

52 WILLIAM STREET

*Check 1/24/21
B.S.*

New York, January 22, 1921.

Dear Ben:

Thank you very much for your good letter of January 21st. I hesitated long before suggesting your name to the President-elect. Indeed, in the first instance I did not intend to do so because I felt that both temperamentally and physically you would suffer more than most men in such a position as that of Secretary of the Treasury. Fond as I am of you, it was not because of our friendship, but from a sense of public duty, that I suggested your name. I think you are on the whole the wisest man in economics and finance I know and the best equipped for the job.

About the matter of confirmation, you are mistaken. Cabinet appointments are regarded as the President's personal privilege. His appointments are always confirmed. There are not I think more than a couple of exceptions to this rule in the history of the United States. The only possible obstacle to your confirmation would be strenuous opposition from the two Senators from your own State, and I assume that, so far from meeting opposition from Wadsworth and Calder, you would have their hearty support.

All this, however, is beside the mark. I have shot my bolt in presenting the gravity of the problem and my

own suggestion to the President-elect. I am without political influence, and in view of your feeling about the matter, I should hesitate to use it if I had any.

I am just back from Washington but did not see any political ^Moguls. Indeed, I concluded on second thought not to do so, at least until I should have had some further private talk with you.

I saw Houston, Gilbert and Miller, however, and I am a good deal frightened about the situation which has developed in the Federal Reserve Board and the Treasury.

As you know, three vacancies in the Board will arise automatically on March 4th, and the fourth vacancy is, it seems, to be created very shortly thereafter by the resignation of Governor Harding. Of the remaining three members, Platt, Miller and Hamlin, no one is a banker or business man. It is not therefore exaggeration to say that the future of our banking and currency system will depend upon the appointments which Senator Harding is to make at the outset of his Administration.

The situation in the Treasury is no less a cause for anxiety. On the 4th of March, not only the Secretary, but every Assistant Secretary will go out of office automatically except Moyle, who exercises a nominal supervision over public

buildings and miscellaneous activities which ought not to be in the Treasury at all. This peculiar situation arises from the fact that Rathbone, Shouse and I did not feel free to resign until after Congress had adjourned last June and the possibility of constructive or destructive legislation affecting our several offices had passed. When we did resign in each instance Secretary Houston, characteristically disregarding every political canon, appointed to the places thus made vacant the men who were in fact our first assistants. Therefore the three principal Assistant Secretaries all hold recess appointments, and go out of office by operation of law upon the adjournment of the present Senate if it fails to confirm their appointments.

These are poor young men who have made great sacrifices from a high sense of public duty to remain in office as long as they have. I shall not say much about the affront to them in the failure to confirm them (although it makes my blood boil). It is apparent, however, that they cannot be expected to remain in the Treasury without authority or compensation after the 4th of March if this affront is administered.

I regard it as absolutely essential that the Senate confirm Gilbert, Kelley and La Porte, the three Assistant Secretaries. They can, of course, be counted on to

resign as soon as their resignations are wanted. I think it would be impossible in the case of Gilbert and Kelley to keep them for more than a month or two in any event. They simply cannot afford to continue much longer for \$5,000 a year.

The executive appropriation bill now pending before the Senate, not only fails to make permanent the Civil Service organization which I built up in the fiscal offices during the three years of my service, but imposes a new restriction upon the use of the lump sum appropriations carried in the Liberty Loan Acts, which would reduce the salaries of Broughton and Hand from \$6,000 to \$3,500 apiece, and, furthermore, destroy the structure of the organization itself. As you know, Broughton is the head of public debt operations and Hand is the man who makes estimates of current income and outgo and has charge of transfers and withdrawals from the War Loan Deposit Account. Both men are Civil Service employees of 15 or 20 years standing and are as nearly indispensable as it is possible for men to be.

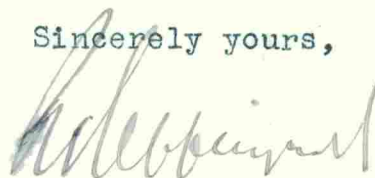
I happen to know that both have opportunities in private life at salaries largely in excess of their present salaries. Neither can afford to delay long to accept some such offer, in view of the attitude of Congress.

I hand you herewith a copy of a letter which I wrote on this subject to Senator Smoot, because he happened to

be a member of the Finance Committee, which should deal with the confirmation of the Assistant Secretaries, and of the Appropriations Committee, which will have charge of the executive bill. He asked me to revert to the subject after the 4th of March. That will be too late, I fear.

When you realize that on March 15th some hundreds of millions of dollars of Treasury Certificates mature and an installment of income and profits taxes is payable, the amount of which is very dubious because of the slump in incomes and profits due to the business depression, the gravity of the problem which will present itself to the new Secretary, if he is deprived by the present Congress of the principal members of the ~~his~~ organization before he has had an opportunity to look around, is apparent.

Sincerely yours,



Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
15 Nassau Street,
New York City.

c-P

enc

January 24, 1921.

Dear Russell:

I am many times indebted to you for your letter of the twenty-second, but even more for what you write of the feelings which inspired you to make the suggestion to Mr. Harding.

It happens that I may be able to be of some service in preventing the chaos developing in the Treasury Department, which is so well described in your letter and which I have, myself, been fearing, but I think I should say frankly to you that I happen to know ^(or think I do) that it is practically out of the question for the President-elect to appoint a Secretary of the Treasury from New York. If he did do so, I would rather see you accept the job than anyone else that I know.

By tomorrow night, when I hope to see you at dinner, I may be able to tell you something a little more definite about this situation.

Faithfully yours,

Russell C. Leffingwell, Esq.,
52 William Street, New York.

ES.MSB

New York, January 13, 1921.

My dear Senator:

I am afraid that serious embarrassment may come to the Treasury from failure to realize the importance of retaining the principal men now in the service, at least until the new Secretary shall have been able to familiarize himself with his job and to replace them with men of equal ability if that be possible.

As you know, the personnel of the Treasury fiscal offices has not for the past three years at least been determined on a partisan basis. There are many splendid men in the organization. Indeed, I could write a book about the loyalty, devotion and efficiency of the Treasury organization. I shall not attempt now to do justice to all, but I want to tell you that there are four men in the Treasury who I think are well nigh indispensable. These four are all men who, to my personal knowledge, are remaining in the Treasury today from a sense of duty and who will retire to much more lucrative positions in private life the moment they are released from the Treasury. They are Assistant Secretaries Gilbert and Kelley (salaries \$5,000) and Commissioners Broughton and Hand (salaries \$6,000).

Gilbert and Kelley are New York lawyers, who came to

the Treasury as a matter of patriotic duty during the war. Both have brilliant careers before them in the law or banking, as they may prefer. Gilbert is a Republican. His father is or was a Republican politician of some prominence in New Jersey. Kelley is not a party man. His father or grandfather was, I believe, a Republican Congressman from Pennsylvania and member of the Ways and Means Committee. Both hold recess appointments and will, I understand, automatically go out of office on the 4th of March if these appointments shall not previously have been confirmed.

Broughton and Hand are old Civil Service employees who have been in the Treasury for 15 or 20 years. They are the backbone of the Treasury's permanent organization. You will find some description of the services rendered by these two men before their appointment to their present positions in my testimony on the Legislative, Executive, etc., Appropriation Bill, November 26, 1918, pages 97 to 101. Broughton was then Chief of the Division of Loans and Currency, and Hand principal bookkeeper in the Treasurer's office. The offices which they now hold were created upon my recommendation in pursuance of a plan outlined in my testimony on the Legislative, Executive, etc., Appropriation Bill, February 11, 1921, pages 2567 to 2573, inclusive. The offices were created on the bond roll and should be made permanent. I understand the House has struck out specific provision for both and limited the use of the bond

roll so as to exclude them. Broughton is a Republican who was brought into the Treasury by Mr. Vanderlip when he was Assistant Secretary. I do not know Hand's politics, but as he came from Mississippi, I think, 15 or 20 years ago, I suppose he is or was a Democrat. Both of these men are as nearly indispensable as it is possible for any man to be. Hand, indeed, because of his peculiar knowledge of the Government's archaic accounting, and his almost uncanny ability to estimate current income and outgo, is unique and irreplaceable. Both have been retained and promoted through successive Administrations, Republican and Democratic alike. Failure to retain them now and confirm them in the positions to which I had them appointed would greatly prejudice the successful operation of the Treasury and would be a blow to the Civil Service principle and to the morale of the Treasury service.

I am not writing this in the interest of the men, because, so far as their selfish interests are concerned, no greater good fortune could happen to them than to be released from the public service and to have a good excuse for accepting lucrative positions which await them both.

It is in the power of the present Congress, by confirming Gilbert and Kelley, and by appropriating specifically for Broughton and Hand or permitting their continuance at their present salaries on the bond roll, to save the organization

which I created and developed, at least until the new Secretary of the Treasury shall have had an opportunity to familiarize himself with the very grave problems which will confront him at the outset of his administration and to formulate his own plans. If this is not done, grave embarrassment will, I fear, result to the Treasury of the United States and to the new Administration.

With great respect, I am,

Sincerely yours,

R. C. Leffingwell.

Hon. Reed Smoot,
United States Senate,
Washington, D. C.

January 21, 1921.

Dear Russell:

This note has two purposes: One is to thank you for stopping at the office to give me a welcome home. I can't tell you how much I appreciate it, and how much I value the friendship which we formed during the war.

Also I am writing to tell you how very deeply I appreciate the letter you wrote which brought forth the response from President-elect Harding.

There are many reasons why it would seem to be impossible for me to encourage the idea you have in mind. One reason is that any person of my characteristics, with which you are so well acquainted, has the unfortunate faculty of making a good many enemies. I have some in Washington, as you know, and even if other circumstances permitted, I am very sure that there is not the remotest possibility of the Senate confirming my appointment. Every Democrat in the Senate would vote against it, and probably a large number of the Republicans as well. They probably think me a lukewarm Republican anyway (and possibly they are not far wrong), but more than that, all of those who know me believe that I am strong-headed and opinionated - and maybe they are not far wrong. This is one of the least of the arguments. Another possibly more important is that I don't want any public office. It would make me exceedingly unhappy to get into a political atmosphere, and I believe that I can be of more service to the community and country in my present job.

I will spare you the other reasons, - too numerous to recount - but I won't spare you the satisfaction, if it is any, of knowing that I have a very deep and heartfelt appreciation of your confidence and friendship.

Sincerely yours,

R. C. Loffingwell, Esq.,
52 William Street, New York.

RS.MSE

January 21, 1921.

Dear Russell:

This note has two purposes: One is to thank you for stopping at the office to give me a welcome home. I can't tell you how much I appreciate it, and how much I value the friendship which we formed during the war.

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I will spare you the other reasons, - too numerous to recount - but I won't spare you the satisfaction, if it is any, of knowing that I have a very deep and heartfelt appreciation of your confidence and friendship.

Sincerely yours,

R. C. Loffingwell, Esq.,
52 William Street, New York.

BS.MSE

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 24, 1921

TO Mr. Beyer

SUBJECT: Statement of the Public Debt of

FROM R. G. Bellah

the United States December 31, 1920.

