a. J. H Fulton

a/c National City Bank

1914, 1919, 1925
president
National Park Bank
1925

In 1914 J. H Fulton
president
Commercial National Bank
+
Commercial Germania
Trust + Savings Bank
of New Orleans
[Currently president first
National Park Bank of
recent National City Bank]

The Bankers Encyclopedia
1914 p 680

WESTERN UNION TELEGRAM

Form 2138

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

RECEIVED AT 24 WALKER STREET, NEW YORK CITY

DELIVERED FROM 16 BROAD ST. ALWAYS OPEN

A17NO AOC 44 NL NL

NEW ORLEANS LA SEP 29TH

BENJ STRONG JR. 379 235

BANKERS TRUST CO.,

NEW YORK.

UNDERSTOOD FOREIGN EXCHANGE WOULD BE ACCEPTABLE IN PLACE OF GOLD AS CONTRIBUTION TO GOLD POOL WEXLER HAS SHOWN ME YOUR TELEGRAM TO CONTRARY IF GOLD IS REQUIRED TO MAKE GOOD STERLING OBLIGATIONS CANNOT UNDERSTAND WHY STERLING EXCHANGE NOT ACCEPTABLE WILL YOU PLEASE WIRE ME.

J H FULTON 7PM X

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Federal Reserve Bank of St. Louis

Sept. [illegible]

J. H. Ful[illegible],
New Orleans, La.

Replying your wire to Strong committee of opinion that acceptance of exchange in place of gold would result in some institutions buying exchange in order to avoid contributing in gold which would result in increased difficulties in handling exchange market (stop) It is also desired that institutions in position to draw exchange be encouraged to do so for use of their own clients and thereby reduce demands otherwise made on gold fund (stop) Committee believes present policy will enable all exchange houses to deal with their customers without interference from operation of fund (stop) Hope your city will cooperate with committee and furnish its quota.

Albert H. Wiggin.

The above is my suggestion of an answer to the attached telegram.

B.S.,Jr.

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Federal Reserve Bank of St. Louis

April 2, 1919.

Dear Mr. Fulton:

I am anxious to get an expression of your views as to the possibility of our getting Mr. P. H. Saunders of the Commercial Trust and Savings Bank to do some work in Louisiana in connection with a proposal now being shaped for Federal legislation designed to establish a financial budget for our Government.

The work required will not be very onerous, but it will need the services of a man who can develop an organization for the purpose of some little educational and publicity work to bring about a better understanding of this subject. It will be necessary to raise a small amount of money, and, generally, to carry out the program which will be laid out by the organization at the New York Headquarters.

It needs the services of a man who is interested in the economic aspects of the Government's finance, and who is sufficiently interested in the subject to be willing to devote some time and energy to bringing about an improvement. It would be preferable to have some one who would be capable of making an occasional address on this subject, and who would be willing himself to study and understand it by an examination of literature which will later be furnished.

Do you think Mr. Saunders could undertake this work successfully?

Cordially,

J. H. Fulton, Esq.,
c/o The National City Bank,
55 Wall Street, New York.

BS/MSB

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Federal Reserve Bank of St. Louis

THE NATIONAL PARK BANK
OF NEW YORK

OFFICE OF
THE PRESIDENT

Dr Schacht

October
Twenty-third
Nineteen
Twenty-five

My dear Governor Strong:

I just want you to know how much I enjoyed your delightful dinner last night and your very interesting talk as well as that of Dr. Schacht. It was good of you to include me in your party which proved such a happy occasion for everyone.

With kind personal regards, believe me to be,

Yours sincerely,

John H Fulton

Gov. Benjamin Strong,
33 Liberty Street,
New York City.

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C. E. Mitchell
president
National City Bank
of N.Y.
1923, 1925

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Federal Reserve Bank of St. Louis

copy of cablegram

July 16, 1923.

(Addressed to Mr. Mitchell)

From Mr. Durrell - National City Bank of New York Havana Cuba (Received July 17,1923)

69916

Federal Reserve Boston Mass. U.S.A. has accepted First National offers quarter in their local office and latter through Harding trying to secure Atlanta Ga. agency also stop

Have offered Atlanta,,Ga. vault and office space gratis stop

McCrary favorably impressed and will recommend acceptance to his board next Thursday although he considers our vault undesirable stop

Have assured him we will have new quarters and modern vault within 18 months and will place same at Atlanta, Ga. disposition stop

Suggest your cabling Atlanta, Ga. confirming my offer and expressing hopes of its acceptance

Durrell

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Federal Reserve Bank of St. Louis

copy of telegram

New York, July 17, 1923.

M. B. Wellborn,
Governor, Federal Reserve Board,
Atlanta, Georgia.

We are advised by our Vice President Durrell resident in Havana that Federal Reserve Bank of Boston contemplates locating in offices First National Bank of Boston Havana and that through Mr. McCrary Durrell has invited your bank use our offices and vault space gratis stop This confirms Durrell's invitation stop We contemplate new building in Havana in near future and if you conclude join with us will make special accommodation for you when we build stop While above arrangement most agreeable to us we raise the question whether under all the circumstances it is not more logical and dignified for Federal Reserve Agencies to have joint offices and vaults in a building of their own rather than affiliate with any other institution stop Of course if Boston joins with First National it is more than logical that Atlanta should join with us.

C. E. Mitchell,
President, The National City Bank of New York.

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copy

THE NATIONAL CITY BANK

of New York

New York, July 17, 1923.

My dear Mr. Case:

I enclose herewith copies of a cable received this morning from our Vice President Durrell resident in Havana, and of a telegram I have sent this day to Governor Wellborn of the Federal Reserve Bank of Atlanta.

We are at present the agents of the Federal Reserve Bank of New York in Cuba, and that fact is generally known throughout the Island. We assume that the entry of the Federal Reserve Bank of Boston and the Federal Reserve Bank of Atlanta in Cuba will mean the withdrawal of the Agency arrangement we now have with you. While that is to be regretted, we can be philosophical regarding it provided that when the new agencies are made active they set up their own quarters, independent of any other commercial and deposit bank operating in Cuba. To have our Agency arrangement withdrawn and have the new agencies established with the First National Bank of Boston, thus giving to that bank a wholly unjustifiable prestige, is an unthinkable injustice to us. The new Agencies should unquestionably be independent, but if the Federal Reserve Bank of Boston elects to use the offices of the First National Bank of Boston, it is only fair and just that the Federal Reserve Bank of Atlanta should locate with us, and as suggested in Mr. Durrell's cablegram, we would be delighted to give them office and vault space gratis.

If you see this situation in the same light as I do, I would very much appreciate your using your influence, first, to have independent quarters for the joint agencies of the Boston and Atlanta Banks, or, in the event that that seems impractical, that you will use your influence with the Federal Reserve Bank of Atlanta to have them accept our invitation.

May I add for your consideration the thought that with the Federal Reserve Banks becoming active in Cuba for the first time, and looking to deal with all banking interests in the Island, it is most to be desired that they present themselves before the public as an independent entity rather than as directly affiliated with any American bank, but if they do affiliate with any, it is to their greatest interest to affiliate with a bank which is not new in its operations in Cuba, but whose prestige is recognized everywhere, and which has been a part and parcel of the Cuban financial structure long enough to have obtained the complete confidence of this rather timid and skeptical people.

Yours very truly,

(Signed) Charles E. Mitchell.

Mr. J. H. Case,
Deputy Governor, F.R.Bank of N.Y.,
15 Nassau St., New York, N. Y.

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Federal Reserve Bank of St. Louis

July 19, 1923.

Charles E. Mitchell, Esq.,
President, National City Bank,
New York, N. Y.

Dear Mr. Mitchell:

Some days ago in the course of our conversation relating to the deposit of the Bankovni urad Ministerstva Financi of Prague, you expressed an interest in the reasons warranting the establishment of relations between the Federal Reserve Bank and foreign banks of issue; and at the same time asked what benefits the National City Bank derives from its membership in the Federal Reserve System. These two questions I shall attempt to answer.

Relations of the Federal Reserve Bank with Foreign Banks of Issue.

In accordance with the terms of the Federal Reserve Act the Federal Reserve Bank of New York has entered into reciprocal relations with several of the more important foreign banks of issue. In so doing it acts in the position of manager for all twelve Federal Reserve Banks, or such of them as desire to participate, rather than in a purely individual capacity. At present such relations are effective between this bank and

Bank of England	Netherlands Bank
Bank of France	Java Bank
Bank of Japan	National Bank of Belgium
Bank of Italy	Reichsbank
Swiss National Bank	Sveriges Riksbank

Bankovni urad Ministerstva Financi in Prague

Agreements with these banks have been entered into at intervals during a period of about seven years. Some of the accounts are now inactive; others are only occasionally active; six are utilized almost exclusively for investment purposes; and one, which may be regarded as still in a transitional stage, is utilized as a collection account. From these relatively dormant accounts we frequently observe that

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Federal Reserve Bank of St. Louis

transfers are made to more active accounts maintained by foreign banks of issue with member banks. In forming relationships with foreign banks of issue and in carrying on business under the agreements made, the Federal Reserve Bank of New York has been fully aware that it is undesirable for it to compete with its member banks in foreign exchange business, even though such business is permitted by the Act. The volume of the transactions carried on by us is limited by the terms of the agreements, or is subject to our control.

The free balances to the credit of eight foreign banks of issue on June 30 last amounted to $2,465,896.37 which compares with about $450,000,000 of balances held in New York City for foreign clients by a limited number of banks and bankers who recently reported to us. On these balances we pay no interest. The bulk of the transactions carried on by us for these banks relates to the purchase and holding for their account of United States Treasury certificates of indebtedness, which on June 30 amounted to $15,516,000, and bankers acceptances, which on the same date amounted to $33,624,139.12. This aggregate of about $50,000,000 compares with about $900,000,000 of loans and securities held in New York City for the account of foreign clients by a limited number of banks and bankers who recently reported to us.

Under the investment arrangements now obtaining we charge commissions of 1/4 of 1 per cent. per annum on bankers acceptances purchased for the account of foreign banks, and in return therefor we guarantee payment at maturity and agree to repurchase such bills at the market prior to maturity upon reasonable notice. Bankers acceptances so handled by us are of the same character as those we purchase for our own account, and bear a banking endorsement. Upon purchases of certificates of indebtedness we charge a commission of 1/8 of 1 per cent. per annum, and in return therefor agree to repurchase at the market prior to maturity upon reasonable notice. Also, we have from time to time held gold under earmark for the account of certain foreign banks of issue, but at this time no gold is so held. The foreign banks of issue are prepared to act for us in their markets under similar conditions, when requested.

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The foregoing gives very briefly the nature of our present relations with foreign banks of issue. The principles underlying the establishment of such relations relate entirely to the steadying of credit and the foreign exchanges, and to the regulation of the flow of gold. They follow the traditional lines laid down by banks of issue for many years. Inasmuch as operations under them are in the interest of international commerce and finance, they are also of direct benefit to the banks having international relations and of indirect benefit to financial institutions of all kinds.

It is recognized that under present conditions international banking arrangements cannot exercise the same stabilizing effect to be expected under conditions in which there are free international movements of gold. Indeed, when theReserve Act was passed it was assumed that the Reserve Banks would exercise the powers granted to them in meeting ordinary rather than present extraordinary conditions. The exercise of such powers by foreign banks of issue under pre-war conditions was often directed toward the support of their exchanges and the partial control, at least, of gold movemants; and when the exchanges were at levels requiring adjustment banks of issue sought to effect such adjustments throughthe medium of their portfolios of foreign bills on gold countries. Sterling bills were formerly extensively acquired for that purpose and London was the principal center for such operations. It is believed that a more effective control over movements of gold and exchange (and hence credit) can be brought about through cooperation between the various banks of issue, and that such a procedure is preferable to one where we would transact business in England, for example, through private banks, and the Bank of England transact its business here through private banks. The principle of cooperation between banks of issue was recognized as most desirable by the Genoa conference and has been followed by the Bank of England as well as by a large number of other banks of issue, which are now establishing relationships with each other.

