[From B Strong?] 6522/149

April 25th, 1916.

My dear Professor Kemmerer:

I have just received your note of the 14th inst., which was delayed in reaching me on account of my absence in Washington.

It will be a great disappointment if I am not able to go to Princeton next month, as I would like to do, particularly as I feel that an obligation rests upon me to make my plans so far as possible conform to yours. There are, however, two important meetings of bankers associations which extend from May 8th to May 13th. Also, I am obliged to be in Washington the latter part of this week and it is barely possible, a portion of next week and then, as you may realize, in addition to all this, there is nearly three months accumulation of work to be disposed of.

Might it not be better to postpone any attempt to address the students until next Fall? If it would suit you just as well, however, for me to run over some afternoon and meet the members of the Faculty in the evening and take part in such an informal discussion as I understand is held at these meetings, I could do that without feeling obliged to make previous preparation and it would keep me away from the office but a very short time. Possibly, I could, also, tell you a few interesting things about my trip abroad. Won't you write me frankly, advising just how the matter stands?

 April 25th, 1916.

To Professor E. W. Kemmerer.

A recent letter from Mr. Fraser, asking if I would obtain some data from the Comptroller and make arrangements to have it sent regularly was received. I took the matter up in Washington last week and believe that everything can be arranged just as desired, and advice will be sent later.

With kindest regards and thanking you for your letter, I am,

Very truly yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS Jr/ VCM

May 22, 1916.

My dear Professor Kemmerer:

Thank you for your note of the 19th inst.

We will shortly have occasion to take on quite a number of additional men, in fact, our force must be expanded constantly to meet the development of the System, and for any man particularly interested in this type of bank work, this would not be a bad time to start.

If Mr. Hinchman can arrange to call at our office, Mr. Sailer, our Cashier, will discuss the matter with him in detail and then I would like to have a few minutes with him before either he or we conclude that he is suitable for the work.

Mr. Hinchman will find the association in this office an agreeable one which, of course, is important.

Thank you very much for having us in mind.

Very truly yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS Jr/VCM

[From B Strong K]
650.4

June 1, 1915. [1916]

My dear Professor Kemmerer:

I have been unavoidably delayed for a day or two in replying to your favor of the 25th.

Our office reports that both your name and that of Mr. Richardson, the Librarian are on our mailing list and all circulars have been mailed with the possible exception of some informal communications which are sent to member banks but which are not regarded as of sufficient importance or interest to justify sending them to "outside" names on the mailing list.

It may be that the instructions as to mailing the circulars are not correctly entered on our books and I am going to ask if you will be good enough to give us an exact address to which to send them.

So that the Library may have an accurate record of everything that has been sent out, I have had one of the member bank folders completed in every detail and that will be sent in a few days with a complete set of all circulars. These circulars are perforated so that they can be filed in chronological order in the folder. I am sorry to learn that the circulars sent heretofore have not reached you.

I am, also, today in receipt of your letter of May 29 and believe all of the suggestions in regard to the banks reports are good, and there will doubtless be little difficulty in obtaining them.

It would be a good plan if we could discuss this matter a little further before arriving at a final decision and possibly you would care to give the time to look through the London Almanac which gives a particularly complete list of the banks of the world.

I am not very familiar with the operations of the Berliner Kassenverein. My impression is that it is controlled by some of the larger banks just as the Deutsche-Treuhand Gesselschaft is controlled by the Deutsche and Dresdner Banks, and that its operations are very largely in connection with securities, rather than banking.

Very truly yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS Jr/VCM

June 9th, 1916.

My dear Professor Kemmerer:

Your note of June 6th finds me in bed and just as soon as I am able to travel, I shall leave for the West probably and be gone for some time. This is very disappointing to me for many reasons and particularly because I was just beginning to get my mind on the work at Princeton.

I will see that instructions are given at the office in regard to the literature to be mailed regularly to Miss Hurd and to you.

As to the collection of bank reports, etc. I shall be in New York for two or three weeks yet and although confined to my bed would be glad to have you drop in some day with the correspondence on this subject, notifying me first in advance, and I will ask my secretary to be here and we will work out the whole program so that the reports willbe forthcoming. The Federal Reserve Bank already has arrangements with many of these banks to exchange literature; it might, therefore, be desirable to have the first requests made by the Federal Reserve Bank in behalf of the University which, of course, we will be very glad indeed to do.

With kindest regards, I am,

Cordially yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS Jr/VCM

Estes Park, Colo., July 19, 1916.

Professor E. W. Kemmerer,
Menauhant Inn,
Menauhant, Mass.

My dear Professor Kemmerer:

You will I hope pardon the delay in my answering your kind letter of June 19th, which was occasioned by my illness and now I regret to say I am exiled out here in Colorado for an indefinite period. I have every expectation however of being back home and at my desk inside of a year.

This interruption of our consideration of bank literature is exceedingly disappointing. I am expecting my secretary here however in about a month and could I believe easily continue to work with you by correspondence, if that will prove satisfactory. On the other hand, should you require some one nearer home, please do not hesitate to advise me and permit me to retire from the Committee.

It occurs to me that in order to obtain this literature regularly and in addition get copies of reports for a period say of three years past, it might be well to send a formal letter on the letterhead of Princeton University, either over your signature or possibly signed by the members of the Advisory Committee. Some banks are negligent of requests of this character, whereas others are very conscientious in answering them. By checking up those that were negligent I could arrange for the Reserve Bank to follow up the request and thereby insure getting the reports complete.

The Anglo-South American Bank, while today in much improved condition, has occupied nothing like the position of importance and influence that some of the other English banks have and I doubt if its report would be of much value. The Societe Generale de Paris, as you know, has suffered a serious decline in the last two or three years and except as an example of bad management I doubt if that report would be of importance.

Otherwise, it seems to me all the institutions you mention are of sufficient standing to justify putting them on the list.

What do you think of our new collection plan?

Hoping that you have a most enjoyable summer, I am,

Sincerely yours,

COPY

B.S. Rw.

Estes Park, Colo., July 27, 1916.

Prof. E. W. Kemmerer,
Menauhant Inn,
Menauhant, Mass.

My dear Professor:Kemmerer:

Your letter of July 23d has just reached me and I am most grateful for what you say in regard to my membership on the Committee. It would possibly be a good plan when the circular is sent out to have a little card index prepared, on which could be checked off the reports as received, each card being headed with the date when the reports are issued. As you know, some of the English and continental banks still issue semi-annual reports. Union of London and Smith's Bank did so until this last year, when the share-holders authorized a change and hereafter the reports will be issued annually. The Library will experience the same difficulty I apprehend that most financial institutions do in being unable to rely upon reports being sent without request.

I am glad to hear of the accession to the Fisk Library.

Reports from the office indicate that our collection service is developing satisfactorily, although during the first week or two it imposed a pretty serious strain upon the organization.

You are entirely right about Secretary McAdoo's policy. To meet the situation in Boston practically all of the large banks discounted some of their paper with the Reserve Bank, all on the same day by arrangement. This plan was adopted so that no comment would arise as to any particular bank, or banks, having found occasion to use the facilities of the Reserve Bank. The same thing would have been done in New York had money rates continued high for more than a few days.

I am somewhat disturbed by the attitude of the Chronicle; possibly you saw last week's Editorial. It seems to me they are wrong about the government deposits, they are wrong about the note issue and they are wrong in regard to the operations of the gold settlement fund. We have twice answered their statements and I doubt if any good would result from our answering this last fulmination. Is this a matter in which you are sufficiently interested to take a crack at them yourself? If so, I would be delighted to furnish you with all the material necessary, both as to the practical workings of the System and data and figures in support of our position. Their complaint about the handling of the government funds will be a short-lived affair as that matter can be easily worked out without difficulty, or without giving even the Chronicle cause for complaint, but I am anxious to offset the unfavorable influence of their editorials in regard to our note issue.

Hoping that you keep well and are enjoying the summer's rest, I am,

Sincerely yours,

103

Estes Park, Col.,

September 2nd, 1916.

My dear Professor Kemmerer:

Thank you for your letter of August 6th which I have delayed answering on account of a slight indisposition and quite an accumulation of mail.

I thoroughly agree with you in your decision about the Chronicle matter and have decided a little later on to write some articles on the subject of the Federal reserve note issue for some of the papers, making no reference, of course, to the Chronicle psecifically. Possibly, you observed that Professor Patterson of the Wharton School of Finance as already taken a crack at this subject and, incidentally, at the Chronicle.

I would like very much to see your new book when it is off the press, as well as the article on "Securities As Secondary Bank Reserves."

The time has come to educate the people of this country to the idea that we are getting into a position where we can afford to have a scientific currency.

If there is any way in which I can contribute at all to your work in these matters, please do not hesitate to call on me.

Mr. Hardy is an old friend and associate of mine. Won't you please give him my regards and my best to yourself.

Sincerely yours,

COPY

Professor E. W. Kemmerer,
Menauhant Inn,
Menauhant, Mass.

10

November 17th, 1916.

Dear Professor Kemmerer:

Your favor of the 10th has just reached me and, as you know, it will be a great pleasure for me to take this matter up at once and endeavor to make arrangements with all the institutions named in the list for furnishing the various reports asked for.

To save time, on account of the uncertainty of my absence, I will have the letters prepared in New York and indicate that the reports should be addressed directly to the library at Princeton. It would well, as I think we arranged when I last talked with you, to have a careful record made of institutions which do not respond or which do not send exactly what is wanted, and I will then follow up the request with personal letters and am sure we can get just what is desired.

With kindest regards, believe me,

Very truly yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS/VCM

103

November 29th, 1916.

Dear Professor Kemmerer:

Thank you for sending me a reprint of your article on "The Theory of Foreign Investments", which I have just read and enjoyed very much.

What impression do you gather from the announcement made by the Federal Reserve Board about foreign loans? I am much interested in getting a correct view of the impression it has made.

With warmest regards,

Sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS/VCM

December 7th, 1916.

Dear Professor Kemmerer:

Mr. Fraser has written me that invitations have been sent to Messrs. Strauss and Walker and I have taken the liberty of writing them personally, urging that they accept.

In this connection, I should warn you that Mr. Walker is quite deaf and I thought if you and your associates were aware of this, it would make it a little easier to entertain him.

Hoping that you find both these gentlemen up to expections, I am,

Very sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS/VCM

103

December 7th, 1916.

Dear Professor Kemmerer:

Mr. Fraser has written me that invitations have been sent to Messrs. Strauss and Walker and I have taken the liberty of writing them personally, urging that they accept.

In this connection, I should warn you that Mr. Walker is quite deaf and I thought if you and your associates were aware of this, it would make it a little easier to entertain him.

Hoping that you find both these gentlemen up to expections, I am,

Very sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS/VCM

COPY

December 9th, 1916.

Dear Professor Kemmerer:

Your kind letter of December 5th just reaches me and in order to express my views rather more frankly than I ordinarily would be willing to do, will you kindly receive and hold this letter in confidence?

It seems to me that the Board with perfect honesty and sincerity has developed a mistaken conception of the present situation and has taken most unfortunate means to influence our banks along lines which it incorrectly considers sound and conservative.

There seems to be a growing feeling in this country that

First: Too large an amount of gold is a bad thing,

Second: When the war is over, we will be flooded with goods and suffer an adverse trade balance for protection against which a high tariff will be necessary, and,

Third: That the belligerent governments may default.

In other words, people are taking counsel of their fears rather than of their experience. I firmly believe that this accession to our gold holding will do no harm if it is properly handled and I just as firmly believe that belligerent governments are not goingto default on their external debt, although some of them may be obliged to tax the income on their internal loans for a period immediately following the conclusion of the war. As to our trade balance, while we are of course certain to lose much of our export trade and probably increase our imports somewhat, I think adverse exchange will be more liable to develop as a result of large loans made to the world's debtor nations by our bankers to enable those nations to pay maturing loans held by England, France and Germany. Under present conditions, the strongest protection that our banking system can obtain would be short loans made to foreign governments of undoubted goodness, or where these loans have a longer maturity than a year or two, by having our bankers make the requirement that interest and principal shall be payable at the option of the holder in the currency of the borrowing nation at a fixed rate of exchange. If we build up our foreign credits roughly in proportion to the normal ratio of credits to gold just as rapidly as gold is imported, the country is insured for the future. If we use the gold to build a top-heavy domestic credit structure, we are not only not insured, but greatly weakened.

In some ways, I think your understanding of these acceptance credits is not quite correct. It is true that the banks in New York which accept the drafts, make agreements to accept new drafts for the purpose of paying those that mature. No obligation rests upon the holder to buy these renewal drafts and so far as the market is concerned, the drafts are all paid as they fall due. The important thing about these credits is

To Professor Kemmerer. Dec. 9, 1916.

that the money is actually being employed to pay for our exports. In ordinary times I would consider that finance drafts of this character were evidence of an unhealthy trade condition where purchasers could not liquidate their accounts in less than 18 months. Under present conditions, however, I think means of this sort are justified and inevitable. After all, the finance draft has an important place in international banking, not as a normal, but as an emergency instrument.

From inquiries made in London last Winter, I gathered that in normal times, the London market carried from one hundred and fifty to two hundred millions sterling of bills of this general character, whereas, I suppose to-day, in the face of demands of unexampled importance, the total amount of finance drafts held by the banks of this country is less than 10 % of what the English banks have carried in normal times.

We must wait and see what effect this action by the Reserve Board will have, not as to transactions immediately affected but as to the country's policy in general. If it seriously curtails foreign credits, I fear the effect will be most unfortunate.

Of course, you understand that these are just my personal views, therefore sent you in confidence.

With kindest regards, I am,

Very truly yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J..

BS/VCM

103?

Denver, Colorado,
December 23, 1916.

