1915 10 06 AM

RECEIVED

BELL STRONG & COMPANY
TREASURER

Dear Sir: I refer to your letter of the
10th inst. regarding the distribution
of \$100,000.00.

Very truly yours,

Handwritten signature and initials

*Mr. George James Seay
requests the pleasure of your company
on Thursday, February fourth
at two o'clock*

*to meet
The Directors
of the
Federal Reserve Bank of Richmond*

B. A. W.
JAN 29 1915
BENJ. STRONG, JR.
PERSONAL.

*Please reply
1215 West Franklin Street*

Buffet Luncheon

GEORGE J. SEAY
RICHMOND, VIRGINIA

February 9th 1915

Dear Mr Strong:

If the opportunity had presented itself at our recent Committee meeting in Washington, I should have offered to discuss the subject which you had two or three times mentioned to me at the several conferences of the Governors - that is, the "fourth partner" in your great adventure in New York.

I am taking for granted that there was something more than mere compliment in your repeated allusions to the matter, and in your frank reference to the situation in New York, and to your own plans for the future. at the same time I think I quite understand what was passing in your mind and do not assume more than was expressed.

YASB 4 30003
EDWARD M. REAGAN
MICHIGAN

If, however, as I understood you to say, a further conversation on the subject would be very interesting to you, I shall be glad to go to New York for that purpose at any convenient time, and doubtless we can have a frank talk without the least restraint on either side.

The development of this financial system appeals to me, since it is in the line of lifelong study, training and experience - and I might add ambition.

I agree with you that a vast deal is yet to be done to develop the Act and the operation of the system along sound lines, and a man may well devote a good part of his life to that end.

I am also convinced that there is opportunity and room for the exercise of all the experience and ability which can be

GEORGE J. SEAY
RICHMOND, VIRGINIA

brought to bear upon the subject.

It will, I am sure, interest you to know that our directors are disposed to stand pat on the salary question, and will take any position on the matter that I suggest.

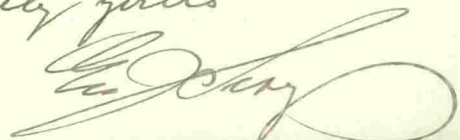
It is the impression that the attitude of the Washington Board was due, or perhaps chiefly due, to a certain member.

Possibly that fourth partner has come definitely into view since our last conversation - or is on the horizon -

If so, I shall be much interested to hear about him and shall sincerely hope that he will fit exactly into your scheme of things.

With kindest regards

Sincerely yours



GEORGE J. SEAY
RICHMOND, VIRGINIA

April 6th 1915

R.A.H.
APR 14 1915

Dear Mr Strong.

If I am not much mistaken you will be greatly interested in the inclosed paper which I am sending for your confidential perusal.

I shall be very glad if you will give me your opinion upon the matter without reserve - Do you think the position of our directors is well taken and fully justified, or do you think they have gone too far in any particular?

You are familiar with what has gone before - of course we have given no publicity to this to the least degree -

It is a close confidential matter.

Omitting myself, the paper is signed by all except the Cass & Directors, two of whom rather approved the stand taken, but were unwilling to go as far as the paper indicated. Kindly return the document to me.

I trust that you feel much set up by your holiday.
With my kindest regards - Sincerely yours G. J. Seay

BE IT RESOLVED:

1st.

That the Directors of this Bank have received with profound regret and dissent the reply of the Federal Reserve Board to the resolutions of this Board passed at a meeting held on the 4th day of March, 1915, relating to the salary of the Governor of this Bank.

2nd.

That the Directors of this Bank are and will be held to be responsible for its management; that by reason of residence away from the seat of management on the part of those not officially connected with the Bank they are compelled to act through a chosen representative to a greater degree than the Directors of ordinary banks; that the Governor of this Bank is its Executive head; appointed by the Directors to represent them in the administration of its affairs, and is responsible to them for its efficient management and in all dealings with its stock holders, the member banks, by which the majority of this Board are elected:

3rd.

That in selecting a Governor the Directors of this Bank were actuated by a high sense of their responsibility; that they are, and should be, free to determine for themselves the person, the ability, experience and qualifications desirable and necessary for the responsible position, and are and should be free to control within reasonable limits the compensation which should be paid and may be necessary to be paid to their representative, realizing that it is but a narrow step between the control of the Governorship and the control of compensation for that office, and moreover, acutely conscious that the right or power to fix the compensation carries with it the power to defeat any appointment to said office:

4th.

That in overruling the deliberate judgement and unanimous action of this Board taken in the best interests of the Bank, and in arbitrarily fixing the salary of the Governor after his election by this Board and the determination of a proper and reasonable compensation, (which judgment is sustained by a comparison with salaries paid in other

Federal Reserve Banks), the Federal Reserve Board has abridged the autonomous management of this Bank in a manner which, is not in our opinion warranted except upon misuse of the powers of Directors or a gross error of judgment, and that in taking such action involving the personal responsibility and the integrity of the judgment of the Directors in a matter peculiarly within their province, the Federal Reserve Board has assumed a control over the authority of Directors which cannot in the future fail to prove dangerous to the exercise of independent judgment. Such action is viewed by us with grave anxiety, and will in our opinion tend to create uneasiness and alarm among the member banks, already jealous of the^{ir} autonomy, and of their part in the conduct of the Federal Reserve System through Directors elected by them to represent themselves and their business interests.

5th.

That the Directors of this Bank desire to place on record their belief that the success of the Federal System of banking, as at present constituted and governed, lies in giving the fullest measure of autonomy possible to Federal Reserve Banks, in order to develop that close sympathy and feeling of local interest and understanding between the management and Directors and the member banks in the several districts, which would otherwise be impossible in this great country with its complex relations, and which in our judgment is absolutely essential to the establishment of confidence and good will, and is particularly essential in this connection in order to bring State banks into the System:

6th.

That the present action of this Board is based upon a deep conviction of its duties and responsibilities, its just and independent powers, and is not determined by its relations to the present Governor of this Bank, who in our opinion, however, combines a knowledge of the science of banking, a familiarity with the details of its practice and of accounting, with a sound judgment of the correct principles of credit, in a higher degree even than this Board believed he possessed at the time his salary was fixed by this Board.

7th.

That it is the desire and purpose of this Board to co-operate with the Federal Reserve Board with mutual understanding having

only in mind the development of the Federal Reserve System to its highest possibilities of good, and to that end its best efforts will be always directed.

8th.

That the Directors of this Bank regard it their sacred duty to point with deep concern to the action of the Federal Reserve Board, in the following Particulars:

- A. The repudiation of the judgment and unanimous action of the Directors of this Bank fixing the salary of the Governor.
- B. The announcement, see First Annual Report of the Federal Reserve Board, page 190, that this Bank had fixed the said salary at \$10,000.00, when in fact no such action was taken by this Bank or its Board of Directors.
- C. The arbitrary fixing of said salary by the Federal Reserve Board, thus usurping in our opinion one of the prerogatives of this Bank's Directors, see paragraph 44 of section 4 of the Federal Reserve Act.

That against and on account of the foregoing this paper writing is filed as a respectful but solemn protest, and it is directed that the same be made a part of the minutes of this meeting, and that a copy be transmitted to the Federal Reserve Board.