Today this country, because of its free gold market, has assumed an important position in connection with such operations as the foregoing, and in consequence it has been to the advantage of the various foreign banks of issue referred to above to con-

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duct in this market the kind of operations which banks of issue normally transact abroad. But the Federal Reserve Bank of New York has had practically no occasion as yet to use its foreign correspondents for the transaction of such operations, though they are provided for in the reciprocal agreements now ineffect. Without doubt, however, the time will come when it will be desirable for us to make use of them; but we cannot expect the foreign banks of issue to perform for us in future such operations unless we are ready to perform similar operations for them in this country at times when conditions make such transactions desirable or necessary here. Furthermore, as the aim of most, if not all, of the banks of issue is to create steadier currency and credit conditions in their respective countries, and as such steadier conditions in foreign countries are very much in the interest of American business, it is to the public interest in this country that we perform here for foreign banks of issue such proper operations as they, in endeavoring to steady their conditions, find it desirable or necessary to transact through the Federal Reserve Banks.

This country did in fact derive material benefits during the period of war finance from the relationships we established with certain foreign banks of issue. Some of these transactions, carried on by them for the benefit of this country may be enumerated as follows:

Holland, Sweden and Norway. - In 1918, at the request of the United States Treasury Department, the Federal Reserve Bank of New York opened current accounts with de Nederlandsche Bank, Sveriges Riksbank and the Norges Bank for the purpose of receiving therein funds for the use of the Treasury Department and disbursing officers of the War Department.

Argentina and India. - During the same year, important arrangements were entered into between the United States and the Governments of Argentina and India to stabilize the exchanges between those countries and the United States. Under these arrangements New York banks deposited dollars with the Federal Reserve Bank of New York, which in turn gave instructions to the respective governments to pay out the equivalent in pesos or rupees to the beneficiary designated by the purchaser of the exchange. Up to the end of 1918 the equivalent of $59,000,000 in pesos (of which the National City Bank transferred to its Buenos Aires office $9,000,000) and rupees 202,500,000(of which the National City Bank and its affiliate, the International Banking Corporation took rupees 28,000,000) were sold and transferred with a most satisfactory result in the stabilization of exchange between the United States and those countries.

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Bolivia and Peru. - Similar arrangements with the governments of Bolivia and Peru were entered into. Under the Bolivian agreement, which provided for a maximum of $5,000,000, we received deposits totaling $4,500,000. No operations were carried on through this bank under the Peruvian agreement.

Spain. - In 1919, at the request of the United States Treasury, we opened an account with the Bank of Spain to receive the pesetas which we purchased as fiscal agents of the United States to retire peseta certificates of indebtedness issued by the Treasury in connection with the 250,000,000 peseta credit which was established on behalf of the Treasury in 1918 for the purpose of purchasing war supplies in Spain.

Germany. - In May 1919 we purchased from the United States Grain Corporation $173,000,000 in gold (approximately 730,000,000 gold marks) which it had received from the German Government in payment of food stuffs bought in the United States. A deposit of 290,000,000 marks of this gold was made with the National Bank of Belgium, Brussels, and the balance, 440,000,000 marks, with de Nederlandsche Bank, Amsterdam. At our request these banks examined and weighed the gold coin as it was received by them. The Bank of England undertook the transfer of this gold from the continent to London and as it arrived at the Bank of England, it was reduced to bars. Of this gold, $61,800,000 was sold to New York banks for exportation to the Far East, and would have been withdrawn from this country if it had not been available in London. Of this latter amount the National City Bank and its affiliate, the International Banking Corporation, purchased $3,700,000. During 1920, the balance of the gold, namely $111,200,000, was shipped to New York by the Bank of England.

Similar operations carried on by us for the benefit of foreign banks of issue, include the following:

England. - In June 1917 the Federal Reserve Bank of New York paid to the National City Bank for account of certain English banks $52,000,000 representing a loan with interest maturing in New York, and accepted in return earmarked sovereigns of equivalent value in the Bank of England. During 1918 all but a small amount of this gold was either shipped to New York or furnished to the Treasury Department for the use of the United States Government or its allies in Europe.

France. - In November 1920 we advanced $3,000,000 to the Bank of France against a like amount of gold which they earmarked for our account. This gold was shipped to us in March 1921 in liquidation of the advance.

In summary of the foregoing it may be said that the transactions which we carry on for foreign banks of issue involve comparatively small free balances upon which we pay no interest; that occasionally we earmark gold for

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their account; that the main operations are those connected with making investments for foreign banks of issue in the open discount market, for which we charge commissions; and that unless we stand ready to perform such operations for them at times when it is advantageous to them to make investments or have gold held under earmark in this country, we can scarcely expect them to act for us at times when it may be advantageous for us to make investments or have gold held under earmark abroad. The present effect is to encourage foreign investment by banks of issue in our discount market, thereby broadening its support and strengthening its position in world finance, and to add some measure of stability to international finance operations, now necessarily disordered.

Benefits derived from Membership.

The second question you raised is whether the National City Bank is getting any compensatory advantages from its membership in the system and for the large deposit kept with us without interest, at present about $56,000,000. I have been much interested in making the following analysis of the way in which it seems to me the system has affected the business of the City Bank, especially because we have not had occasion heretofore to make so detailed a study of our relations with a metropolitan institution.

Reserves.

The National City Bank's last report of condition, June 30, 1923, shows that on $461,000,000 net demand and time deposits, subject to reserve, it was required to keep and was keeping, reserves of about $56,000,000. These reserves are figured at the rate of 13 per cent. on demand deposits and 3 per cent. on time deposits.

If the reserve requirements prior to the Federal Reserve System were now in effect, namely 25 per cent. on both time and demand deposits, the City Bank would now be keeping on its present deposits reserves of about $120,000,000 in the form of cash in its vaults.

On these figures membership in the System shows a saving of about $64,000,000 in reduced reserves alone. Figured at 4 per cent. this amounts to a saving of over $2,500,000 per annum.

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To put the matter in another way, we have looked up the City Bank's condition report of October 31, 1914, just prior to the inauguration of the Federal Reserve System. We find that its net deposits subject to reserve were then $217,000,000 against which it was required to carry reserves of about $54,000,000, and was actually carrying about $67,000,000.

In other words, by reason of the existence of the Federal Reserve System and theCity Bank's membership in it, it has not been obliged to set aside any additional unproductive reserves to support its vastly expanded business, but is conducting it on substantially the same reserves as were held before the system opened.

Deposits.

It is interesting to note the changes which have occurred from 1914 to 1923 in two classes of the City Bank's deposits:

(a) Time Deposits. In 1914 no time deposits were reported, whereas now $62,000,000 are reported. The development of this class of deposits is, presumably, due to the reduction of the reserve on such deposits from 25 per cent. to 3 per cent.

(b) Deposits of Banks and Bankers. On the date of these two reports the City Bank's deposits from banks and bankers were as follows:

Due	Oct. 31, 1914	June 30, 1923.
Due to national banks	$35,000,000	$32,000,000
Due to other banks & bankers	81,000,000	107,000,000
Total	$116,000,000	$139,000,000

As the 1914 report does not show whether deposits from foreign banks are included among those reported as "other banks and bankers," comparison between the figures in this group is impossible. But with respect to the deposits of national banks, comparison is possible. It will be recalled that when the Federal Reserve Act was passed it was anticipated that the city banks would lose a very large proportion of their out-of-town bank accounts, particularly those of the national banks, because all of these had to join the system. The figures of the National City Bank, showing substantially no change in the volume of out-of-town national bank balances, conform generally with the experience of other New York City national banks. Unquestionably,

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if the System were not in existence and if the war had in some way brought about an expansion of bank deposits equivalent to that which has actually occurred, the City Bank's out-of-town-national bank balances would now be considerably larger. But the point I want to make is that the great reduction of these deposits, which was anticipated when the Federal Reserve Act was passed, did not occur.

Judging from what other city banks tell us, out-of-town bank deposits are now on a more profitable and satisfactory basis than they were prior to 1914. The Federal Reserve Bank has relieved the city banks ofmany mechanical and expensive services which they formerly had to perform for their out-of-town banks, such as shipping currency, collecting checks and collecting notes and drafts. On the other hand, its rediscount and other facilities have enabled the city banks to give better service to out-of-town banks.

Currency and Coin.

An adequate supply of currency and coin is now always available at a moment's notice. It is notlonger necessary for the National City Bank to carry more than is required for till money, say four or five million dollars. Furthermore the bank is relieved of the labor, expense and responsibility formerly involved in shipping currency and coin to out-of-town banks. On the City Bank's instructions and at our expense we make a great many such shipments to banks in this district. Shipments of coin and currency to banks in other districts are made by the Reserve Banks of those districts, also at their expense. We and other Reserve Banks also handle the bulk of the large incoming shipments of currency which were formerly sent to New York City banks, thereby saving these banks further labor, expense and responsibility.

Wire Transfers.

The National City Bank uses, to the extent of several millions of dollars daily, our wire transfer system, which is carried on at our expense. Through the use of this system funds are transferred anywhere in the country, across district lines, without the shipment of currency. This is a facility which is highly regarded not only by the banks themselves, but by their customers.

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Collection of Checks.

The National City Bank collects through the Federal Reserve System daily in the neighborhood of $5,000,000 in checks. Of these about $3,000,000 are direct sendings to other districts. The System reduces the time of collection of most of these checks by about one half. This is of great importance to the National City Bank and to its customers. Furthermore, routing practically everything through the System has doubtless relieved the City Bank of a considerable amount of labor, expert and other, in its transit department. Our collection facilities have also enabled it to close almost entirely the many collection accounts it used formerly to carry with out-of-town correspondents. In the two condition reports above referred to it appears that now, with greatly increased business, the City Bank has less than $1,000,000 due from other banks, whereas in 1914 it had $14,000,000 due from other banks.

Rediscounting.

The ability to rediscount assures the National City Bank at all times of a dependable supply of credit and currency which permits it to conduct its business with much greater assurance than formerly and to keep its funds invested much more closely. It has used this privilege freely when necessary. For a period of two years, from the fall of 1919 to the fall of 1921, it was a continuous borrower and in January, 1921, owed us as much as $165,000,000.

Foreign Business.

The Federal Reserve Act permitted national banks to open branches in foreign countries and to invest in shares of foreign trade banks, such as the International Banking Corporation. While such legislation might have been enacted independently of the Federal Reserve Act, as was the case in New York State, nevertheless this was part and parcel of the whole conception of a larger, safer and more effective banking business for the United States which the Federal Reserve Act contemplated. The Act also first gave national banks authority to accept time drafts. This would have been of little value had the Reserve banks not been ready from the outset to make a market for these bills and to make forward quotations for them, to be cabled to foreign countries.

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Federal Reserve Bank of St. Louis

These privileges have been of great benefit to the commerce of the country, and the prompt and wide use of them by the National City Bank has made its name and position known throughout the world.

It seems probable that the ability to exercise these privileges has also been instrumental to the City Bank in holding old foreign accounts and in attracting new ones. Of course, the change in the international financial position of the United States since 1914 has been the major influence in attracting more foreign accounts to the United States; but the existence of the Reserve System, providing an instant means for converting balances and other obligations into gold, has furnished a background of confidence which formerly was lacking.

In this connection, a very concrete advantage which the Reserve System is about to bring to the business of the City Bank is the saving of some $400,000 per annum which you tell us will result from carrying lower reserves in Cuba when the Boston and Atlanta reserve banks establish their agency there.