Dear Professor Kemmerer:

I am writing you to thank you for sending me the Annals of the American Academy, containing your recent article, which I had already read by the way, with great interest, and particularly for your kindness in sending me a copy of your new book - Modern Currency Reforms, with the nice inscription on the front page. I shall read this with the greatest possible interest and by the way have been doing a lot of reading along these lines during my absence, which never before was possible for lack of time.

Fisher's article has interested me because of his conclusions in regard to higher interest rates after the war. I find many New York bankers disagreeing with this view and his arguments any way are so abstruse and based upon so many conditional qualifications, that I think his argument losses weight.

Baring such unexpected developments as our participation in the war, I am inclined all the time to take the view that the first effect of the war's conclusion will be a more or less collapse of speculative values in this country, piling up of reserves in New York and possibly preceded by or coincident with further imports of gold from Germany and maybe other belligerent countries. This period will be the true period of readjustment and when the wheels of credit get to turning more normally, then I believe we are bound to see a gradual and irresistable advance in interest rates the world over. It is all speculation, however, To - Professor Kemmerer. December 23, 1916.

but interesting nevertheless.

Wishing you a very Merry Christmas and a Happy and Successful New Year, and again with many thanks for the book, I am,

Faithfully yours,

Professor Kemmerer,
Princeton University,
Princeton, N. J.

BS/CC

Denver, Colorado,
March 16, 1917.

My dear Professor Kemmerer:

Roberts Walker has just sent me copy of his talk on the Modern Corporate Mortgage, and I learn from Frederick Strauss that he is also working on something for the Post Graduate course in Economics. I would be interested in hearing from you just how these two meetings were received by your class. Both Walker and Strauss are men of unusual attainments, as I know from long association with them, but I would like to know how they appeared to you and your associates.

With kindest regards, I am,

Very truly yours,

Prof. E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS/CC

COPY

103

October 29th, 1917.

Dear Professor Kemmerer:

Thank you for your note of the 27th advising that you were sending me a copy of your book on "Postal Savings," which has just been received. I shall read it with a great deal of interest and am most appreciative of the thought which prompted you to send it.

Very truly yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

VCM

February 26, 1918.

Dear Professor Kemmerer:

I have just read the statement in the Annalist of February 18th, in the preparation of which no doubt you had a hand. Constant reiteration of the doctrine of thrift is exceedingly necessary. People must understand this subject, or the problem of war finance will become increasingly difficult. But after all, are these problems capable of solution by educational methods? Are not those methods too slow in operation in a country as extensive as this, and particularly as unorganized as we are for war purposes?

It strikes me that we face two possible courses: (1) reliance upon educational methods to bring about economy in the consumption of goods and employment of labor, and during this slow and rather inefficient process of education, the necessity for huge expansion of bank credit; (2) organization and control. By the latter I mean actually grasping this problem of essentials and non-essentials courageously by some method to be adopted. If the subject is approached solely from the standpoint of bank credit it means, of course, exercising actual supervision over bank loans by discriminating between justified and unjustified borrowings, with the inevitable consequence of a considerable reduction in loans and deposits, some unemployment and considerable reduction in consumption.

If control is exercised thoroughly and extensively we risk a development which might be almost as disastrous as expansion in its consequence, and that is, widespread dissatisfaction with the war and loss of popular support by the Government

My own experience during the last eight months has pretty well convinced me that organization and control will produce better results than education; that education will be too slow a process to convince one hundred million people, and that the same results can be accomplished by controlling the activities of, say twenty-five thousand banks, the control, of course, to be developed no more rapidly than it is possible to organize methods of controlling the transformation of industry and labor to war work.

It seems as though we were attempting to drive a machine, the speed and direction of which are controlled by a number of different levers. They must all be advanced in unison to insure that the machine is not stalled. The approach to this subject by a discussion of the purchasing power of money impresses me as throwing light upon the disease that killed the patient, whereas what we need is some restriction upon the patient's diet.

Might it not be a good plan for your committee to consider four or five practical questions:

First, The classification of essential and non-essential consumption;

Second, A method of controlling bank credit;

Third, A method of employing existing industries where plants and labor may be employed without duplication of construction, power, housing, and without moving labor;

Fourth, System of control of raw materials;

Fifth, An exhibition of the folly of price fixing when it has the effect if restricting production.

I have recently been making some study of the bank figures to try and determine how directly we may trace expansion now taking place, particularly in our note issue to Government borrowings, and on the whole am encouraged to feel that it has not yet reached proportions presenting any danger to our System, and probably will not for a sufficient length of time in the future to enable us to get methods of organization in operation if they are undertaken promptly.

I hope you will pardon this long letter. It is intended simply as an indication of my feeling, which is very strong, that what the country needs is organized control ratherhmore than educational work which does not sink in promptly.

With warmest regards, I am,

Very truly yours,

Governor.

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS/RAH

103

March 7th, 1918.

Dear Professor Kemmerer:

Your favor of the 2nd reaches me just as I am leaving for a ten days' or two weeks' absence and I hope to write you more fully on my return.

Faithfully yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS*VCM

√+

1149

103

March 22nd, 1918.

Dear Sir:

In Governor Strong's absence, I beg to acknowledge receipt of your favor of March 17th enclosing draft of manuscript on the subject of inflation.

Governor Strong is expected at the office next week and his attention will be called to your letter at that time and you will no doubt hear from him in the near future.

Very truly yours,

Secretary to Mr. Strong.

Professor E. W. Kemmerer,
Princeton University,
~~Princeton, N. J.~~

M:H

149
103

Personal

April 15th, 1918.

Dear Professor Kemmerer:

Before sending you a draft of the introduction for "The A B C of the Federal Reserve System", I am taking the liberty of referring to one or two matters in the text, principally typographical, which you may want to change.

Galley 3, "Bank Note Elasticity", 14th line, the word "lean" should be "loaned".

Galley 11, 7th line from the bottom, you refer to the type of domestic bank acceptance made eligible for rediscount as having not more than six months to run. This should be 90 days to run, exclusive of days of grace.

Galley 12, chapter VII, 8th line, the word "security" is misspelled.

Galley 13. I am checking the table of security for Federal reserve notes in which I think there is a slight technical error.

Galley 14, foot-note 5. The article "a" is omitted in front of the words "Federal reserve bank".

Galley 15, in the middle of the page the word "the" is repeated.

Galley 18, middle of the page, the Federal Reserve Bank of New York has made a uniform charge of one cent per item for collecting checks which I believe is the lowest of any bank except Boston.

Galley 20. Foreign Exchange, 11th line after the word "credit". Would it not be more exact to add the words "under which bills expressed in sterling were drawn?"

Galley 20. Appointments have also been made for Italy, Japan and Holland respectively with the Banca d'Italia, Bank of Japan and the Nederlandsche Bank.

Galley 20. Next to the last paragraph, it seems to me that the quotation might be misleading without either a foot-note or some reference to the fact that the law under which all bonds issued since we entered the war provides for deposits of proceeds of both bonds and certificates of indebtedness in national banks and state banks and trust companies against certain approved collateral. The deposits which are so carried are in fact made by the Federal Reserve Banks as fiscal agents of the government and it might appear that the account is, in fact, the account of the Federal Reserve Bank. That is done more for convenience, however, and the method employed is in strict conformity with the terms of the law.

Galley 21. The first deposit of government funds made by the Treasury with the Federal reserve banks was on May 10th, 1917, when certain special deposits were made in a number of banks. Later, arrangements were made to have the collectors of customs and collectors of internal revenues in the twelve Federal reserve bank cities deposit all of their funds in the Federal reserve banks and as a matter of fact, for a long period prior to the passage of the bond bill which altered the status of public deposits, the Federal reserve banks had been receiving the principal revenues of the government outside of postal funds and had been paying a very large proportion of government checks and warrants. The reason for limiting this fiscal agency service to collections of revenues and payments of checks in the twelve Federal reserve bank cities was, of course, due to the inconvenience of extending this operation to places where Federal reserve banks have not yet established branches. The plan, however, actively employing the Federal reserve banks as fiscal agents had, as I said, been put into operation some time before the bond bill was passed and was an important and very active part of the work of the reserve banks almost immediately that the arrangement was established.

I have read the manuscript with a great deal of interest and enjoyment. It will be most helpful, giving concise knowledge of the new system to the public and I hope it gets a wide circulation.

The only possible suggestion for enlargement which occurs to me is a more detailed description of the fiscal agency operations in connection with the war and government finance. That is, however, a big subject and I hope will some day be made the occasion for careful study and another volume which possibly you might be interested in preparing. I will write you again in a few days.

In the meantime, many thanks for letting me have the pleasure of reading the manuscript and preparing the introduction.

Very truly yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS*VCM

Personal

~~147~~
103

April 17, 1918.

Dear Professor Kemmerer:

The tabulation of collateral in Federal reserve notes, as of March 1st, shown on galley 13 has been checked and is correct. The enclosed memorandum, however, indicates a difference of over $300,000,000 in the possible note issue based upon the gold reserve of that date, but I presume you were using only round figures anyway.

Very truly yours,

Governor.

Professor E. W. Kemmerer,
~~Princeton University,~~
Princeton, New Jersey.

BS/EL

Enc.

COPY

MEMORANDUM REGARDING RESERVE CALCULATION

MR. KEMMERER'S BOOK GALLEY PAGE 13

Shows $3,000. millions federal reserve notes may be issued

Should say $3,333. millions may be issued

Gross deposits		$ 1,821.
Deduct		
Uncollected items	369	
Due from Federal reserve banks net	12	381.
Net deposits		1,440.
Reserve required 35%=		504.
Lawful money available		60.
Gold required to complete reserve		$ 444.
Gold holdings		1,777.
Total Gold available for note issues		$1,333.
Against which notes may be issued aggregating		$3,333.

149
103

April 19th, 1918.

Dear Sir:

Mr. Strong has asked me to acknowledge receipt of your favor of the 18th inst., and express to you his thorough approval of the changes which you suggested therein.

I am also requested to forward you the enclosed statement relative to the figures about which you raised a question. These are the best figures obtainable in our office, but unfortunately, are very incomplete as we have not sufficient details regarding this data from the other reserve banks to give you anything like a complete reply. From Item 3, you will readily gather from the lists of liabilities and assets under that one heading how difficult it would be to give any very definite figures. However, if you will be good enough to send Mr. Strong a statement showing the form in which you would like to have this information, he will endeavor to secure it from Washington for you.

Very truly yours,

Secretary to Mr. Strong.

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

VCM

10 3

April 30th, 1918.

Dear Professor Kemmerer:

Thank you for your favor of the 29th enclosing the letter ffom the Princeton University Press.

I feel quite conscience-stricken at my dereliction but am sure you understand how crowded the days are just now and hope you will accept my most sincere apologies for the delay in writing that introduction. It is simply a matter of getting sufficient time to dictate it and this I am hoping to do within the next few days and will send it right on to you.

With kind personal regards, believe me,

Very truly yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

VCM

103

May 2, 1918.

Dear Professor Kemmerer:

This is my first opportunity to write you personally in regard to the introduction to the book on the Federal Reserve System. I feel deeply mortified at the delay in preparing it, but know you understand the reason and that it is entirely beyond my control. In a day or two I hope to get at it, certainly the early part of next week.

Sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS/MSB

149
103

May 9, 1918.

Dear Professor Kemmerer:

The Liberty Loan drive knocked me out a little and further delayed the preparation of the introduction, but I have made a start on it and am hoping to finish it up very soon. I sincerely hope that I am not inconveniencing you or the publishers.

Sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS/MSB

103

(See addresses & articles 320.111-1)

May 28, 1918.

My dear Professor Kemmerer:

I am sending you with this what I have dictated as an introduction to the "A. B. C. of the Federal Reserve System." Had there been more time, I could have improved upon it considerably, but, as you know, I am tremendously rushed.

Let me emphasize two things: I want you to make any and every change in it that you think necessary or desirable and, besides, that, I hope that you will read the draft over very carefully for errors in diction, punctuation, etc., which I have not had time to do, if I am to get it off to you to-night.

Wishing the little book the greatest possible success, which it fully deserves, I am,

Very cordially yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS/GB/MSB

103

June 18, 1918.

Dear Sirs:

I have just received your note of the 17th instant, enclosing copy and proof of the preface to Professor Kemmerer's book, which I have read and find no changes to suggest.

Thanking you for sending it to me, I am,

Very truly yours,

Governor.

Princeton University Press,
Princeton,
New Jersey.

BS/MSB

Woods Hole, Mass.,
August 10, 1918.

Dear Professor Kemmerer:

I just have yours of the 8th instant and am sorry to have delayed returning the manuscript which is enclosed herewith. I have read it with a great deal of interest and admiration and hope when the book is published that you will give me opportunity to read the whole volume.

One comment you will not mind my making. We are badly in need of this country of elementary books on the various economic phases of the war, written in popular style and not too deep for general reading. That is one reason why I was so enthusiastic about your book on the Reserve System and why I have so greatly admired Withers' books.

I noticed one or two typographical errors that you had not caught, but will not delay returning the manuscript to read again and mark them.

With congratulations on the enclosure, which is really very fine, and thanks for letting me read it, I am,

Sincerely yours,

Professor E. W. Kemmerer,
c.o Federal Reserve Bank of New York,
15 Nassau Street, New York, N. Y.

BS.MSB

October 18, 1918.

Dear Professor Kemmerer:

I desire to express my appreciation for the two copies of "The A B C of the Federal Reserve System" which were received today. The extra copy is for Mr. Pollen of England to whom I promised a copy when the book was published.

The Fourth Liberty Loan campaign is rapidly drawing to a close, and I feel confident that the Loan will be fully subscribed for.

With cordial regards, believe me,

Very truly yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

CS

November 11, 1918.