AMOUNT OF GOVERNMENT SECURITIES MATURING
UP TO AND INCLUDING JANUARY 1, 1925

<u>Securities</u>	<u>Maturities</u>	<u>Amounts</u>
<u>Certificates of Indebtedness</u>		
Tax	\$1,651,694,500	Up to Dec. 15, 1921
Loan	648,961,500	Up to Aug. 16, 1921
Pittman Act	259,375,000	Up to Dec. 31, 1921
Special	<u>32,854,450</u>
		\$2,592,885,450
War Savings Securities	Jan. 1, 1923-Jan. 1, 1925	760,953,781
Victory Notes	1922 - 1923	<u>4,225,970,755</u>
Total		\$7,579,809,986

NOT DUE, BUT REDEEMABLE BEFORE JANUARY 1, 1925

<u>Securities</u>	<u>Redeemable</u>	<u>Amounts</u>
Panama Canal Loan of 1936	After Aug. 1, 1916	\$ 48,954,180
Panama Canal Loan of 1938	After Nov. 1, 1918	25,947,400
Postal Savings Bonds (1st to 19th Series)	1 year from date of issue	<u>11,612,160</u>
Total		\$ 86,513,740

<u>Securities</u>	<u>Redeemable</u>	<u>Amounts</u>
Debt on which Interest has ceased (Payable on presentation)	Various Dates	\$ 7,441,490
Non-interest bearing Debt. (Payable on presentation)	Various Dates	<u>225,242,689</u>
Total		\$ 232,684,179
Grand Total		\$7,899,007,905

Balance of Debt

<u>Securities</u>	<u>Redeemable</u>	<u>Amounts</u>
Consols of 1930	After Apr. 1, 1930	\$ 599,724,050
Loan of 1925	After Feb. 1, 1925	118,489,900
Panama Canal Loan of 1961	June 1, 1961	50,000,000
Conversion Bonds	30 years from issue	28,894,500
Liberty Bonds		
First Liberty Loan	\$1,952,368,450 1932 - 47	
Second Liberty Loan	3,323,137,800 1927 - 42	
Third Liberty Loan	3,646,868,400 1928	
Fourth Liberty Loan	<u>6,363,733,163 1933 - 38</u>	<u>15,286,107,813</u>
		<u>16,083,216,263</u>

Total Gross Debt December 31, 1920
(Preliminary Figures)

\$23,982,224,166

52 WILLIAM STREET

New York, January 24, 1921.

*Ask 1/20/21
D.D.*

Dear Ben:

Numerous changes, to which I have already called your attention, about to take place in the Federal Reserve Board and Treasury organization make me peculiarly apprehensive and are now my excuse for writing you further.

I do not know whether you are aware of the political pressure which was exerted during the fall on the Federal Reserve Board to provide cheap money for the farmers. It was really terrible. I am very much afraid of the renewal of this pressure, when both the Federal Reserve Board and the Treasury are made up mostly of new men, and that the continuance of certain artificialities in the Reserve Banks' position will make it seem easy to try the cheap money remedy for depression.

I do not think that cheap money will really exempt this country from the present world movement of prices any more than it has France or Germany. On the contrary, I believe that the principal obstacle to permanent recovery is an immense over-supply of currency and credit. Notwithstanding the great reduction in the volume of business and the reduction in prices and wages, all Federal Reserve Banks' total earning assets on January 21, 1921, were less by only \$90,000,000 than the year before, and the

aggregate of Federal Reserve notes and Federal Reserve bank notes in circulation increased in the year by more than \$200,000,000. I do not think you can healthfully float the present volume of currency and credit either in the present subnormal, or even in normal, times. I think the Federal Reserve Board's policy should be such as to absorb the surplus as rapidly as possible. It is hanging like a cloud of poison gas over our business life.

I have already written to Mr. Jay under date of January 15th about your Bank's rate on Treasury Certificates. I understand that the Treasury, before reducing its rate on Certificates, gave the Reserve Banks an opportunity to elevate theirs, ^{which,} principally on account of the position of your Bank, ~~which~~ was declined.

The Reserve Banks' holdings of legal tender notes, silver, etc., amounted on January 21, 1921, to over \$205,000,000 against \$61,000,000 the year before. The occasion for holding legal tender notes disappeared when gold certificates were made legal tender. The silver certificates were accumulated when last year's ^{the} price of silver rose above ⁴ 1.37 and we were providing silver for export in the effort to hold the price down so that our subsidiary coin would not be melted. In view of the present world price of silver, the silver certificates make a sorry reserve. The Reserve Banks' present apparent reserve is an invitation to inflation. Why not eliminate the padding from it by paying out your legal tender notes and silver certificates?

It seems to me also that the time has come to restore to

circulation the gold, or some portion of it, which was withdrawn during the war.

Sincerely yours,

W. B. E. [Signature]

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
15 Nassau Street, N.Y. City

Vp

Do not bother to answer this letter.

PERSONAL & CONFIDENTIAL

January 25, 1921.

Dear Russell:

I was particularly glad to have your letter this morning, reenforcing, as it does, my own feelings in regard to the policy of the Treasury and of the Bank.

I have not yet been able to satisfy myself that we know all of the reasons for the automatic accumulation of silver certificates and United States notes which has been taking place now for some months. I doubt if this is wholly due to the business recession, because there are other influences which might help to increase our holdings of silver certificates and United States notes which are somewhat obscure, but possibly have more to do with the movement than trade.

I notice the last statement of the Treasury shows \$265,000,000 of gold in excess of the amount required for the redemption funds. Increased accumulation of gold by the Treasury would reduce our gold holdings, or at least arrest the increase in our gold holdings, and, probably, to some extent develop the tendency to increase the amount of our silver certificates and legal tender notes. But the more likely explanation is that it is due to the movement of the domestic exchanges. You will notice that the increase of silver certificates and United States notes has been almost wholly in the Federal Reserve Bank of New York. The domestic exchanges have been running adverse to New York now for a long period. Bank deposits in New York City have been reduced by \$1,400,000,000 from the high water mark, and, as a consequence of that, our reserves have moved to the other reserve banks. They are just now as low in total as they ever have been since the gold was concentrated in the reserve banks. These payments which we make to the other reserve banks all go through the gold settlement fund, and as we are only able to settle with gold, and not with silver certificates or legal tender notes, the tendency is for us to constantly lose gold and to accumulate the other forms of reserve money.

I share your apprehension about the situation in the Treasury Building. When the present Secretary retires, and if his immediate associates in the Treasury retire, as you seem to feel is possible, the only members of the organization left who are familiar with the phase of the war period at all will be Messrs Hamlin and Miller of the Federal Reserve Board, in case, as I fear, Governor Harding retires. Upon whom, therefore, may we rely for protection against the pressure which is quite possible to arise for cheap money as a cure-all for the difficulties with which the country will be confronted during this coming period of readjustment, which cannot be avoided. That troubles me very much!

There is another matter which is equally puzzling. If we continue to maintain our present rate level, or even go a step further and increase the rates for loans upon Treasury certificates, and the other reserve banks do likewise, we can, of course expect a continued pressure upon bank credit and a continuance of the policy of liquidation. Looking at the problem as an international or world one, rather than as a local, national problem, I am wondering how the war stricken nations of Europe are ever going to meet their debts at all if prices go down further or even remain for a period at their present level. With prices reduced, wages reduced, profits reduced, next the tax income of Governments will be reduced, in fact everything will

be reduced except the amount of interest and principal of war debts now expressed in various obligations. How are they ever going to pay them? As one man expressed it to me in London, the problem before the British Government now is to maintain the pound at the value of eight shillings. If the nations of Europe should have the courage, or even lacking the courage, be forced to perform a capital operation upon their currencies, as has been suggested by some people, they would inevitably be obliged to perform a similar operation upon their debts, and I am rather inclined to think that much of the future in Europe, speaking narrowly of financial recovery, will depend upon the policy of the Federal Reserve System and of the United States Treasury, first, as to the pace which we set in liquidation and reducing prices, and second in the treatment we accord our debtors.

The situation abroad is so complex and in some respects so serious, that I feel mighty reluctant to allow my own views to crystallize at all just yet, but, on the whole, I think the safest present policy is to do everything we can to prevent too sudden movements in prices or rates for credit until we know a little more of the policy of the new administration, and particularly until we know a little more what is to be done about the debts owing to our Government by foreign Governments.

You and I both suffer from that fortunate, or unfortunate, habit of getting our minds cleared up a bit in these matters by talking about them, and I want very much at an early opportunity to talk some of these matters out with you and to get your own views.

But the first thing to do is to get some reassurance as to the Treasury organization, and I am doing what I can in that matter already.

A thousand thanks to you for your letter.

Faithfully yours,

Russell C. Leffingwell, Esq.,
52 William Street, New York City.

BS.MSB

PERSONAL & CONFIDENTIAL
Fraser file

52 WILLIAM STREET

New York, January 26, 1921.

Dear Ben:

Many thanks for your good letter of January 25th.

I am sorry though that you did not obey the injunction not to answer mine. You must make it easy for me to fire off my views at you from time to time. I hope that if they prove suggestive you will take advantage of them, and if you think them worthless you will forget them. I should feel very guilty now that I bear no share of the responsibility if I added to your burdens by as much as the writing of a letter.

I think you have fallen into a common error about the gold in the Treasury. I have before me the Treasury Daily Statement dated January 15th, which shows gold in the general fund to the amount of \$284,000,000 as an asset and the 5% redemption fund (gold) of \$277,000,000 as a liability. Thus, disregarding the redemption funds for Federal Reserve Bank notes and National Bank notes, which may be either in gold or other lawful money, the net amount of free gold on January 15th was \$7,000,000, instead of \$265,000,000. I do not know what statement you have been looking at, but it is, of course, unthinkable that there should have been any important increase in the amount of gold in the Treasury since January 15th.

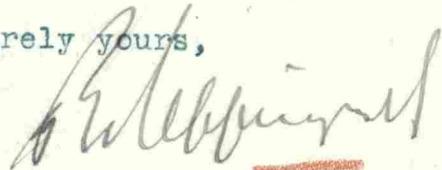
I think you are equally mistaken about the silver.

Much of the silver now in the Federal Reserve Banks was turned over in a lump by the Treasury last spring. Furthermore, until very recently they have been accumulating silver by express direction of the Federal Reserve Board and the Treasury. The present accumulations of silver by the Federal Reserve Banks are not accidental but were made deliberately for the purpose mentioned in my previous letter. The reason ^{so much of} that the silver is in the hands of the Federal Reserve Bank of New York is that we sold it to the Federal Reserve Bank of New York last spring.

Other Federal Reserve Banks were excluded because the New York Bank needed the reserve at that time; *and the Treasury needed the cash.*

I am interested in what you say about the relation of our credit policy to the needs of Europe. It is mildly amusing that you and I should have precisely reversed our positions on this great question. I shall look forward to the talk about it which you suggest whenever you have time for it. In the meantime I shall not trouble you by adding anything to my letter of January 24th to you and my letter of January 15th to Jay.

Sincerely yours,



Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
15 Nassau St., N.Y. City

V.