(Signed) John F. Bruton,
" Edwin Mann,
" D. R. Coker,
" James F. Oyster,
" Waldo Newcomer. (By wire)

Confidential
Kindly return at
convenience

Your Special Committee to whom was assigned the duty of preparing resolutions relative to the actions of this and of the Federal Reserve Board bearing upon the Governor's salary, beg to submit the following preamble and resolutions, the adoption of which we respectfully recommend:

WHEREAS, the Board of Directors of this Bank did on the _____ day of November, 1914, fix the salary of the Governor of the Bank at Fifteen Thousand Dollars from the date of his election, to-wit: October 5, 1914, same to be payable monthly; and whereas, upon report of this action to the Federal Reserve Board same was not at once acted upon, but through a semi-private letter of one of the Federal Reserve Board the sum of ten to twelve thousand dollars was suggested; and whereas, at the succeeding meeting of this Board resolutions in support of our action were adopted, and forwarded to the Federal Reserve Board for consideration, and to which reference is here made; and whereas, later a Special Committee by our instructions visited Washington and laid the matter before Mr. Harding of the Federal Reserve Board, report of this conference having been made to this Board; and whereas, following a full and free discussion it was unanimously agreed by this Board that the interests of this Bank would be promoted by paying the Governor the salary first named, to-wit: Fifteen Thousand Dollars; and that it would be proper to respectfully urge the Federal Reserve Board to reconsider its action disapproving the amount of salary fixed by this Board as aforesaid, and that resolutions be submitted setting forth some of our well considered reasons:

NOW THEREFORE BE IT RESOLVED:

1. That in justification of our action we respectfully emphasize the reasons heretofore assigned and hereinbefore referred to, copy of which here follows, to-wit:

(COPY OF RESOLUTIONS ADOPTED NOVEMBER, 1914)

NOW THEREFORE BE IT RESOLVED that the Board in support of its action of last meeting in fixing the salary of the Governor at the sum of fifteen thousand dollars per annum, to begin from the date of his

election, October 5, 1914, same to be payable monthly;

That this salary cover as well the services to be rendered by Mr. Seay, the Governor, as a member of the Federal Advisory Counsel;

Respectfully submit the following as some of the reasons in support of the foregoing and the same are submitted to the Federal Reserve Board, through the Federal Reserve Agent, as follows:

1. A majority of the Board of Directors are direct representatives of the stockholders of this Bank, and as an excess expense ratio will primarily affect the interests of our electors, the member banks, to whom we regard ourselves as personally accountable, we have given the matter of the salary of the Governor our most careful consideration.

2. The incumbent of this office, Mr. George J. Seay, is, in our opinion, by equipment and experience eminently qualified to fill a position supported by a salary of this amount.

3. We are informed by outside indisputable authority that he has within the last twelve months declined a position of very high trust at a salary of twelve thousand (\$12000) per annum.

4. We have advised with responsible representatives of some of the largest member banks in the District, and they have counseled us to fix the salary at not less than fifteen thousand dollars.

5. Mr. Seay's usefulness to this Bank as Governor will be crippled, and the Bank's position in the District suffer should the salary be fixed at a less amount; for that, the highest salary paid by any bank in the City of Richmond is larger by \$3000 and one of the next highest is less than the salary named by a like sum.

6. A large majority of the banks in the territory composing this District are State banks and the prospects of securing them as members will be improved by the rank immediately accorded the Federal Reserve Bank of Richmond, and by the remarkable tact, ability and especially by the clearness of thought and expression possessed by Mr. Seay -- all of which can best be assured by the payment to him of a proper compensation, which we find

to be not less than fifteen thousand dollars.

And we burden him further, without extra pay, with the responsible duties of representing this Bank as a member of the Federal Advisory Counsel.

7. By virtue of conditions confronting the Board, it is practically impossible for its members to give the bank daily or even weekly personal attention, and as long as the responsibilities incident to its management remain none the less their own, the members of the Board are not content to place a smaller estimate than the amount named on the services to be expected from the Executive of the Bank.

AS FURTHER REASONS WE RESPECTFULLY SUBMIT:

1. That in many of the districts the salary of the Governor is twice the amount of the salary of the Federal Reserve Agent, and that in ^{other} no district save one, to-wit: District #10, is the salary of the Governor fixed the same as that of the Federal Reserve Agent, and it is respectfully suggested that this having been done by the Board of Directors of that District there were undoubtedly well considered local reasons for such action. And further, - that no schedule or plan has been followed in fixing the salaries of the Governors or other officials, and the judgment of the directors, guided by circumstances and the fitness of the man for the position has prevailed.
2. That the action of the Federal Reserve Board in disapproving the amount of salary fixed by us for the Governor unconsciously or otherwise discriminated against this District, or will be so construed, for that the aggregate amount of the salaries of the other Governors is 65% larger than the aggregate amount of the salaries of the other Federal Reserve Agents, and that the chief reason given by the Board for its action - to-wit- the desire not to burden the bank with expense has proven by the operation of the bank to be less applicable to this district than to any other.
3. That the responsibilities of the Administrative head of this Bank are as large comparatively, if not larger, and probably more complex than any other District in the system.
4. That the work of the Executive or Administrative department of this Bank is in advance of any other District in the system, and this, notwithstanding the fact that the duties of the Cashier have thus far been discharged in part by the Governor, effecting a saving to the Bank to date of from sixteen hundred to two thousand dollars.
5. That after full review in the light of all knowledge and developments, we are firmly convinced that the action of this Board was just and well founded.

WHEREFORE WE RESPECTFULLY ask that the Federal Reserve Board re-

consider its action and confirm the judgment of ~~(or disapproval of the action~~
~~of)~~ this Board in fixing the Governor's salary at Fifteen Thousand Dollars.

P E R S O N A L.

February 24th, 1915.

Dear Mr. Seay:

I have been trying every minute since receiving yours of the 9th inst., to write you a longhand letter, but it has literally been impossible on account of engagements at home, my absence from the city and the tremendous amount of work at the office.

I am most anxious to have a serious talk with you along the lines of your letter, and as we are to have a meeting of the Clearance Committee at an early date, I take this opportunity to drop you a line to suggest that we get off in a corner and talk it over then. Is this soon enough to meet your own views?

Please accept apologies for my delay in writing you, which was absolutely unavoidable, also, my very warmest regards.

Very truly yours,

George J. Seay, Esq.,
Governor, Federal Reserve Bank,
Richmond, Va.

BS Jr.

Mr. Strong

182

FEDERAL RESERVE BANK OF RICHMOND

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MAR 31 1915 8 59 AM

FILING DEPT.

FEDERAL RESERVE BANK
APR 2 - 1915 NEW YORK

*ack. 3/31/15
26*

March 30 1915
FEDERAL RESERVE BANK

My dear Governor Strong,

By the time this reaches New York you probably will have returned from your short vacation, which I hope you greatly enjoyed.

The enclosed will explain itself. I am very much interested to know your comments upon the suggestion of the Board.

With kindest regard, I am

Very truly yours,

Wm. D. Boy
Governor.

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

Enc.

RECEIVED

8 30 AM '35

MEMPHIS

FEDERAL RESERVE BANK OF MEMPHIS

BILLINGHAM

FEDERAL RESERVE BANK

FEDERAL RESERVE BANK OF RICHMOND

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MAILING DEPT.

APR 9 1915

FEDERAL RESERVE BANK

April 9,
1915.

Dear Sir:

Mr. Strong returned to the office on Monday, and since that time has been so busily engaged that he has found it impossible to reply to the two letters received from you in his absence. He has asked me to write and apologize for the delay and advise that you may expect to hear from him in a day or two.

Very truly yours,

Secretary to Mr. Strong.

George J. Seay, Esq.,
Governor, Federal Reserve Bank,
Richmond, Va.

VCM

GEORGE J. SEAY
RICHMOND, VIRGINIA

April 13th 1915

Dear Mr. Strong:

I have just received your letter of the 12th returning to me the paper upon which I asked the benefit of your judgment.

I shall be very glad if you will discuss it with Mr. Curtis and give me your joint opinion at your convenience or upon the occasion of our next meeting. I am sure you will understand that no publicity has been or will be given to this. It will be kept within the privacy of our board, and since you had made me feel that I had not assumed too much in asking you to share this privacy, I hope you will give ^{me} your unreserved opinion upon it as a matter affecting our board.