My dear Professor Kemmerer:

Rec'd

Your letter of November third enclosing copy of article "Doing Something for Gold" is received in Mr. Strong's absence.

I expect Mr. Strong to be at the bank this Friday as he leaves Washington Thursday evening for New York.

Very truly yours,

Secretary.

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

GB

PERSONAL:

Lake George, N. Y.,
February 10, 1919.

Dear Professor Kemmerer:

This letter, which is written in the very best of good spirit and intention, to a personal friend, is the production, you will realize, of an amateur economist and is addressed to a dean of that trade, with whom, I believe, I can run the risk of exposing ignorance without loss of what little reputation I have for knowing something about this difficult problem of war finance in its practical aspects.

I have just finished reading a second time the report of the Committee on War Finance of the American Economic Association, articles four and five being the ones in which I am particularly interested. Article four, I understand, is by Professor Bogart of the University of Illinois. In passing, I recall that the University of Chicago maintains the largest department of economics, with the most elaborate and thorough courses in that department of its work of any American university.

I am very strongly impressed with two outstanding features in Professor Bogart's report. One is its post-mortem character. It presents an analysis of things that have happened in very scholarly fashion, but few indeed are the suggestions of a helpful nature for those who must struggle practically with the problems discussed by his committee. I mention this with some frankness because I recall having written you suggesting a line of inquiry that would have been truly and constructively helpful. The other impression is inevitable to any of us who have been trying to work out these difficult matters. The discussion proceeds rather complacently upon the assumption of 100% perfection and efficiency being possible in Government finance in time of war. Consideration is not sufficiently given to the human element - the state of the public mind. A program of finance, in order to succeed, must, in the nature of things, conform to the average view of the great mass of the people, or pupular support is lost and failure is inevitable. When a secretary of the treasury is called upon to raise eighteen billion dollars by loans and half as much again by taxes in one year, he must issue loans that will sell and must employ methods that will sell them, rather than issue loans and employ methods which may indeed conform to the best accepted theories of economics, but which neither bankers nor business men, investors, capitalists nor working men know anything about or care anything about, and with which they have no sympathy. If mistakes were made, as they doubtless have been, they were not so much mistakes due to ignorance of these principles by the officers of the Government, as they were mistakes in determining what would probably succeed and what would likely fail. War is a rather compelling influence; it would be grand if a war could be conducted and financed along sound economic lines, but warfare, unfortunately, ignores economic theories and forces the employment of all sorts of measures that violate the most sacred principles.

So I think the criticisms of the work of Mr. Bogart's committee are fair, that it presents no constructive suggestions such as might have been used to advantage had the war continued, and leaves out of account the human factor entirely, dealing with the subject upon the assumption that theoretical perfection was possible.

Referring in detail to his report, I think it is distinctly unfair and rather grossly dogmatic in some points. On page 76, he refers to anticipatory loans as though the Secretary of the Treasury were able to do things which, after the most careful and deliberate consideration, everybody agreed were impossible. For instance, to quote but one sentence, he says, "It would have been possible for the Treasury at any stage of its war financing, by earlier recourse to funded borrowing, or by the issue of large loans, or by more frequent recourse to funded borrowing, or by the issue of large loans, or by more frequent flotations, to have supplied itself with sufficient margin to have made anticipatory borrowing unnecessary."

This stamps the whole article as theoretical and impractical. For weeks at a time I have seen the Secretary of the Treasury literally on his knees before Congress begging legislation to give him more latitude and to give him more time in which to make his plans. The first campaign was inaugurated practically before the bond bill had passed Congress and so, unfortunately, has it been with every succeeding issue. The legislation has been held up in Congress until the last minute. What justification has Professor Bogart for stating what the Secretary of the Treasury could have done without taking into consideration what Congress allowed him to do?

The earliest possible recourse to funded borrowings was always the Secretary's policy. No more frequent loans could have been issued without encountering almost certain failure, and, by way of proof, Professor Bogart, by inquiry, could have learned the following to be the facts: In the first loan it was almost unanimously recommended by the banking and bond dealing fraternity that all oversubscription should be rejected so as to avoid immediate depreciation of the bonds below par. This was done. In the second loan, opinion was divided, so one-half of the subscription only was accepted. In the third and fourth loans all subscriptions were accepted. The amount rejected in the first loan was, roughly, one billion dollars and in the second loan eight hundred million, so that the answer to Professor Bogart's criticism that there should have been larger issues is that the issues, with the exception of $1,800,000,000, rejected in the first two loans, were just as large as could be made by the subscriptions received. As to more frequent loans- Four loans, aggregating seventeen billion dollars in round figures were placed between May, 1917 and November, 1918, a period of eighteen months, and in that period over four billion dollars of taxes were collected, including only the taxes of the fiscal year ended June 30, 1918. That is, a total of twenty-one or twenty-two billion dollars was collected by the Government in eighteen months, a sum so unprecedented and so far beyond any estimate every made of the investable surplus earnings of the people of the nation that any fair judgment must accept the statement that more frequent loans, or larger loans, were impossible and would be courting failure.

Another matter overlooked in Professor Bogart's article entirely is mechanical difficulties. It is no exaggeration to say that there was not a sufficient supply of paper, ink, presses, expert engravers and clerical machinery to prepare and deliver the bonds required upon any more extensive or complicated scale than that which has been done. The delays incident to the delivery of bonds in the first loan created a state of dissatisfaction which might have proved a serious menace to the success of general popular subscriptions to later loans had that not been met and overcome. This was a matter of such considerable importance that I, personally, went through the Bureau of Engraving and Printing, talked with Senator Crane, who produces the safety paper used in this work, consulting with officers of private engraving concerns, and, ultimately, was partly instrumental in bringing about the formation of a committee of engravers to see whether it would be possible to throw the printingffacilities of outside establishments into the Government service. Thorough investigation proved it to be impossible, partly as a matter of law, but particularly because it would involve the Government's taking over the plants entirely in order to avoid risk of theft or loss of bonds which were completely negotiable and saleable when the printing process was completed. To meet the difficulties of this situation, bonds have actually been prepared in advance of legislation authorizing them in such fashion that the text could be added when the termsoof the issue were fixed by Congress. I have enlarged upon this apparently trifling detail to illustrate the extent to which this report has failed to consider practical aspects of the Government's program, which had greater or less influence in determining what could be done.

In the next paragraph he refers to the overlapping of maturities. That has been strikingly absent with the Government's short borrowings until those which anticipated the last two loans, and substantially so until the making of issues which anticipated the fourth loan. Comparing the record of this country with that of any other belligerent, it will be seen that our position is so remarkably strong and free from bad practices in this regard that instead of being condemned, the

Treasury should be commended. This is a matter that I have presonally discussed at great length with officers of the British Treasury, and somewhat with the French, and it has been the subject of much correspondence and discussion with the Bank of England. They are lavish in their compliments upon the way in which we have escaped the dangers of a short maturing debt. Of course I am not referring now to the effect of short borrowing upon inflation, which I shall do in a later letter regarding your report.

7 Again, on page 78, Professor Bogart takes a slam at the optional bond. I can not for the life of me see by what possible excuse of theory or practice or imagination he is able to criticize an optional bond. Every scrap of the advantage is in favor of the Government. Furthermore, his report was written while the war was still raging, and overlooks entirely the importance of safeguarding the future of the Government's borrowing program which had an important influence bearing on this optional feature of our issues. The maturities of the bond issues were made as long as could be made at first in order to allow margin for shorter issues as the war apprached a close, but not so long as to lose the salutary influence of a due date! That program has been carried out with almost mathemetical precision so as to give the Government a series of maturities and with such amounts of bonds that the least embarrassment in refunding operations may be encountered in the future. Who knows what financial conditions will be two, five or twenty years hence! For over a year I joined with the Treasury officials in resisting the most determined efforts by bankers and others to induce the Treasury to sell an obligation maturing in five years or less. The inevitable answer was that those who advocated a short bond believed in a short war, and the plans deliberately adopted contemplated the possibility of a long war, and that theory alone could be justified as the sound one.

Professor Bogart ignores the bearing which the maturity of our own debt may have upon the negotiations still to be concluded with foreign Governments to which we have made loans as to the maturity of theirs. It may be necessary to synchronize these. I am amazed to find such a sentence as the following in the report: "The fixation of a final date of repayment offers no guarantee of payment of the debt, for it may be merely refunded." What an impractical point of view! Can Professor Bogart for a moment suppose that the United States Government, or any other government, can expect to accumulate such a fund as would enable the repayment at one stroke of the pen of a loan of two or five or ten billion dollars? There is no such thing possible as the repayment of such a debt at maturity, except by refunding. Were it attempted it would bring on disorders of the first quality. The fact is, when I read sentences like that, I wonder what the report is driving at.

Also, on the top of page 79, "Perhaps the most conspicuous advantage is the fact that it furnishes an earnest of the intention of the government to attack the payment of the debt as promptly as possible." It furnishes nothing of the sort! It means that the Government retains to itself a privilege of repayment (that is refunding) which may be of advantage to the Government if conditions at that date appear to be more favorable for refunding than at some later date. If it indicates anything, it indicates that the bond holder surrenders to the Government the right to continue to hold an investment beyond a period of time when it is of advantage to the Government to permit him to do so. And instead of being an earnest of the intention of the Government to pay off a debt which it will be advantageous to the debtor to have repaid, it is, in fact, an earnest of the intention of the Government to take a good investment away from the investor at a time when it may develop to be too good a bargain for him.

Professor Bogart's general conclusion is that had bonds of fixed maturity been sold instead of with an additional optional maturity they could have been sold at a higher price. There is not a member of our organization in New York who would indorse this view. Neither do I believe any officers of the Treasury would. My belief is that the maturity date had no influence whatever upon price or the amount subscribed during the campaign. The maturity has had an effect upon the market price subsequent to the original issue, when market levels are established as a result of supply and demand through the constant trading which causes equalization in values. But it seems to me that Professor Bogart's argument on page 79 overlooks the one obvious and important criticism which might with some justice be sustained by argument, as to Secretary McAdoo's policy. It has been claimed, although I don't see how it can ever be proved, that had he been willing to recommend a somewhat higher rate bond it might have prevented depreciation below par to the extent that has been experienced, and it might also have tempted more investment funds from their hiding place than was the case at the rates which he finally did recommend. If it could be shown, for instance, that a higher rate on Liberty bonds would have enabled the Treasury to raise all the money required without the necessity for the employment of any bank credit at all, there would be no question whatever as to the unwisdom of fixing the rates that were established. My personal view is that a slightly higher level of interest would have been justified and would, to some extent, have eliminated a part of this inflation. But it would have been a negligible sum, without having avoided the necessity for the so-called patriotic appeal, and, of course, it would have necessitated increases in our bank rates. That is a separate discussion which has little place in this letter. I think if Professor Bogart had studied the facts in the situation, he would not have made the grudging indorsement at the top of page 80, but would have said that the Treasury pursued the only possible course in the adoption of the types of bonds which it did.

His remarks on page 81, paragraph 2, also leave out of account one factor in the situation which has always been a most important one. If Professor Bogart has read the Congressional Record and the reports of hearings before the Senate and House Committees on the bond bills, he will appreciate the force of this comment. Secretary McAdoo had no power to fix the rates on loans - he could only recommend. I think his recommendations might have been to advantage for a higher rate, but you and I both know that had his recommendations appealed to Congress as being too high, he would simply have invited the radicals to impose heavier tax burdens upon the country and people, such burdens as would possibly have been fatal to business enterprise.

Professor Bogart may have known, although he does not refer to it, that during all of this period Congress expressed a singular and embarrassing distrust of

Secretary McAdoo in the exercise of the great powers entrusted to him. The legislation he asked for was in some cases most grudgingly given, and while I know of no serious objection to the rates which he proposed, yet I do know that it would have been impossible at any time for him to secure the authority which the British Parliament gives to the British Chancellor of the Exchequer to fix the rate according to his best judgment; and that is what should have been done by our Congress.

The criticism of the patriotic appeal leaves out of account entirely the tremendous advantage to the country of having had that appeal made in the way that it was, educationally and otherwise. No campaign could have brought the war to the attention of the people so forcibly, could have stirred patriotic enthusiasm so deeply, and no appeal could have produced the money needed other than that. You must agree that the judgment of those who actually placed these loans is worth something on this point. The investment appeal, at almost any rate of interest, in my opinion, would not have succeeded as did the patriotic appeal.

I can not understand the caustic criticism contained in the second paragraph on page 82. Does Professor Bogart know of any attempt to maintain an artificial price by manipulation of the market? What is manipulation? Can it be said that an Act of Congress authorizing the Secretary of the Treasury to buy bonds, as was done in this case, makes manipulation? It impressed me as being an absolutely necessary accompanyment of the plan to sell bonds by the appeal to patriotism. On the whole, it has not worked very well simply because the magnitude of our loans, coming in such quick succession, demonstrated that the investment fund was well nigh exhausted by the amounts raised and even more than exhausted because the loans could not have been placed without resortto the policy criticized in the report, "Borrow and Buy."

In general I am also astounded that an experienced economist could prepare such a report as this one and almost entirely ignore the general subject of conservation of materials and labor. Of that more later.

I would like to get from Professor Bogart, whom I do not know, his estimate of what the investable savings fund of the nation is. In my last talk with you reference was made to a recent calculation placing it as high as nineteen billions, of which about nine billions was the so-called replacement or up-keep fund, and somewhere about ten billions the fund available for other investment. That calculation is borne out by our experience, which would indicate that there has been in the neighborhood of five or six billions of bank inflation in the last year and one-half.