12 Nassau St., N.Y. City
Federal Reserve Bank
New York



F. B. C. STAMP
GOVERNOR'S SECT.

of January 27th to you and the letter of January 19th to you.
I am sorry that I was not able to get to you earlier in the
day and I am sure you will have time for it. In the
meantime I am sure you will have had time to read the
letter and I am sure you will have realized the importance of
the credit policy to the needs of Europe. It is my hope that

Bank needed the Reserve at that time. Other Federal Reserve Banks were excluded because the New York
said it to the Federal Reserve Bank of New York last night.
to the hands of the Federal Reserve Bank of New York is that we
found in my previous letter. The reason for the attack is
not accidental but was made deliberately for the purpose of
present accumulation of power in the Federal Reserve Bank and
direction of the Federal Reserve Board and the President. The
idea recently they have been accumulating power and express-
ion in a form of the President last night. Furthermore, the
power of the attack was in the Federal Reserve Bank was turned

March 8, 1921.

Dear Russell:

Thank you for yours of the 7th, enclosing copy of your letter of February 17, to Mr. Gilbert. What you suggest is exactly what I had in mind, as I stated to you, and I hope that later on the new Secretary of the Treasury will see the wisdom of such a program.

Yours very truly,

R. C. ~~Leffingwell~~, Esq.,
52 William Street,
New York, N. Y.

BS:MM

52 WILLIAM STREET

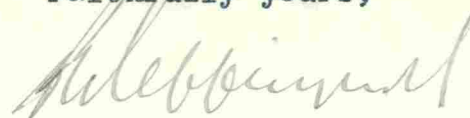
New York, March 30, 1921.

Dear Ben:

I received your letter of March 24th. I am strongly in favor of such a constitutional amendment as was proposed in my letter to Mr. Green, and I think it would be very helpful to you to write Mr. Mellon a letter on the subject. My impression is that the line of least resistance would be to support the McFadden Resolution with such amendments as are necessary. I shall be very glad to talk the matter over at Mr. Hart's convenience. You will, I suppose, want to avoid anything which might suggest that the Federal Reserve Bank as such was taking

a position upon a political question.

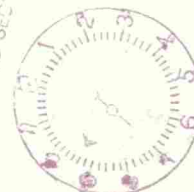
Faithfully yours,



Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
15 Nassau St., N.Y. City

Vp

RECEIVED
GOVERNOR'S SECY.



MAR 31 1921

April 21, 1921.

Dear Russell:

Last week I was induced to make a rather informal talk to the members of the War College in Washington. What I gave them was very hastily prepared and, I fear, on reading it over, not exactly accurate in figures as it might have been with more time for preparation, particularly as for a good deal of the material I had to depend upon my memory.

Would you mind reading over the enclosed and let me know how it strikes you? Also, will you be good enough to return it to me, as it is my only copy?

Yours sincerely,

R. C. Laffingwell, Esq.,
52 William St.,
New York, N. Y.

BS:MM

Enc.

52 WILLIAM STREET

New York, April 23, 1921.

Dear Ben:

Did you see the enclosed article on the front page of this morning's Times? I am afraid the politicians will make it hot for you. For Heaven's sake stand up to them.

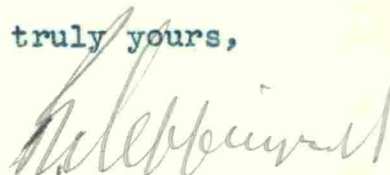
Boston's action was bad enough, but the reason given for it was worse: that they had gold enough to afford it! As though it were the legitimate function of a Reserve Bank to manufacture currency and credit to the extent of 150% of the gold it could lay its hands on, because Congress in its wisdom had fixed 40% as the legal minimum reserve!

In my opinion good times are being delayed partly by the failure of retail prices to come down, and that is partly due to the fact that the quantity of currency in circulation shows only a trivial decrease, though the volume and turn-over ^{of} business has been enormously reduced; and the failure to effect a reduction in currency is partly due to the failure of many of the Federal Reserve Banks to bring their discount rate up to the 7% rate established by your Bank, so that they ~~could~~ continue to subsidize currency inflation.

If you pay out your silver and lawful money, thus

eliminating the padding from your reserve, and restore gold to circulation, where it will be available as a secondary reserve in the event of future exigency, you will, it seems to me, go a long way to remove temptation from the politicians. All importations of gold have, of course, an inflationary influence. There will be no temptation to multiply the inflation by two and a half if you put the gold in circulation instead of carrying it in your reserves.

Very truly yours,

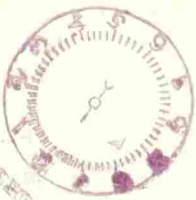


Benjamin Strong, Esq.,
Federal Reserve Bank,
15 Nassau Street,
New York.

(Enclosure)

Vp

APR 23 1921



ST. LOUIS, MO.
FEDERAL RESERVE BANK

AD
(Enclosure)

New York.
12 Nassau Street,
Federal Reserve Bank,
Benjamin Franklin Bldg.

Dear Sirs:

Interest of carrying it to your residence.
from the fact and a part of the fact in connection
license. There will be no remittance to purchase the in-
all transactions of your bank of course, as mentioned in-
to me. So a long way to remove remittance from the business.
residence in the event of future exigency. You will, it seems
to connection where it will be available as a secondary
eliminating the burden from your residence, and restore your

52 WILLIAM STREET

BA
APR 25 1921

New York, April 23, 1921.

Dear Ben:

I received your letter of April 21st. I have read, and, in accordance with your request, return herewith the copy of your lecture on War Finance delivered at the General Staff College in Washington on April 11th. I think it is admirable; well-balanced, moderate and suggestive. I like it so much that I hesitate to make any suggestions. But here goes!

Do you mean to advocate conscription of material and labor as a war measure? I do not believe that it offers a feasible economic program if by conscription of material and labor you mean anything more than fixing prices and wages and imposing taxes on war profits and incomes. When we draft men to fight, hope of glory on the one hand, fear of being called cowards on the other, furnish the necessary sanctions. I doubt very much, however, whether it would be possible to draft men to work in business and industry even in wartime, because such jobs lack glamour and some are so much more distasteful than others. Nor do I think conscription of materials would be consistent with stimulation of production.

Your comments on Napoleonic finance are very interesting. I know little about it but I imagine that the

analogy is a bit misleading, because he did not have to call upon France for men and materials in such numbers and amounts as to over-strain her economic life, and drew heavily upon enemy resources.

What you say at the bottom of page 10 about economy in interest rates being false economy is undoubtedly correct, but I question the implication from the balance of the sentence that higher interest rates during the war would have made it possible to avoid bank loans and obtain investment funds for our borrowings. Perhaps the rest of your lecture makes it clear enough that you do not mean to go as far as that, though you do think rates should have been somewhat higher. I question whether moderately higher rates would have had an important effect in preventing inflation during the war, and, of course, a really dear money policy is not feasible in wartime. You cannot speed up production and distribution for war purposes on tight money; you cannot go full steam ahead with the emergency brakes on. When government expenditure for the wasteful purposes of war is on such a scale as in the great war the government must fix the price of money as of most everything else, for it has upset the balance of supply and demand. The price for money should be fixed with reference, on the one hand, to making the loans attractive to investors in the first instance and making credit control easier after fighting stops, and, on the other, to avoiding during the war abrupt depreciation or

panic in outstanding securities and leaving a margin for further concessions on future borrowings, if the war is protracted, without establishing panic rates. This, of course, leaves a fairly wide margin for difference of opinion as to what the rate should be under given circumstances. Dependence for holding down inflation in wartime must be placed not upon rates but upon such expedients as were used during the war here and in England: price-fixing, war savings and liberty loan campaigns, food control, fuel control, control of capital issues and of money for speculation, etc., etc. -- and, of course, first and foremost, taxes and then again taxes and more taxes.

I rather think that what you say about short loans and long loans ought to be somewhat qualified. Of course, when you are actually engaged in war and do not know how long it will last, the safe course is to borrow for as long periods as possible. Our trouble in wartime did not come from having too much short paper, but from having too much paper, long and short, in the banks. If paper had to be in the banks it was better short, and when the fighting is over the sooner the debt matures the better, because the early maturity furnishes opportunity and occasion for early repayment.

Very truly yours,


Benjamin Strong, Esq.,
Federal Reserve Bank,
15 Nassau St., N.Y. City

(Enclosure)

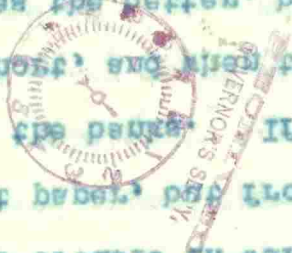
(Enclosure)

12 Nassau St. N.Y.C. 10038
Federal Reserve Bank
Benjamin Strong, Fed.

Very truly yours,

Dear Sir:

My interest in the proposed changes in the Federal Reserve Bank is not only in the fact that it will have a better chance of being successful, but also in the fact that it will be a more efficient organization. I believe that the proposed changes will result in a more efficient organization, and I believe that the proposed changes will result in a more efficient organization. I believe that the proposed changes will result in a more efficient organization, and I believe that the proposed changes will result in a more efficient organization.



I believe that the proposed changes will result in a more efficient organization, and I believe that the proposed changes will result in a more efficient organization. I believe that the proposed changes will result in a more efficient organization, and I believe that the proposed changes will result in a more efficient organization.

... and of course, the fact that the proposed changes will result in a more efficient organization, and I believe that the proposed changes will result in a more efficient organization. I believe that the proposed changes will result in a more efficient organization, and I believe that the proposed changes will result in a more efficient organization. I believe that the proposed changes will result in a more efficient organization, and I believe that the proposed changes will result in a more efficient organization.

April 25, 1921.

Dear Russell:

Many thanks for the trouble you took in writing me about that address. As a matter of fact, the printed memorandum sent you was but a skeleton of what I said, and I can make the following comments in regard to your suggestions:

The point about conscription of material was not fully covered in what was printed. My thought is based upon the fact that investigations at the bank disclose the fact that in those materials where prices were fixed, price levels in percentages were actually somewhat higher in most cases than where prices were not fixed, and in some cases production was not materially increased. I elaborated this somewhat in my talk, intending to bring out that it was duplication of plant which was unwise, and that the successful procedure was illustrated by the "gasless saturday" better than any other type of conscription. Of course, that is in the nature of voluntary conscription by pressure of public opinion. As to labor, my whole point was to take from industry only those men who could be spared without impairment to the industrial machine and its organization for war purposes. I think the selective service act came as close to being a good working plan as any that has yet been devised that I know of, and my particular point was to have the conscription organization perfected, at least on paper, in time of peace as a war preparation of far more importance than is the training of a huge army. Most of the army officers, I find, agree that the problem of getting men and training them is one of much less difficulty than is the organization of the means of getting the right men, and the organization of industry and transportation.

April 25, 1921

My comments on Napoleon's record were elaborated by references to the very point you make: He drew heavily upon enemy resources even in the early days of his campaigns, levying tribute upon Italy, Switzerland and Prussia for pretty heavy sums in cash, as well as in materials.

We do not disagree fundamentally as to the borrowing policy, and all of that was brought out in the course of the talk. Where I think we may have a little difference of opinion is in the treatment of interest rates. I have felt for a long time that interest rates establish themselves, and that it was a mistake to assume that high rate bonds necessarily would affect all other bonds disastrously. The extent of the effect upon the level of investment interest rates is determined by the amount of bonds issued rather than the rate, because they soon find their natural level in the market, and the competition of rates arises pretty promptly. Certainly, this seems to have been the experience during the war.