I know you will understand from previous explanation that the stand taken has no regard to me personally - The society incident is a closed one, and is

only responsible for the document in the sense that
it gave occasion for everything which followed -

I of course raised no contention over such a
matter, but on the contrary - decidedly on the contrary -
Nor have I taken part in discussions bearing upon
the question -

The document was intended to be a respectful
but firm protest against interference - and something more -
It long since ceased to be a personal matter and was
regarded by the board as one of principle upon which
they felt called upon to make a declaration - I am
giving their view - and am sufficiently acquainted
with their minds to feel positive upon this - It is the
end of the chapter so far as they are concerned, and
it was not their original intention to submit it to the
Federal Reserve Board, but simply make it a matter
of record.

Consider it therefore entirely apart from me
personally - I would not under any circumstances have
been a party to a contumacious, hoarse reference to myself upon
a matter of such a nature - They regard it as their affair
from the point of view above described, and the seriousness
of it is sufficiently indicated by the paper.

With warm regards, sincerely yours
Geo. D. Hoag

164

GEORGE J. SEAY
RICHMOND, VIRGINIA

December 23rd, 1915.

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

Dear Mr. Strong:

This is to give you my very best wishes for a happy Christmas and a most prosperous New Year, and I wish to take the occasion to express the very great pleasure derived from our personal intercourse during the past year, and the hope that the friendships which have grown up among us will be strengthened in the coming year.

With my warmest regards,

Sincerely yours,



164
GEORGE J. SEAY
RICHMOND, VIRGINIA

February 1st 1916

Dear Mr Strong:

I am sending you
my best wishes for a safe
and recreative trip, and for
the full accomplishment of
your purposes.

Sincerely
George J. Seay

164

FEDERAL RESERVE BANK OF RICHMOND

FIFTH DISTRICT

OFFICERS

GEORGE J. SEAY, GOVERNOR
CHAS. A. PEPLER, VICE GOVERNOR
GEORGE H. KEESEE, CASHIER

CALDWELL HARDY,
CHAIRMAN AND FEDERAL RESERVE AGENT
H. B. WILCOX, BALTIMORE, MD.
JAS. F. OYSTER, WASHINGTON, D. C.
JOHN F. BRUTON, WILSON, N. C.
EDMUND STRUDWICK, RICHMOND

DIRECTORS

JAMES A. MONCURE,
DEPUTY FEDERAL RESERVE AGENT
EDWIN MANN, BLUEFIELD, W. VA.
M. F. H. GOUVERNEUR, WILMINGTON, N. C.
D. R. COKER, HARTSVILLE, S. C.

October 27th, 1916.

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

B.A.H.
NOV 1 - 1916

My dear Strong:

I have thought of you many many times, and hearing that you like to receive letters from the seat of war I have determined to send you this so that I may hear from you directly as to how a war horse feels when he is far from the battle.

I know that you have an inordinate appetite for work, and I am entertaining the conviction that you are making the most of your furlow to hatch out trouble for the Federal Reserve System.

We all missed you tremendously at our last gathering in Boston, and tried to make it plain to you as far as a personal telegram would do it.

I am sure that it would have warmed your heart to hear expressions of affection and admiration from everybody there.

I came down from Boston with Kains, and we spent half a day together in New York. He is a bully good fellow, as you know, and becomes more and more attractive as you know him better. He had many entertaining things to tell of his visit to South America. Having traveled more or less over the world he has acquaintances and friends in most every port, and I understand that it was because of some wonder and amusement, particularly to Mr. Untermyer, to find that Kains knew somebody, either from back home or elsewhere, at most every important place visited. Untermyer thought that he was

Benjamin Strong, Jr., Esq:

-2-

October 27th, 1916.

bluffing until it proved otherwise.

Aiken presided over us in Boston and was much occupied in keeping us all from talking too much. Mr. Delano and Mr. Harding, who, as you know, were with us, fitted into the scheme of things admirably and were quite outspoken in meeting..

But for the fact that I know you like to be where the trouble is thickest I should say that you were lucky to be away at the time of launching the new collection system. It interfered with the holiday plans of most all of us, and I have not been able to get more than a two weeks period even yet. Aiken, I think, had to postpone his expedition after Block Island tuna and Maine trout. I believe you have some trout fishing in your vicinity. If so, I envy you, since that is my most beloved pastime.

Well, we launched the collection system along the lines previously agreed upon, which caused us all so much travail.

There are kickers aplenty, of course, but most of the banks, particularly the larger ones, are praising the system and the public is certainly keenly interested in the results.

One of the effects of the operation of the system is encroachment upon reserves. Of course there is no real reason why this should be so, since the plan is upon the deferred credit basis, but some of the banks have nevertheless made it a pretext for encroaching upon reserves. We have been imposing the penalty since the first of August, and the charge for that offense during the month of August amounted to about \$4,000.00.

I communicated all this to the Board, all of whom were keenly interested and seemed to entirely approve the position taken by this Bank.

As a result of the imposition of the penalty, or as the result of the combination of other causes, our reserve balances have increased about

Benjamin Strong, Jr., Esq:

-3-

October 27th, 1916.

\$3,000,000. The amount of reserve required to be kept with us on June 30th, which is the last Comptroller's report, was \$15,700,000. To day our reserve balances are \$21,500,000. This, of course, does not include any deferred credits which frequently amounts to as much as \$8,000,000.

If anybody was in doubt as to there being such an "animile" as float, this collection system will convince them. We are not doing more than twenty per cent. of the collection business of the district, according to my estimate, although up to this time this Bank has been doing more than any of the other Federal Reserve Banks, excepting, of course, the big banks of New York, Boston, Philadelphia and Chicago.

At this time of the year New York is in debt to us at every weekly settlement period, but that state of affairs will change later on.

For the period September 1st to October 11th we paid New York \$103,000,000. through the gold fund. For a few weeks back New York has been paying us at the rate of about \$2,000,000. a week.

I am very deeply interested in the matter of making checks of member banks on Federal Reserve Banks pass at par for immediate availability at all Federal Reserve Banks, settlement to be made through the gold fund daily of course. This matter was discussed in Boston, and while there were some objections to and disbelievers in the plan, the majority sentiment was favorable to it, and the two members of the Federal Reserve Board stated that the Board believed it to be desirable if it could be effected with entire safety, which I am sure can be done.

This will operate in favor of the New York Reserve Bank, although, of course, it will tend to operate against member banks, at least in the Central Reserve Cities, since it will if put into effect substitute Federal Reserve

Benjamin Strong, Jr., Esq:

-4-

October 27th, 1916

exchange to a very large degree for New York exchange. It will also result in retaining the balances of member banks within the district to which they belong to a very much larger extent than heretofore, and will so increase the financial independence -- so to speak -- of the several districts, which, of course, is one of the chief purposes of the Federal Reserve Act, however it may be brought about.

You see I am discussing the matter rather freely and you will understand, I am sure, that all of this is intended to be gossip rather than argumentative.

Mr. Jefferson is down with us to remain several days to discuss with our Vice Governor and Auditor various methods of accounting, etc., and to exchange ideas and information. We are all very glad indeed to have him.

Perhaps you may have heard that we have bought a site for a bank building, and now have before us the interesting but vexatious problem of constructing a building adequate for present and future needs of the Bank as far as we can look into the coming years.

What the public or treasury functions we may have to perform will be to some extent, of course, conjectural. It is probable that we shall have to call upon the imagination to an extent to provide for the development of the system. Our building lot is 95 by 120 feet, and it is our purpose to erect a building of classic outlines comprising four floors.

On yesterday I received a letter from Mr. Hendricks saying that he had spent a week with you and that you were looking fine and working hard.

These are wonderful times through which we are passing, and growing more wonderful daily. Gold is still flooding us, as you know, and prices are climbing and still climbing, likewise the wage of labor. Politics is also adding to the complexity of things. It seems that we are in reality

Benjamin Strong, Jr., Esq:

-5-

October 27th, 1916.

becoming the world's banker, at least for a time. The extraordinary prices which the other nations are having to pay for the things they obtain from us is transferring their wealth to us to an undreamed of degree.