I have made no reference to the very great added factor of safety which the mere existence of the Reserve System has injected into American banking. That its benefits to banking and business are large, nearly all will admit. But you have asked for a statement of the tangible benefits to member banks which can be figured in dollars and cents. We have often had to figure this for country bankers and it has sometimes been hard to bring the balance into thecredit column. But as I go over the debits and credits for a New York City bank I am astonished at the showing it makes, and I am inclined to think that the National City Bank, although a few millions of its deposits from foreign banks of issue may have been transferred to us, has profited from the Reserve System relatively more than any other member becauseit has intelligently taken advantage of all the opportunities for expansion and for wider service to American business which the Act and the System provide.

Very truly yours,

JHC

J. H. CASE,
Deputy Governor.

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FEDERAL RESERVE BOARD

WASHINGTON

Office of Governor July 19, 1923.

Dear Mr. Mitchell:

I have your letter of July 17th with the three enclosures, concerning the Cuban Agency of Boston and Atlanta. I have had the matter up with Governor Harding of Boston, and from investigation made I find that the Boston Federal Reserve Bank is proposing to go into the same building that is to be occupied by the First National Bank of Boston. The First National Bank of Boston is to have the ground floor of an eight story fireproof building, and the Boston Federal Reserve Bank is to occupy a room on the third floor. Access to this room is not through the First National Bank's room, but through an outside entrance. The vault to be used by the Boston Bank is to be independent of the First National Bank - in other words, while it is in the same building, the agency will be entirely detached from the First National Bank, and it would seem that this would protect your bank from the theory that you have that it would be advancing the interests of the First National Bank of Boston to the detriment of the National City.

I am advised, further, that this arrangement will only be made for the term of one year so that if the agencies are a success and it is thought advisable to continue them, the banks themselves would likely want independent quarters, and I am confident if the agencies are a success that the Board would likewise insist that the agencies be entirely detached from any other banking institution. You can see by the above arrangement that the Boston Bank is in no way attached to the First National Bank of Boston.

I am further advised that there is no other suitable place in Havana that can properly take care of the Federal Reserve Notes that will be necessary to be carried in that City in order to accommodate the agencies and the banks operating through them.

Governor Harding appreciates the situation, but feels that there is no other alternative at the present time. You will understand that the Board has no intention whatever of favoring one bank as against another and has every desire to have these agencies operate independent of the influence of any bank and for the purpose of being helpful in the situation as it now exists in Cuba.

Assuring you of my appreciation, I am,

Very truly yours,

(Signed) D. R. Crissinger,

Governor.

Mr. C. E. Mitchell,
President, National City Bank,
New York, N. Y.

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COPY

THE NATIONAL CITY BANK OF NEW YORK.

July 23, 1923.

Dear Mr. Case:

I enclose herewith a copy of a cable that has come in to me today from our Vice President Durrell, resident in Havana, in which he challenges and comments upon the statements made by Governor Crissinger in his letter of July 19 to me, copy of which I sent you under date of July 20.

I have gained an impression that there is going to be a discussion of this subject in Washington tomorrow, Tuesday, and if you can get these facts before the Board in a formal manner, by telephone or telegraph, I will appreciate it very much indeed.

I am mailing tonight to Governor Crissinger, under confidential and personal cover, a copy of Durrell's cable. Incidentally, I understand that the Atlanta Board has adopted a resolution setting forth the opinion that both banks should be located in the same building, but in a building in which no other banking institution is located. Their position, as I understand it is that the banks should join in an independent location if Boston will " play ball", and if not, the sentiment is in favor of accepting our invitation.

Yours very truly,

(Signed) C. E. Mitchell.

Mr. J. H. Case,
Deputy Governor, Federal Reserve Bank of New York,
15 Nassau Street,
New York, N. Y.

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

COPY OF CABLEGRAM.

Mr. C. E. Mitchell, July 23, 1923.
President, National City Bank of New York.

Contention that First National Bank Boston Mass. quarters only suitable ones available for Federal Reserve use absurd. Royal Bank of Canada Havana will have representative in Washington Tuesday to offer all or any part Trust Company property which is very well adapted for purpose. Present quarters Canadian Bank of Commerce in Barraque building with modern vault available October first. Believe suitable space including vault can be obtained Mendoza y Cia building available at once. If necessary we offer gratis space sufficient for requirements with vault facility(ies) combined Boston and Atlanta agency. Maryland Casualty Company advises cost insurance our use and that of First National Bank/~~same~~ Boston. We feel position these agencies will be much stronger if they jointly occupy independent quarters as it will serve to dispell opinion that prevails locally that primary object Federal Reserve Bank of Boston Boston decision to enter this field is to advertise First National Bank Boston. Have so advised Bullen

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Copy of cablegram.

Mr. C. E. Mitchell. July 23, 1923

Federal Reserve Bank of Boston, Boston representative now here and have urged him to advise taking independent quarters. Should Federal Reserve Bank of Boston Boston persist intention to use First National Bank Boston quarters urge using every means to secure Atlanta agency for our building.

Durrell.

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COPY

July 24, 1923.

Dear Mr. Mitchell:

I am in receipt of your letter of July 23, with which you enclosed a copy of Vice President Durrell's cablegram of the same date.

For your information, the following telegram was sent by me to Governor Crissinger today:

" Pursuant to your instructions we have notified the National City Bank of New York that their designation as agent and correspondent of this bank in Cuba will terminate upon the opening of Cuban agencies by the Federal Reserve banks of Atlanta and Boston. In view of this proposed cancelation of this designation City Bank now expresses the belief that Cuban agencies of the Atlanta and Boston banks should by all means have separate independent quarters of their own and should not be located in a building occupied by agency of other American bank. We heartily concur in this view and believe it most important that Reserve agencies in Cuba have quarters of their own which will be so located that their relationship of independence of any other bank will be unquestioned."

Very truly yours,

J. H. CASE,
Deputy Governor.

Charles E. Mitchell, Esq.,
President, The National City Bank of N. Y.,
55 Wall Street,
New York, N. Y.

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MEMORANDUM OF A CONFERENCE WITH MR. CHARLES E. MITCHELL,
PRESIDENT, NATIONAL CITY BANK, NEW YORK, N. Y.
August 11, 1925, in the Office
of J. H. Case.

Yesterday evening Mr. Mitchell telephoned me that he was negotiating with Dr. Schacht of the Reichsbank for the flotation in this country of an initial offering of Rentenbank mortgage bonds of a substantial amount, and that, in the course of the negotiations, the City Bank had insisted that the mortgage security be deposited with the Reichsbank as trustee; that Dr. Schacht had cabled that last January he had taken up with Mr. Jay, of the Federal Reserve Bank of New York, the general question of the propriety of the Reichsbank's serving as trustee; that Mr. Jay had cabled Dr. Schacht advising against it; and that, under those circumstances, Dr. Schacht was loath to adopt Mr. Mitchell's suggestion.

I looked up the correspondence here relating to the subject and found that Dr. Schacht's inquiry related to an issue of public utility securities; and I telephoned Mr. Mitchell that if he would come over here to the bank I would be glad to show him the correspondence. I also told him that, so long as he was in process of negotiating with Dr. Schacht for an issue of Rentenbank securities, and so long as he was going abroad Saturday of this week, I would give him an opportunity to read a confidential letter on this subject, which Governor Strong had written to Mr. Jay under date of July 20, 1925. (Mr. Harrison and I reviewed that letter and concluded that there would be no impropriety in showing it, in its entirety, to Mr. Mitchell.) Mr. Mitchell was extremely interested in its contents and expressed his cordial appreciation of our courtesy in permitting him to see it.

Mr. Mitchell stated that, in addition to having one or two of their senior officers abroad at this time, conducting negotiations with Dr. Schacht, the City Bank had also sent over some of their counsel to consult with the German attorneys in order that all the essential points might be carefully covered, as this offering would undoubtedly be followed from time to time by others, and they proposed to start off right.

Mr. Mitchell further stated that the City Bank was insistent upon having the bonds deposited with some trustee, and expressed the opinion that, owing to the close relationship existing between the Reichsbank and the Rentenbank, it did not seem proper to have the securities deposited with one of the joint stock banks. I advised him that on that point we were inclined to agree with his view, and that if the Reichsbank should care to make further inquiry, we would say in substance that, while we were governed by the information expressed by Mr. Jay last January, we did feel that this particular offering was in a special category and entirely different from miscellaneous public utility securities.

At the conclusion of our talk on this subject, I told Mr. Mitchell that only a day or two previous I had received a communication from the Treasury Department to the effect that the State Department desired information as to our relationship with the Bankovni urad Ministerstva at Prague, the basis of which inquiry, I understood was a protest made by Mr. Mitchell to the State Department about our taking that account. Mr. Mitchell stated that this was not so, and thereupon gave me a full statement of the facts, viz.:

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Several days ago he received a direct communication from the State Department in which they claimed that they had been advised that the National City Bank was extending a bank credit of $12,000,000 to the Bankovni and was about to offer a $50,000,000 Czechoslovakian bond issue in this country, upon which procedure the State Department did not look with favor. Mr. Mitchell thereupon wrote the State Department that his institution had not been considering a flotation of a bond issue nor did they have a $12,000,000 (or any other amount) bank credit extended to the Bankovni, but merely made the statement that the City Bank had, a year or two ago, made the Bankovni a loan against gold deposited in Belgium (Brussels); that subsequently the loan was taken over by the Federal Reserve Bank of New York, and that he understood we now have such advance to the Bankovni in the amount of $10,500,000.

Under date of August 10, Mr. Winston sent me the following quotation from Mr. Mitchell's letter to the State Department:

> " It is true that the National City Company has taken a prominent part in the flotation of the two issues of Czechoslovakian Bonds which have been placed in this market. The Government of Czechoslovakia has also in the past had business transactions with the National City Bank. The latest transaction was a loan against the deposit of gold in Brussels made by the Bank in April 1924 in the amount of $10,000,000, which had been decreased by the end of October 1924 to $5,000,000. This was repaid in November 1924, the Government, we understand, obtaining funds which were partially used in connection with such repayment by borrowing $6,000,000 from the Federal Reserve Banks, which loan we believe to have been subsequently increased by the Federal Reserve Banks to $10,500,000 and to be still on their books."

which seems fully to bear out the foregoing.

In this connection Mr. Mitchell cited a very interesting episode. He said that when their loan to the Bankovni was paid off he was advised that the loan had been taken elsewhere, and he had the impression that the loan had been made by Barclay's Bank of London. As he had a close enough understanding with Mr. Goodenough of the latter bank, to enable them to "play ball" together, he cabled Goodenough, expressing surprise at his (Goodenough's) taking over that loan that the City Bank had been carrying; and was very much chagrined to have Goodenough cable back that he did not have the loan, and that, upon inquiry, he had learned that the loan was taken over by the Federal Reserve Bank of New York.

Mr. Mitchell then expressed his conviction that our making this loan at all and especially at a lower rate than that charged by the City Bank, was a highly improper proceeding, and that he had previously expressed his views on that subject to Governor Strong. I informed him that our foreign accounts were limited exclusively to banks of issue or, as in this case, to a provisional bank of issue; that the business had come to us entirely unsolicited, and that, after making careful inquiry as to the status of the Bankovni and taking into consideration the fact that it planned presently to become a bank of issue, we had taken on the account in regular course. Further, that when we were asked to make the Bankovni a loan secured by a deposit of gold lodged in Brussels for our account, we had carefully considered the matter, concluded that such a loan was safe, and (since we were fully authorized under the law to do so,) we had made the loan in question.

I further stated that, as a matter of fact, the loan of the City Bank had been paid off and the City Bank's claim against the gold in Brussels released before our advance had been made.

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Mr. Mitchell then took occasion to say that this was only one of a number of instances which had come to his attention and in which we were working directly against the interests of our member banks; that he, for one, did not like it and had been asked by several New York bankers, who felt as he did, to take the initiative with a view to showing up the unfairness of the competition which the Federal Reserve Bank of New York practices.