The object of the talk was mainly to bring out this important fact, with which I am sure you agree; namely, that we are now discussing the size of an army, and Congress is struggling over legislation fixing the size of an army, while at the same time the army itself and those responsible for the development of a war program are making no well studied effort to take advantage of the experience of the last war in the matter of organizing for selective service, organizing for industrial production, organizing for transportation, or organizing for finance.

You will be interested to know that this feature of the talk impressed these gentlemen a great deal, and they are proposing, I believe, to do something about it.

Sincerely yours,

R. C. Leffingwell, Esq.,
52 William St.,
New York, N. Y.

52 WILLIAM STREET

New York, April 28, 1921.

Dear Ben:

Many thanks for your good letter of April 25th.

You say that, for those materials of which prices were fixed, price levels in percentages were somewhat higher than for those of which prices were not fixed. Might that not be in part explained by the fact that prices were fixed only for those materials which were believed to be the subject of the most inordinate war demands?

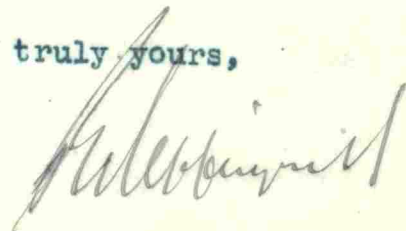
I do not quite get the analogy you have in mind between the gasless Sunday and conscription. As I understand the words, the gasless Sunday was a case of war saving rather than of conscription. I am whole-heartedly in favor of organization for war saving of goods, services and credit, to eliminate avoidable competition, on the part of business, industry and the general public, with the Government's war demands. This strikes at the cause of inflation in wartime, to wit, the excess of consumption over production. Conscription, I think, goes at the problem the wrong way about, taking labor and materials whether or no.

I think we do not disagree in principle about the subject of interest rates. I do not know what you mean by

saying that interest rates establish themselves. It is scarcely possible that you mean they do so in wartime independently of the rates fixed by the Treasury and the Reserve Banks. Nor can I agree that such interest bases as were established last April and May would have been otherwise than disastrous if established abruptly in wartime. It is not the amount of bonds issued, but the relation of that amount and the rate borne by the bonds to the supply of credit and the rate at which it is made available, which determines the price of the bonds. However, if the principle is once conceded that dependence in wartime must be placed upon such collateral agencies as were referred to in my letter, rather than upon a dear money policy, and that the Government must fix the price of money, I shall never quarrel with any one who differs with me about what the exact interest rate fixed upon by the Government should have been or should be.

I think your talk to the War College people was very illuminating and very helpful. Study by them of the problems you discussed might help the Army, when another war comes around, to avoid throwing unnecessary burdens on the economic machine.

Very truly yours,



Benjamin Strong, Esq.,
Federal Reserve Bank,
15 Nassau Street,
New York.

NEW YORK
12 Messier Street
Federal Reserve Bank
Benjamin Franklin Bldg.

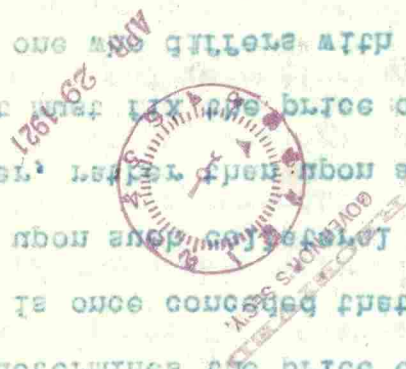
NEW YORK

Dear Sir:

Referring to your previous communication regarding the economic
and financial conditions of the United States and the
Federal Reserve Bank, I am pleased to hear of the progress

of your work on the subject of the Federal Reserve
and the interest rate.

As you have pointed out, the Government should have
control over the money supply and the interest rate.
I am sure that the Government will take the necessary
steps to do so. In my letter, I have mentioned the
importance of the Federal Reserve Bank in this regard.
If the Government is once convinced that dependence on
the market for money is not desirable, it should
take the necessary steps to control the money supply.
The amount of credit and the rate at which it is
loaned are the two factors which determine the
amount of money in circulation. It is not the amount of
money which would have been otherwise than desirable if
only the interest rate were established just
as the rate is fixed by the Federal Reserve Bank. Now
I believe that you mean they do so in a completely
independent way. It is a serious



ACKNOWLEDGED

52 WILLIAM STREET
NEW YORK

NOV 14 1921

November 10, 1921

Dear Ben:


My impression is that you have been making rather too liberal use of the cheap money stimulant during the past six months or so. I should feel more comfortable if you had a little more of this medicine in reserve against the secondary crisis when it comes.

In particular, as long as you have to make advances to member banks and cannot confine yourself to rediscounts of bankers acceptances, as to which your rate is not out of line with the open market, my impression is that it would be well to establish a differential rate in respect to such

advances with a view to coordinating your rate for advances with the market rate for line of credit loans, and to eliminating or at least decreasing the profit to borrowing member banks.

This is not in the way of criticism but of suggestion.

Faithfully yours,



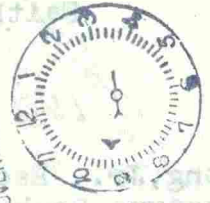
Benjamin Strong, Jr., Esq.,
Federal Reserve Bank,
15 Nassau Street,
New York City

vp

advances with a view to coordinating
your rate for advances with the market
rate for line of credit loans, and to
eliminate or at least decreasing the
profit to nonmember member banks.
This is not in the way of crit-

icism but of suggestion.

Sincerely yours,

GOVERNOR'S SECY.


NOV 12 1921

Benjamin Strong
Federal Reserve Bank
12 Nassau Street
New York City

ap

121 WEST WILLIAM STREET
NEW YORK

November 12, 1921

Dear Sir:

My impression is that you will
bear making rather the liberal use of
the open market rather than the
past six months. I should feel
more comfortable if you had a little
more of the line in reserve against
the primary deficit than it carries.
In particular, as long as you
have to raise advances to member banks
and cannot realize yourself to redi-
counts of bankers acceptances, as to
which your rate is not out of line
with the open market, my impression
is that it would be well to establish
a differential rate in respect to such

RECEIVED
GOVERNOR'S SECY.



NOV 12 1921

Signature

November 14, 1921.

Dear Russell:

Many thanks for your note of the 10th, which has remained unanswered because of my absence for a few days' rest.

There are many considerations involved in the rate situation just now, and I am anxious to discuss them with you at greater length than would be possible in a dictated letter.

Of one thing I believe you are convinced without any word or argument from me, and that is that no political consideration, no attack, and nothing but sound business judgment has led me to recommend the policy which our bank has now adopted and which, I believe, is designed to further the reconstruction of our own affairs at home and assist in similar developments abroad.

You will be glad to know, confidentially, that Mr. Glass has become deeply concerned at the attacks upon the Federal Reserve System by Williams, and is preparing to make a vigorous defense of the System and its management in all particulars, and to attack those who have been guilty of such gross misrepresentation.

I think he may have softened in his attitude towards me, although I am not certain of that.

Please read pages 500 &c. of the Hearing before the Joint Commission of Agricultural Inquiry, and let me know if you think that the discussion of the rate policy of the System was fair, from the standpoint of the Treasury. Senator Lenroot, I found, had a most searching and intelligent mind on these subjects. His attitude was most fair and helpful in bringing out the facts, but I believe

#2

November 14, 1921.

he was himself convinced that it would have been better to take all the risks involved in a high rate policy in the spring of 1919 than to have invited the other hazards, which have now been so clearly disclosed.

Just now I am struggling to get my apartment at 470 Park Avenue in habitable shape. When it reaches that point, you and Mrs. Leffingwell must have dinner with me some evening, when we can have a good old-fashioned chin.

A great many thanks to you, Russell, for writing me. It is nice and comforting and flattering to be kept in mind these days, when critics are mostly the ones heard from.

The argumentary part of your letter I am going to answer verbally.

Yours sincerely,

R. C. Leffingwell, Esq.,
52 William St.,
New York City.

BS:MM

#2

November 14, 1921.

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The argumentary part of your letter I am going to answer verbally.

Yours sincerely,

R. C. Leffingwell, Esq.,
52 William St.,
New York City.

BS:MM

Jefferson

Personal file

52 WILLIAM STREET

New York, November 16, 1921

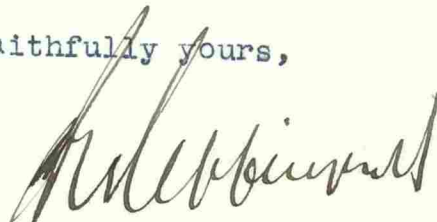
Dear Ben:

I received your letter of November 14th. Our talk at luncheon yesterday was so comprehensive that it leaves nothing for me to say in reply except that I have the greatest confidence in you and the greatest admiration for the public service you have rendered and are rendering as Governor of the Federal Reserve Bank. I hope you will let me feel free to offer suggestions from time to time, and that you will realize that when I do so, I do it not in the spirit of criticism, but with the hope of being helpful. Now and then an outsider's comment throws light on the subject though his suggestion may not at the moment find acceptance. However that may be, my affection for you and my interest in the problem are such that it will, I am afraid, be utterly impossible for me to restrain myself from telling you what I think, from time to time, about the way things are going.

It would be a great pleasure for Luchen and me to come to see you some evening when you get settled. It is nice to know that you are so near. I hope you will let

us dine alone with you when the time comes, because we
are not going out this Winter.

Faithfully yours,

A handwritten signature in cursive script, appearing to read "Benjamin Strong".

Benjamin Strong, Esq.,
15 Nassau Street,
New York, N.Y.

vp

February 18, 1922.

Dear Russell:

You have so frequently heard me express regret and concern that Senator Glass and I had unfortunately disagreed at one time, and more than once have I feared that he might still feel some reservation as to my work in the System, that I think I should now send you a copy of a letter which I have just received from him, and which dispels the last doubt I have had in my mind on the subject.

Neither you nor Senator Glass could have realized that it was a fact that of all the men with whom I have been associated in one way or another in these matters, I would regret a difference of a permanent character with him more than any other because of the natural pride which one can not help feeling about work that was made possible by his own accomplishment in securing the passage of the legislation. Such work could not possibly give permanent satisfaction if one felt, as I did, ~~that~~, that in the main it was doing violence to the very purposes for which the legislation was passed.

*See Glass file
2/16/22*

So that you may understand the relief and gratification that his letter affords me, I am asking you to read a copy of it.

Yours sincerely,

Russell C. Leffingwell, Esq.,
52 William St.,
New York, N. Y.

BS.MM

Enc.

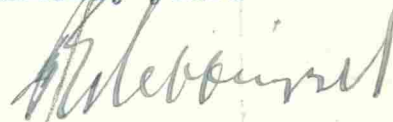
52 WILLIAM STREET

New York, February 24, 1922

Dear Ben:

Upon my return to the office ^{yester} today I found your letter of February 18th and the enclosed copy of Senator Glass's letter of February 16th. I had always tried to reassure you concerning the Senator's feeling for you. I am glad he himself has at last set your mind at rest. Senator Glass is too generous and too big a man to fail to recognize your great achievements and your wise leadership in the Federal Reserve System or to allow his appreciation of your magnificent work to be obscured by ancient differences of opinion honestly entertained on both sides.