On page 83 Professor Bogart says, "As the dates now stand, the present debt is not well arranged for a policy of energetic debt payment to be undertaken immediately after the war." What I would like to ask him is how he would arrange the debt repayment. The maturities are 1928, 1938, 1942 and 1947, all for bonds issued prior to the conclusion of the war, with optional dates of 1927, 1932 and 1933. The earliest maturity, of 1927, left open a range of ten years within which subsequent maturities might be placed in case the war was not terminated. Can Professor Bogart believe that without any certainty of how long the war would continue it would have been wise or safe for the Secretary of the Treasury to have accepted any earlier maturities? As it now develops, with the war ended, the Secretary of the Treasury has a range of eight years within which to fix maturities without conflicting with existing maturities. What would he consider a well arranged schedule of maturities, and what consideration does he give to the treatment of the seven or eight billions now loaned to allied governments?

I can not believe that he has in mind that the Government could expect to accumulate and segregate a fund of four billion dollars with which to repay in full in May 1928 the entire amount of the third loan. The operation of repaying that loan in my opinion, and in the opinion of those with whom I have been associated in Washington, should and can begin just as soon as the Government quits borrowing, and that process should apply to all the war loans and be continued until they are all repaid. He says on page 84 that ten years must elapse before the first one now outstanding becomes redeemable. The second 4s, in fact, are simply redeemable eight years from you reference was made to a recent calculation placing it as high as nineteen billions, of which about nine billions was the so-called replacement or up-keep fund, and somewhere about ten billions the fund available for other investment. That calculation is borne out by our experience, which would indicate that there has been in the neighborhood of five or six billions of bank inflation in the last year and one-half.

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Professor Bogart's comment on page 85 in regard to exemption from taxation is so incomplete as to be rather unjust and misleading. I think I was the only one to urge upon Secretary McAdoo the harm and injustice of a tax exempt bond issue, and this I did in April 1917. It is absolutely incompatible with the graduated income tax. But if Professor Bogart will read the Congressional Record I think he will be convinced that Congress was ignorant of these matters and would not then have authorized a tax exempt bond. That is my recollection of the discussion at the time. But, as a matter of fact, little injustice was done to anyone in issuing so small an amount as two billion dollars at such a low rate as 3½%. Something over one-quarter of these bonds have been converted into taxable bonds and of the less than one and one-half billion now outstanding, those who are profiting by reason of the subsequent increases in graduated income taxes are indeed a very small proportion of the owners of Government bonds. I am astounded that these comments can be made without any reference to the general bearing of the subject of taxation of the Government's debt on our scheme of distribution of the loans. The general theory about Government loans and the injustices which they create has been that after war is over high taxes are largely applied to the reduction of the debt, meaning that the poorer classes, who own no bonds, are taxed to pay interest and principal to the richer classes who do. This has all been in our minds in connection with these campaigns and we have sought by every means in our power, including the patriotic appeal, to reach the poorer and wage earning classes, to make them bond holders and better citizens, and collectors of interest and principal rather than simply payers of taxes. It has been one of the main principles behind our whole program, and it has been successful beyond anything that Professor Bogart realizes, judging from the terms of his article. In the third and fourth loans alone bonds were sold on the instalment plan with such success that we had a total of nearly 1,600,000 subscriptions in New York City alone. We have six or seven hundred clerks keeping the accounts of these two transactions. The people that bought those bonds are very largely keeping them, notwithstanding the rather considerable sales reported on the stock exchange. They are better citizens; they have learned to save; and they attach a sentimental value to these bonds which will lead them to hang on to them like grim death. Theoretically, Government loans in time of war should be apportioned upon the same basis and principle as graduated income taxes. That we will agree is not feasible. As it is not possible, the only alternative is to spread the bonds by active propaganda and energetic selling over all classes. I am confident that there are nearly, if not quite, thirty million people in this country to-day who are Government bond holders and roughly in proportion to their means. What answer is there to the argument that this is the best and only way to offset the injustices of Government loans anyway?

On page 87 he says that the practice of encouraging people to borrow money in order to buy bonds is to be deprecated. Leaving out of account entirely the question of short borrowings, you will agree that the government had three courses:

(a) To confine the sale of bonds to investors who did not borrow

(b) To sell bonds to investors who must borrow to some extent, or, having somewhat the same effect, to sell them to the commercial banks

(c) To raise the money by direct sales, to some extent, to the reserve banks.

Plan (a) involves the supposition that the investable savings fund of the nation aggregated, in the period covered, eighteen billion dollars, and that every dollar of the fund could have been swept into the national treasury. Such a conclusion is unwarranted by any facts that we have, and I believe is disproved by our experience. Furthermore, it assumes that no part of the savings fund should, or could be employed in other directions necessary to sustain and develop essential industries and for the granting of private loans to foreign borrowers. My belief is that the savings fund available for such investment has been regularly well nigh exhausted through these loans and that the difference between that amount and what the Government needed has been furnished by policy (b), i.e., by some sales to banks, but principally by sales to investors who borrowed from banks. Throughout the four loans, the doctrine of discouraging the banks from buying bonds but encouraging them to lend to customers has been preached consistently in the belief that only by that means could the required amounts be placed, and the results clearly justify and prove the correctness of thatbelief. Subscribers who borrow do so almost without exception through regular banking connections, and those banks will be the means of inducing prompt liquidation.

In this personal letter, I feel justified in recounting, in illustration of our attitude, how late in the campaign to place the first issue of bonds, (as I recall a few days before subscriptions closed,) the national bank examiner in New York came into my office with a telegram which he had been instructed by the Comptroller to send to all banks in our district, similar instructions having gone to the chief examiners in all other reserve districts. The telegram was almost a direction for each bank to subscribe to the loan to the extent of 6% of its resources in order to prevent a failure. Considering the power exercised by the Comptroller over the banks under his jurisdiction, it was a direct invitation to the banks of the country to produce just about two billion dollars of inflation. I took the matter up instantly by telephone with Washington, buttoo late to head it off, although the text of the telegram was somewhat modified. The Comptroller took this action, I believe, without consultation, with the best possible intentions, but without the slightest appreciation of the effect of his action. My own feelings were so strong on the subject that I took the responsibility of sending a dispatch to every bank in our district asking them to ignore the Comptroller's advice. I suppose I risked my position in doing so. I have reason to believe that substantially the same action was taken by the other reserve banks, and the Comptroller's method was strongly disapproved by the Federal Reserve Board. The episode was never repeated, although an attempt was made to repeat it once, which was headed off.

The nearest approach we have made to any operation of that kind was in the last loan. Circumstances led me to believe that for the first time we faced a real danger of failure. Corporations and individuals have been loaded to the limit with bonds of previous issues, and, on Thursday before the subscriptions closed (the following Saturday) we were about one billion short of the amount required in the New York district alone. Fearing this development, we did induce large corporations like the life insurance companies and some big industrial concerns with large incomes to anticipate their incomes, enlarge their subscriptions, and borrow the money. This was infinitely better than falling back upon the only and last resort which was to induce the banks to subscribe. We had frankly told the big banks in New York that we did not want them to subscribe, at least until we were certain of a failure. But figures and plans were fully prepared to effect a distribution, not only of the amount short on the Fourth loan, but of all previous holdings of bonds, so that had we been obliged to make up a few hundred millions on the Fourth Loan, that amount with previous holdings would have been distributed among all of the banks of the city upon an equitable basis, and with some encouragement from the Treasury that plans would shortly be undertaken to relieve them of the holdings. That emergency measure was never needed, but illustrates the determination on the part of all concerned to avoid these inflationary measures by every means in our power.

I admit that a large amount has been borrowed from commercial banks by subscribers. My contention is that it was inevitable, and there are many evidences that liquidation is constantly taking place, and most satisfactorily.

And now let me ask where would Professor Bogart have raised the five or six billions produced under plan (b) if not by the method which we have adopted?

In no place in his report do I see any reference to the fact that the reserve banks, except through their discount operations, have been kept entirely clear of Government loans. The large item occasionally appearing in our statement consists only of three items, one is a small amount, rarely exceeding ten billion dollars, of

Treasury certificates purchased from nonmember banks and bankers under contract by which they are to repurchase them within fifteen days; another is the one-year notes supporting the new bank notes issued to retire silver certificates; and the bulk of the amount consists of special certificates, maturing in a few days, issued to the Reserve Bank from time to time to cover what would otherwise be an overdraft, and which serve as a sort of balance wheel to avoid sudden and unexpected withdrawals from depositary banks without adequate notice. They are regularly repaid as these calls for return of deposits are made.

I do not believe that either you or Professor Bogart realise that ever since the war started I have been urged (and sometimes abused for not responding to the urging) that we should make money cheap by lending large sums directly to the Treasury. These urgings have come from some of the oldest and most experienced and responsible bankers in New York, men whose advice as practical bankers would carry weight from one end of the country to the other. As an example, one banker of international reputation who has very close connections in France and a wide experience both in this country and on the other side, came to my office in the early days of the war and told me with a grave, in fact with a panic stricken face, that if I could not induce the Treasury to issue hundreds of millions of its paper to the reserve banks, to be made the basis of currency issues, we could not finance the war and the banks of the country would "go broke." For a year and a half I have resisted that pressure in the face of much urgency. Finally, at one time, I told a committee of bankers in New York that if needed cooperation in certain matters was not forthcoming, I would be forced to advocate to the Treasury that they borrow a large sum from the Reserve Bank in New York, say $500,000,000; we would then throw that into the arena and see what happened, pointing out that the effect would be sufficient to dispose of the question when they realized what a gorge of speculation, inflation and price raising would result.

On page 88 there is a discussion of the holdings of government bonds by member banks ~~and~~ of the discounts of the reserve banks, which is surprisingly disingenuous. The few hundreds of millions of government bonds owned by the commercial banks and trust companies of the country is trifling considering the vast amount of the government's borrowings in such a short period of time, and particularly the great number of banks to be dealt with (no less than 30,000) who can not be personally educated and controlled as to their methods and policies. I regret to say that there are banks in our own district, in two cities particularly, who were at first negligent in promoting the distribution of bonds in their communities and complacently subscribed themselves rather than undertake the labor of canvass. These men have been sent for and roundly lectured in our office. We have sent our own men out to these communities to show them how to organize (in fact we have done that with all communities) but, nevertheless, particularly in the earlier days, some institutions did not understand and purchased bonds which they should have distributed.

Attempting to measure the extent of these purchases by our volume of discounts, or of loans made to purchasers by our discounts, is obviously futile. One can not earmark dollars in a bank. If a subscriber borrows a million dollars from his bank to carry government bonds, that bank may, and probably does in many instances find it more convenient to recoup by borrowing from us on commercial paper rather than go to the expense and inconvenience of shipping bonds. Professor Bogart displays a rather superficial understanding of this matter.

In justice to Secretary McAdoo, comparison of his record should be made with that of Secretary Chase. I have no records here with which to confirm my recollection, which is substantially as follows: Within a few months of the outbreak of the Civil War, Secretary Chase was borrowing money from the New York banks at 6% and a commission equalling 12% per annum. By January 1, '62, the Federal Government and practically every bank in the country had suspended specie payment. In the earlier days of the war, most of the borrowing was done on short paper of every conceivable variety. He was shortly forced into issues of fiat money reaching a maximum of $450,000,000, without a vestige of gold backing. The Government itself became a trader in gold at a premium, selling part of that produced by the customs revenues in order to bolster up its income and balance sheet. The premium on gold rose to over 250 and the speculation in gold was a menance to the country's financial stability. Before the conclusion of the war, 6% bonds were sold by the Treasury at the equivalent of 45% of par, gold. The revenue from taxation in the first year of the war, applicable to war purposes, as I recall, was something like $30,000,000 or $35,000,000 only, and it was not until the war was over that the revenue from taxation, applicable to war purposes, exceeded $300,000,000. The government's financing was farmed out to private individuals. The banking community was uniformly hostile and uncooperative. The ill effects of this unsound financial policy were not finally overcome until 1879. The expansion and the elevation of prices, as I recall, was far beyond anything experienced in the present war. I remember my Mother saying that she had paid $28.00 a barrel for flour and that the material for the shirts which my Father purchased when he got married during Civil War days cost $1.00 a yard.

Compare this with the Treasury's accomplishments in the present war, taking into consideration the difference in magnitude, etc., etc., and what a magnificent record on the whole has been made.

One reason for these rambling comments about the report of Professor Bogart's committee is my interest in the economic courses at Princeton. It illustrates the danger of over-emphasizing the academic point of view, or I might better say the intellectual and theoretical point of view. Our war finance will be the subject of study in our universities for many years to come. These committee reports and studies will, likely, be used as contemporaneous comment of more or less authoritative character. It would be difficult to prepare an article that would be more misleading to the student in these matters in future years than the one I have commented upon and for the reasons stated in the first part of this letter. It overlooks and ignores the human factor so completely, both as expressed in the attitude of Congress and in the general attitude of investors of all classes, and particularly in the attitude of a great public which never had made an investment before, that I think it should be expunged from the literature on the subject completely.

Very nearly one-half of all the money raised for war purposes, including the short loans, was raised by an organization in our district of which I am the head. No article such as this one should have been written without the author taking the trouble to make a first-hand investigation in New York of the methods which we employed and the reasons for them. They were largely copied in other districts. No article of this nature could have been written, and do justice to the subject, without dealing with the practical aspects of government loans and financing. As a little side light on this matter, Professor Sprague wrote me that he was contemplating an attack upon the policy of the Treasury but did not want to do so without getting at the facts from the practical point of view. His letter reached me when I was in Aiken. I wrote him rather briefly of some of our difficulties and urged him to await my return to New York when we could talk it over. He came to New York; we spent an afternoon and evening in going over the whole problem and when we had concluded I think he fully agreed with me that the Treasury Department, the reserve banks and the Liberty Loan organization were the victims of a situation which they did not create. Their policy was a necessary consequence of the failure of our Government, either by consumption taxes or by other means of restraint to impose economies upon the people of the country.