Our discounted bills are fast being paid off. The cotton crop of the South may possibly bring a billion and a half dollars, including seed and oil. Tobacco is bringing twice as much as it brought last year. The deposits of some of our little country banks are twice what they were last year at this time, and the South will be overflowed with a greater flood of money than it has every known in all of its experience. There is no wonder then that our bills are being paid off. We shall probably have bankers' acceptances offered to us more freely. The new French industrial loan is a highly interesting transaction and the banks seem disposed to participate in it. We shall have to look to business of this character very largely in order to obtain revenue.

Possibly you read that interesting review of the Federal Reserve System by Professor Sprague. He advocates the return to member banks of one-half of the paid in capital. I am very glad he took that stand and I believe it will become a serious question with us to make expenses and pay an interest return on our present capital. *in normal times.*

I should not venture to send you such a long letter under other circumstances, but I am making it proportionate to the distance between us. Speaking for myself and I know for all of "us fellows", we are looking forward to having you back before very long.

With very warm regard, I am

Sincerely yours,



November 1st, 1916.

My dear Seay:

Your fine letter of October 27th has just reached me and has been very much enjoyed. I am glad to get all the news and particularly how things are going in Richmond.

The report of the Boston Conference disappointed me a bit because so many items were left on the program as unfinished business.

The rough edges in the new collection plan require more brushing up than almost anything else and I gathered that many of the topics on the program for discussion seemed to be impossible of solution. One of these is the question of giving immediate credit to checks drawn on Federal reserve banks. As you know, I have always opposed this after our early experiences which indicated not that it could not be done, but that it was just as well to go slowly and take one step at a time. It would necessitate daily settlements which would reduce the items "Due To" and "Due From" reserve banks. On the other hand, it would necessitate the adoption of very effective safeguards against kiting and against the development of the float. It is hard to see just how the operation would work. I gathered that the consensus of views of those at the meeting was rather different from my own in one matter: Mr. Harding and others expressed the

To George J. Seay, Esq.

Nov. 1, 1916.

view that checks on Federal reserve banks would be drawn invariably against balances in excess of the minimum reserves and consequently, the practice of drawing these transfer checks would not only create no float, but would lead to member banks carrying increased balances with the reserve banks. This is particularly hard for me to swallow. I think experience indicates that member banks will draw just as many checks for transfer purposes as they can and send them floating just as far abroad as possible, covering them as nearly on the day they are presented as can be estimated.

Furthermore, I am inclined to think they are entitled to do so if we give immediate credit. The reserve calculation for member banks is now made as shown by the books of the reserve bank; consequently, the member bank logically is entitled to say "if checks en route to reserve banks for deposit are not to count as part of my reserve, then why, per contra, should my reserve balances be charged with checks which I have drawn on that account and which have not yet been presented?" We must be consistent and stick to one of two theories: namely, that the reserves of member banks are calculated on our books or on the books of the member banks. We have adopted our own books as the place for calculation. If, therefore, we permit this transfer business to develop, we will be abandoning much that we have gained in putting reserves on a good sound footing. This is about the way I view the discussion at Boston, with which you

To George J. Seay, Esq.

Nov. 1, 1916.

do not seem to agree. I am glad you wrote me frankly about this view, nor need you have any fear that my sectional feeling will influence me in my views. Making checks on Federal reserve banks par exchange in any part of the country will draw a good deal of money away from New York; I have always felt, and still feel that that kind of money held by the New York banks has been a menace to their security and largely the cause of their unpopularity, both throughout the country and politically. They will do better without it. In place of balances from interior banks, the New York banks are going to have huge balances from foreign banks, and they are going to be just as big and strong and prosperous as ever.

I congratulate you upon the successful collection of penalties. I doubt if it would work in our district, however, but it is a matter still under consideration.

What you say about the float is always in my mind. It is a husky animal. I have asked Mr. Hendricks to take up with the Board the method now employed by their accountants in reporting the amount of float, which is not correct. Every week, we should be able to tell exactly how much of our assets are invested in uncollected checks. The Board makes no figures which exhibit this correctly.

Congratulations upon your new departure. I hope your building will be a great success and only wish we could do as well. It will be impossible for us to consider a building of

To George J. Seay, Esq.,

Nov. 1, 1916.

our own probably for some years on account of the rapid development of business and the enlargement of our force. Then again, if Congress should upset our collection program, our force might shrink as rapidly as it has grown.

I thought Professor Sprague's article rather good and would agree with his view about the return of some of the paid in capital were we now earning a larger margin over expenses. In other words, if we could look with certainty upon the regular accumulation of surplus.

There is little news to send you of myself. I have taken a furnished house for the winter in Denver where I am doing a little work and a good deal of loafing. The doctor tells me that I am getting along in great shape and I judge he is right as I have gained about fifteen pounds.

Once more, many thanks for your letter and for the nice things you say.

With every good wish and warmest regards, I am,
Sincerely yours,

George J. Seay, Esq.,
Governor, Federal Reserve Bank,
Richmond, Va.

BS/VCM

164

November 24, 1916.

~~George J. Seay, Esq.,~~
Governor, Federal Reserve Bank of Richmond,
Richmond, Va.

Dear Mr. Seay:

We have not replied to your letter of the 20th regarding allotment of investments because we hoped to be able to present figures that would be satisfactory to all concerned. We have been devoting every spare minute to a study of the problem and have prepared some figures based upon expenses since organization, etc. These do not seem to throw any light upon the subject but since you requested them and we have prepared them, we enclose a copy herewith.

We worked along several other lines which did not seem to give any more satisfactory results. One method (which we submit herewith) is simple and apparently to us would be a satisfactory basis at the present time. If, however, in operation this does not give the best results, we might take it up when we have more time and work out a plan perhaps more correct in some details.

We believe that the investments available for allotment should be distributed on the basis of present operations as that is the situation we are compelled to face and that the basic principle of apportionment should be to enable the banks to earn expenses, current dividends and accumulated dividends in so far as that may be possible. Acting on this belief, we have the following simple plan to offer:

1. Let each bank whether or not it participates in the distribution of investments, send to a representative of the Investment Committee, copies of its monthly reports to the Federal Reserve Board, of earnings and expenses (forms 286b and 287b). In order to begin the work of distribution, let them send copies of their reports for the months of October, November, and December, 1916, and also the figures called for below for the same period. The earning and expense statement for the nine months ending September 30, 1916, shown on pages 594 and 595 of the November bulletin will illustrate what we have in mind.

2. Let each bank send this representative also the following figures.

- a. Monthly average capital paid in including Sundays and holidays.
- b. Service charges received.
- c. Service charges paid.

3. Let each bank submit a statement of the total amount of dividends accrued but not paid to the close of business, December 31, 1916.

4. Let the representative of the committee prepare a statement for each bank showing the total of its requirements for all charges, including:

- a. Current expenses as shown on 287b.
- b. Cost of Federal reserve notes issued by bank (including expressage, insurance, etc.)
- c. Miscellaneous charges, account Federal reserve notes.
- d. Cost of Federal reserve bank notes issued including taxes.
- e. Amortization charges:
 1. Federal reserve notes,
 2. All other organization expenses.
- f. Depreciation of furniture and equipment.
- g. Amount required to meet current dividends, (one-half of 1% of average capital paid in).
- h. A fixed proportion for all banks (say 1/12) of the accumulated dividends unpaid to the close of business December 31, 1916.

These requirements are to be added together and compared with the current earnings for each bank for the same period. This will give the excess or deficiency in earnings for each bank. Each bank thus showing a deficiency in current earnings for all requirements as above outlined should receive such proportion of the investments to be distributed as its deficiency bears to the total

deficiency for all banks not showing earnings equal to or in excess of all requirements.

This plan seems to meet the requirement that it be simple and be as equitable a distribution as we can have without getting into too minute calculations.

Very truly yours,

Secretary.

HMJ/JGC
Enc.