I told Mr. Mitchell that I was amazed that the president of the largest bank in this country took such a limited view with regard to the value of mutual relations between the Federal Reserve Bank of New York and the important central banks of issue abroad; that these relations have already proved their value and promise to be of great public benefit in future, and that it was most surprising to find him, particularly, and the City Bank, generally, so critical of our action in this and other regards. I mentioned the fact that membership in the System was unquestionably a very valuable asset to the City Bank; that it had enabled all city banks to make larger profits by reason of the reduced reserves, and that without such a system at this time he and other institutions would undoubtedly be carrying much larger idle reserves. I stated frankly that it was a matter of wonder to many of us here that he, personally, appeared to assume so critical an attitude toward the Federal Reserve Bank and its officers in practically everything we did; that we had reason to know he was in the minority in such an opinion, and that of course his criticism of the bank and its management from time to time naturally sifted in to us.

I then expressed the view that in the usual course of events certain of our transactions might appear to run counter to the interests of our member banks, but that the System was organized primarily for the benefit of commerce and industry, and that in benefitting commerce and industry the banks were the largest participants. I assured him that we here in the bank looked upon ourselves as a service institution and that, so far as consistent, our whole policy was designed with a view to giving the utmost service to our member banks; also, that with one or two exceptions this policy was thoroughly understood and appreciated by the important larger banks.

Mr. Mitchell then stated that we went ahead and consummated important transactions without consultation with our banking associates here in the city. I told him that, in the very nature of things, that would frequently be true, but the facts were that all transactions were carefully reviewed with the elected representative of the New York City banks; that the banks have always had competent representation on our board, and that it seemed to me he might have a bit more confidence in the judgment of the men whom he and his associates elected to represent them.

Mr. Mitchell spent approximately one and one-half hours with me; and while he did not make any definite statement of "repentance," he did say that he had enjoyed the discussion and that he would give some thought to the statements I had made. I told him that the reason I had not previously discussed with him the substance of Governor Strong's letter of July 20 regarding the Rentenbank was because I had understood Mr. Winston to say, last week, that he (Mitchell) was leaving immediately for Europe, when, as a matter of fact, Mr. Mitchell now states that he does not leave until Saturday, August 15.

J. H. CASE.

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THE NATIONAL CITY BANK OF NEW YORK

OFFICE OF
THE PRESIDENT

October 29, 1925.

My dear Ben:

Thank you for arranging Dr. Schacht's luncheon engagement. It would be a great pleasure if you too could join me and some of my associates on that occasion.

May I expect you with Dr. Schacht at one o'clock tomorrow, Friday, October thirtieth.

Cordially yours,

Mr. Benjamin Strong, Governor,
Federal Reserve Bank of New York,
33 Liberty Street,
New York, N. Y.

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Federal Reserve Bank of St. Louis

October 30, 1925

My dear Charlie:

Much as I should like to come to luncheon with you and Dr. Schacht today, in fact as I had planned to do, I now find that I must return to Washington again this morning. So it is unfortunately quite out of the question. But I am sure you will understand.

My secretary tells me that she has already sent tentative word that I might find it impossible on this account, so I hope no inconvenience results from the tardiness of this note.

Sincerely yours,

Mr. C. E. Mitchell,
55 Wall Street,
New York.

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c) Stillman, James

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166

April 25th, 1916.

My dear Mr. Stillman:

This is my first opportunity to write you since my arrival home, as I was obliged to go to Washington at once and have been there until to-day.

My stay in Paris and London was of the greatest possible interest and value to me. Without reviewing the matter in detail, I may say that our affairs in Paris were left in a most satisfactory condition, although no definite arrangements were made or were desirable at that time, but in London everything we wanted done has been tentatively arranged, subject to completion on being reported and approved here. Now that I am back home it is possible to realize the value of a careful inquiry into the situation abroad and I shall never regret having made the trip.

The situation here seems to be rather complicated: the Atlantic Seaboard is rather bellicose, this feeling shading off as one gets beyond the Alleghanies and into the prosperous Middle West. There are some evidences that abundant crops sold at high prices constitute the greatest peace propoganda in the world. New York is just as stated by a friend who wrote me while I was in Paris - crowded by visitors so that rooms cannot be obtained in hotels, nor seats in the theatres. This influx of visitors is well-furnished with money which it is spending with both hands.

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Federal Reserve Bank of St. Louis

To James Stillman, Esq.

On the whole, it seems to me that the bankers have kept their heads pretty well, however, and that the so-called war stock speculation has not inflated bank loans as much as one would imagine. Our surplus reserves are declining, standing now at $100,000,000 for the Clearing House banks, but that is not unnatural at this season of the year and there is still a good deal of "stretch" in case any pressure develops. Of course, the resources of the Federal Reserve Banks are hardly touched.

Feeling in Washington in regard to the President's message is a curious mixture. Those who think we ought to fight are disappointed with the message because it is not more definite and bellicose. Those who believe in peace under any provocation think that the message has developed an impasse from which neither side can extricate itself. Outside of official circles, there seem to be none who adopt a conservative middle course in expressing their views.

Having kept a careful record of weather during my trip, I find that I had five days of sunshine between the 2nd of February, when I sailed in a snowstorm, and the 14th of April, when I arrived home in a heavy rainstorm. It has since cleared up, however, and we are enjoying most magnificent Spring weather which I wish you were here to absorb.

Jim Woodward has just been in the bank and inquired very particularly after you. He seemed greatly pleased when I told him

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Federal Reserve Bank of St. Louis

To James Stillman, Esq.

of my few days visit with you. Jack Morgan expressed very keen regret at having missed you when you were in Paris and I delivered your message immediately on my return to London. So far, I have not seen him since returning to New York but understand he is well.

If, as I hope will be the case, you are able to get home this Summer, you will I am sure give me opportunity to see you and possibly I can coax you up to the country to visit us.

With kindest regards, believe me,

Faithfully yours,

James Stillman, Esq.,

Cannes, France.

BS Jr/VCM

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[From B Strong Jr]

166

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James Stillman, Esq.,
Cannes, France.

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November 8, 1917

166

Memorandum for Mr. James Stillman, Chairman:

Referring to my memorandum of October 30th (supplementary to memorandum of the 29th) showing the percentage which the estimated subscriptions to the Liberty Loan, by Federal Reserve districts, bore to the 1912 wealth of those districts respectively, I am now able to hand you a similar statement based upon figures appearing in to-day's Journal of Commerce, which are apparently official statements of the amounts subscribed within the various Federal Reserve districts.

SUBSCRIPTIONS TO SECOND LIBERTY LOAN, STATED BY FEDERAL RESERVE DISTRICTS, AND THE RATIO WHICH SUCH SUBSCRIPTIONS BEAR TO THE STATED WEALTH IN 1912 OF THE RESPECTIVE DISTRICTS

FEDERAL RESERVE DISTRICTS	Wealth in 1912 -(Census)	2d Liberty Loan Subscriptions	Percentage which October 1917 subscriptions bear to wealth of 1912
1. Boston	$11,225,000,000	$476,950,050	4.25%
2. New York	30,206,000,000	1,550,453,450	5.13 Fair play is a jewel
3. Philadelphia	11,236,000,000	380,350,250	3.39
4. Cleveland	15,870,000,000	486,106,800	3.06
5. Richmond	10,698,000,000	201,212,500	1.88
6. Atlanta	9,356,000,000	90,695,750	.97
7. Chicago	34,027,000,000	585,853,350	1.72
8. St. Louis	11,935,000,000	184,280,750	1.54
9. Minneapolis	11,568,000,000	140,932,850	1.22
10. Kansas City	17,089,000,000	150,125,750	.88
11. Dallas	8,070,000,000	77,899,850	.97
12. San Francisco	15,768,000,000	292,671,150	1.86
	$187,047,000,000	$4,617,532,000	2.46

being here -- although they would doubtless have done the same eventually, but time in every way counts for so much at present.

I am trying to impress upon every one I can the importance of speedily getting all the national and state banks, as well as the trust companies -- even if they do not open accounts or join the Federal Reserve system -- to take their pro rata share of Treasury Notes and to have a market for them as commercial paper, which is practically what they are now that the Government is such an enormous factor in almost every kind of business in connection with the war. Although you write you are loafing, I know perfectly well that you are using your great influence to accomplish this result. It should be brought about by all means, and then the Government can take its time as to when it is advisable to bring out another loan. The longer that this can be put off prudently, the better. One of the depressing factors in the situation is the talk and apprehension about another Government loan in a short time at a higher rate of interest. All talk of this kind should not be indulged in and, if possible, should be squelched.

I had a long conference this morning with Mr. Morgan at his library, and have urged him to take a more active part in financial matters here as his father did because they both occupy a unique position of not being directly connected with any one financial institution.

It is very difficult to manage an institution of any size without daily

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55 WALL STREET
NEW YORK

DEC 7 1917

November
Eighth
Nineteen
Seventeen

Governor Benjamin Strong, Jr.,
The Homestead,
Hot Springs, Virginia.

My dear Governor:

I was delighted to receive your letter of Tuesday evening, especially as I infer from it you are simply taking a well deserved rest.

Nothing would give me more pleasure than to accept your kind invitation to share your loafing with you. I fear, however, that I will not be able to avail myself of your kind invitation. There seems to be something of importance to pass upon every day. Now that Vanderlip is away and McRoberts expects also to go to Washington for an indefinite period, I feel as if I should be on deck.

If you have not already heard of it, you will be pleased to know that the United States Trust Company has opened an account with the Federal Reserve Bank, and Mr. Marston, after a talk with me today, has decided to do the same, and is sending nine millions of gold to the Bank. So you see there is some little use of my

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[Nov 8, 1917]

55 WALL STREET
NEW YORK

personal attention, and I am going to remain on this job as long as I can unless it should become sheer folly to do so on account of my weak heart. I think, however, that in a month or two it will be so organized that I can feel free to turn the management over to others.

I envy you your rest but am delighted that you were wise enough to take it. I trust you will return greatly refreshed in mind and body.

Yours sincerely,

Jas. Stillman

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16

December 7th, 1917.

My dear Mr. Stillman:

I went to Hot Springs with a firm resolution not to let mail get ahead of me or worry me. The first four days I spent principally in bed and those four days proved too much for me so I not only did not answer mail but I did not even read it. Now I am back in New York until Sunday and want to thank you for your letter of the 8th of November.

You will doubtless laugh at receiving advice from one who is unable to practice his own preachings but I cannot help thinking that you are overworking, sticking too close to that bank and imposing upon yourself too violent a change of habit after these long years of rest and freedom from direct business and responsibility. If you had my good heart and I had your good lungs we might make a whole man between us and accomplish something, but I feel terribly handicapped, as you doubtless do, limping along on one leg, so to speak.

The admission of the United States Trust Company was an achievement of the first order for the Federal Reserve System. I know perfectly well what influenced the decision from a conversation I had with Mr. Shelden. As he expressed it to me, "it was a choice between the United States Government and the United States Trust Company" and once that was plainly in his mind I never had any doubt as to the decision.

Monday and Tuesday I spend in Washington discussing the financial program and expect to be there all next week. I have urged (and I think with some success), the prompt carrying out of some of the suggestions which you and I have frequently discussed and I will get word to you either through Mr. Vanderlip or directly by letter just how things develop next week. The load now being carried by New York is not more than it can successfully handle and what we need beyond everything else is courage and this even more than money.

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Federal Reserve Bank of St. Louis

To Mr. Stillman. Dec. 7, 1917.

It would be a notable service if both you and Mr. Morgan as well as Mr. Baker could make it a practice to be in Washington once every few weeks to discuss matters with members of the Reserve Board and the Treasury Department officers. They welcome calls of that nature and will talk freely and will not hesitate to ask advice. The time has long past when questions of courtesy or pride and prejudice can be permitted to interfere in bringing our minds together in the nation's problems. I am just one of the youngest recruits and you and Mr. Baker have vastly more experience than I and can do the nation a service by placing that experience at the disposal of the Treasury Department.