Sincerely yours



Benjamin Strong, Esq.,
Federal Reserve Bank of New York,
New York City.

x-p

25 WILLIAM STREET

New York, February 24, 1922

Dear Ben:



FEB 25 1922

FEDERAL RESERVE BANK
GOVERNORS SEC

From my point of view, I found your letter of January 19th most interesting. I am glad he himself has at last set your mind at rest. Governor Glass is too generous and too big a man to fail to recognize your great achievements and your wise leadership in the Federal Reserve system. To allow his appreciation of your magnificent work to be obscured by ancient differences of opinion honestly entertained on both sides.

Sincerely yours

Handwritten signature

Benjamin Strong, Esq.,
Federal Reserve Bank of New York,
New York City.

X-1

FEDERAL RESERVE BANK
OF NEW YORK

PERSONAL AND CONFIDENTIAL

April 21, 1922.

Dear Russell:

Thank you for yours of the 15th. My reply has been delayed by absence in Washington.

If you have ever indulged in the pastime of sailing a boat you will appreciate the following illustration of the point that I want to make with you.

When navigating in rather narrow waters with an increasing breeze, if sail is reduced too much your craft is liable to lose steerage way and go on the rocks. Your letter indicates that you might, because, I believe, of incomplete information advocate that we should attempt to navigate our boat under bare poles in narrow waters with a rising wind and risk losing steerage way.

On January 3 of this year we were lending to our member banks, irrespective of all open market operations, a little over \$200 million. This amount declined steadily, but with some fluctuation, from the first of the year, until the present time when our loans to member banks are less than \$50 millions, exclusive of open market purchases. A considerable part of these loans are to the country banks and our loans to the member New York City banks at the low point on were and to-day amount to Speaking from memory, as I shall not take the time to give accurate figures, the loan account of the System as a whole, exclusive of open market purchases, has gotten down to the neighborhood of \$600 millions, and has been fluctuating below and above that figure for sometime past. Of that \$600 millions, it will be found that a great many hundreds of banks in the West and South are still borrowing in excess of their basic lines, and that it is altogether likely that more than half, possibly two-thirds, of the entire loan account could not possibly be repaid under any rate level which

April 21, 1922.

we might establish. If that is the case, and I believe it is, the System is to-day running along with loans to member banks of over \$200 to \$300 millions, which are distinctly subject to influence by rate pressure. In a country with \$35 billions of bank resources held by 30,000 banks, of which only 10,000 are directly subject to the influence of our rate, were we to rely upon an effective influence upon the credit situation, with only \$200 millions, or even \$300 millions of loans of that character in the System, it could well be said that we had completely lost control of the market.

Had we not, therefore, replaced loans paid off by our members by open market purchases of bills or treasury certificates, we would have had no loan account with which to exercise any influence or control upon the market. When this condition developed I became convinced that the security of the situation demanded that we should acquire investments so that we could have an account of from \$250 to \$300 millions which could be liquidated whenever a time arrived when it seemed desirable to do so. That policy we have pursued since, and will continue to pursue for reasons which I do not think were in your mind when writing me. For your confidential information I am enclosing a copy of a letter which I wrote to Mr. Gilbert in Washington before reading yours, and which I will ask you to return as it is a file copy.

Now commenting directly upon your letter. You say "I do not know whether the Federal Reserve Banks have pursued this policy under a misguided notion of the public interest or out of selfish regard for their own earnings. In either case it seems to me to be indefensible." Please observe that you commit yourself in this letter to the following analysis of our policy. It is either misguided or is selfish from the standpoint of earnings, and in either case is indefensible. Such statements as that I am frank to say expose you to this reply, which is, that were we to pursue such a policy as you advocate, under the conditions which now exist, we would be inviting the same type of disaster which we encountered in 1920 and 1921, and which I regarded in 1919, and regard to-day as directly the result of your ^{own} insistence

that rates should not be earlier advanced. Were there any loop hole in your letter

April 21, 1922.

which might indicate that those who are responsible for the policy of this bank had knowledge or views or experience which justified the policy that you are condemning, I would not write you so frankly.

In my opinion the explanation of your letter lies in the stock market developments of the last few months which ^{have} has occupied your attention and given rise to your alarm, and that you are not aware of other developments in the country which are apparent to us, and which are the subject of continuous study and discussion and in regard to which there is not one word of comment in your letter.

(As to the other eleven reserve banks, it may well be that some of them are investing their funds for the sole purpose of making earnings, and I would differentiate in my reply between the comment applicable to our policy and that applicable to the policy of the other reserve banks were there a loop hole in your letter which permitted me to do so; but you put us all in the same intellectual category, and I have a notion that the vigorous language on the second page of your letter would indicate that you believe that some of us carry about with us an intellectual junk shop filled with a mass of curiosities which is neither arranged, tabulated, ^{nor} or indexed, and that when we wish to employ some of our stock of intellectual goods we adopt that scientific process of selection which is employed by children in selecting the contents of a grab bag.

Put this in your pipe and smoke it, old scout, and don't write any more letters like the one I am replying to without at least asking a fellow first what it all means. But don't let this letter lead you to believe that I have any less desire to get your views, or less respect for your own intellectual warehouse than I have always had, because it is really very considerable.

Sincerely,

R. C. Leffingwell, Esq.,
52 William St.,
New York City.

ES.MM
enc.

PERSONAL

April 24, 1922.

Dear Russell:

Our conversation of Sunday afternoon has answered yours of April 15 in part, and I fear that in some respects our opinions must continue to disagree as to policy. I do not think that we are in disagreement necessarily as to the principles involved, but we may be in considerable disagreement as to the time when action is required of us, and possibly to some extent as to the character of our responsibilities.

What impressed me about your letter, and I am frank to say shocked me quite a bit, was your willingness to express 'so definite and unequivocal an opinion with so small a part of the facts before you. So far as I can gather from your letter, and from what you stated to me Sunday, you were expressing an unequivocal and unqualified condemnation of the policy of the Federal Reserve Banks based upon a table of figures showing the amount of ~~loaned~~ investments, on the one hand, and a table of stock exchange prices, on the other hand. This leaves out so many important considerations, which affect our policy just now, that I fear that your judgment was arrived at without even opportunity to consider all of the facts.

Just now I want to see you on two sound legs and feeling more contentment in mind and body than you can when wearing crutches, and then we will have another bout at this matter. In any event, I want to thank you for your letter and what I know is really behind it, and that is, the real spirit of friendship.

Yours sincerely,

R. C. Leffingwell, Esq.,
52 William St.,
New York City.

ACKNOWLEDGED

CRAVATH, HENDERSON, LEFFINGWELL & DE GERSDORFF

APR 24 1922

52 WILLIAM STREET

R. S.

NEW YORK

April 15, 1922

Dear Ben:

I was glad to see you back and looking so well yesterday. As you know, I have been somewhat concerned about the cheap money policy of the Federal Reserve System as reflected in the bank rate. When, however, we had our talk and correspondence in November I had no notion that the new policy of the Reserve Banks went further than the mere reduction of their rates. Now it appears, however, that during the past six months they have been actively engaged in making money cheap by the purchase of Government obligations for their own account. The following figures are taken from the Reserve Banks' reports of yesterday, six months ago, and a year ago (000 omitted):

	April 15, 1921	Oct. 11, 1921	April 14, 1922
U.S. bonds and notes	\$25,933	\$33,656	\$261,585
Treasury Certificates	7,824	19,862	163,876
	<u>\$32,757</u>	<u>\$53,518</u>	<u>\$424,461</u>
Total earning assets	\$2,503,768	\$1,680,192	\$1,180,214
Federal Reserve Notes	\$2,868,527	\$2,476,311	\$2,200,305

In the period there has been an important reduction in the amount of Federal Reserve Bank notes and Pittman Act certificates securing them. I have omitted these figures because this matter was not within the Federal Reserve Banks' control, but in that of the Treasury.

// I do not know whether the Federal Reserve Banks have pur-

sued this policy under a misguided notion of the public interest or out of selfish regard for their own earnings. In either case it seems to me to be indefensible. //

I scarcely need to say to you that inflation occurs quite as definitely and harmfully when currency and credit are prevented from contracting co-ordinately with the contraction in business and prices as when currency and credit are expanded beyond the expansion of business and prices.

Faithfully yours



Walter P. Reuther

Benjamin Strong, Esq.,
Federal Reserve Bank,
31 Pine Street,
New York City.

x-p

and this policy under a misguided notion of the public interest
 or out of selfish regard for their own earnings. In either case
 it seems to me to be indefensible.

I scarcely need say that inflation occurs only
 as definitely and harmfully as currency and credit are prevented
 from contracting to ordinary levels. The contraction in business
 and prices as then current and credit are expanded beyond the ex-
 pansion of business and prices.

RECEIVED
 GOVERNOR'S SEC'Y.



APR 18 1922

[Handwritten signature]

Benjamin Strong, Fed.
 Federal Reserve Bank,
 31 Pine Street,
 New York City.

x-p

52 WILLIAM STREET

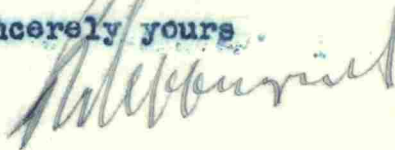
New York, April 26, 1922

Dear Ben:

I received your letter of April 24th. I do not think I was or am ignorant of any important consideration affecting the policy of the Reserve Banks criticized in my letter of April 15th. I do not of course pretend to have the detailed information you have, but I follow pretty closely such information as you and others make public and am not without opportunity for keeping informed concerning undercurrents. From the view I take, however, any facts, whether of a political or business nature, would only serve as an excuse and not at all as a justification of the creation of several hundred millions of dollars of fiat credit by the Reserve Banks on their own motion.

As to the state of my mind and body, my letter of April 15th was written before the tennis accident which put me on crutches and I have no sick excuse to offer for venturing to differ with you. My friendship and admiration for you do, however, add a feeling of personal grief to my condemnation of what seems to me to be a tragic blunder.

Sincerely yours,



Benjamin Strong, Esq.,
Federal Reserve Bank,
15 Nassau Street,
New York, N.Y.

x-p

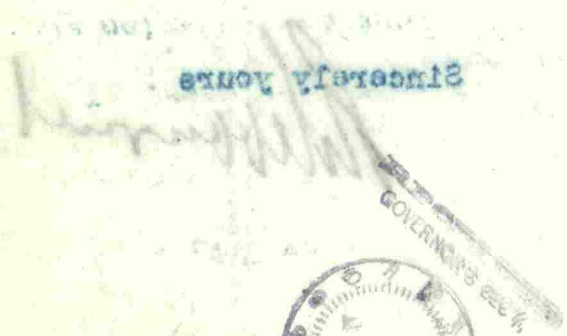
New York, April 26, 1932

Dear Ben:

I received your letter of April 24th. I do not think I was or am ignorant of any important consideration affecting the policy of the Reserve Banks criticized in my letter of April 15th. I do not of course pretend to have the detailed information you have, but I follow pretty closely such information as you and others make public and am not without opportunity for keeping informed concerning undertakings. From the view I take, however, any facts, whether of a political or business nature, would only serve as an excuse and not at all as a justification of the creation of several hundred millions of dollars of fiat credit by the Reserve Banks on their own motion.

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Sincerely yours



Benjamin Strong, Rep.
Federal Reserve Bank,
15 Nassau Street,
New York, N.Y.



APR 27 1932

x-2

File

PERSONAL

April 28, 1922.