164

FEDERAL RESERVE BANK OF RICHMOND

FIFTH DISTRICT

OFFICERS

GEORGE J. SEAY, GOVERNOR
CHAS. A. PEPLE, VICE GOVERNOR
GEORGE H. KEESEE, CASHIER

DIRECTORS

CALDWELL HARDY,
CHAIRMAN AND FEDERAL RESERVE AGENT
H. B. WILCOX, BALTIMORE, MD.
JAS. F. OYSTER, WASHINGTON, D. C.
JOHN F. PRUTON, WILSON, N. C.
EDMUND STRUDWICK, RICHMOND

JAMES A. MONCURE,
DEPUTY FEDERAL RESERVE AGENT
EDWIN MANN, BLUEFIELD, W. VA.
M. F. H. GOUVERNEUR, WILMINGTON, N. C.
D. R. COKER, HARTSVILLE, S. C.

D. P. H.
JAN 10 1917 December 22nd, 1916.

My dear Strong:

I am writing to send you my very best wishes for a happy Christmas and for complete restoration to your former vigor in the New Year.

We enjoyed our last conference in Washington, but I know that all of us missed your presence.

I am venturing to send you two or three articles which I have recently had to write, which probably you may find of interest. The subjects are not at all new, but apparently all of them are still under discussion, as I found at our recent conference, and each one was written at somebody's request.

I know that you are very deeply interested by the turn which our foreign relations has taken in the last few days. More serious blunders have been committed, as it seems to me, and their effects were certainly disastrous in one respect at least -- that is, upon the markets.

I am wondering how you felt about the recent announcement of the Board with respect to the purchase of foreign securities.

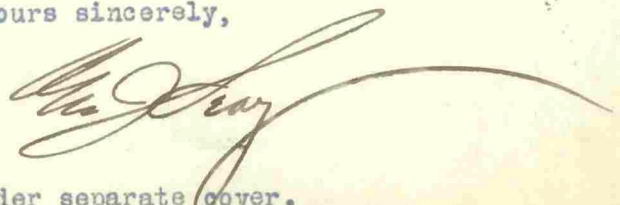
While feeling the necessity for banks maintaining a liquid condition, my own feelings and opinions did not coincide with the Board's utterances.

I trust that you have continued to improve right along, which is what I heard when I last had the opportunity to inquire.

With my best regards,

Yours sincerely,

Mr. Benj. Strong,



The articles referred to are being sent under separate cover.

- TABLE 1. Showing different kinds of cash held by
 member banks on September 12, 1916.
- " 2. Showing ratio of cash held to total net
 deposits.
- " 3. Showing % of reserves to total net deposits
 required under Act when in full effect.
- " 4. Comparison of vault reserves carried under
 old law and under Federal Reserve Act.
- " 5. Showing legal reserve required under full
 operation of Act in comparison with reserves
 carried by country banks of 5th District.
- " 6. Showing % of total net deposits required to
 be kept in Federal Reserve Banks under suggested
 plan compared with Act.
- " 7. Comparison of reserves likely to be required
 for operation under suggested plan, with reserves
 required under Act.

The average lawful cash reserve carried in vaults by the national banks of the country for a period of about five years preceding the establishment of the Federal Reserve System -- that is, from February 5th, 1909, to August 9th, 1913 -- was as follows:

By	
Central Reserve Banks.....	25.5%
Reserve City Banks.....	12.7
Country Banks	7.5

The Central Reserve and Reserve City banks carried little more than was required to be carried by law, the small excess probably being the result of effort to insure average maintenance of requirements.

The amount required to be kept by Reserve City Banks, viz: 12-1/2 percent, was adequate and doubtless more than adequate for purposes of daily operations.

Since the country banks, which were required to keep a lawful reserve of only 6 percent, maintained an average of 7-1/2 percent, one of two conclusions may be drawn: First, that 6 percent was not adequate for operation under old conditions; second, that in order to insure the maintenance of the 6 percent required, it was necessary to make provision which resulted in keeping on hand an average of 7-1/2 percent.

In this connection it is enlightening to consider that the commercial state banks of the country, large and small, had on hand June 30th, 1914, according to statements furnished the Comptroller, cash of all kinds amounting to 8.2 percent of their deposits, which happens to be the exact percentage carried by all national banks on September 12th, 1916, as will be shown hereafter.

It is only since the establishment of Federal Reserve Banks that we have come into possession of information tending to show the amount of cash on hand which the banks find it necessary or advisable to carry.

Following is a statement of the legal reserve held in vaults by the three classes of national banks on the dates specified:

% of Total Net Deposits

	<u>Nov. 10, 1915</u>	<u>Dec. 31, 1915,</u>	<u>June 30, 1916</u>	<u>Sept. 12, 1916</u>
Central Reserve Banks	16.41	15.	14.86	12.02
Reserve City Banks	7.42	7.24	7.06	6.66
Country Banks	5.75	5.56	5.52	5.37

This shows a gradually declining ratio, and while in each case the amount carried is in excess of the amount required to be carried under the Act prior to the amendment relating to vault reserves, it is so little in excess of the amount required, except in the case of Central Reserve banks, that no definite conclusions can yet be drawn as to the amount necessary to be maintained for operation, and we shall have to wait for further information and experience to determine approximately the minimum required.

Following is a comparison of the percentages of reserve carried with that required to be carried.

		<u>% of Total Net Deposits</u>	
		<u>Amount required in Vault</u>	<u>Amount carried in Vault Sept. 12, 1916.</u>
Central Reserve Banks	6/18	5.90	12.02
Reserve City Banks	6/15	5.52	6.66
Country Banks	5/12	4.12	5.37

The foregoing statement gives only the legal reserve carried, which does not include national bank notes and other till money.

The amount of national bank notes carried on September 12th, 1916, which probably may be taken as an average, was as follows:

<u>% of Total Net Deposits</u>	
Central Reserve Banks	.28
Reserve City Banks	.93
Country Banks	.91

Adding this cash to the lawful money reserve carried will give the total cash or till money on hand, as follows:

Central Reserve Banks	12.30
Reserve City Banks	7.60
Country Banks	<u>6.28</u>
Average	8.20

This average amount of cash carried by all national banks is the exact equivalent of the amount of cash of all kinds carried by commercial state banks on June 30th, 1914, as previously mentioned.

It may be reasonably assumed that banks now feel the assurance of being able to obtain currency quickly and with certainty from Federal Reserve Banks, and that, therefore, they are willing and able to operate with lower vault reserves than under former conditions.

If then it can be fairly assumed that the amount of cash carried in vaults in the case of each class of banks, as shown in the foregoing statement, is close to the minimum needed for daily operations, then it may be necessary to consider whether the reserves required to be carried in Federal Reserve Banks under the proposed plan will not increase the total amount of resources to be maintained for operating purposes, and, therefore, add a burden to the banks rather than give them the relief for which many of them are now asking.

Following is a statement of the reserves which the suggested plan would require to be maintained in Federal Reserve Banks in comparison with the reserves required to be carried with Reserve Banks under the present Act:

RESERVES REQUIRED IN FEDERAL RESERVE BANKS
 UNDER SUGGESTED PLAN WHICH WOULD MAKE NO REQUIREMENT
 AS TO VAULT RESERVES.

Central Reserve Banks:

13% Demand Deposits)
 3% Time ") 12.74 against 6.88 under present Act.

Reserve City Banks:

10% Demand Deposits)
 3% Time ") 9.33 against 5.52 under present Act.

Country Banks:

7% Demand Deposits)
 3% Time ") 5.80 against 4.12 under present Act.

If we add to the amount of reserve required under the plan as set down in the foregoing, the amount necessary to be carried as till money, assuming that the amount heretofore specified is the approximate amount required, the following would be the result:

NEW PLAN

	<u>In F. R. Banks</u>	<u>Till Money</u>	<u>Total</u>	<u>F. R. Act</u>
Central Reserve Banks	12.74	12.30	25.04	17.70
Reserve City Banks	9.33	7.60	16.93	13.80
Country Banks	5.80	6.28	12.08	9.90

It is reasonably certain that Central Reserve Banks can operate with a much smaller cash supply than above specified. The ability to obtain currency from Federal-Reserve Banks as needed, also the ability to obtain gold for excess balances, and for the proceeds of rediscounts are important factors in this case. Whether Central Reserve Banks will be satisfied to keep on hand only the cash which may be needed is another matter.