I made some use of the figures that you were good enough to send me, in writing Champ Clark. He has not replied and probably will not do so. Among other results of the experience of the past three years is the conviction, and a very strong one in my mind, that every time a demagogue or political shyster throws a brick at New York, New York should throw it back promptly. I hope you did not disapprove of what I said.

My own plans are a little indefinite. I am proposing to go to Aiken for a few weeks after finishing in Washington and if by any chance your plans take you South, won't you let me know so that I can join you somewhere for a little visit?

With kindest regards and again urging that you have some regard for your own health in which your friends are deeply interested even though you may neglect it, I am,

Faithfully yours,

B.S.

James Stillman, Esq.,
55 Wall Street,
New York City.

BS*VCM

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Federal Reserve Bank of St. Louis

[From B Strong Jr]

166

55 WALL STREET
NEW YORK

R.A.F.

DEC 7 1917

November
Eighth
Nineteen
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[Farmers Loan & Trust Co]

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[Nov 8, 1917]

55 WALL STREET
NEW YORK

personal attention, and I am going to remain on this job as long as I can unless it should become sheer folly to do so on account of my weak heart. I think, however, that in a month or two it will be so organized that I can feel free to turn the management over to others.

I envy you your rest but am delighted that you were wise enough to take it. I trust you will return greatly refreshed in mind and body.

Yours sincerely,

Jas. Stillman

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Federal Reserve Bank of St. Louis

[From B. Strong Jr.]

November 8, 1917

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Memorandum for Mr. James Stillman, Chairman:

Referring to my memorandum of October 30th (supplementary to memorandum of the 29th) showing the percentage which the estimated subscriptions to the Liberty Loan, by Federal Reserve districts, bore to the 1912 wealth of those districts respectively, I am now able to hand you a similar statement based upon figures appearing in to-day's Journal of Commerce, which are apparently official statements of the amounts subscribed within the various Federal Reserve districts.

SUBSCRIPTIONS TO SECOND LIBERTY LOAN, STATED BY FEDERAL RESERVE DISTRICTS, AND THE RATIO WHICH SUCH SUBSCRIPTIONS BEAR TO THE STATED WEALTH IN 1912 OF THE RESPECTIVE DISTRICTS

FEDERAL RESERVE DISTRICTS	Wealth in 1912 -(Census)	2d Liberty Loan Subscriptions	Percentage which October 1917 subscriptions bear to wealth of 1912
1. Boston	$11,225,000,000	$476,950,050	4.25%
2. New York	30,506,000,000	1,550,453,450	5.13 Fair [illegible]
3. Philadelphia	11,236,000,000	380,550,250	3.39
4. Cleveland	15,870,000,000	486,106,800	3.06
5. Richmond	10,698,000,000	201,212,500	1.88
6. Atlanta	9,356,000,000	90,695,750	.97
7. Chicago	34,027,000,000	585,853,350	1.72
8. St. Louis	11,935,000,000	184,280,750	1.54
9. Minneapolis	11,568,000,000	140,932,650	1.22
10. Kansas City	17,089,000,000	150,125,750	.88
11. Dallas	8,070,000,000	77,899,850	.97
12. San Francisco	15,768,000,000	293,671,150	1.86
	$187,047,000,000	$4,617,532,000	2.46

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[From B Strong Jr] 46

December 7th, 1917.

My dear Mr. Stillman:

I went to Hot Springs with a firm resolution not to let mail get ahead of me or worry me. The first four days I spent principally in bed and those four days proved too much for me so I not only did not answer mail but I did not even read it. Now I am back in New York until Sunday and want to thank you for your letter of the 8th of November.

You will doubtless laugh at receiving advice from one who is unable to practice his own preachings but I cannot help thinking that you are overworking, sticking too close to that bank and imposing upon yourself too violent a change of habit after these long years of rest and freedom from direct business and responsibility. If you had my good heart and I had your good lungs we might make a whole man between us and accomplish something, but I feel terribly handicapped, as you doubtless do, limping along on one leg, so to speak.

The admission of the United States Trust Company was an achievement of the first order for the Federal Reserve System. I know perfectly well what influenced the decision from a conversation I had with Mr. Shelden. As he expressed it to me, "it was a choice between the United States Government and the United States Trust Company" and once that was plainly in his mind I never had any doubt as to the decision.

Monday and Tuesday I spend in Washington discussing the financial program and expect to be there all next week. I have urged (and I think with some success), the prompt carrying out of some of the suggestions which you and I have frequently discussed and I will get word to you either through Mr. Vanderlip or directly by letter just how things develop next week. The load now being carried by New York is not more than it can successfully handle and what we need beyond everything else is courage and this even more than money.

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To Mr. Stillman. Dec. 7, 1917.

It would be a notable service if both you and Mr. Morgan as well as Mr. Baker could make it a practice to be in Washington once every for weeks to discuss matters with members of the Reserve Board and the Treasury Department officers. They welcome calls of that nature and will talk freely and will not hesitate to sbk advice. The time has long past when questions of courtesy or pride and prejudice can be permitted to interfere in bringing our minds together in the nation's problems. I am just one of the youngest recruits and you and Mr. Baker have vastly more experience than I and can do the nation a service by placing that experience at the disposal of the Treasury Department.

I made some use of the figures that you were good enough to send me, in writing Champ Clark. He has not replied and probably will not do so. Among other results of the experience of the past three years is the conviction, and a very strong one in my mind, that every time a demagogue or political shyster throws a brick at New York, New York should throw it back promptly. I hope you did not disapprove of what I said.

My own plans are a little indefinite. I am proposing to go to Aiken for a few weeks after finishing in Washington and if by any chance your plans take you South, won't you let Me know so that I can join you somewhere for a little visit?

With kindest regards and again urging that you have some regard for your own health in which your friends are deeply interested even though you may neglect it, I am,

Faithfully yours,

B.S.

James Stillman, Esq.,
55 Wall Street,
New York City.

BS*VCM

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Federal Reserve Bank of St. Louis

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e.K.

Copy ~~to~~ 780.1 N.Y.

FILING DEPT.
DEC 19 1919
FEDERAL RESERVE BANK

PERSONAL: December 17, 1919.

My dear Mr. Stillman:

At the last meeting which Mr. Jay and I had with the Clearing House Committee, you will recall we had some discussion of the provision of the constitution of the Clearing House Association governing rates of interest allowed by members of the Clearing House upon out-of-town bank deposits. Since the meeting I have learned of no proposal for a reconsideration of this matter along the lines of our discussion and am writing to ask if there is any possibility of a review of the subject being made.

Of course you understand that it is impossible for us to forecast what may from time to time be the policy of the Reserve Bank as to rates, but it has long seemed to me to be undesirable that the rates allowed upon these balances by New York banks should be automatically associated with the discount rate of the Federal Reserve Bank. Should our policy necessitate further advances in rates the consequence would be an automatic increase in rates for out-of-town deposits, and I fear that once such advances are made by New York banks competitive rate changes will take place in other cities and the whole subject of competition for bank deposits at constantly increasing rates will again come up to bother us.

There may be a number of methods of dealing with this matter, some of them, possibly, better than the one which was suggested at our meeting, but perhaps I may repeat that suggestion which certainly is based upon the useful experience of many years by the London banks. Whenever the bank rate changes in London, the clearing bankers' committee meets, and, in the light of the change in the bank rate, fixes the rate to be allowed upon bankers' balances. The change is, however, not automatic, and the only thing that is automatic is the review of the situation which

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made by the bankers' committee. Might it not be possible for our Clearing House to adopt some similar plan, or a better one if it can be found, and, before making it the subject of a change in constitution, ascertain in detail from the members of the Clearing House whether the plan will not meet with their support?

As I believe you undoubtedly realize, the officers and directors of the Federal Reserve Bank consider it a part of their duty to their members to promote in every way the establishment of sounder banking practices in this district. Our proposals in this matter are designed to that end, and I believe, meet with the hearty approval of the Federal Reserve Board.

I will be glad to learn from you what are the views of the members of the Clearing House Committee and whether it is likely that anything will be done in the matter.

Very truly yours,

BS.

James Stillman, Esq.,
The National City Bank,
55 Wall Street, New York.

BS.MSB

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~~L~~ Talbert, J T
Vice President
National City Bank

1913

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Federal Reserve Bank of St. Louis

Goes

207

The National City Bank of New York

CAPITAL $ 25.000.000.
SURPLUS & UNDIVIDED PROFITS $ 30.000.000.
CABLE ADDRESS "CITIBANK"

New York

December 11th, 1913.

Mr. Benjamin Strong, Jr., Vice-Presdt.,
The Bankers Trust Company,
No. 16 Wall Street,
New York City.

Goes

Dear Mr. Strong:

Answering the four questions submitted to me this morning, I regret to say that the time at our disposal is so brief that we cannot run down all authorities. But I believe that the answers here given are as trustworthy as the nature of the information desired makes possible.

1. Estimate of amount of American securities held in Europe and authorities for same.

Articles by Sir George Paish in the London Statist of June 19, 1909, and December 24, 1910. He uses the returns of the Excise Commissioners of England as a basis for his estimates, which were at that time that the total investment of British capital in the United States and Canada were $5,000,000,000. In view of the fact that large holdings of American securities by British investors are kept in this country, the statistics of which are not available, it is safe to assume that these holdings are very much larger. This does not take into consideration the investments of France, Germany, Holland or other European countries, which in the aggregate probably are nearly as great as those of Great Britain.

2. How much in short-time notes is now outstanding by the various railroads and industrial corporations, and if possible, how much of that is held in Europe?

I enclose a portion of the weekly financial section (pp 2 to 6) of the Journal of Commerce, New York, November 19, 1913, which contains complete answers to this question, giving in detail all maturities under three years of railroads, traction and industrial corporations. The information is very complete. This paper has been taken from our files and is the only copy that we have. I should be glad if you would return it when you have finished with it.

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Federal Reserve Bank of St. Louis

3. The amount of annual expenditures by foreign travelers in Europe.

About five years ago, after careful estimates based upon payments made under travelers' letters of credit by the principal banks abroad, the amount spent by American tourists was placed at £ 80,000,000 annually. Since that time American travel has increased perhaps fifty per-cent, owing to faster steamers and better accomodations. But it would be perfectly safe to place this estimate now at an annual expenditure of $500,000,000. This is exclusive of the incomes of many wealthy American families who live permanently abroad, and of the incomes of wealthy American girls who have married abroad. Concerning this there can be no accurate or authoritative data procured except eventually by the Government when the income tax is in operation. These figures do not include remittances made by foreigners laboring here, which in the aggregate are very large. In 1911 the Post Office Department records showed that remittances in small amounts of, say, less than $100, showed the aggregate to be above $70,000,000 of international post office money-orders.

4. The amount paid by Americans to foreigners for freight on imports and exports per annum.

I am unable to lay my hands on any authoritative statistics, but the in-and-out commerce of the United States annually is around $3,000,000,000. It is safe to estimate the amount of freights paid, exclusive of fire and marine insurance, would be at least ten percent, or, say, $300,000,000. This is under, rather than over, the mark.

For further information in reply to these four questions, I would suggest that you communicate with Mr. Bailey.

Yours faithfully,

Jas. J. Talbot

Vice-President.

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Federal Reserve Bank of St. Louis

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The National City Bank
of New York

CAPITAL $ 25.000.000.
SURPLUS & UNDIVIDED PROFITS $ 30.000.000.
CABLE ADDRESS "CITIBANK"

New York

December 13th, 1913.