Shortly after this Professor Seligman called upon me with identically the same story. He was proposing the next day to prepare a magazine article attacking the Treasury Policy. I spent the afternoon with him at the Metropolitan Club and told him the whole story. He agreed with me entirely; said that he would dismiss his stenographer and play golf instead.

I want ~~thoses~~ those boys who go to Princeton learn something about the theory of these matters, and, likewise, something about the practical possibilities. If a student is told that it is a mistake to raise money for war purposes by methods which induce expansion, he should, at the same time, be told that if a nation can not be induced or required to save enough money to finance its war without inflation, or if the savings fund does not exist, or is not large enough, war must be in part financed by some plan of inflation which mortgages future savings. Otherwise, one might as well say quit fighting because the money can not be raised.

I am sorry to be so disturbed by this particular article. Frankly I am not so disturbed concerning your article, which I am going to write you about later, after having a reply to this letter. I think your own article is well balanced, conservative and temperate. It leaves out of account, however, two factors of great importance in measuring the extent of inflation and the damage which it has done. One is the extent to which the inflation occuring since our entrance into the war can be attributed to the net addition to our gold reserves occurring coincident with the time when the nation was vastly increasing its productive capacity. We might term that "ligitimate" inflation. If the demands of a world war, upon the success of which the stability of liberal government depended, required this country to vastly increase its production and if that production took the form of exports for which payment was made partly in gold, and partly by credits which could be safely supported by the added gold reserve, then I say that from every standpoint, economic, practical, political and humanitarian, the expansion was justified, necessary and sound. Another point overlooked, as I see it, is the extent to which the inflation was apparent and not real, by which I mean that a very large amount of currency has been hoarded in this country by wage earners, foreigners, and others, causing a temporary appearance of inflation which has had little, if any, effect upon the price level. If you will deduct from the figures of bank inflation, as shown by bank reports, the probable amount supported by our gold imports, which may be classed as ligitimate, plus the amount represented by hoarded money, I think it will be found that the inflation occuring since April 1917 has been so moderate as to be a source of congratulation to the country as a whole, rather than unfavorable comment.

It is hardly fair to write this long dissertation without some suggestion of my own views. They are briefly as follows: I believe that as nearly as can be estimated the inflation has been largely limited to the deficiency in the savings fund and probably not much more than that. I believe that it has been so moderate, as compared to that imposed upon the other nations of the world, that our strength is but slightly impaired and that our future tribulations arising therefrom will be, by comparison, moderate. I believe that the adoption of a somewhat changed policy by the Treasury and the reserve system later on, and for which I am proposing to struggle, will insure during the next year or two a very considerable liquidation of our bank position, a discontinuance of government borrowings at a reasonably early date and a considerable decline in the price level. I also believe, however, that this must be accompanied by some rather serious losses because our increased prices have occurred in a country enjoying exceptional prosperity in which merchants and manufacturers have unfortunately maintained too large stocks of goods as compared with their foreign competitors. I believe that this period will be accompanied by a considerable degree of unemployment, but not for very long, and that after a year or two of discomfort, embarrassment, some losses, some disorders caused by unemployment, we will emerge with an almost invincible banking position, with prices more nearly at a competitive level with other nations, and be able to exercise a wide and important influence in restoring the world to normal and livable conditions.

One must have a theory of these things to work on, and at least the courage to practice and state it. Please accept my apologies for this effusion. It is written with a purpose, and a very serious one, and I hope you will take the time to answer it, and unsparingly.

With warmest regards, I am,

Faithfully yours,

Professor E. W. Kemmerer,
Department of Economics,
Princeton University,
Princeton, N. J.

P. S. In reading over this letter I observe many points that had important bearing on our plans to which I have not referred at all. One I must include as a post script. What consideration do you suppose Professor Bogart has given, in connection with the frequency with which loans can be offered in this country, to some very practical difficulties. Throughout the winter and early spring a large part of this country is absolutely inaccessible and impassable for a campaign of this character; then there are two seasons of the year when the people of the country are so preoccupied with planting and crop gathering that allowance must be made for that condition. It is also desirable, if possible, to take advantage of that period when crops have been marketed. The revenues of our Government were largely paid in 1918 in one lump. If one considers these factors, together with a good many of minor consideration, it will be found that those portions of the year which are not pretty well filled up are quite limited.

Lake George, N. Y.,
February 19, 1919.

Feb 10, 1919

Dear Professor Kemmerer:

With this I am enclosing a private letter, addressed to you, which explains itself. In this connection, I would very much like to have those figures which you quoted to me some months ago, giving a rather recent estimate of the saving power of the people of this country, and if you can give me those figures, together with the authorities to which reference may have been made, it will be helpful.

What sort of reception has "The A. B. C. of the Federal Reserve System" had? I will be interested to know something of the results.

Cordially,

Professor E. W. Kemmerer,
Department of Economics,
Princeton University,
Princeton, N. J.

BS.MSB

+Bogart

Lake George, N. Y.,
March 1, 1919.

on file

Dear Professor Kemmerer:

Thank you for your letter of the twenty-seventh. I regret to notice in my letter to you an error of fact. I thought Professor Bogart was connected with Chicago University, but I believe it is the University of Illinois.

At the first opportunity I want to go to Princeton and really give some time to getting a better understanding of the courses in economics. There are a lot of matters in connection with them that interest me; among others, for instance, I don't see why it might not be possible for us to work out an arrangement by which some practical summer courses for those that care to take them might not be given at the Federal Reserve Bank. We always need additional men for summer work, during vacation time. We would pay them, if the plan could be satisfactorily worked out, according to a system of classification now being worked out by the bank. And, under suitable direction, the work might be coupled with lecture courses. This is just a thought, but something that I would like to discuss with you for future consideration.

Cordially,

Professor E. W. Kemmerer,
~~Department of Economics,~~
Princeton University,
Princeton, N. J.

BS.MSB

Second

Lake George, N. Y.,
February

Lake George, N. Y.,
March 13, 1919.

Dear Professor Kemmerer:

I am returning the pamphlet concerning the savings bank discussion, which contains some interesting material. I had already read the report of your paper.

So many of these things that are interesting must be deferred until after war finance is out of the way, that I can see some interesting years still ahead of us.

With cordial regards, I am,

Sincerely yours,

Professor E. W. Kemmerer,
Department of Economics,
Princeton University,
Princeton, N. J.

BS.MSB

March 18,1919.

Dear Professor Kemmerer:

It was a great pleasure to have a visit with you on Sunday and I hope to repeat it in the near future. on file

This is simply an acknowledgement of yours of the 13th which I have read with great interest and appreciation. You are right in my use of the word "disingenuous" which was careless dictation as much as anything, although I do feel that if a report of the character of Dr. Bogart's is published without an explanation of the fact that it is not based upon first-hand information obtained from authoritative sources such as department officials, etc. it has the appearance of being authoritative when it really is not, and is therefore misleading.

As to Professor Hollander's published article I am very anxious indeed to see it as soon as possible. Would it be unreasonable for me to ask if you could obtain an advanced proof. I am convinced that Professor Hollander is in danger of doing exactly what Professor Bogart did and that his published critical study of this matter is made without having really full knowledge of the facts. I have inquired here as to the extent of his investigation and am frank to say I cannot find that it has been thorough and sufficient enough to justify publishing this criticism.

I must defer further discussion of this subject by correspondence on account of pressure of work but hope to be in Princeton before very long and we can talk it all over as well as make a little study of the Princeton's course in Economics.

I am,

Very sincerely yours,

Professor E. W. Kemmerer,
Princeton,
New Jersey.

October 14, 1919.

My dear Professor Kemmerer:

I wish it might be possible for me to accept Mr. Gardner's invitation to prepare a paper for the American Economic Association meeting at Louisville, but my time really does not permit just now an indulgence of this kind, which would otherwise be a pleasant task.

I am most anxious to have a chat with you about your experiences in Guatemala. Possibly I will be in Princeton before long and will have opportunity to do so. My two boys are there, and Ben is planning to make a raid upon the courses in economics.

With kindest regards, I am,

Sincerely yours,

Professor E. W. Kemmerer,
Department of Economics & Social Institutions,
Princeton University, Princeton, N. J.

BS.MSB

Sept. 28, 1920.

My dear Professor Kemmerer:

The copy of your book "High Prices and Deflation" was received today, and you may be assured that it will be read with much interest by Mr. Strong on his return from abroad.

With many thanks,

Yours very truly,

Secretary.

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

February 8, 1921.

My dear Professor Kemmerer:

Your thoughtfulness in sending me a copy of "The Federal Reserve System and the Foreign Exchanges" by Albert Strauss, is very much appreciated.

I read the pamphlet with keen interest and pleasure, and wish to thank you for the courtesy.

With kind regards,

Very sincerely,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

GB:MMcC

March 28, 1921.

My dear Professor Kemmerer:

Thanks for the issue of The American Economic Review, which contains the report "The Taxation of Excess Profits in Great Britain," prepared for the Committee on War Finance, of your association.

I shall endeavor to read the report at the first opportunity, and appreciate your courtesy in sending me a copy.

Yours very truly,

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

April 25, 1921.

My dear Professor Kemmerer:

The pamphlet "Six Lectures on the Federal Reserve System," given by you at the Federal Reserve Bank of Philadelphia, last October and November, has been received. I shall read it with interest, and thank you for sending me a copy.

Sincerely yours,

Edwin W. Kemmerer, Esq.,
c/o Princeton University,
Princeton, N. J.

GB:MM

December 7, 1921.

Dear Professor Kemmerer:

Sometime ago Mr. Strong wrote you that he would be willing to talk to the students of the Department of Economics at Princeton University, on the first Friday afternoon that would be convenient for him.

I am sorry to say that there is considerable doubt of Mr. Strong being able to follow out his wishes as he, unfortunately, has been ill and is slowly convalescing and not expected at the office for some time.

I trust that his inability to speak will not interfere with your present program, and that it will be possible for Mr. Strong to arrange at some future time to make the address he promised.

With kind regards,

Yours sincerely,

Secretary to Mr. Strong.

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

GB:MM

Please write Prof. K. & report how things

are [illegible]

GR file

January 10, 1922.

Dear Professor Kemmerer:

It was only a day or two ago that Mr. Strong was able to read your kind letter of December 12 addressed to me, and which was an answer to the one I sent to you on December 7, advising of his illness.

I know that you will be glad to learn that Mr. Strong is continuing to make fine progress and that we are looking forward with pleasure to his return to the bank within a week or two.

I shall keep Mr. Strong in mind of his promise to address the students at Princeton and hope to be able to send you some definite word within the near future as to the probable date.

Yours very truly,

Secretary to Mr. Strong.

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

GB.MM

PERSONAL February 2, 1922.

Dear Professor Kemmerer:

Only now am I able to write you in response to your kind letter of January 17, and I do so with some temerity because I feel that for a good while past I have been most neglectful of my obligations to, and my interest in Princeton, and the courses in economics.

This is just a brief personal word of explanation to you, however, so that you will understand what my situation is and has been. When I returned from Europe in January, I was at once precipitated into a combination of the very difficult banking situation in New York, and an even more difficult political situation in Washington. These matters engaged my attention continuously; in fact, the political part of it kept me in Washington almost continuously throughout the spring and summer. On my return to the bank I received a visit, which was kept unknown to people generally, from the Governor and two of the directors of the Bank of England. That kept me tied up for nearly a month. Immediately upon their sailing I returned to Washington, and upon my return from Washington was taken ill. So you can see what a wasted year I have spent.

I want to go to Princeton just as soon as the doctor will allow me, and make a talk. I would like to talk about the public debt, not from the standpoint of the Treasury, for which I cannot officially speak, but from the standpoint of the field workers, who are the reserve banks. My illness, however, was occasioned by the necessity for an operation on my tongue, and for some little time I will be absolutely precluded from making anything in the nature of a speech, even of so modest a character as before the students of Princeton.

One does not write so frankly as a rule about these matters, but I thought you would be good enough to explain the situation to one or two of your associates so that they would not feel that I was remiss in discharging an obligation which it is always a pleasure to me to undertake.

I hope your trip to South America will be a most agreeable and helpful one. Please let me know if there is anything that I can do to further the object of it.

Yours sincerely,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS.MM

January 19, 1922.

Dear Professor Kemmerer:

I thank you for your letter of January 17, advising that you will leave for South America on February 2, and do not expect to be back until the latter part of September, and suggesting that under the circumstances it would be advisable to postpone Governor Strong's visit to Princeton until some time in the fall. This arrangement I am sure will be agreeable to Governor Strong who is now recuperating at Atlantic City for a week or ten days.

With sincere good wishes for a most pleasant and enjoyable trip, believe me, with warm regards,

Yours sincerely,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

GB.MM

September 12, 1922.

Dear Professor Kemmerer:

I am delighted to learn of your safe return after so narrow an escape from a terrible tragedy. News reached us very soon after the accident that you had escaped, but I really had no knowledge of how very serious the accident was nor how narrow was your escape until reading the newspaper this morning. We are all delighted that no calamity overtook your family or any member of it. I suppose you lost all your belongings, but what are those in comparison with what you might have suffered?

We have been having quite an active correspondence about the library lately, and I think it would be helpful if we had a talk on this subject after Mr. Gerould returns from Europe, and I shall certainly make it a point to run down for a day or two almost any time when you or he advise me that it will be convenient. I prefer to wait until after the opening of college, if possible.

With kindest regards, I am,

Very truly yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS.RAH

October 27, 1922.

Dear Professor Kemmerer:

I have decided to bring over those papers that I recently went over with Professor Sprague, so that we may go over them together.

Yours sincerely,

Professor E. R. Kemmerer,
c/o Princeton University,
Princeton, N. J.