The effect of the proposed plan upon the banks of the country would vary widely, not only according to locality, but according to the character of business done by each bank.

It would perhaps fall heavily upon country banks remote from a Reserve Bank which find it necessary to maintain larger vault reserves because of the inability to replenish frequently and with dispatch.

At the beginning it is probable that banks which have been maintaining a large vault reserve will not be willing to assume that they could do with much less, and only experience will satisfy them in that particular.

Table No. 5, which accompanies this memorandum, gives a comparative statement of the vault reserves maintained by the country banks of the 5th District.

The situation with respect to these country banks is probably typical of the smaller country banks generally.

It is the cash reserve carried by the larger country banks, so called, which brings up the average, and it is, therefore, to be taken into account, that in the case of such banks, which are numerous, the cash required will be considerably in excess of the average here given for country banks generally.

Those banks which carry the accounts of other banks will doubtless feel it necessary to carry a reserve considerably above the average.

CONCLUSION

The indications are that the proposed plan would result in compelling banks generally, and a large number of banks in particular, to carry a larger proportion of unproductive resources than is now required under the Federal Reserve Act.

Geo. J. Seay

TABLE 1

DIFFERENT KINDS OF CASH HELD BY MEMBER BANKS
SEPTEMBER 12TH, 1916.

(In thousands)

- o -

	<u>National Bank Notes</u>	<u>Federal Reserve Notes</u>	<u>Gold</u>	<u>Legals</u>
Central Reserve City Banks	4,246	3,401	287,840	38,287
Reserve City Banks	21,295	5,141	165,263	24,300
Country Banks	36,697	6,282	209,919	42,514
	<hr/>	<hr/>	<hr/>	<hr/>
	62,238	14,824	663,022	105,101

TABLE 2

RATIO OF CASH HELD TO TOTAL NET DEPOSITS

	<u>Total Net Deposits</u>	<u>Lawful Money In Vaults</u>	<u>% of Deposits</u>	<u>Other Moneys in Vaults</u>	<u>% of Deposits</u>	<u>Total Cash</u>
Central Reserve City Banks	2,711,000.	326,127	12.02	7,647	.28	12.30
Reserve City Banks	2,839,000.	189,563	6.67	26,436	.93	7.60
Country Banks	4,697,000.	252,433	5.37	42,979	.91	6.28
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	10,247,000.	768,123	7.45	77,062	.75	8.20

TABLE 3

PERCENTAGE OF RESERVE TO TOTAL NET DEPOSITS
REQUIRED UNDER ACT, WHEN IN FULL EFFECT.

	<u>In Federal Reserve Banks</u>	<u>In Vault</u>	<u>Optional</u>	<u>Total</u>
Central Reserve Cities (18-5)	6.88	5.90	4.92	17.70
Reserve Cities (15-5)	5.52	4.60	3.68	13.80
Country Banks (12-5)	4.12	3.30	2.48	9.90

TABLE 4

COMPARISON OF VAULT RESERVES CARRIED
UNDER OLD LAW AND UNDER FEDERAL RESERVE ACT.

	<u>% of Total Net Deposits</u>				
	<u>Average from Feb. 5, 1909 to Aug. 9, 1913.</u>	<u>Nov. 10, 1915</u>	<u>Dec. 31, 1915</u>	<u>June 30, 1916</u>	<u>Sept. 12, 1916</u>
Central Reserve Banks	25.5	16.41	15.	14.86	12.02
Reserve City Banks	12.7	7.42	7.24	7.06	6.66
Country Banks	7.5	5.75	5.56	5.52	5.37

TABLE 5

LEGAL RESERVE REQUIRED UNDER FULL OPERATION
OF THE FEDERAL RESERVE ACT

Based upon condition of Country Banks of 5th District as shown in
Comptroller's report of March 7, 1916 compared with Reserve carried on
March 7, 1916, and the average reserve carried from February 5,
1909 to August 9, 1913.

	<u>Cash in Vault Per Cent. of Net Deposits</u>	<u>Optional</u>	<u>Due from Reserve Banks Per Cent. of Net Deposits</u>
Maryland:			
Reserve required	2.70	2.03	3.38
Reserve carried March 7, 1916	4.51	---	2.19
Average reserve carried 1909 - 1913	6.54	---	---
Virginia:			
Reserve required	3.34	2.51	4.18
Reserve carried March 7, 1916	5.27	---	2.91
Average reserve carried 1909 - 1913	6.94	---	---
West Virginia:			
Reserve required	3.17	2.38	3.96
Reserve carried March 7, 1916	5.38	---	2.53
Average reserve carried 1909 - 1913	7.49	---	---
North Carolina:			
Reserve required	3.49	2.62	4.36
Reserve carried March 7, 1916	5.18	---	2.68
Average reserve carried 1909 - 1913	6.83	---	---
South Carolina:			
Reserve required	3.17	2.38	3.96
Reserve carried March 7, 1916	4.81	---	3.16
Average reserve carried 1909 - 1913	6.77	---	---

TABLE 6

RESERVES REQUIRED IN FEDERAL RESERVE BANKS
UNDER SUGGESTED PLAN WHICH WOULD MAKE NO REQUIREMENT AS
TO VAULT RESERVES.

	<u>% of Total Net Deposits</u>
Central Reserve Banks:	
13 % Demand Deposits)	
3 % Time ") =	12.74 against 6.88 under present Act
Reserve City Banks:	
10 % Demand Deposits)	
3 % Time ") =	9.33 against 5.52 under present Act
Country Banks:	
7 % Demand Deposits)	
3 % Time ") =	5.80 against 4.12 under present Act.

TABLE 7

COMPARISON OF RESERVES LIKELY TO BE REQUIRED
FOR OPERATION UNDER SUGGESTED PLAN WITH RESERVES REQUIRED
UNDER PRESENT ACT WHEN IN FULL
OPERATION.

UNDER SUGGESTED PLAN

	<u>In Federal Reserve Banks</u>	<u>In Vaults Based on amount held Sept. 12, 1916</u>	<u>Total</u>
City Central Reserve/Banks	12.74	12.30	25.04
Reserve City Banks	9.33	7.60	16.93
Country Banks	5.80	6.28	12.08

UNDER PRESENT ACT

	<u>In Federal Reserve Banks</u>	<u>Optional</u>	<u>In Vaults</u>	<u>Total</u>
Central Reserve City Banks	6.88	4.92	5.90	17.70
Reserve City Banks	5.52	3.68	4.60	13.80
Country Banks	4.12	2.48	3.30	9.90

Denver, Colorado,
January 10, 1917.

Dear Governor Seay:

Please pardon this tardy acknowledgment of your kind letter of December 22nd which was occasioned by my absence from Denver and returning to quite an accumulation of work.

I have read the enclosure with great interest. The one on the subject of parring Federal Reserve Banks I am sorry not to agree with at all, either as to the plan or as to some features of your argument. If that subject can be left dormant until our collection plan is more fully developed, we can work out a system of transfers on a sound basis that will accomplish about everything you have in mind, without the Reserve Banks encountering the danger of an unwise extension of credit on uncollected checks.

Your argument about country bank reserves in a separate memorandum is very impressive. There are other features of the proposed amendment that must be carefully considered before the percentages are fixed and your suggestions are certainly in the right direction; I hope they may be effected.

Don't ask me to comment on the various developments in our foreign relations, about which just now I am feeling rather distrubed.

I am certainly continuing to improve and look forward to the date of my return sometime this year.

My warmest thanks to you good friend for your Christmas and New Year's greetings, which I very heartily reciprocate.

Very sincerely yours,

George J. Seay, Esq.,
Richmond, Va.