CMS

Dear Mr. Strong:

Replying to your letter of December thirteenth, I beg to say that the average cash reserves of the National City Bank during the period of panic in the year 1907 were as follows:

For the month of September, ...	27¼%
" " " " October..........	26 %
" " " " November.........	23¾%
" " " " December.........	24½%
" " " " January (1908)...	31½%

The lowest point reached by this Bank in its reserves was on October 26th, 1907, when the reserve was 20¼%.

Yours very truly,

Jos. T. Talbert

Vice-President.

Mr. Benjamin Strong, Jr., Vice-Presdt.,
The Bankers Trust Company,
New York City

TH

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e) Vanderlip, F A
President
National City Bank
1911; 1913-14, 1920-21

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Federal Reserve Bank of St. Louis

The National City Bank of New York.

CAPITAL FULLY PAID $ 25.000.000.
SURPLUS $ 25.000.000.
CABLE ADDRESS "CITIBANK"

New York,

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March 2, 1911.

Mr. R. H. Giles,
C/o Bankers Trust Company,
7 Wall Street,
New York City.

Dear Sir:

I enclose herewith copies of letters which you forwarded to me at Mr. Strong's request. Will you kindly thank Mr. Strong for me and tell him that I heartily endorse his attitude in the matter.

Yours very truly,

Andrew Miller

Enclosures

Ms-W

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Federal Reserve Bank of St. Louis

The National City Bank of New York.

OFFICE OF
THE PRESIDENT

New York, October 17th, 1913.

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Mr. Benjamin Strong, Jr.,
Bankers Trust Company,
New York, N. Y.

My dear Mr. Strong:

I enclose copy of a confidential letter from Senator Weeks. I will be greatly obliged if you will turn the matter over in your mind, for I would like the advantage of having your judgment before I answer him.

You will, of course, treat the letter as confidential.

Yours very truly,

Dictated but not signed by Mr. Vanderlip,
as he had to leave the office before it could be
written.

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(C O P Y)

UNITED STATES SENATE,

Washington, D. C.

Confidential. October 16, 1913.

F. A. Vanderlip, Esq., President,
National City Bank,
New York, N. Y.

Dear Mr. Vanderlip:

I am very much obliged to you for the copy of the currency bill with your notations and explanations. It will be of much service to me during its consideration by the committee.

I have an impression that the practical thing for the committee to do is to report in favor of four reserve banks which probably would be located at New York, Chicago, San Francisco and New Orleans. That would seem to take reasonable care of each section of the country. If this is done and assuming that all National banks come in, on a ten per cent assessment that would mean a capitalization of $100,000,000. It would be necessary for your bank to contribute two and a half million dollars. What would you think of dividing this contribution to the capital among the four banks in proportion to their total capital rather than having all of it applied to the capitalization of the New York bank? If this were done, you would have the same relative interest in all of the banks and naturally would have one vote in the election of the banks' directors. At the same time it occurs to me that it would remove to some degree at least the objection which rests against requiring one bank, owned by one set of men, to come to the assistance of another bank owned by another set. This has occurred to me as a possible course to follow and I would like your unbiased opinion of it.

Sincerely yours,

(Signed) John W. Weeks.

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F 67

DIRECTORS.

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SAMUEL G. BAYNE, President Seaboard Nat. Bank.
EDWIN M. BULKLEY, Spencer Trask & Co. Bankers.
JAMES G. CANNON, President Fourth Nat. Bank.
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~~SEWARD PROSSER, Prest Liberty Nat. Bank~~
DANIEL G. REID, Vice President Liberty Nat. Bank.
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ALBERT H. WIGGIN, President Chase Nat. Bank.
SAMUEL WOOLVERTON, Vice President Hanover Nat. Bank.

National City

BANKERS TRUST COMPANY

CAPITAL $10,000,000
SURPLUS 10,000,000

CABLE ADDRESS: BANKTRUST, NEW YORK.

16 WALL STREET

OFFICERS.

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BENJ. STRONG, Jr., Vice President.
WILLIAM C. POILLON, Vice President.
D. E. POMEROY, Vice President.
W. N. DUANE, Vice President.
F. I. KENT, Vice President.
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GEORGE W. BENTON, Treasurer.
GUY RICHARDS, Asst. Secretary.
H. W. DONOVAN, Asst. Treasurer.
BETHUNE W. JONES, Asst. Secretary.
H. F. WILSON, Jr., Asst. Secretary.
R. H. GILES, Asst. Treasurer.
PERRY D. BOGUE, Asst. Secretary.
HARRY N. DUNHAM, Asst. Treasurer.
I. MICHAELS, Trust Officer.

207

NEW YORK October 20, 1913.

My dear Mr. Vanderlip:-

Referring further to yours of the 17th, the suggested prorata ownership of Federal Reserve Banks must be considered upon one of two hypotheses. One: That all member banks would participate in the management of all Federal Reserve Banks; the other, that they would own stock in all Federal Reserve Banks, but have no voice in the management of any outside of the one in their own district.

As to the first hypothesis - the present bill would require thorough revision in respect of boards of directors, federal reserve board, and advisory board, to make the change feasible. To give proper representation and administration would require a general board, elected by all member banks, with a central office and management. It would not be a long step to the creation in the law of one central bank, as these would develop to be in fact. It would go a long way toward harmonizing possible sectional differences arising between the managements of Federal Reserve Banks, but would open the door to differences of opinion within the local boards of the various Federal Reserve Banks; one or two directors representing outside districts might have interests at variance with the interests of the districts within which the particular bank was located. It is hard to see how a plan of management can be devised to suit such a plan of ownership, without creating in the end but one bank with branches.

As to the second hypothesis - there is only one sound principle upon which capital is safely employed and business is profitably conducted. The owner who has capital at risk must and will always insist upon participation in the management. Even the management of our large corporations, with the vast powers delegated to directors, is in the end governed by this fundamental relationship between owner and manager. But where does the suggestion lead us in this case, upon the second hypothesis? Not only would your institution and mine have no voice in the policy and management adopted at San Francisco or New Orleans, but it is possible - in fact well

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F. A. Vanderlip, Esq. 10-20-13.

nigh certain - that interests and policies radically different from and seriously conflicting with those of our own district would at times prevail, and the capital furnished by our own stockholders would then be applied to furthering interests other than those of its owners. The injurious effects of lack of harmony of operation of the Federal Reserve Banks would be intensified by the financial interests of the stockholding banks of foreign districts, and would necessitate the exercise of even greater mandatory powers by the federal reserve board. I do not feel willing to state that the idea could not be developed in some way so that it would prove superior to the plan as now prepared. The difficulties above suggested might be met by changing the character of the advisory board and enlarging its powers. If, for instance, representation of Federal Reserve Banks on the advisory board were made somewhat in the proportion of size of the various Federal Reserve Banks, and the federal reserve board's power to require discount made subject to the approval or disapproval of the advisory board, it would possibly meet the difficulties suggested - but the power of veto alone would accomplish most that is needed, without the prorata ownership.

The suggestion, however, is encouraging. One member of the Senate Committee seems to realize the weakness of the proposed plan of control. I hope it may prove to be the beginning of a better understanding by the Committee of the desire that you and I and many others here have always felt to assist and not hinder this important work.

Very truly yours,

BS-JEB

F. A. Vanderlip, Esq.,
c/o The National City Bank,
New York City.

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Federal Reserve Bank of St. Louis

The National City Bank
of New York

OFFICE OF
THE PRESIDENT

New York November 6 1913.

207

Mr. Benj. Strong, Jr.,
Bankers Trust Company,
16 Wall Street,
New York City.

My dear Mr. Strong:-

Your letter of November 5th has been received. I am much obliged to you for suggesting to Mr. Kent that he send me his testimony before the Committee. I shall be very glad to read it, as I have the greatest respect for the financial knowledge of the Bankers Trust staff, with more particular reference to your good self.

Very truly yours,

F A Vanderlip

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Monetary

Form 2289 B

NIGHT LETTER

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THEO. N. VAIL, PRESIDENT BELVIDERE BROOKS, GENERAL MANAGER

RECEIVED AT EXETER. N. H. 36 NL 7.10 a.m.

Tarrytown, N.Y., Nov. 8, 1913.

Benj. Strong, Jr.

Part of Committee wants Bill drawn indefinite form. Have promised to do it in next few days. Will want your certificate as to what lawyer to call in on it. We should get started promptly Monday

F. A. V.

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Federal Reserve Bank of St. Louis

1812

THE NATIONAL CITY BANK OF NEW YORK

1913

UNITED STATES SECURITIES AND GOVERNMENT FINANCE

NEW YORK, November, 1913.

AS a result of questions and suggestions addressed to him by members of the Senate Committee on Banking and Currency during his first hearing on the currency bill, President Vanderlip of The National City Bank of New York has presented to the Committee the following suggestions for a Federal Reserve Bank:

The Government shall grant a charter to the Federal Reserve Bank of the United States with capital stock of $100,000,000, the charter to extend for a period of fifty years.

The head office to be located in Washington and twelve branches to be located in the cities selected by an organization committee, and sub-branches wherever designated by the Board of the Federal Reserve Bank.

As soon as practicable after the passage of the act the President is to appoint a committee of five to be designated as the "Federal Reserve Bank Organization Committee." This committee will divide the country into twelve commercial districts, and designate one city in each district as the seat of a branch of the Federal Reserve Bank, and generally be charged with the responsibility of organization.

The stock of the Federal Reserve Bank may either be subscribed for entirely by the Government with funds raised by the sale of bonds, or offered for public subscription, the success of such subscription to be insured by requiring all national banks to be liable for the purchase of their pro rata proportion of any stock not taken by the public.

The stock shall have no voting power and no rights of any kind shall attach to it except to receive dividends. There need, therefore, be no restriction on its purchase or sale or accumulation, either by banks or individuals.

The Federal Reserve Bank will be wholly under the management of a board of seven directors to be appointed by the President with the advice and consent of the Senate, with terms of fourteen years, but the first board to be classified and the term of one director to expire every two years.

The bill should provide that the President will select men qualified by experience and training for the proper discharge of the duties imposed and make no appointments in order to confer political rewards. At least three of the members should be recognized to have had wide financial and banking experience.

Appointments are to be distributed geographically so as to give due weight to the commercial sections of the country.

The President, with the advice and consent of the Senate, will designate one director as governor and another as deputy governor, and the governor, or in his absence the deputy governor, shall act as chairman of the board and be the chief executive officer of the bank.

Members of the Board to retire automatically at the age of seventy.

The Board of the Federal Reserve Bank shall appoint for each branch an Executive Committee of seven members. The bill will contain the same general directive clauses as to their character as in the case of the Board itself, including the provision that at least three of the members of the Executive Committee shall be recognized to have had wide banking and financial experience. The term of office of the members of the Executive Committee will be seven years, but in the case of the first

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members appointed they shall be classified so that one director shall retire each year. One member of the Executive Committee will be designated chairman and one vice-chairman and the chairman, or, in his absence, the vice-chairman, will act as chairman of the committee.

All actions of the executive committees will be subject to the approval of the Board of the Bank. Each executive committee will elect a president and other executive officers to conduct the business of the branch, the men filling these offices to have no official or financial relation with any other bank.

The earnings of the Bank shall, in case the Government subscribes to all the stock, be first devoted to an accumulation of a surplus of twenty per cent and thereafter one-half of the earnings will be devoted to a further increase of the surplus until it reaches fifty per cent and the other one-half to go to the Government. After the surplus has reached fifty per cent all the earnings will go to the Government.

In case the public subscribes to the stock the net earnings will first be devoted to paying a six per cent cumulative dividend, then to an accumulation of a surplus equal to twenty per cent of the capital, after which one-half of the earnings will go to the government and one-half be devoted to the accumulation of a further surplus until the surplus reaches fifty per cent of the capital, and thereafter all the earnings beyond the dividend requirement will go to the government.

All earnings received by the Government will be devoted to the retirement of the government debt.