Dear Russell:

Of course, I do not believe from your first letter, nor do I gather from yours of April 26, just received, that you realize what a vigorous, sweeping, unqualified condemnation of our policy you have expressed, nor even had in mind that there might be another point of view.

One cannot always be right; and that statement applies to you as well as to me. In our former differences of view about some matters of policy, I have always endeavored to keep myself in a frame of mind where I would not be asserting any infallibility of judgment in some of these matters. I have in fact taken that very point of view in the matter which you are now so disturbed about, but really feel that the force of your opinion would be greater were your expressions less definite and dogmatic and your attitude of mind less closed to the other man's point of view. It is not the fact that we differ which disturbs me because such differences of opinion are inherent in such questions as the one we are discussing; but I am disturbed to feel that you approach the subject with your mind absolutely closed to any consideration of any point of view except that which you expressed in the first letter.

I would not state this so definitely had I not felt it for a long while; and evidence of that I think is contained in a letter which I wrote you on October 18, 1919, of which a copy is enclosed, which I wrote at a time when my mind was filled with serious concern lest a certain inflexibility of opinion and view on your part might lead to mistakes.

[See
012.4]

April 28, 1922.

Events which developed subsequent to my letter of October 8, 1919 (which letter was the culmination of a long correspondence on the subject of our policy), convinced me that in your judgment of that period you were wholly wrong, just as you were wholly wrong in your equally vigorous comments on our policy last summer, and just as I believe you are now largely wrong in your comments upon our present policy.

Your objection to the course which I was urging in 1919 was based upon two definite convictions; one was that an increase in interest rates would force a refunding of the entire national debt; and the other was that an immediate decline in our export trade could be relied upon to bring down prices. As to whether the first belief was justified can never be proved, but I did not believe it myself at the time and never have since. Do not overlook the fact that the argument about our rates and the market value of the government's debt would apply with equal force at any subsequent time, and if a policy of raising rates was indefinitely postponed it would be certain to open the resources of the reserve banks to a continued, uncontrolled expansion until its lending power became exhausted; and that is exactly what happened as a result of the Treasury's policy. As to the second, I combatted it by every argument at my command. Subsequent events proved, I am sure, that your belief was unfounded. Our export trade ^(at) ~~over~~ production and wasteful consumption continued to mount by leaps and bounds, and the flinging of credit into the market during part of 1919 and the spring of 1920 was the underlying cause for the expansion and subsequent collapse. In other words we acted too late.

I think your two letters now justify my saying that had the Treasury in those days pursued a more orthodox course, the country would have escaped some part of the disaster which it subsequently suffered, that the readjustment of values would have been more gradual and less disastrous, and that this is practically the unanimous opinion of students of the subject outside of those in the Treasury who were concerned with the policies then adopted.

April 23, 1922.

My own feeling of loyalty to you and to those whom I regarded as my principals and who carried the final responsibility for the policies adopted, has restrained me from ever taking this position either before the Joint Commission of Agricultural Inquiry of the Congress, or in any other public way.

Therefore, I think that my letter of October 8 is applicable to the present situation, as it was in 1919 to the situation at that time. I am not asking you to change any conviction, but simply to leave your mind open to the admission that yours is not the only point of view entitled to examination, and that you may be just as wrong now as you were in 1919, and as you were last year.

I certainly share your grief and would be quite willing to share some of these responsibilities with you. They rested wholly upon your shoulders in 1919, but even now they are only partly resting upon mine. And I still value and appreciate your advice even though it does take the form of such a vigorous condemnation as you have expressed.

Yours sincerely,

R. C. Leffingwell, Esq.,
52 William St.,
New York City.

BS:MM

enc.

52 WILLIAM STREET

New York, May 6, 1922.

Dear Ben:

I received your letter of April 28. I am sure you would not have written it if I had not offended you by my way of putting what I had to say about your open market purchases of government securities. For that I am very sorry and I apologize with my whole heart. You are carrying the burden and heat of the day and, however unhappy my words may have been, I meant to help, not to annoy. I am all the more sorry to have distressed you because I thoroughly appreciate your consideration in coming to see me at my house to talk the thing over when I myself was unable to be about.

I feel sure that you will not allow my way of putting it to obscure in your mind the importance of the point raised in my letter of April 15. I particularly want to know all there is to be said on your side because I have to make a speech about the Federal Reserve system early in June and I do not see how the subject can be avoided altogether, although I would now give a good deal to escape the subject or the speech, or both. If, therefore, you think it worth while to attempt my further enlightenment I think that I can promise you to approach the matter, if not with an open mind, at least with a friendly one.

Ans. 5/15/22

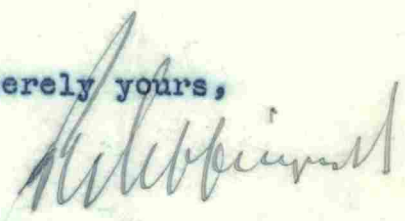
ACKNOWLEDGED

MAY 15 1922

In any event, and however vigorously I may have expressed myself in private, I shall of course be circumspect in my public utterances.

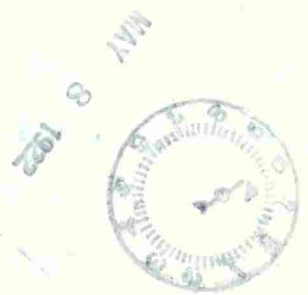
As to 1919 I may perhaps some day find time and disposition to reply to your letter -- perhaps not, for I don't want to reopen old sores.

Sincerely yours,



Benjamin Strong, Esq.,
Federal Reserve Bank of New York,
New York City.

R



May 15, 1922.

Dear Russell:

I am on the shelf for a few days' rest and take the opportunity to send you a few lines in reply to yours of May 6.

Of course your letter is just what I should expect from a good friend and old associate. I appreciate it very much and am replying whole heartedly in the same spirit in which you have written me.

Your letter contains the first intimation that you may undertake some public discussion of the matters we have been corresponding and talking about. Please don't be offended by my saying that there is really nothing that can be gained by doing so and very much possible harm that might result. Of course it is fine and really helpful for you to let me know how you feel. I would expect you to do the same with Governor Harding or with Mr. Mellon. But there is still a good deal of which you are really in ignorance about these matters; not the least important being the results of the recent conference. There is much in the situation which cannot be publicly discussed.

Please don't be unmindful that whatever you may say will be regarded as an expression from a former colleague and friend of the system, and that in that capacity you can do much more to aid a difficult situation on the inside than you possibly could do pub-

licly.

Further than that, and this personal point of view is very much in my mind, don't overlook that I have, myself, refrained from any public criticism and, so far as possible, from any private discussion of policies in the Treasury during your period of responsibility; that my doing so has resulted in my shouldering a much larger share of responsibility for what transpired and for the consequences than justly rests upon my shoulders, when one considers the vigor with which I from time to time expressed disagreement with you.

I think you are the only man to whom I would write this sort of a letter, and it is just as greatly dictated out of regard to you as it is for any other reason.

If you write your speech out, I would like right well to see it anyway.

Faithfully yours,

R. C. Leffingwell, Esq.
52 William St.,
New York City.

BS.MSB

ACKNOWLEDGED

JUN 1 1922

52 WILLIAM STREET

R. S.

New York, May 26, 1922

Dear Ben:

I received your letter of May 15th. I have cancelled my speech about the Federal Reserve System. I am willing to wait and see whether as you say I can do more on the inside than I could do publicly.

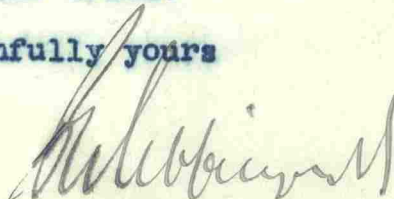
I do not, however, look at the matter as you do. Surely you are prevented from criticizing Treasury policies publicly, not by your personal relation to me, but by your bank's relation as fiscal agent to the Treasury of the United States. I don't think the same rule governs my discussion of Federal Reserve policies initiated a year or two after I ceased to have any official relation to the Treasury or the System.

I don't think you are carrying any undue share of responsibility for Treasury policies; and, for my part, I am proud of them. On the other hand, I think that you owe much to Secretary Glass and something to me for supporting you whole-heartedly and withholding criticism of the mistakes we think you made in 1919. I have been glad to attribute them to your illness and necessary prolonged absences and to remember only your great services and my admiration for your fine achievements.

I am mighty sorry that you have had to lay up again. I hope that a few days rest will do the trick.

Faithfully yours

Benjamin Strong, Esq.
15 Nassau Street
New York City.



x-p

PERSONAL

June 1, 1922.

Dear Russell:

I have just finished reading your address before the Academy of Political and Social Science, and it is hardly necessary for me to advise you how much I am in agreement with almost everything you said.

The so-called World War Debt Refunding bill I fear contains possibilities of no end of trouble, simply because it has done much to create an expectation that uncollected debts will be collected.

I have never favored an outright declaration of forgiveness of the debts, nor in fact of a policy of forgiveness without consideration in return. But the duties imposed upon this commission are so impossible of accomplishment as to make its efforts futile and render ultimate failure, I fear, a cause of criticism and embarrassment.

Also, I have your nice letter of May 26, and am glad indeed that you decided to cancel your speech about the Federal Reserve System.

You probably misunderstood my statement about criticizing Treasury policies, or I may have been guilty of careless dictation. Surely any attempt by the Treasury to misuse the Federal Reserve System would justify outright condemnation by a responsible official of the System. The line of demarcation between the proper use of the System and abuse of the System is a difficult one to determine. During the war the Treasury had no more staunch servant than I was. After the Armistice we disagreed. Surely my own independence of views and my willingness to express them could never be considered as other than the performance of what was my actual duty, and I am using the word "duty" to make sure that you distinguish between that word and possibly the word "privilege". While the same rules would not govern your discussion of our

June 1, 1922.

present policies as would govern me were I obliged to defend the System against encroachment, I nevertheless felt when I wrote you, and feel now, that it would be a mistake for one who had so recently left the Treasury to now undertake a criticism of the System and of the men who run the System, which had so recently been a part of your own organization. It just didn't seem to me to be what the English call "cricket".

Just now, and in fact for two years past, I cannot claim any share of responsibility for the Treasury's policies, because the Treasury is conducted upon a basis which not even its most captious critic could claim was in any way encroaching upon the policies of the Federal Reserve Banks. I was speaking entirely of such share of the responsibility as rested upon me in connection with the Federal Reserve System itself, and at a time, I am frank to say, when our difficulties are almost as great and the obstacles which we have to encounter very much more serious than those which arose in 1919 - 1920. I am referring not to the business that we transact, but to the dangers with which we are confronted; and they are far greater than you yourself appreciate.

You have never really understood my feelings in regard to Secretary Glass. I only wish that the entire Senate - in fact the entire Congress of the United States - could be composed of such men as he. I count him our greatest asset in Congress, and only wish he might be President of the United States some day. He has behaved most generously to me, and I have always appreciated it. ^{In all} of our discussion with Mr. Glass, however, I have been critical on one point only, and that was that he should have stated to the man, or men, who had been so bitterly critical of me that had he done his duty at the time he would have had me removed from office. I felt then - and feel now - that it was a less generous attitude than one might have expected from a chief for whom I had worked as earnestly and whole-heartedly as I did for him, and for you.