BS.MM

November 1, 1922.

My dear Professor Kemmerer:

Thank you for your kind note of October 30. I am obliged to be in Troy on the evening of the 16th and am uncertain as to how soon I can reach Princeton on Friday, - it will probably be pretty late in the afternoon - so I shall try to send you that document a day or two in advance asking you to consider it as exceedingly confidential, and then possibly we can arrange to talk it over Saturday morning before the Foot Ball Game.

I will arrange with you at that time about when it will be possible to address the graduate students. Prior to the 16th I am tied up with a series of engagements which seem to make it impossible.

With best regards, I am,

Yours sincerely,

Professor E. W. Kemmerer,
Department of Economics,
Princeton University,
Princeton, N. J.

BS.MM

November 3, 1922.

Dear Professor Kemmerer:

Some engagements which I cannot very well change will delay my getting to Princeton until Saturday morning, the 18th, but I shall be there over Saturday night and Sunday, and will send you those papers in advance so that we can at least have sometime for a little chat. Possibly I could arrange to see Mr. Gerould also before I return.

Yours very truly,

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

BS.MM

November 13, 1922.

Dear Professor Kemmerer:

With this I am enclosing that very confidential memorandum that I spoke to you about and which I assure you it is necessary that no one but you shall read. I am hoping that you will have opportunity to read it before I go over as I would like to discuss some features of it with you. Please bear in mind that this was prepared by one of the men in our office without my having any opportunity to direct its preparation and is somewhat too elaborate on some phases of the situation and I regret to say deficient as to some of my personal correspondence which was not accessible to him when it was prepared.

This is the only copy of the document, so I will ask you to preserve it carefully until I can get it from you at the end of the week.

Yours very truly,

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

BS.MM

Enc.

November 15, 1922.

Dear Professor Kemmerer:

Thank you for yout note of the 14th. I thought I would take advantage of the probable presence in New York of some of our friends from various Universities to have dinner and a little chat about some of the matters in which we are all interested. There will be eight or ten of us including Mr. Jay.

I shall reach Princeton early Saturday morning, and my plans while there are in Ned Spaulding's hands + his family, but I will expect to have time for a visit with you and Mr. Gerould.

Yours sincerely,

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

BS.MM

November 21, 1922.

Dear Professor Kemmerer:

You were good enough to say that you would send me a lecture which you had recently delivered upon the theory of exchange and world prices. I should like very much to read it and this is simply a reminder of your promise.

It was a pleasure to have a visit with you and Mr. Gerould and Professor Dixon, and on Sunday I also had an opportunity for a chat with President Hibben. I am very sure that we now all understand what I have in mind about the library. If the draught on my income becomes too heavy at any time I will simply let you know and we can slow down, but the point is to let me know when the unexpended balance is getting low so that I can restore it from time to time.

If someone could map out a program for hunting out the original material such as we discussed and let me see it, I could very easily indicate in what directions I would be able to help personally, and will be glad to do so.

Finally, what is your impression, on the whole, of the attitude of the New York Reserve Bank with regard to the subject of expansion, the subject of inflation, and rates, Government borrowing, etc., as explained in the memorandum which I sent you. Please bear in mind in this connection that from the very beginning I had always contended that no policy which we undertood would be effective unless it were accompanied by an extension of the rationing system so as to control consumption.

With warmest regards, believe me,

Very sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS.MSB

PERSONAL December 18, 1922.

My dear Professor Kemmerer:

Thank you for your letter of December 11. I am hoping to be in Princeton for the Departmental lecture on January 19, and will shortly write you something of what I hope to say. It probably will have to do with the question of control of credit and how it may or may not be exercised by the Federal Reserve System. But I will let you know definitely a little later.

As you say, I think I shall probably stay with the Spauldings, but greatly appreciate your kind invitation to visit you. Ned Spaulding and his wife knew of my plan to come to Princeton to make this talk and I told them that I would take the opportunity for a little visit with them. With kindest regards, I am,

Yours sincerely,

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

BS.MM

PERSONAL

December 18, 1922.

My dear Professor Kemmerer:

Thank you for your letter of December 11. I am hoping to be in Princeton for the Departmental lecture on January 19, and will shortly write you something of what I hope to say. It probably will have to do with the question of control of credit and how it may or may not be exercised by the Federal Reserve System. But I will let you know definitely a little later.

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Yours sincerely,

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

BS.MM

PERSONAL December 18, 1922.

My dear Professor Kemmerer:

Thank you very much for your letter of December 12, with which you returned the memorandum that I left with you. I wanted you to see it because it may develop that these matters will receive more public discussion hereafter than they have in the past. I naturally would like to have my own views that were concurrent with these developments fortified by the opinion of students, and you and Professor Sprague have been most helpful in discussing the whole subject with me and writing me so fully about it.

Now permit me to make the following comments:

1. During the war period Federal Reserve policies in the main necessarily must have conformed to the Treasury's policies; otherwise the Reserve System would be little less than a super-government in finance. Responsibility for war finance rests with the Congress and the Secretary of the Treasury, and our responsibility in the matter was limited (1) giving the frankest expression of our views to the Treasury, which we always did, and (2) in accepting their final decision and carrying out the plans submitted to us. Any other scheme would, of course, be an invitation to Congress to have our powers modified - a perfectly unthinkable and most dangerous possibility.

2. As to the various mistakes of policy which you refer to. The levying of new taxes is a slow and difficult matter to accomplish by legislation. On the whole, I felt that the tax program was a courageous one; -certainly the best we have ever witnessed during wartime in this country - but that it should have been directed more towards a restraint upon consumption. Had those taxes been effective in restraining consumption they would have been ineffective in

producing revenues. Therefore, in that matter - as in all of these other matters - what was required was a nice balance between an effective restraint upon consumption by taxation and at the same time an effective revenue producing measure. The consequence of restraint would have been to keep prices down and in turn reduce the necessity for revenues and loans.

3. The failure to adopt a vigorous rationing policy I think justifies comment; but I am in doubt as to whether the chart which you showed me - and others which we have at the bank - confirms the belief that much more could have been done by a more extensive rationing policy than was done. Of course, more could have been done, but how much is surmise. As I recall, prices advanced about 70 per cent. before we entered the war; 18 per cent. during our participation in the war; and 30 per cent. subsequent to the Armistice. Certainly the record during the war period was the best of the three periods. In any event, in the absence of a thorough-going plan of rationing which would include consumption taxes on luxuries, the "borrow and buy" policy was necessary. It could not have been escaped, in my opinion, without loan failures.

4. I have always felt that it was a mistake to issue any tax exempt bonds.

5. The rates on the government's long time loans were, I believe, a little too low, and I certainly think that the Reserve Bank rates were to that extent correspondingly too low. But I do not think - as some have stated - that simply higher interest rates could possibly have been relied upon to produce a reduction of consumption, and that nothing but a reduction of consumption would have enabled us to escape the inflation that took place. Does it not all get back to that?

All that you say in the second page of your letter is, of course, true enough; but I still feel that you failed to put your finger on the practical operation of the Treasury, which brought on the inflation during and subsequent to the war down to the spring of 1920. It really was not the long time bonds that were the chief instrument of inflation, but the short time borrowings from the banks. Until the spring of 1920 the certificates of the various issues could not be sold in the market without a loss by the banks that subscribed for them; they were, in a sense, hung up with them. At one time I think that 80 per cent. of all of the issues were in the hands of the banks of the country, and, of course, the impairment of reserves resulting from those transactions necessitated their borrowing from us. We simply kept the books. Had the bars been let down so that trading in these certificates could have taken place freely, the banks could have distributed them, and the distribution would have had the effect of cancelling assets against liabilities; that is, reducing deposits and investments both. It may be simply coincidence, but, as you point out in your letter, the turn in the tide of prices actually took place just about the same time that the market (for cash) developed, and so was freed of all restraint in the certificates of indebtedness.

As you say, I think in the main we are quite in agreement in these matters, although possibly I attach greater importance to the absolutely essential foundation for a sound financial policy during that whole period, resting upon restraint upon consumption, and restraint upon consumption could not be effected only by the interest rate without working havoc in many directions. You may feel that the havoc which did develop was the worst that could result. I am not so sure that that is the case, and even the chart which you showed me is rather convincing on that point.

Again many thank to you for writing me so frankly. I will shortly, I hope, have opportunity for further discussion of the matter.

Yours sincerely,

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

BS.MM

January 8, 1923.

My dear Professor Kemmerer:

Governor Strong has unfortunately contracted a severe cold which has settled in his sinus and has so affected his voice that he can hardly speak above a whisper. He has been confined to the house for about a week and only to-day returned to the office for a short period.

On the advice of his doctor he is obliged to cancel the engagement for January 19 to address the students of the Finance Department of Princeton University as he has been cautioned not to use his voice to any extent for the next few weeks. I know you will thoroughly appreciate the circumstances under which Governor Strong is compelled to defer his visit, but he hopes to again set a date when it will be mutually convenient for him to address the students.

Yours very truly,

Secretary to
Mr. Benj. Strong.

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

GB.MM

January 8, 1923.

My dear Professor Kemmerer:

Governor Strong has unfortunately contracted a severe cold which has settled in his sinus and has so affected his voice that he can hardly speak above a whisper. He has been confined to the house for about a week and only to-day returned to the office for a short period.

On the advice of his doctor he is obliged to cancel the engagement for January 19 to address the students of the Finance Department of Princeton University as he has been cautioned not to use his voice to any extent for the next few weeks. I know you will thoroughly appreciate the circumstances under which Governor Strong is compelled to defer his visit, but he hopes to again set a date when it will be mutually convenient for him to address the students.

Yours very truly,

Secretary to
Mr. Benj. Strong.

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

GB.MM

January 4, 1928.

Dear Professor Kemmerer:

I am just cleaning up a little mail at my apartment, and I want to thank you for your note of January 2. My voice has almost completely gone back on me and I was obliged to ask Mr. Beyer to notify you of the situation and of my probable inability to be in Princeton on the 19th. It is too bad that I should be afflicted with this wretched throat, but it seems to be recurrent and I cannot escape it.

When you come to New York if I am not at the office, would you mind trying my apartment Plaza 3254.

Yours sincerely,

Professor E. W. Kemmerer,
c/o Princeton University,
Princeton, N. J.

BS.MM

February 21, 1924.

Dear Professor Kemmerer:

It surely exhibits the extent to which you have been busy in travelling, and the extent to which I have been on the shelf, that I am only now answering your letter of December 1, 1922, and returning the manuscript that accompanied it.

There are one or two places where I think you may find it desirable to make some changes in the text, after possibly further study. I refer especially to the practice now pursued by Reserve Banks in handling gold and the subject of currency shipments and the domestic exchanges, and the fact that our wire transfer system has now practically eliminated premiums on exchange throughout the United States.

Your letter referred to the price movement then actively under way, and I am prompted to ask you to think about a matter that has been puzzling me for some years, which I have discussed at length with Snyder, and concerning which I think we disagreed.

The last considerable advance in the general price level culminated about last March. Since that time, with some slight fluctuations, the tendency has been for prices to decline. This is in the face of continued very heavy gold imports and a great enlargement in the total of bank credit. Astonishment is being expressed abroad as well as at home that gold imports and the large volume of bank deposits have not resulted in a continued advance in prices. I am gradually coming to wonder whether the influence which has not been given proper value in price movements may not be the state of mind of the people, whibh at times converts a greater amount of our currency into dynamic currency, and at times converts a greater amount of it into static currency. A similar phenomenon has been developed in France; without any material increase in the circulation in the Bank of France, prices have been soaring and the value of the franc vis-a-vis the dollar has had a perpendicular decline. My thought is illustrated by the following example of what might happen: If - let us suppose - the French peasants hoard a very considerable portion of the notes of the Bank of France, and then fright induces them suddenly to convert their francs into goods, the prices of goods will advance and a larger proportion of the currency becomes dynamic and affects prices. If in this country we should have a large increase in bank deposits, and the amount of currency in circulation should double over night, it would have no effect upon prices if the mood of the people were such that they hoarded the currency and did not use the bank balances. In fact, prices could decline if a wave of pessimism induced them into a state of apathy which led them to refrain from buying goods. Of course, I realize that growing out of such an occurrence will come secondary effects - possibly the most important being a reduction in interest rates, which in turn would induce speculation, which in turn might lead to the development of enterprise and gradually to production and consumption again. Some such development, for instance, as Professor Fisher describes in his discussion of the influence of true interest upon the course of prices. On the other hand, I cannot help but believe that on the minor movement of prices, at least, the effect of the state of mind of people exerts a profound influence, and that it may last for sometime.

On your return from your most interesting trip abroad, I would like to have a chat with you about what we are actually endeavoring to do in order to avoid an inflation in this country. We are learning much about the Federal Reserve System as we grow older, and as its operations are being conducted more and more under conditions which are free from the abnormal immediate influences of the war. With best wishes, I am,

Yours sincerely,

Professor E. W. Kemmerer,
Princeton, N. J.

May 16, 1924.

Dear Professor Kemmerer:

I was greatly disappointed to miss seeing you in Paris, but as they told you, I was a bit knocked out and had to stay in bed and could not have callers for a time.

I find on getting home and subjecting myself to the usual examination ordeal that I am really in pretty good shape, but must be careful about overwork or overexertion for sometime.

There seem to be a thousand things that I would like to talk over with you and I am wondering whether you are free to come to New York for the purpose sometime soon. My idea would be to have a visit uptown away from office interruptions.

Thank you very much indeed for your letter.

Yours sincerely,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS.MM

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Thank you very much indeed for your letter.

Yours sincerely,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS.MM

May 26, 1924.

Dear Professor Kemmerer:

I was obliged to be in Washington last week and must again the latter half of this week, so I fear our meeting must go over for another week. I am very anxious indeed to see you.