*Copy of this letter sent to
all Govs of FR Banks.*

PERSONAL AND CONFIDENTIAL:

March 6, 1919.

My dear Governor Seay:

For some time I have been interested with some friends in a study of some of the problems of our national financial system and particularly to the possibilities of a reform movement which might result in the establishment of a scientific plan for a Federal budget. The need for this has been made apparent to me during the past two years and as a result of contact with the financial machinery in Washington. Some of my friends believe the time is now opportune for a general attempt to interest the people of the country in national financial reform.

The campaign for savings, thrift and sensible spending, incident to the flotation of Government loans has put many of our people in a receptive mood for further suggestions in these matters. The national debt must be reduced and can only be reduced if both individuals and the Government practise sensible spending. It is particularly true with the Government but cannot be made possible until scientific machinery is installed to accomplish it.

Students of this subject seem to be in general agreement that a scientific budget system is the only solution. To persuade our people that such a system should be installed, a nonpartisan organization should be built up and a wise and sane campaign of publicity inaugurated. It is a plan of that sort in which some of my friends are interested with a view to activity after the next loan is placed. In the meantime, steps must be taken to prepare the publicity, and the personnel of the organization must be developed in advance.

It is, of course, out of the question to utilize the Liberty Loan organizations as such for an enterprise of this character. It does not, however, seem improper for me to ask you if in your experience with the Liberty Loan, War Savings, or other organizations in connection with the war, you have come in contact with individuals in your district who would be likely to be interested in this movement and who would

March 6, 1919.

be qualified for service in such an organization and who would do so as a matter of public duty. What is first needed is a representative in every State, competent to take charge of the movement and direct in it the State. He should have qualifications to enable him to become a leader of the State movement, some ability as an organizer, should be public spirited, able to grasp the subject and willing to study it, and should be regarded locally as without political prejudice or purpose, and have the confidence in general of the people of the State.

In addition to state directors, similar organizers must be appointed in the various counties and principal cities.

I shall be greatly indebted to you if you can let me have suggestions and names of men in your district for this work without, however, mentioning the matter to them. You may know them well enough to make definite recommendations not only because you came in contact with them in Liberty Loan matters, but other public spirited activities with which you are acquainted or connected.

This is a matter in which I have a strong personal interest and will be grateful for your assistance. At our meeting in Washington on the 20th I hope to have an opportunity to refer to this matter more specifically.

Sincerely yours,

Governor.

George J. Seay, Esq.,
Governor, Federal Reserve Bank of Richmond,
Richmond, Va.

BS/NB

Copy
Translation

TELEGRAM

No. **A 95104**

_____ 19

Prepared by.....	Departments Interested
Checked by.....	
Code used.....	
	O. K.

TEL. D. 1

FEDERAL RESERVE BANK OF NEW YORK

PRIVATE WIRE—INCOMING

25bdsj Richmond Va Dec 24 1135a

[1919]

Strong NewYork..

Most cordial greetings and good wishes from us all to all of you

Geo J Seay ,
Governor .

1215p

TELEGRAPH
OPERATOR



DEC 24 1919
F. R. B. N. Y.

COPY

September 14, 1920.

CONFIDENTIAL

George J. Seay, Esq.,
Governor, Federal Reserve Bank of Richmond,
Richmond, Va.

Dear Governor Seay:

There are two matters related to the foreign operations of the Federal Reserve System about which I wish to advise you as follows:

BANK OF ENGLAND STERLING GOLD ACCOUNT -

We have decided to bring to this country the gold earmarked with the Bank of England for account of the Federal Reserve Banks. You will recall that this question was discussed at the governors conference last April, and it was left to our discretion as to whether this gold should remain in London or be brought back. After giving the matter careful consideration and discussing it with our directors and the Federal Reserve Board, we have decided to bring the gold to New York. As a matter of courtesy, we cabled the Bank of England to ascertain whether any object would be served by our leaving a portion of the gold with them, and they replied that they saw none from their position. The Bank of England has agreed to arrange and handle the shipment of the gold, settling freight and other charges. Insurance is being effected by us here in New York. As this operation progress there will undoubtedly be further details to report to you and I shall see that you are fully informed. No statement has yet been made to the press, and when we decide to do so, which will probably be shortly before actual shipments begin, we shall be careful to explain the nature of the transaction so that there will be no misunderstanding as to its effect upon the reserves of the Federal Reserve Banks.

BANK OF FRANCE EARMARKED GOLD -

An inquiry has just been received from the Bank of France regarding our willingness to accept a deposit of earmarked gold with them. We understand that the French Government plans to meet its share (\$250,000,000) of the Anglo-French bonds maturing October 15, 1920, in approximately the following manner:

1. \$70,000,000 has already been provided.
2. \$100,000,000 from the new issue of 8% twenty-five year bonds, dated September 15.
3. \$80,000,000 through gold imports or accumulations of dollar exchange in other ways.

We are informed that the French Government proposes to start gold

shipments immediately, but in order to meet any possible contingency which may arise prior to October 15, the Bank of France has inquired whether we would accept a deposit of gold earmarked with them which we could withdraw at our option and at their expense. The figure mentioned was \$35,000,000.

Our directors and I felt that under existing circumstances we should accede to their request and that to refuse would create a very unfortunate situation. Some of our directors thought that even if the amount should run as high as \$50,000,000, we should indicate our willingness to permit them to earmark that amount for us, and I share their views. The Board has also advised us that they see no objection to the transaction and that they will agree if requested to permit this gold to be counted as part of the lawful reserve of the Federal Reserve Bank pending its shipment to the United States, although it is no longer the policy of the Board to permit gold with foreign agencies to be counted as reserve indefinitely. The Board adds that it is understood that any other Federal Reserve Bank desiring to do so may assume its pro rata share of this deposit.

I am giving you this outline of the transaction to ascertain whether in case the gold is earmarked with the Bank of France up to \$35,000,000 or possibly even \$50,000,000, you would care to take a pro rata share such as you had in the German gold account. In this connection, it should be borne in mind that shipments of the gold with the Bank of England will begin shortly and in case the Bank of France desires us to earmark \$35,000,000 or \$50,000,000, our gold with foreign agencies will be considerably decreased over its present total.

With kind regards, I am

Very truly yours,

J. H. CASE
Acting Governor.

September 14, 1921.

Dear Governor Seay:

You will recall that about two years ago we had some correspondence in regard to the work of the National Budget Committee. In part, at least, passage of the budget legislation by the Congress was due to the work conducted by that committee. Now that the basis of the budget system has been adopted by Congress, our organization is endeavoring to crystallize public sentiment for the support of the program of government economy and thereby to insure permanent success for the new national budget system.

We are seeking to extend this work by selecting, so far as possible, bankers to accept active chairmanships in various of the more important cities, simply to carry on work which will be laid out for them by the national committee. The scope of the work is described in the enclosed memorandum.

Can you suggest representative men, preferably bankers, who might be willing to accept such appointments in the cities of Baltimore, Norfolk, Richmond and Washington.

At the present time I shall only ask you to suggest names, but later on possibly you would be willing to communicate with them directly and further our object of having them accept these appointments.

If for any reason you think it unwise to make these suggestions, will you not write me quite frankly and, if you are willing to do so, give me your reasons.

With best regards, and thanking you very cordially, I am,

Yours very truly,

George J. Seay, Esq.,
Governor, Federal Reserve Bank of Richmond,
Richmond, Va.

FEDERAL RESERVE BANK
OF RICHMOND

June 22, 1922.

Dear Governor Strong:

I have just received your letter of the 21st relating to the policy of requesting the Treasury Department to reimburse us for fiscal agency expenses, beginning July 1, 1922, in accordance with the understanding arrived at at the last Conference of Governors. Enclosed is confirmation of the telegraphic reply which you requested. The position taken by our directors could not be reversed except in a formal way, but I am not inclined to think that they would be willing to reverse it.