Neither you nor I are going to benefit in the slightest from reviewing

June 1, 1922.

and reiterating the differences of opinion which we developed in 1919. I would rather forget them. On the other hand, at the first opportunity - and feeling a little freer now than I did when I last saw you to do so - I shall be glad to explain a few things which have taken place in connection with the Federal Reserve System recently, and while it may not change your opinion at all, it will at least give you a better understanding than you can possibly now have of what has been going on.

I am sure you will understand the confidential character of what I have written you.

Thanks again for your good wishes. I returned to the office yesterday for the first time and am feeling very much better indeed, as I hope that you are.

Sincerely,

R. C. Leffingwell, Esq.,
52 William Street,
New York City.

BS.MM

52 WILLIAM STREET
NEW YORK

ACKNOWLEDGED

JUL 6 1922

June 30, 1922

Dear Ben:

I received your letter of June 1st.

I am glad you liked my Philadelphia speech.

As to "cricket", I consider myself free to criticize publicly Federal Reserve policies initiated after I left the Treasury; and I think it is a mistake for you to discourage public discussion and criticism of Federal Reserve policies by your friends and the friends of the System. The System needs, more than anything else, the support and guidance of an intelligent and informed public opinion. It cannot long survive the theory that the King can do no wrong. My notion is that, though the friends of the System should resist to the utmost, political interference by the legislative or executive power, they should encourage public discussion and criticism of Federal Reserve policies, for the enlightenment of the public and of the Federal Reserve authorities themselves--who, we must admit, are not all intellectual or moral giants. In this particular instance you persuaded me, on the score of friendship and old association, not to make a speech about the Federal Reserve System, which would have been primarily an exposition and defense of the System, and, as such, I think all the more helpful because I should not have suppressed my view concerning its recent mistakes.

However, as I wrote you in my letter of May 26th, I am willing to wait awhile and see.

I was glad to read that you had reduced your discount rate to 4%, because I think, granting the cheap money policy, it is better to reduce the rate than hold up the rate and provide cheap money by open-

market purchases. Within the last two weeks I have read (1) in the Economist (June 10, p.1199) and the New York Evening Post (June 17 in a dispatch from London) that the rise in sterling may be due to inflation here, (2) a news item giving the official figures as to the recent rise in the cost of living here, and (3) a fulmination by the exporters criticizing the Reserve Bank for its deflation policy. If as a matter of fact the Reserve Banks are making money cheap I think they might as well have what credit there is to be gotten out of it.

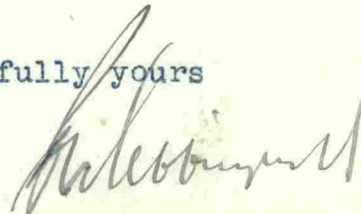
I should a good deal rather have a 3 1/2% rate, effective, than a 4 1/2% rate ineffective because of the Reserve Banks' open-market purchases. Why dont you gradually let your holdings of Treasury Certificates run off, without replacing them, and feel out the figure at which the bank rate will be effective again?

I think the Reserve Banks should curtail expenses to the utmost and charge their remaining deficit, if any, (1) to surplus, (2) to the Treasury, (3) to member banks. There is no sufficient reason why the Treasury, or member banks either, should get something for nothing or a valuable service for less than cost. And the Reserve Banks should never be under the necessity of creating credit to pay operating expenses, salaries and dividends.

I think you should stop hoarding gold and restore the secondary reserve, in the pockets of the people, which we drew down for war purposes. At present you are like the jeweler, if there is one, who carries all his stock in the front window.

Benjamin Strong, Esq.
Federal Reserve Bank
15 Nassau Street
New York City.

Faithfully yours



x-p

x-b

New York City
In Mason Street
Federal Reserve Bank
Benjamin Franklin Building
Stock in the front window

RECEIVED JULY 1 1934

It is essential that the Federal Reserve Bank should be able to carry out its policy in the pockets of the people, and to do this it must have the necessary funds.

I think you should avoid paying gold and reserve the necessary funds and charges.

It is essential that the necessary of creating credit for the operating expenses of the Federal Reserve Bank should be less than cost, and the Federal Reserve Bank should have the necessary of member banks should be something for nothing or a

discount (2) to member banks. There is no sufficient reason why the

and should they be maintaining deficit, it will (1) to the (2) to the

I think the Federal Reserve Bank should carry expenses to the utmost

limit and should be able to carry out the policy of the bank

and should be able to carry out the policy of the bank

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and should be able to carry out the policy of the bank



July 7, 1922.

Dear Russell:

Your letter of June 30 would require a very long answer were I to attempt to cover all the ground.

There are times when the most enlightened and even friendly criticism contains possibility of real harm. You have yourself at times been the victim of that sort of thing, and the intimation in your letter was so distinct that you proposed criticism, which I would certainly regret if based upon incomplete information, that I felt justified in making the suggestion that I did.

The reduction in our rate was justified by conditions, but I am frank to say that judgment as to those conditions - or at least the information we use, - comes from other sources than newspaper articles - for instance, the influence which has led to the rise in sterling was not inflation here at all but certain special causes with which I think we are familiar here, and which on the whole were wholesome. The rise in the index figures has been principally due to the rebound from abnormally low prices in the cost of raw materials. Living costs have risen slightly, but the index figure for the more important items of raw materials entering into manufacture has risen quite sharply, and it was inevitable that it should. Cotton explains a considerable part of it, and the cause of the rise in raw cotton has been the coincidence of the absorption of the surplus with the prospect of a not very large yield this year and much fear of the invasion of the boll weevil.

The fulminations by exporters and others in regard to the deflation policy of the Reserve System should be disregarded, excepted - one wishes to consider the whole policy of the war and post-war period, which means an examination of the causes of inflation.

July 7, 1922

At the first opportunity when we can have a quiet chat, I will tell you something of the policy of the reserve banks in regard to their operations under section 14. I have not been at liberty to discuss this heretofore, -- especially as I could not, and I do not think that you would want me to contribute the material for such criticism of the System as you have had in mind to make publicly.

As to the expenses of the Reserve Banks; there has never been a time when such care is being exercised and when expenses are being kept so effectively at a minimum. Only recently was an opinion of the Attorney General rendered that the surplus could be drawn upon for deficiency of earnings and to pay dividends.

There is no means of drawing upon the Treasury for deficient expenses as you suggest, and at the present juncture to assess the member banks for the various services that we are performing for nothing would be little short of suicide.

The suggestion that we should convert the primary reserve into a secondary reserve has been discussed for the last three or four years. The consensus of opinion has been against it, but notwithstanding that, moderate payments of gold are being made by the reserve banks and have been for some time, and this bank in the ordinary course makes pretty large payments of that character. But these are not matters that have been subject to much public discussion and at the present juncture are not subjects that can wisely be agitated.

You write me now and then as though I ran the Federal Reserve System, and I am afraid in the past there have been times when you have been inclined to feel that I wanted also to run the Treasury. That is not the case. Just as soon as the feeling prevails that the Federal Reserve System is run from my office, just so soon will what little capacity I have to influence the affairs of the System be completely destroyed. As you say, this is not a case where

July 7, 1922

the King can do no wrong, and in my particular case I have no desire to be King. It would be an exceedingly uncomfortable crown to wear, and it would not fit me anyway. I do wish that you would look at these matters a little more judicially than you do. It troubles me to feel that you come to your conclusions so definitely and finally and without an open mind to weigh the other side a little bit. At any rate, you must appropriate enough time some day, or some evening, so that we can talk these things over.

Yours sincerely,

R. C. Leffingwell, Esq.,
52 William St.,
New York City.

BS.MM

52 WILLIAM STREET
NEW YORK

ACKNOWLEDGED

SEP 15 1922

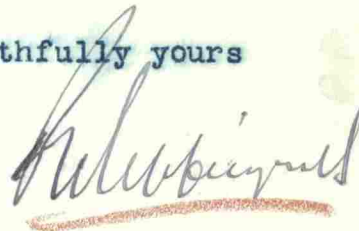
B. S.

September 8, 1922

Dear Ben:

The American Economic Review for September has an article by Anna Youngman suggesting that the Federal Reserve Banks ought to make more, and more diversified, open market purchases, and that their powers be enlarged to that end. Dont you think you should write Anna and tell her that on September 6th the System's holdings of bills discounted amounted to less than 40% of its total earning assets, and that (with the exception of Pittman Act certificates, now reduced to a relatively negligible amount) the balance of the total earning assets of the Reserve System, or about 60%, consist of bills and long and short term public securities bought in the open market. I hate to see the Federal Reserve System unjustly criticized.

Faithfully yours



Benjamin Strong, Esq.
Governor, Federal Reserve Bank of New York
15 Nassau Street,
New York City

R-p

September 12, 1922.

Dear Russell:

Thank you for your note of September 8.

I have only glanced through the article that you mention but will read it carefully. My impression is that the material for the article is not drawn from original or first-hand sources, and, consequently, may be unreliable, so, were I addressing her as you suggest, and as I have once or twice written to others, I would like to send something like this: "Young Man: Check up your facts before stating your conclusions!"

Sincerely,

R. C. Leffingwell, Esq.,
52 William Street,
New York City.

BS.MSB

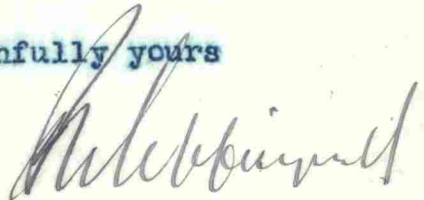
52 WILLIAM STREET
NEW YORK

September 14, 1922

Dear Ben:

I have your letter of September 12th. Dont take mine of September 8th seriously. The article is silly and deserves no attention. My letter was a well meant attempt to poke fun at your open market purchases. Since I have not been very successful in getting you to ^{read} see my more serious criticism of ~~it~~ ^{them}, I thought I would try my hand at satire. Evidently I missed fire.

Faithfully yours



Benjamin Strong, Esq.
Governor, Federal Reserve Bank of New York
15 Nassau Street
New York City

R-p

September 20, 1922.

Mr. Russell Leffingwell,
52 William Street,
New York, N. Y.

Dear Russell:

Enclosed is a letter and enclosure from John Pratt,
and a copy of my letter to him, all of which explain themselves.

Very truly yours,

Encs.

September 21, 1922.

Dear Russell:

I was pleased and touched BY what you said at luncheon yesterday which makes me anxious for you to realize, as I think I do very fully, how impossible it would be for me to entertain the suggestion which reached your ears, especially under circumstances which would have all the appearances of justifying that I had betrayed a friend. I have worked so earnestly and sincerely within the necessary limitations imposed in such a matter to assist in Governor Harding's situation, ~~that~~ there would be no other attitude possible for me to assume even if this wild notion were otherwise feasible.

But it is nice to have you feel as you do. I appreciate it deeply and I want you to know it.

Sincerely yours,

Mr. Russell C. Leffingwell,
#52 William Street,
New York, N. Y.

ACKNOWLEDGED

OCT 20 1922

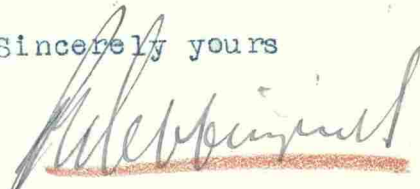
52 WILLIAM STREET
NEW YORK

October 19, 1922

Dear Ben:

I received your letter of October 18th. I have not been correctly quoted. I do not think the terms of the new Treasury bonds were too liberal and never did think so. I think there is much to criticize in the way the issue has been handled, but that is one criticism I should regard as utterly baseless.