The customers of the Bank shall be the Government and qualified member banks, which will include all national banks and may include state banks and trust companies.

The Government shall deposit all of its general fund with the Bank and constitute the Bank its fiscal agent.

The reserve requirement for national banks will be so changed as gradually to transfer all reserves away from correspondent banks now acting as reserve agents and after this gradual transfer has been fully accomplished all reserves will be held in the vaults of the banks and with the Federal Reserve Bank. The reserve requirement will be the same for all member banks and shall be ultimately twelve per cent.

The reserve to be held by the Federal Reserve Bank shall never be less than fifty per cent of its demand liabilities, including note issue, in gold or lawful money.

The Board of the Federal Reserve Bank may, in an emergency, suspend all reserve requirements for thirty days and continue such suspension for periods of fifteen days.

The Federal Reserve Bank may rediscount for member banks paper self-liquidating in character to be defined by the act. It shall not rediscount for any one bank an amount exceeding the capital and surplus of such bank.

The Bank may buy in the domestic market from member banks, non-member banks, and individuals self-liquidating paper under conditions to be defined in the act, bearing the endorsement of a member bank, and may buy in the foreign markets prime banker's bills.

The Bank may also deal in gold coin and bullion, and in obligations of the United States Government and its insular possessions.

The Board of the Federal Reserve Bank shall establish a minimum rate of discount, which shall be uniform at all branches and sub-branches and which shall be changed from time to time as conditions demand.

While the minimum discount rate shall be the same at all branches and to all banks, that minimum rate will only apply to the rediscounts of a bank up to an amount equal to a fixed percentage of its capital and surplus, thereafter such bank shall be charged a uniformly progressively increasing rate upon discounts, until said discounts shall have amounted to a maximum, permitted by the act, fully equal to the capital and surplus of said bank.

As fiscal agent of the Government the Federal Reserve Bank shall be charged with the duties now imposed upon the Treasurer of the United States and the Bureau of Redemption in the office of the Comptroller of the United States in respect to the custody of bonds securing national bank notes and the redemption of such notes. The five per cent redemption fund now in the general fund of the Treasury shall be transferred to the Federal Reserve Bank as a special trust fund and shall be held intact and shall not count as a part of the reserve of the bank.

The Federal Reserve Bank shall be authorized to issue its circulating notes. Such notes shall be secured by the segregation of rediscounted paper as described in the act equal to one hundred per cent of such notes outstanding and or one year exchequer notes of the United States Government hereinafter provided for and by a reserve in gold equal to fifty per cent. The notes shall have the same qualities as the present national bank notes, shall be redeemable at any branch on demand in gold and shall be the obligation of the Bank. There shall be no restriction upon the issue of notes by the Bank when the notes are fully covered by gold coin or bullion, it being intended that to the extent that the outstanding notes of the bank are not fully covered by gold they shall be secured by one hundred per cent in rediscounted paper and or exchequer notes and by a reserve in gold equal to fifty per cent.

Gradually and over such period as the Federal Reserve Board may decide upon, the Federal Reserve Bank shall offer to purchase 2 per cent bonds of the United States deposited to secure circulating notes of national banks at par and up to an amount equal to one-half of such bonds deposited with the Treasurer of the United States as security for national bank note circulation. It shall pay for these bonds by assuming the responsibility for the redemption and retirement of the national bank notes secured by them. Upon acquiring these bonds the Federal Reserve Bank shall receive from the Government of the United States in exchange for the 2 per cent bonds an equal amount of one-year exchequer notes bearing 3 per cent interest. The Federal Reserve Bank shall give an undertaking to the United States Government that it will renew such one-year exchequer notes each year at maturity for twenty years. These notes shall be made to mature at various periods during a calendar year. So long as these notes are outstanding, the Federal Reserve Bank shall pay to the United States out of its earnings, and before any dividends are paid upon the stock, a tax of 1½ per cent on an amount of circulating notes equal to the amount of exchequer notes outstanding.

The bill should provide for a national clearing house.

The charter rights of national banks should be so enlarged as to permit banks to have branches within the city in which they are located, to establish branches abroad and to exercise general trust company functions to be defined in the act.

National banks shall have the right to accept drafts, of a character to be defined, up to an amount equal to one-half of their capital.

State banks and trust companies may be admitted to membership by conforming to the same capital, reserve and inspection requirements that national banks are obliged to meet in similar localities. The Federal Reserve Board shall have power to examine any member bank.

The circulating notes of the Federal Reserve Bank shall be a first lien on all the assets of the Bank.

The Federal Reserve Bank shall have a first lien upon the assets of member banks for any indebtedness due from them.

As far as feasible the Federal Reserve Bank shall be exempt from the payment of all Federal and State taxes, except taxes upon real estate. As far as feasible the stock of the Federal Reserve Bank and the dividends thereon shall likewise be free from all Federal and State taxes.

THE NATIONAL CITY BANK OF NEW YORK

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The National City Bank
of New York

OFFICE OF
THE PRESIDENT

New York February 28 1914.

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Mr. Benj. Strong, Jr.,
Bankers Trust Company,
16 Wall Street,
New York City.

Dear Mr. Strong:-

Your letter of February 27th has been received. I certainly appreciate your courtesy in taking the time to give me the benefit of your advice. It is of great value to me. Knowing Mr. Curtis as I do so closely in a personal way, and having this relation with Mr. Vanderlip, it has been rather hard for me to make a perfectly equitable analysis of the matter.

I have, however, just written Mr. Curtis suggesting that a reasonable fee would be $1000.00 and expenses. Of course, I have not brought you into the matter.

With deep appreciation of the trouble which you have taken, I am,

Very truly yours,

E. P. Currier

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Estes Park, Colo.,

October 5th, 1916.

Dear Mr. Vanderlip:

The following, I believe, summarizes our discussion in regard to currency legislation but I must ask you to have in mind that no suggestion of a plan of legislation to cover this difficult subject can be considered complete without a much more careful study of the experience to date in the adjustment of denominations of our various kinds of currency as well as other features of the subject for which data is not available to me here:

The title of the Federal Reserve Act states that one of its objects is to furnish an elastic currency and by inference it does not attempt a complete reform of the existing currency. It does authorize an "elastic" note - the Federal Reserve Note, but except for the purchase of $25,000,000 2% bonds every year by the Reserve Banks in order at the end of 20 years to retire approximately $500,000,000 of the present National Bank note currency it leaves the currency of the past untouched. As a measure of safety, the privilege of issuing National Bank notes was extended to the Federal Reserve Banks on substantially the same terms as now enjoyed by National Banks so that they might not be too heavily committed in the ownership of Government bonds without means of issuing notes against them. Assuming that the Federal Reserve Banks availed of this privilege of issuing bond secured notes, the currency situation would remain unaltered, save for the fact that the Federal Reserve Banks could in time of need issue Federal Reserve Notes secured by commercial paper in addition to all existing issues of notes in circulation. This would mean that nearly Sixteen Hundred Million Dollars of currency would remain indefinitely in circulation in the United States without adequate gold reserve or adequate machinery for prompt redemption in gold when demanded.

This currency consists of:-

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A - Greenbacks, that is, United States Notes -	$346,000,000
B - Silver Certificates - - - - - - - - - - - - - -	464,000,000
C - Treasury Notes - - - - - - - - - - - - - - - - -	2,000,000
D - National Bank Notes - - - - - - - - - - - - - -	735,000,000
Total about - - - - - -	$1,567,000,000

The real currency problem is, therefore, to transform the character of this $1,567,000,000 of currency so that it will have an adequate gold backing and be capable of expansion and contraction; or, stated differently, the problem is to eliminate existing inflation in the form of our variagated currency already in circulation.

Viewed collectively, National Bank Notes, greenbacks and silver certificates should all be classed as fiat money issued by the Government, as the gold reserve for its redemption consists simply of $153,000,000 in the trust fund and the small amount of gold commonly held in the general fund (which includes the 5% redemption fund) - the silver bullion having no value for redemption purposes since the Act of 1900.

The following general method of dealing with this currency might, upon closer study, be found feasible:

GREENBACKS:

An act might be passed providing that these should no longer be paid out when received by the United States Government in collecting its revenues or by Federal Reserve Banks when received on deposit. As rapidly as received through either channel there should be issued in substitution a like amount of Federal Reserve Notes and simultaneously the Government turn over to the Reserve Banks upon some pro rata basis, ratable proportions of the $153,000,000 of gold and of a new issue of low interest-bearing Government Bonds to cover the difference between the face of the United States notes retired and the amount of the gold received.

The apportionment between the Reserve Banks of the amount of Federal Reserve Notes to be issued in exchange for United States Notes should be fixed by statute - probably based upon the capital or capital and resources of the twelve Reserve Banks, each bank thereby receiving its pro rata of the gold out of the trust fund and of the new issue

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of United States Bonds. As this operation would ultimately result in a holding of nearly $200,000,000 of United States Bonds by the Reserve Banks, it would be necessary that a conversion privilege at a higher rate of interest be embodied in the plan so that the Reserve Banks could divest themselves of a part or all of their holdings of these bonds in th course of time.

Objection may be made that even at the rate of 2% this would put a large interest charge, totalling nearly $4,000,000, on the Treasury. Against that it may be said that the Government would save all of the expense of printing and issuing greenbacks, which is a considerable item. The Treasury would also be relieved of the menace which the greenbacks have always caused in time of currency difficulties, particularly when gold is wanted for export.

Another important object which would be gained by the retirement of the greenbacks is to accustom the people of the country to the use of notes which can be immediately redeemed in gold upon presentation. This has not been the case with the greenbacks. In '95, 1907 and 1914 redemptions in gold were not made. It is also important that the Government should finally pay the non-interest bearing debts incurred during the Civil War. Some concern has already been expressed in England that unlimited issues of fiat money in the form of present currency notes will create a demand for the "manufacture of cheap money" by the Government. As long as greenbacks remain in circulation in this country the temptation will at times arise to enlarge the issue, so as to "manufacture cheap money".

AS TO THE SILVER CERTIFICATES:

The country must be taught to regard these as subsidiary coins issued for convenience in the form of paper notes but in fact having the same position in our circulating medium that 25 and 50-cent pieces have. Too large a proportion of these silver certificates find their way into bank reserves. The obligation of the Government to redeem them in gold is too indirect to have practical value in times when gold is in demand. The requirement that the Secretary of the Treasury must keep all our currency on a parity with gold gives him a certain discretion in determining whether a situation exists which calls for exchanges

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of gold for silver certificates so that the Act has no practical force. If, therefore, the issue of large denomination silver certificates can be gradually discontinued, in time the great bulk of this part of our currency will be carried in people's pockets and no considerable amount be held by banks as reserves. In order to accomplish this, the denominations of our various kinds of currency must be changed and a vacuum created by the withdrawal from circulation of other forms of currency now issued in small denominations - principally ten dollar gold certificates, five and ten dollar National Bank Notes and five dollar greenbacks or Federal Reserve Notes issued in exchange therefor.