Yours sincerely,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

June 2, 1924.

Dear Professor Kemmerer:

Much to my regret a series of trips to Washington has interferred with my making plans for a visit with you. I must be there again the latter part of this week. Won't you drop me a line telling me how you are fixed for time during the rest of this month.

Yours sincerely,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS.MM

June 5, 1924.

Dear Professor Kemmerer:

Governor Strong has asked me to acknowledge receipt of your letter of June 4, and to say that he is just leaving for Washington and will send you a personal reply on his return the early part of next week.

Yours sincerely,

Secretary to
Governor Strong.

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

June 9, 1924.

My dear Professor Kemmerer:

Possibly the best we can do in arranging a meeting is to rely on your giving me a telephone call when you are passing through New York either on the fishing trip or before leaving for Europe. I hope you can arrange to do so as I want very much to have a little visit with you.

Yours sincerely,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS.MM

August 25, 1924.

My dear Professor Kemmerer:

Won't you write me something of your plans for the rest of the summer and fall. There is a matter that I am anxious to talk to you about and if you are near New York, possibly we can arrange a meeting. Failing that I will write you particulars.

Hoping that you keep well, I am,

Yours sincerely,

Professor E. W. Kemmerer
Princeton University
Princeton, N. J.

Kemmerer

February 17, 1925.

My dear Professor Kemmerer:

On my return from a holiday in the South I find a press notice that you have returned from your African visit, and it prompts this note to inquire if there is any likelihood of your being here in New York soon, when we might have a chat.

Later on I am proposing to go over to Princeton to see Dr. Gerould, but I fear it will not be for a while, so if there is a chance of your being here, I hope you will plan to come in to the Bank and have luncheon and a talk with me.

In any event, I shall appreciate a word at your convenience as to what, if any, plans you have which may include New York in the near future. It will certainly be fine to see you again.

Very sincerely yours,

Professor E. W. Kemmerer,
Department of Economics,
Princeton University,
Princeton, N. J.

MSB

The citation for the original is:

"South Africa's Return to Gold Basis." The Wall Street Journal (New York, NY), February 14, 1925.

Kemmerer

March 17, 1925.

Dear Professor Kemmerer:

Everyone enjoyed your talk last evening very much indeed, and it was distinctly instructive to all of us as to what has been going on in South Africa. I hope it is not a burden to you to give us this help now and then, and that you will not hesitate to call on us in similar fashion whenever we are able in any way to reciprocate.

I read the testimony of Mr. VanDerHum last night and am returning it with this. You may imagine that in some ways it was rather amusing. Of course, the name of the witness being so distinctly Dutch, is inconsistent with what he is recorded as asserting so vigorously in regard to the advantage of tying up sterling; at least it makes him appear to be an honest witness and quite free from any national or political bias.

There is one point in the questions asked him where I am not sure that I follow the inference of the questions. It is that a depreciation in the exchange value of the pound cannot take place without some inflation in England, and if the South African pound is tied to sterling, South Africa will, in consequence, suffer inflation if sterling depreciates.

Do you think that this suggestion is capable of demonstration either historically or by argument? Is it not necessary to examine somewhat particularly as to what might cause a depreciation in the exchange value of the pound before we are safe in assuming that it will be accompanied by a general inflation in the British price level?

I have rather assumed that the sterling fluctuations with conditions of greater stability in trade developing throughout the world would be more in the nature of erratic fluctuation of the currency due to temporary external influences, one movement compensating the other, without necessarily any great price fluctuations, that is, any general change in the general price level resulting.

Sometime when we are having a meeting, I would like to discuss this a bit with you.

Sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

Enc.

BS.LS

Kemmerer

March 24, 1925.

My dear Professor Kemmerer:

Many thanks for your note of the twenty-third. I am anxious to read the testimony when it comes through, and will be glad to have one of the printed copies.

Of course, I understood the position the Commission was in with regard to its report, and personally am very glad that it made the report it did, and that its recommendation was adopted.

I have not yet been able to finish reading the report on account of pressure of work, but when I do, I may write you some comments if it seems worth while.

Some time I will have an interesting story to tell you about some of these South African matters.

Had you noticed that Blackett has come out with a definite statement that it is more in the interest of India to have a stable domestic value for the rupee in India than it is for it to have a stable exchange value with the rest of the world?

My best regards to you.

Sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS. S

April 14, 1925.

Dear Professor Kemmerer:

I have just received your note of the thirteenth, and am sorry to find that I have luncheon engagements both Thursday and Friday. And to make it still worse, I have dinner engagements both of those nights.

Could you not arrange to stop at the bank some time anyway? If you could telephone me on arrival, I could name an hour which I hope will be convenient for both of us.

I would like very much to have a chat with you and Mr. Wright.

Sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS. S

April 15, 1925

Dear Professor Kemmerer:

Supplementing my letter of yesterday, Mr. Wright telephoned today to say that any time on Thursday would suit him for the meeting you proposed. As I have a luncheon engagement and a meeting of our directors that afternoon, I wonder if you cannot plan to come in the morning, say at 11:00 o'clock (earlier if it suits your engagements better)?

I have already tentatively suggested to Mr. Wright a morning appointment, with the understanding that upon receipt of advice from you I will let him know definitely what the hour will be.

Sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

Mr Wright - Chase Bank - or
Hotel Commodore

May 11, 1925.

My dear Professor Kemmerer:

I think you once spoke to me about the possible dangers of large sales of German securities and paper in this market.

We watched offerings made in this country pretty closely without, of course, attempting to exercise any supervision whatever, as we have no authority to do so; and the results of our investigation as to German loans are embodied in a letter which I am just writing to Dr. Stewart, a copy of which I am sending to you for your confidential information.

Don't you think that the public has been somewhat misled as to the extent of these loans? See Stewart

Sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, New Jersey.

Enc.
BS.LS

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Sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, New Jersey.

Enc.
BS.LS

Stong

Kemmerer

X C261
Germany

May 20, 1925.

My dear Professor Kemmerer:

Yours of the nineteenth is just received.

Of course, I agree with you that, as to goodness, there are loans and loans - some bad, some indifferent, some good. The important thing is, from our point of view, that we should not attempt to set up supervision in this matter which assumes responsibilities for the goodness of foreign loans, as a matter of Government policy or Reserve Bank policy. It seems to me that in the long run it would be disastrous. We must rely upon the good sense of our bankers, and on the whole, while there are always exceptions in such matters, I think that they have shown pretty good sense during this period of 18 months or so, when large foreign borrowings have taken place in this market.

I am glad to learn of the successful conclusion of your plans for the Chile trip and that we were in some way able to assist in working that out. I think it is a good thing for Jefferson to go, and it is particularly gratifying to us to think you feel that he can aid the work. Won't you let me know if there is anything further that we can do. I surely hope to see you before you leave.

Those documents you wish from England will be here in a few days, and I will see that you get them at once.

Sincerely yours,

Professor E. W. Kemmerer,
Princeton University,
Princeton, N. J.

BS.LS

Form 1228A

...unt of ____________________ $____

WESTERN UNION TELEGRAM

WESTERN UNION

NEWCOMB CARLTON, PRESIDENT GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

...ED ...ssage ...ht Letter

...uld mark an X opposite class of service desired; ...ERWISE THE MESSAGE ...LL BE TRANSMITTED AS A FULL-RATE TELEGRAM

Receiver's No.

Check

Time Filed

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

1926 MAR 17 AM 9 57

March 17, 1926

Professor E. W. Kemmerer
Princeton University,
Princeton, N. J.

Letter fifteenth Please telephone on arrival reserving morning for appointment. Governor leaves for ten days that night

Bleecker Secretary

Charge Federal Reserve Bank of New York.

ALL MESSAGES TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLO

To guard against mistakes or delays, the sender of a message should order it repeated, that is, telegraphed back to the originating office one-half the unrepeated message rate is charged in addition. Unless otherwise indicated on its face, this is an unrepeated message and paid for whereof 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 tra peated-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 transmission at the repeated-message rate beyond the sum of five thousand dollars, *unless specially valued;* nor in any case for delays arising from unavo 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 me 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 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 p 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 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 ot 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, or 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 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 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 ther 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 classe 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 telegram 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 rates 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.

| Kemmerer

Hotel du Cap d'Antibes,
Antibes, July 18, 1926.

PERSONAL

My dear Professor Kemmerer:

Your letter of July 14th reaches me here just as I am getting ready to leave after my holiday.

There is considerable uncertainty about a visit to Poland. It depends a good deal upon how much time other matters take and somewhat upon how I am feeling, as I have not been very well since reaching Europe. As I am informed, the trip at this season is a long, hot one over the plains, and it might possibly be fatiguing. I will communicate with you later, as soon as my plans are more certain, and as I shall not be returning home until September, it may be that your work will have progressed considerably before we meet, either in Europe or at home.

I wish you every possible success, and with many thanks for your letter, I am

Sincerely yours,

Prof. E. W. Kemmerer,
c/o Ministry of Finance,
WARSAW, Poland.

[From B Strong Jr]
650.4 Kemmerer

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PRINCETON UNIVERSITY

ECONOMICS AND FINANCE
E. W. KEMMERER

PRINCETON, N. J., May 2, 1916

Mr. Benj. Strong, Jr.,
Governor, New York Federal Reserve Bank,
New York City.

My dear Governor Strong:

Your kind letter of the first is at hand. The date you suggest of Wednesday May 10th will suit us very well. The conference which will be held in the small conference room of the Graduate College will be very informal. The attendance will probably be between twenty and thirty and will consist of from eight to twelve members of the faculty, about a dozen graduate students, a few undergraduate seniors who are specializing in economics, and a few invited guests like Edward L. Howe of the Princeton Bank, Albert W. Atwood, the financial writer etc. No reporters will be present and no account of the conference will be published except the usual notice in the University Bulletin that such a conference is being held. Not a word has ever found itself into the newspapers from any of these conferences.

Evening clothes are not needed. Everybody wears an academic gown at the evening meals at the Graduate College, and these gowns are furnished all guests. Office clothes are as good as any other for these occasions---they are covered up by the gowns.

If you will let me know upon what train to expect you I will meet you at the train.

Cordially yours,

E. W. Kemmerer

I From B. Strong Jr. BJ
650.4
14

PRINCETON UNIVERSITY
PRINCETON, N. J.

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

May 29, 1916.

B. S. Jr.

JUN 1 1916

Mr. Benjamin Strong, Jr., Governor,
Federal Reserve Bank,
New York City, N. Y.

My dear Mr. Strong:

I have gone over again the list of banks mentioned in your letter of May 22. It seems to me that we ought to have the reports of all of the banks you mentioned. In addition to those, I would like to have your judgment concerning the Berliner Kassenverein. This, as you know, is a rather unique type of institution, which carries on an important business in the line of clearing, and particularly in the line of providing for the custody and the transfer of ownership of securities. When I was in Germany a couple of years ago, I had the privilege of going all through this institution, and was rather strongly impressed with the work it was doing, and with the lessons some of its operations afforded for present problems in the United States.

For some time at Princeton we have been much interested in banking and currency problems in the Orient and in South America. Several of our students have been making a special study of currency and banking problems in the far East, and recently some of them have taken up a similar study of certain South American countries. In that connection, it seems to me it would be well for us to add to the list you mentioned reports of the following banks: The Hong Kong and Shanghai Banking Corporation, The Bank of India, Australia, and China, The Yonkohoma Specie Bank, The Russo-Chinese Bank, Banque de 'l Indo Chine, Deutsche Asiatische Bank, and Deutsche Ueberseeische Bank.

In this connection I agree with you that we should run the reports back at least three years. If practicable, it might be wise to run them back a few years further, for one needs a period of several years in order to obtain a normal base with which to compare war conditions.

In the course of next few weeks, I hope to make several trips to New York, and shall try to drop in and see you for a few minutes, and talk the matter over with you.

Cordially yours,

E W Kemmerer

K/K

B. S.
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PRINCETON UNIVERSITY
PRINCETON, N. J.

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

June 19, 1916.

Mr. Benjamin Strong, Jr.,
903 Park Ave.,
New York City, N. Y.

My dear Mr. Strong:

Your letter of the 9th was received at commencement time, hence the delay in answering.

I was very sorry to hear that you were not well; hope that by this time you are feeling much better, and that the trip you are planning will do you the world of good.

When I wrote you last, I expected to make several trips to New York before leaving Princeton for the summer. My plans, however, have been somewhat altered, and the work I was expecting to do in New York has been accomplished by mail. We are planning to leave Princeton on the 22nd for the Massachusetts coast, where we will spend the summer. I have arranged for a study there, and am taking my work with me. My address will be Menauhant Inn, Menauhant, Mass.

I have gone over again the subject of the selection of banks for the collection of bank reports for the Pliny Fisk Library. We have not the London almanac here, but I have used the special foreign bank section of the London Statist, which covers all of the leading banks. It is somewhat difficult to know just where to draw the line. Our machinery in the Library for classifying and indexing this material is already perfected, and from our point of view, it is not much more difficult to handle a substantial number of banks than a small number. Furthermore, a student making a special study of banking in any country needs the records of a considerable number of banks to feel at all sure of his conclusions. My inclination, therefore, is to broaden the list considerably. On this subject, however, I am not at all certain but that I am going too far; and should be glad to have your judgment. The banks that it has seemed to me wise for the present to add to the list we have already agreed upon, are the following: National Bank of Mexico, Anglo-South American Bank, Ltd., Banco Español del Rio de La Plata, Australian Bank of Commerce, Ltd., Bank of Australasia, Commercial Bank of Australia, Ltd., Royal Bank of Scotland, and the three presidency banks of India, i.e., The Bank of Bengal, The Bank of Bombay, and The Bank of Madras, The National Bank of Egypt, The Russian Commercial and Industrial Bank, Petrograd; Banque

Internationale de Commerce de Petrograd, Banco de España, Société Générale de Paris, Banque Nationale de Copenhague, Danemark, National Bank of Switzerland, The Bank of Norway, The Austro-Hungarian Bank, the Sveriges Riksbank, Stockholm.