In the beginning it was assumed, as a matter of course, that the Department would pay the expenses incurred in the performance of fiscal agency work which the Reserve Banks were required to do, and but for the huge earnings of the banks made during war time, the question probably would not have arisen.

In recent testimony before Congress, representatives of the Board have emphasized the fact that Federal Reserve Banks are privately owned institutions and not governmental banks, and, without attempting to argue the legal aspect of the right of the Treasury to require a Federal Reserve Bank to perform fiscal agency work at its own expense, it seems to me that it is of prime importance to adhere to the principle and establish, if possible, the public understanding that Federal Reserve Banks are not governmental institutions in essence, whatever powers may have been conferred upon them by the Government, and whatever duties they may perform for the Government.

To assume as a matter of course, or to continue the practice of absorbing, the expense of governmental work as fiscal agents would tend to bring about the contrary view, and perhaps the feeling on the part of governmental officials and others that Federal Reserve Banks are more under the direction of governmental officials and probably of Congress than they were intended to be and are under the Act. The term "Fiscal Agent" is broad enough as it stands and perhaps might, legally construed, cover anything and everything that the proper officials of Government might feel disposed to require Federal Reserve Banks to do.

I am not overlooking the fact that subtreasury functions have been transferred to Federal Reserve Banks for performance at their own expense, but in the performance of these functions, their autonomy is not brought into question, and the duties are performed only under general regulations relating to the currency, upon which the Treasury Department has acted for many years.

The present head of the Treasury Department has evidenced a readiness to assume that Federal Reserve Banks may and should be reimbursed

ANSWERED

JUN 28 1922

G. L. H.

6/22/22

for expenses incurred exclusively in the performance of fiscal agency work. I did not understand that the Department would specifically ask Congress for an appropriation to provide for the expenses of performing this work during the fiscal year beginning July 1, but that it would be done under existing authority. But notwithstanding such may be the case, I nevertheless believe that we should seek to be reimbursed at least for the clerical labor of performing fiscal agency duties, which is practically all that we ask for.

You allude to the adoption of a uniform investment policy by the Federal Reserve Banks which, if carried out, will produce revenue sufficient to meet expenses and pay dividends. This is the policy to which we were driven by the lack of income, and it is one with respect to which, so far as it involves investment in Government securities, the Treasury acquiesced apparently with reluctance under present conditions. If we cannot count upon being reimbursed for fiscal agency expenses, it will require a much larger volume of investment than would otherwise be the case. This I think is not good policy, and we should not be driven to it.

I have read the memorandum which governed or influenced your conclusions that it would not be wise to raise the question of reimbursement for fiscal agency expenses. Nevertheless, for the reasons given in the foregoing, I believe we should at this time, when apparently the Treasury is disposed to favor or acquiesce in reimbursement, take the position that we should be reimbursed and ask for reimbursement; and I am inclined to the opinion that if we do not take such action now, when the Department is disposed to meet us, we may not hereafter be able to obtain reimbursement, and continued acquiescence in the payment of such expenses by Federal Reserve Banks will establish a precedent from which we may not be able to break away.

Very truly yours,



G o v e r n o r .

GJS-CCP

Benj. Strong, Esq., Governor,
Federal Reserve Bank of New York,
New York City.

for expenses incurred primarily in the performance of fiscal agency
work. I did not understand that the Department would specifically
and separately for an appropriation to provide for the expenses of
conducting this work during the fiscal year beginning July 1, but
it would be done under existing authority. But notwithstanding
may be the case, I nevertheless believe that we should seek to be
included at least for the clerical labor of performing fiscal agency
duties which is practically all that we are for.

You allude to the chapter of a uniform investment policy of the
Federal Reserve Bank which, if carried out, will produce revenue out-
rigger to meet expenses and pay dividends. This is the policy to
which we were driven by the lack of income, and it is one with respect
to which, as far as the invested funds in Government securities,
the Treasury suggested a uniform policy. I am not sure, however,
if we cannot consider your suggestion for fiscal agency ex-
penses. It will require a much larger volume of investment than would
otherwise be the case. This I think is the best policy, and we should
not be driven to it.

I have read the memorandum which you forwarded or discussed your con-
sideration that it would not be wise to raise the question of reimbursement
for fiscal agency expenses. I understand for the reasons given in the
foregoing. I believe we should at this time, when apparently the Treasury
is disposed to favor or acquiesce in reimbursement, take the position
that we should be reimbursed and ask for reimbursement; and I am inclined
to the opinion that if we do not take such action now, when the Department
is disposed to meet us, we may not be able to obtain reimbursement
and continued acquiescence in the payment of such expenses by Federal
Reserve Banks will establish a precedent from which we may not be able to
break away.

Very truly yours,

Jun 28 1922
Federal Reserve Bank of New York
New York



extra copy.

*Copy for
Gustav
JHC*

July 6, 1923.

Geo. J. Seay, Esq.,
Governor, Federal Reserve Bank of Richmond,
Richmond, Va.

Dear Governor Seay:

At the recent meeting of the Advisory Committee of Governors in Washington, it was suggested that we send to each Federal Reserve Bank complete information regarding the investments made for foreign banks in which the several Federal reserve banks participate. The most practicable way of doing this seems to be to give you a statement as of June 30 showing in detail the bills and certificates then held for foreign account. With this as a starting point, we think it best to send you currently a copy of the schedule which is prepared whenever bills or certificates are purchased for foreign banks. This will give you complete information on all investments in which you participate, and enable you to keep such records as you may desire. Furthermore, we shall continue to send you at the beginning of each month a condensed statement showing in totals the free balances, bills and certificates held for each foreign bank which will enable you to check the amounts of your participation as wired you on the first of the month.

I trust that this arrangement will be satisfactory to you, but if you should desire any additional information or would like to suggest any change in the procedure outlined, please do not hesitate to say so. The statements of June 30 are enclosed as well as copies of the schedules of bills bought on July 2 and 3. Schedules covering subsequent purchases will be mailed to you in the ordinary course.

Very truly yours,

J. H. CASE,
Deputy Governor.

Enc.

JEC:MK

copy by [unclear]

5

letter sent to governor of each Federal reserve bank

January 14, 1924.
FILES DIV.

Mr. George J. Seay,
Governor, Federal Reserve Bank of Richmond,
Richmond, Va.

Dear Governor Seay:

In view of the continued strength in December and much greater strength in January of the Government security market, (including short-term certificates and notes) with higher quotations for all issues, it has not been possible to purchase more than moderate amounts for the Special Investment Account of the reserve banks. Purchases for the System so far total about \$35,000,000.

In order more nearly to meet market conditions, the Committee changed slightly the price limits on January 9, on some of the issues which are being purchased for the Special Investment Account of which you were advised in a telegram sent by the Secretary of the Committee. You will note that these changes only affect the issues of September 1924 to June 1925, inclusive.

While the securities acquired would show a profit if they were to be sold now, nevertheless the Committee is acting on the belief that Federal reserve banks wish in this matter wholly to subordinate profits to the successful prosecution of the policy established that the reserve banks should acquire a portfolio of certificates and notes as conditions permit. This matter was discussed at to-day's meeting of the Open Market Investment Committee and it was the sense of the meeting that purchases of short-term issues, with maturities up to June 1925, should continue to be made in a moderate way as conditions in the market permit, at the limits established by the Committee on January 9, 1924.

At to-day's meeting the question of making purchases of later maturities was also discussed and it was decided that, in addition to acquiring Government issues maturing between now and June 1925, that further purchases might be made of Treasury notes due December 15, 1925 up to an amount not to exceed in the aggregate \$15,000,000. between now and the next meeting of the Committee, at a price not to exceed 4.30%.

The present maturities and limits are as follows:

<u>Maturity</u>	<u>Price Limit</u>
March 1924	3.85%
June 1924	3.95%
Sept. 1924	4.05%
Dec. 1924	4.10%
March 1925	4.25%
June 1925	4.30%

Very truly yours,

[Signature]

Benj. Strong, Chairman
Open Market Investment Committee
for the Federal Reserve System