NATIONAL BANK NOTES:

The Federal Reserve Act now provides that the Reserve Banks shall buy not less than $25,000,000 of 2's every year and these they may convert into 3% 30-year bonds and into 3% one-year notes - the latter subject to renewal upon demand of the Secretary of the Treasury for a period of 20 years. The 30-year bonds and one-year notes have no circulation privilege. The interest limitation of 3% on the 30-year bonds is likely during long periods to prevent their being marketed by the Reserve Banks at or above their cost and the Act should be amended so that larger amounts may be purchased annually by the Reserve Banks and larger amounts converted annually by the Reserve Banks and when necessary higher rates of interest allowed on the new bonds so that the Reserve Banks may be able to sell them without loss, otherwise the effect of the present law may be distinctly unfortunate. If the 30-year bonds cannot be sold on a 3% basis, the investments of the Reserve Banks in the course of 20 years may consist principally or wholly of United States Bonds. Any danger of that occurrence would result in failure of the Reserve Banks to convert their bonds and their being obliged to issue National Bank Notes in order to carry them; they would thereby simply perpetuate the present bond secured currency. If, however, the Reserve Banks are put in position to liquidate these bond holdings as rapidly as they accumulate, it becomes exceedingly important that means be created for issues of notes to take the place of the retired National Bank Notes. Herein is afforded the opportunity to issue Federal Reserve Notes in large amounts to fill the vacuum caused by the withdrawal

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of National Bank Notes. These issues should have for their redemption a very large gold reserve. As the law now stands, if the Federal Reserve Banks should retire $500,000,000 of National Bank Notes, without reissuing them against the same bonds, there would be a currency famine in the United States which could only be met by issues of Federal Reserve Notes upon the security of commercial paper. The time will come when the amount of National Bank Notes retired (provided, of course, the Reserve Banks are successful in marketing their 3's) will cause an actual shortage of currency and there being no machinery for issues of currency other than Federal Reserve Notes - the amount of the issue which must be secured by commercial paper, will become unwieldy. This can be met by dealing with the fourth problem; namely, -

THE GOLD CERTIFICATES:

Our present currency laws provide that one-third of the total issue of gold certificates may be made in denominations of ten, twenty and fifty dollars. There is in circulation at present, I should judge in round figures, about Five Hundred Million of gold certificates of these denominations. They are carried largely in people's pockets. If the Government discontinues the issue of gold certificates of these small denominations, the large denomination notes issued in their place will drift into bank reserves inevitably, thereby affording opportunity not only for the National Banks to increase their gold holdings and reduce their holdings of greenbacks and silver certificates but for the Reserve Banks, when the law is properly amended, to make large issues of Reserve Notes against gold. The enlargement of the note reserve by that method would later on justify issues of Federal Reserve Notes to fill the vacuum caused by the withdrawal of National Bank Notes. A similar vacuum will be created by readjusting denominations of silver certificates.

With these changes in our laws, the ability of Federal Reserve Banks in co-operation with the Treasury Department to regulate the proportion of money of different kinds in bank reserves and the proportion in general circulation, by adjustment of the denominations of the various issues, can be exercised to bring about a result that would be satisfactory to every critic of the plan. With Two and a half Billions of gold in the

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country, no possible objection could be made to the accumulation of a total fund of, say, One Thousand Million Dollars in bank reserves by the plan proposed, which would leave, as at present, about Three Hundred Millions in the general fund of the United States, (if we include the Trust Fund) and about Twelve Hundred Millions divided between the reserves of National and State Banks and in current circulation.

To summarize, therefore, what is required is:

First:- To retire the greenbacks.

Second:- To reduce the denomination of silver certificates.

Third:- To accelerate the retirement of National Bank ~~Bonds~~ Notes.

Fourth:- To discontinue issues of small denomination gold certificates.

Fifth:- To make Federal Reserve Notes reserve money for member banks.

FEDERAL RESERVE NOTES AS RESERVES:

If the Reserve Banks are permitted to acquire a large enough fund of gold behind their note issues to make the issue comparable in quality with the gold certificate or with the notes of, say, the Bank of France in normal times, there is no sound objection that can be raised to having Federal Reserve Notes count as reserves from member banks.

It is admitted that the above plan is impossible, however, unless we are willing to accept the principle that Federal Reserve Notes can be made satisfactory for the cash reserves of National Banks. The law as at present drawn is anomalous. Member banks may count balances with Reserve Banks as a part of their reserve and under regulation of the Reserve Board may deposit their entire reserve with a Reserve Bank, including all of their vault cash, all of which will then count as reserve. Federal Reserve Notes, however, do not count as reserves although they are secured by the segregation of collateral for 100% of their face value. The Reserve Banks must in addition carry a minimum reserve of gold of 40%. The Notes are a prior lien on all of the assets of the bank and must be paid before the deposits are paid. Every Reserve Bank must redeem the notes of every other Reserve Bank and, lastly, they are the obligation of the United States Government. The

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who... theory of giving a bank deposit a different reserve quality from a bank note is wrong and unique in banking history, except in our National Bank Act. The real objection and practically the only one which may be advanced to their counting as reserve lies in the possibility of inflation. If the Reserve Banks acquire, say, Five Hundred Millions additional gold by the issue of Five Hundred Millions of Notes, as the law now stands it might be claimed that they could expand their loans and note issues combined by about Two Billion Dollars. This sounds dangerous and inflationary.

In the last analysis, the only protection against expansion of that sort rests in the character and quality of the management of the banks. If some statutory check is required, however, it must be applied at the point where the expansion originates. A tax on the note issue would be of no value with the Reserve Banks on such an expanded basis. The Reserve Banks would at such a time pay large profits to the Government and it would exercise no restraint on the management if some part of these profits were paid to the Government in the form of a tax in place of being paid as surplus earnings. Restraint must, therefore, be applied upon the borrower who is the cause of inflation and it might be wise to incorporate a provision in the Federal Reserve Act which would necessitate an increase in the rate of discount whenever the reserve got below a certain minimum. Our system of minimum reserves may have protected the country against reckless banking. It has had the secondary effect of deferring the education of bankers. They do not rely upon good judgment nor do the people of the country demand the exercise of good judgment such as is exercised in other countries where statutory minimum reserves do not exist. No statutory restraint can be made to work perfectly but if one must be applied, it should be in connection with the discount rate rather than in the form of a tax. Federal Reserve Notes under the proposed conditions, with a large gold reserve, will be a much sounder reserve for National Banks than are National Bank Notes for State Banks or greenbacks or silver certificates for National Banks, particularly if the reserve is customarily carried at 75 or 80%, as might be the case, if the gold holdings of the Reserve Banks were substantially larger. By way of illustration of the faulty structure of the Federal

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Reserve Act in this respect, - the great central banks of Europe acquire from 75 to almost 100% of their gold holdings through issues of notes rather than from the deposits of customers, who furnish the central banks with only 25% or less of their gold holdings. The Federal Reserve system today acquires only 3% of its general reserve of gold from issues of notes and 97% from the deposits of member banks. Theoretically, the member banks might withdraw practically every dollar of gold from the Reserve Banks in one day by drawing checks on them - a situation which cannot arise when the gold is held against a note circulation which is acceptable to the people. All the notes of the bank will not be presented at one time for redemption; in fact, in time of trouble, experience shows that the notes of the central banks are hoarded. Comparison might be made of the situation which would arise in this country in case of war and that which exists in the belligerent nations today where the concentration of gold behind the note issues of the central banks has afforded some of the belligerent governments the means of protecting the foreign exchanges to an extent which otherwise would have been impossible.

Another change in our law which I am not as yet prepared to recommend without reservation relates to the practice of the Treasury Department in purchasing imported gold bullion and coin. By the present methods, practically all gold imported from Europe and produced by our domestic refiners is sold to the Assay Office; payment is made in gold certificates, that is to say, by check on the Sub-Treasury in payment for the gold for which certificates can be demanded and subsequently through the machinery of the banks and clearing houses these gold certificates get into general circulation. It would be better if we adopted the English system or some modification of it. Gold imported or produced from domestic mines should, if possible, be handled by the Reserve Banks or the Reserve Banks should be afforded some advantage so that the Reserve Banks might, if they desired, acquire this gold before it got into circulation. The simplest plan would be to discontinue issuing checks in immediate payment for 99% of the assumed value of the gold and make the depositor wait until the actual gold was coined. This would enable the Reserve Banks to make spot payment as the Bank of England now does and give them some control of the new gold purchased or imported from Europe

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Other amendments to the Reserve Act not relating to the currency but which would improve the Act and protect the system in its political features are principally two. No officer of the Government should be an ex-officio member of the Federal Reserve Board and, consequently, the office of Chairman should be held by the Governor of the Board and the Secretary of the Treasury should not be a member of the Board. The same would apply to the Comptroller of the Currency. Supervision and examination of member banks should be conducted under the supervision of the Federal Reserve Board; actual examinations being made by the twelve Reserve banks. A Bureau of the Board should do all the business of the Comptroller's office, except that having to do with the currency and the bank examiners should be subject to the direction of the Federal Reserve agents.

The other amendment should make it mandatory upon the Secretary of the Treasury to deposit all of the Government's revenues in the Reserve Banks, except a fixed emergency fund of gold.

If two vacancies should occur in the Board by the with-drawal of ex-officio members, they should be filled by rotation from the twelve Reserve Banks, two of the Governors serving in rotation for a portion of each year. An alternative plan would be to have two experienced bankers appointed as members of the Board either by nomination of the member banks or by direct election by the member banks.

The above is crude but I believe includes the important features of our discussion.

Very truly yours,

Mr. F. A. Vanderlip,
The Lewiston,
Estes Park, Colo.

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[Fran B Strong Jr]

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Denver, Colorado,
January 4, 1917.

Dear Frank:

This is to thank you very heartily for the wonderful Christmas gift which you sent me and which I can assure you will be put to good use out here in this mountainous country, also for the Christmas card and good wishes.

You will be interested to know that my two boys, Katherine and I spent the holiday week with the Hewes at Hewes-Kirkwood, where we took possession of the whole place and had a wonderful time. It was a novel experience. We got up to the Park, after sticking once or twice in the snow, by automobile and from there drove to the Hewes' with a 4-horse team, part of the time hanging on to the side of the rig to keep it from turning over in the snow banks, but we got there safely and found those hospitable people prepared for a week of real mountain hospitality. I thought of you a great many times and believe you would have enjoyed it even as much as the boys did. The Hewes wanted to be remembered very warmly to you.

I am looking forward to a visit from George Roberts in a few days and you can understand the keen pleasure it will give me. Now for you dear Frank, I wish every good thing for the New Year - success and happiness and lots of other things. Wont you give my warmest good wishes to Mr. Stillman?

Faithfully yours,

F. A. Vanderlip, Esq.,
National City Bank,
New York City.

BS/CC

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Chi Cal Dec 23rd 20

Frank A. Vanderlip

Room 500 31 Nassau St

New York City.

Nothing would please me more than to join the party discribed in your letter just received but as Mr. Miles and my son are with me and our plans all completed to sail from San Francisco

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on April tenth I hardly see how
it can be arranged unless
accomodations could be found
for them on the Kashima Maru stop. I
shall be delighted if proper to do so
to join the party for a few days in
Japan on arrival and hope you will
wire me care Phoenix Nat. Bank, Phoenix

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where I can reach you in Japan
after I arrive on April twenty
ninth. Stop. Will reach Phoenix
March twenty eighth stop. Am looking
forward to a visit with you and wish
we were to be on same steamer.

Benj. Strong

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PERSONAL

June 13, 1921.

My dear Mr. Vanderlip:

We have only within the last few weeks been able to conclude the final accounting of the expenses of the various Liberty loans, and determine to what extent, if any, expenditures made by the organization could not be reimbursed by the Treasury under existing law, or rules of the Department. We find that the total amount of such items that cannot be reimbursed is $2,535.97. Of this sum, the Federal Reserve Bank is able to absorb $2,229.74. The remainder, $306.23, I have paid personally.

The Liberty Loan Committee passed a resolution, agreeing personally to assume certain charges, up to a limited amount, which as I recall was $1,000. If the members of the committee care to pay their respective shares of this sum, the amount of each committeeman's proportion will be $23.55.

Had these operations been conducted since the passage of the Volstead Act, it would not have been necessary to ask the committee to make any contribution.

Yours very truly,

Frank A. Vanderlip, Esq.,
111 Broadway,
New York, N. Y.

BS:MM

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June 16, 1921.

My dear Mr. Vanderlip:

I thank you for the remittance of $23.55, which was received to-day.

Yours very truly,

Frank A. Vanderlip, Esq.,
111 Broadway,
New York, N. Y.

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