Sincerely yours



Benjamin Strong, Esq.
Federal Reserve Bank of New York
15 Nassau Street
New York City

H-p

October 18, 1922.

Dear Russell:

You have been quoted by two or three people as having expressed dissatisfaction with the loan just offered by the Treasury, and as I understand it, upon the ground that the terms were too liberal. Would you mind letting me know the basis of your opinion if you have been correctly quoted?

Yours sincerely,

R. C. Leffingwell, Esq.,
52 William St.,
New York City.

BS.MM

Personal
~~_____~~
~~_____~~
~~_____~~

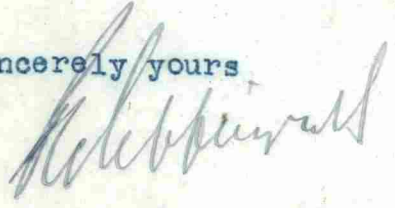
52 WILLIAM STREET
NEW YORK

September 23, 1922

Dear Ben:

Many thanks for your nice letter. I
too am for W. P. G. Harding, because there is a
principle involved. If, however, he is not ap-
pointed or not confirmed then I am for you, and I
dont think that in the grave emergency which would
then confront the System you could or should re-
fuse.

Sincerely yours



Benjamin Strong, Esq.
Governor, Federal Reserve Bank of New York
15 Nassau Street
New York City

R-p

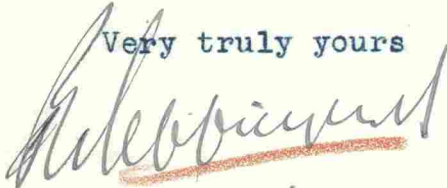
52 WILLIAM STREET
NEW YORK

October 23, 1922

Dear Ben:

I received your letter of October 20th. There is not much use crying over spilt milk, ~~however~~, when I see you next, I shall be glad to tell you what is in my mind, if you are still interested.

Very truly yours


Benjamin Strong

Benjamin Strong, Esq.
Governor, Federal Reserve Bank of New York
15 Nassau Street
New York City

H-p

October 20, 1922.

Dear Russell:

Replying to your note of the 19th, I am glad that you found the terms of the bonds to be right. Now won't you tell me what was wrong with the way the issue was handled?

Yours sincerely,

R. C. Leffingwell, Esq.,
52 William St.,
New York City.

BS.MM

January 17, 1923.

Dear Russell:

I spoke to you about a letter from Ben, in which he gave some of his impressions of English business. I know it will interest you to read it, and enclose it with this. Would you mind returning it as soon as convenient.

Yours sincerely,

Mr. R. C. Leffingwell,
52 William St.,
New York City.

BS.MM

Enc.

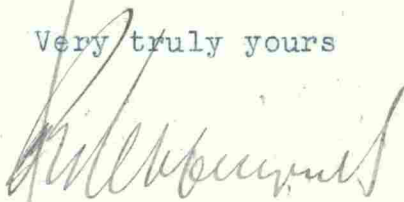
52 WILLIAM STREET
NEW YORK

January 18, 1923

Dear Ben:

I received your letter of January 17th with the enclosed letter from your son, which I return herewith. I have read it with great interest. Your boy seems to have gotten pretty close to the root of things; and has a very level head on his shoulders. I congratulate you.

Very truly yours



Benjamin Strong, Esq.
15 Nassau Street
New York City

H-p
Enc.

FILING DIV.
JAN 23 1923
FEDERAL RESERVE BANK

CLASS OF SERVICE DESIRED	
Telegram	<input type="checkbox"/>
Day Letter	<input type="checkbox"/>
Night Message	<input type="checkbox"/>
Night Letter	<input type="checkbox"/>
Patrons should mark an X opposite the class of service desired: OTHERWISE THE MESSAGE WILL BE TRANSMITTED AS A FULL-RATE TELEGRAM	

Potter

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

Receiver's No.
Check
Time Filed

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

New York City

Benj Strong

Greatly pleased by your telegram and particularly by your promise when and often as you please. For my part I promise to give as good as I get - we are all heartened by your good progress, again Thanks and best wishes for early recovery and return

R. C. Leffingwell

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

To guard against mistakes or delays, the sender of a message should order it repeated, that is, telegraphed back to the originating office for comparison. For one-half the un-repeated message rate is charged in addition. Unless otherwise indicated on its face, this is an un-repeated message and paid for as such, in consideration thereof it is agreed between the sender of the message and this company as follows:

1. The company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any message received for transmission at the un-repeated-message rate beyond the sum of five hundred dollars; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any message received for transmission at the repeated-message rate beyond the sum of five thousand dollars, *unless specially valued*; nor in any case for delays arising from unavoidable interruption in the working of its lines; nor for errors in cipher or obscure messages.
2. In any event the company shall not be liable for damages for mistakes or delays in the transmission or delivery, or for the non-delivery, of any message, whether caused by the negligence of its servants or otherwise, beyond the sum of five thousand dollars at which amount each message is deemed to be valued, unless a greater amount is stated in writing by the sender thereof at the time the message is tendered for transmission, and unless the repeated-message rate is paid or agreed to be paid, and an additional charge equal to one-tenth of one per cent of the amount by which such valuation shall exceed five thousand dollars.
3. The company is hereby made the agent of the sender, without liability, to forward this message over the lines of any other company when necessary to reach its destination.
4. Messages will be delivered free within one-half mile of the company's office in towns of 5,000 population or less, and within one mile of such office in other cities or towns. Beyond these limits the company does not undertake to make delivery, but will, without liability, at the sender's request, as his agent and at his expense, endeavor to contract for him for such delivery at a reasonable price.
5. No responsibility attaches to this company concerning messages until the same are accepted at one of its transmitting offices; and if a message is sent to such office by one of the company's messengers, he acts for that purpose as the agent of the sender.
6. The company will not be liable for damages or statutory penalties in any case where the claim is not presented in writing within sixty days after the message is filed with the Company for transmission.
7. It is agreed that in any action by the Company to recover the tolls for any message or messages the prompt and correct transmission and delivery thereof shall be presumed, subject to rebuttal by competent evidence.
8. Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to all the foregoing terms.
9. No employee of the company is authorized to vary the foregoing.

THE WESTERN UNION TELEGRAPH COMPANY

INCORPORATED
NEWCOMB CARLTON, PRESIDENT

CLASSES OF SERVICE

TELEGRAMS

A full-rate expedited service.

NIGHT MESSAGES

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

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

DAY LETTERS

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

SPECIAL TERMS APPLYING TO DAY LETTERS:

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

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

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

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

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

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

NIGHT LETTERS

Accepted up to 2.00 A.M. for delivery on the morning of the ensuing business day, at rates still lower than standard night message rates, as follows: The standard telegram rate for 10 words shall be charged for the transmission of 50 words or less, and one-fifth of such standard telegram rate for 10 words shall be charged for each additional 10 words or less.

SPECIAL TERMS APPLYING TO NIGHT LETTERS:

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

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

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

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

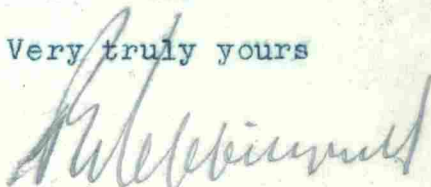
52 WILLIAM STREET
NEW YORK

March 9, 1923

Dear Ben:

I send you herewith a copy of a
letter which I have written to John Pratt
in reply to his of March 8th.

Very truly yours



Benjamin Strong, Esq.
15 Nassau Street
New York City

H-p
Enc.

March 9, 1925

Dear John:

I received your letter of March 8th with the enclosed extract from a letter from Mr. Helm. In principle I agree with Mr. Helm's view that the Budget Committee ought not to be a whitewashing agency. The trouble with the office of the Comptroller General is that the President removed Judge Warwick and substituted a political appointee. If the Budget Committee has the nerve to say that, I am with it; if, however, it has not and wishes merely to pick on the Comptroller General for being what he was appointed to be, I have very little sympathy with its course. The President of the United States has consistently degraded the Treasury service from the moment he took office by making unfit appointments and removals in disregard of the wishes of his own Secretary of the Treasury. There is not a single activity housed in the Treasury building whose efficiency has not been undermined by this course.

I realize that there is a grave question whether you can afford to say these things. I am inclined to think, however, that unless you do so, common humanity requires that you abstain from criticizing the underlings, who are on the whole, I imagine, doing rather better than any one had a right to expect when they were appointed.

My vote would be in favor of going the whole hog, but if that were the decision, I should feel that whatever Mr. Hela chooses to write should be very carefully viséd by several of us before publication.

I am sending a copy of this letter to Messrs. Davis, Lindsay, Strong and Warburg, to whom you sent copies of yours.

Very truly yours

(signed) R. C. Leffingwell

John T. Pratt, Esq.
52 Broadway
New York City

H-p

March 12., 1923.

My dear Mr. Leffingwell:

This is to advise that your letter of March 9,
has this day been reforwarded to Mr. Strong at Colorado
Springs, Colorado, for his personal attention.

, Yours very truly,

Secretary.

Hon. R. C. Leffingwell,
52 William Street,
New York City.

52 WILLIAM STREET
NEW YORK

Jefferson

March 13, 1923

Dear Ben:

I just learned through a letter of your secretary, acknowledging one I had sent to you at the bank, of your more or less enforced holiday. It is disgusting that I should have been so near and inattentive a neighbor during your illness. I remember now that you had to stay away from a dinner party of Luchen's on account of a cold, but, in the hurry and bustle of life in this town, thought of it only as one of the incidents of a New York winter to which we are all subject.

In the first place let me say that you may wholly ignore my Budget Committee letter. Having vented my spleen among my friends, I shall probably subside and let the politicians smash up the Treasury organization without any protest from me. At any rate the matter is not important enough to disturb you when you are ill.

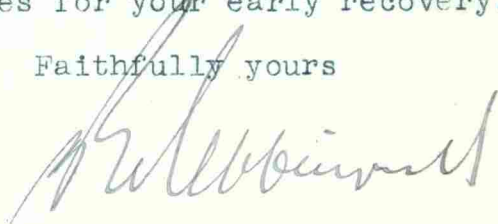
I do hope that you will devote yourself with your usual vigor and efficiency to the business of getting well. You are the one outstanding figure in the Federal Reserve System, and your personality is simply indispensable in the situation which has arisen, because of the gradual undermining of the Board in Washington. Therefore, it is your first duty as a good citizen and a patriot to take care of yourself just now and get fit as

soon as you can. I know of no one else who can rally the governors of ^{the} twelve banks together and through them develop and maintain a policy for the system; and that is the thing which must be done if the system is to survive the concentrated political attack which the Republicans are making upon it.

The moral of which is, you will observe, that I don't have to agree with all of your opinions or decisions to recognize the value of your personality in a critical situation. I should rather back you up even when you were wrong, than see the Federal Reserve System abandoned to the politicians.

By all of which I mean to say that in spite of our numerous differences I think you are a national asset, and I want to send you with all my heart a message of admiration and affection, and best wishes for your early recovery.

Faithfully yours



Benjamin Strong, Esq.
Cragmore Sanatorium
Colorado Springs, Colo.

H-p