In view of the growing importance of Canadian commerce and finance to this country, I would raise the question whether it would not be wise to include in our list a large number, if not all, of the Canadian chartered banks. I believe at present they number only twenty-four or twenty-five. Doubtless all of them would be willing to cooperate by sending us their reports.

Cordially yours,

E W Kemmerer

K/K

PRINCETON UNIVERSITY

ECONOMICS AND FINANCE
E. W. KEMMERER

PRINCETON, N. J., July 23, 1916

Mr. Benjamin Strong,
Estes Park, Colo.

My dear Mr. Strong:-

Your good letter of the 19th is at hand.

We would not for a moment think of having you resign from the advisory Committee. On the other hand, we do not want you to feel any responsibility for active Committee work during the period of your convalescence. Please feel perfectly free to drop any or all of this work while you are "out of the harness" that may seem desirable. We shall all understand the situation.

I think your suggestion a wise one to drop from our list the Anglo-South American Bank and the Société Generale de Paris.

With reference to your suggestion of a formal letter requesting bank reports, would it not be wise to postpone this until September, and then [to] have it signed by all the members of the Princeton Economics Faculty, and also by the Advisory Committee? Copies could then be made and used in following up requests. I take it that little would be lost by a few weeks of more delay.

The Pliny Fisk Library has recently secured an indefinite loan of the Van Deusen railroad library. This is rich in early railroad finance literature, mortgages, reports etc., and also contains some rare documents such as George Washington letters, 16th century financial documents and the like. It will be a valuable addition to the Pliny Fisk Library.

You ask me what I think of your new collection plan. It appeals to me as a very sane solution of a perplexing problem. The time may come when immediate credits can be given, but this is a matter in which so much is at stake and in which an unwise move might prove harmful out of all proportion to its intrinsic importance,

(over)

especially in view of the ignorant and narrowly selfish opposition of so many bankers, that I think it was wise to take this step first. I am interested to note the action in the matter taken last week by the New York Clearing House.

Secretary McAdoo's recent action in depositing income tax revenues in the F.R. banks instead of in the national banks, seems to me to have been a wise one, despite the Chronicle's "howl". If the banks need government money the place to get it seems to me to be by rediscounts with the federal reserve banks, not direct from the Secretary of the Treasury. Such a requirement would be a substantial step toward making the federal reserve banks function normally, and in lessening political interference with the American money market. Direct deposits of federal funds in national banks seem to me to be antagonistic to the fundamental principles on which the federal reserve system was founded.

Cordially yours,

E.W. Kemmerer

PRINCETON UNIVERSITY
PRINCETON, N. J.

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DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Nov. 25, 1916.

Governor Benjamin Strong,

400 Montview Boulevard,

Denver, Colorado.

My dear Governor Strong:

I have your letter of November 17 and want to thank you cordially for your cooperation with the Department in applying for the bank reports. I have taken the matter up with the Librarian of the Pliny Fisk Statistical Library, and she is arranging the check list of the banks to which you are writing, and will follow up, as you suggest, any failures to receive the reports on schedule time.

Hoping that your sojourn in Colorado is doing you a world of good, I am

Cordially yours,

E. W. Kemmerer

K-K

PRINCETON UNIVERSITY
PRINCETON, N. J.

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

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B.A.h.

DEC 9 - 1916

Dec. 5, 1916.

Mr. Benjamin Strong, Jr.,
4100 Montview Boulevard,
Denver, Colo.

Dear Governor Strong:

Your letter of November 29 is at hand. I have not had much opportunity to talk over with economists and bankers the recent announcement by the Federal Reserve Board concerning foreign loans. Last week, Mr. Vanderlip gave a departmental lecture here and in the course of the lecture, and subsequently at the conference at the Graduate College, he criticized the action taken by the Federal Reserve Board. Such echoes as have reached me from New York seem to be, upon the whole, unfavorable, either to the Board's decision or to its method of announcing it. I have heard it intimated several times that Mr. Warburg probably dominated the Board and that this ruling was an expression of his strong pro-German feelings.

Personally, I have not yet arrived at a very positive conviction upon the subject. The ruling rather surprised me both because of the publicity with which it was announced and of the fact that the British treasury notes appeared to be particularly in the Board's mind in making the announcement. I had rather expected that the Board would take some action in a quiet way against such paper as the French notes secured by French treasury bills, which the National Bank of Commerce had been accepting in such quantities under an agreement to renew five times. This paper, which was virtually eighteen months' paper, seemed to me to be a very undesirable type of paper for commercial banks to take and a type of paper contrary to the fundamental principles of the Federal Reserve Act for banks to accept. On the other hand, as I understand it, the British treasury notes carried with them no contracts to renew them at maturity, and I had understood, from reliable sources, that the British government was maintaining very large supplies of gold in Ottawa and large supplies of American securities so far unpledged in New York. Under the circumstances, I had thought that while these treasury notes would probably be renewed from time to time, the British government would none the less be in position to pay them if payment were demanded at any maturity. Furthermore, short time paper of this kind appeals to me as being a very useful type of paper for American banks to hold in reasonable quantities, as a means of controlling the outflow of gold after the war when heavy demands may be made upon our large gold accumulations. My offhand judgment is that the Board would have acted more wisely had it quietly expressed its objection to the banks to their accepting foreign notes to which contracts were added calling for several renewals, and if it had permitted a considerable accumulation of these English treasury notes and when the time came to discourage their further purchase to have done so with a less flare of trumpets. In this judgment however I do not feel at all sure of my ground and like you, am looking for light. I would appreciate it very much to have your judgment of the situation.

Cordially yours,

E. W. Kemmerer

PRINCETON UNIVERSITY
PRINCETON, N. J.

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DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Mar. 22, 1917.

B.S.Jr.

Mr. Benjamin Strong,
1400 Mount View Blvd.
Denver, Colo.

MAR 27 1917

My dear Mr. Strong:

I have your letter of the 16th inquiring as to just how Mr. Roberts Walker and Mr. Frederick Strauss were received by our students and by the members of the departmental faculty here at Princeton. In reply, would say that Mr. Strauss has not yet been here. The day scheduled for his lecture being April 13. Mr. Walker was here on March 2. There were a number of other university affairs competing with him at the hour of his lecture, and this fact, together with the somewhat technical character of his subject, prevented him from having a very large audience. Most of the faculty of the Department were present, however, all of the graduate students and a considerable number of our more serious undergraduates, in addition to a few outsiders. Although the subject was somewhat technical, Mr. Walker had a very good delivery and made a distinctly good impression. In the evening conference at the Graduate College, he also made a good impression. I think the general feeling was that he knew his subject thoroughly well, and, to use a college slang expression, was able "to put it over". I think there was a little feeling that he had to a considerable extent the Wall Street point of view on economic questions, as contrasted with the broader public point of view, which a university community is likely to have. This, however, was expected from a Wall Street man, whose profession is that of a lawyer, and on the whole I should say that Mr. Walker proved to be a much broader minded man in his general economic philosophy than the average prominent lawyer from the financial district of New York. I consider that his lecture and conference were very distinctly a success, and we are hoping to have him come to Princeton again in the not distant future.

You may be interested to know that this week Friday Mr. Arthur J. Eddy of Chicago lectures here in our departmental courses on the Open Price Agreement Plan; that on April 20 John Mitchell lectures on the Philosophy and Ideals of Modern Trade Unionism; and that on April 27 Jeremiah W. Jenks lectures on the subject of the Trusts and Prices. Our non-resident lecture course this year has proven eminently successful, and its success has been in no small degree due to the cooperation of the Advisory Committee. We are certainly very grateful to you all for your assistance.

I hope that by this time your sojourn in Colorado has done you a world of good, and that in the not distant future we may see you back in New York in first-class physical condition. With all good wishes, I am

Very truly yours,

E. W. Kemmerer

K-K

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PRINCETON UNIVERSITY

ECONOMICS AND FINANCE
E. W. KEMMERER

PRINCETON, N. J. Oct. 27, 1917.

B.A.h.
OCT 29 1917

Mr. Ben Strong, Jr.,
Governor, Federal Reserve Bank of New York,
New York City.

My dear Mr. Strong:

I take pleasure in sending you under separate cover a copy of my little book on Postal Savings just published by the Princeton University Press, which I hope you will accept with my compliments.

Cordially yours,

E.W. Kemmerer

FILING DEPT.
OCT 29 1917
FEDERAL RESERVE BANK

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PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

RECEIVED
MAR 5 1918

MAIL TELLER
FEDERAL RESERVE BANK
of New York

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Mar. 2, 1918.

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

My dear Mr. Strong:

Your letter of Feb. 26 is at hand, and I have read it with much interest. I agree with you that we cannot expect to bring about necessary economies in the consumption of goods by voluntary action on the part of the public, brought about through an educational campaign; although I do believe that a considerable amount of good has been accomplished already by our educational work, and that something more can be accomplished in the future. At best, as you say, however, this plan is not one that gives very large immediate result. An immediate result is what we need now. I believe that all six of the members of our Committee on the Purchasing Power of Money in Time of War would agree with you in your general proposition that more drastic action is needed to compel the public to economize. The points which you mention appeal to me as so much worth while that I am taking the liberty of having copies of your letter made and sent to each of the six members of our Committee, so that at our next meeting on March 10, we may be prepared to give them a very full consideration. How far we shall be able to go in considering the definite points that you mention I do not know.

Our Committee is one of rather limited powers. We were appointed by the American Economic Association at its last annual meeting to make an investigation and report on the subject of the purchasing power of money in time of war, and the personnel of the Committee was selected with particular reference to that subject.

I have been greatly interested lately in the subject of currency and credit inflation in time of war, and have been making some statistical studies in regard to our present situation. In the course of a week or so I shall hope to send to you some rather definite material upon the subject, including a photographic chart, which may possibly be of interest to you. The following facts I think are rather suggestive. I have prepared an index number to represent the growth of business since the war began. In that index number I have used twelve different representative items, none of which include any prices at all, i.e., I have tried to eliminate entirely price items which themselves would represent results of inflation. The twelve items include the following: Number of tons of pig iron produced in the United States; number of bushels of wheat produced; number of bushels of corn produced; number of tons of bituminous coal produced; number of tons of anthracite coal shipped to tide water; number of tons of copper produced; number of tons of freight carried on a group of representative railroads, etc. Each of these items has been figures out on a percentage basis, and then the average of all twelve items for each year has been obtained. The surprising result is that since 1914 the total increase in business represented by this composite figure is only 12%, whereas the money in circulation increased, since July 1914, 43%, that is, up to July 1917. The deposits in National Banks, including individual and government deposit, at the average of the five or six comptrollers' calls each year, increased 57%. The total individual and government deposit of National Banks, State Banks, and Trust Companies, and government deposits in the Federal Reserve Banks increased 56% during that time, while the total clearings of the country increased 98%, and wholesale prices 87%. The evidence appears to be very strong that there was very little, if any, inflation prior to 1916, but that inflation set in rather strongly in 1916, and has been very pronounced indeed during 1917. I am not one of those persons that believe that all inflation is an evil. I think that it has certain useful features, but on the whole, it seems to me, that we are carrying it rather far, although I realize the serious difficulties in the way of curbing it very much under present conditions.

I am not convinced of the practicability of making a definite list of essentials and non-essential industries for the reasons given in the short memorandum which I prepared a short time ago for our Committee.

Cordially yours,

E. W. Kemmerer

Mr. Shaw

"ESSENTIAL" VS. "NON-ESSENTIAL" INDUSTRY.

The maximum ~~supply~~ number of effective men at the front, with generous supplies of food, munitions, and ~~other~~ military equipment is the imperative need if we are to win the war. To withdraw from agricultural and industrial pursuits for active military service millions of our fittest men, and to provide an industrial army at home several times as large, to support the army at the front by the production of immense quantities of munitions, ships, and other war supplies which we produce only on a small scale in time of peace, make tremendous demands upon our labor force and capital equipment. But the supply of labor and capital is limited. In the case of both there exists some capacity for expansion, ~~but~~ Limits, however, are soon reached beyond which it is impossible or dangerous to go.

In times of great emergency laborers can work longer hours each day, they can whip up the pace, they can work Sundays and holidays, and the labor of women can be ~~xxx~~ utilized in larger quantities. But straining of the labor force in these ways is dangerous and costly if long continued. Long hours and abnormally intensive work impair health and efficiency. So likewise working on Sundays and holidays--a fact which recent experiences in England have emphasized. The labor of women (as alsonof men) who would otherwise be idle can be utilized, but little can be obtained from this source. Those who are idle in times of peace are likely to be idlers in time of war. Most American women, be it said to their credit, were far from being idle before the war. The work of the home is often as arduous and time-consuming as that of the field, the office and the factory.

capital likewise can be worked more intensively in time of great emergency. Machinery can be speeded up and can be worked ~~longer~~ more hours each day. But here too there are obvious limits. The wear of the machinery is increased, break-downs become more frequent, and the life of the machines is shortened.

While something may be gained, therefore, by making a more intensive use of our labor and capital supply, there are clearly limits and not very distant ones beyond which this increasingly intensive utilization cannot go.

The other recourse for obtaining war supplies--and the more important one-- is that of substitution, to do the more important things and do them well at the expense of leaving the less important ones undone, in other words, to shift our ~~limited~~ labor and capital ~~supplies~~ in ever increasing ~~ratio~~ proportions from industries that are non-essential for the purposes of the war to those that are essential. The limited resources immedialtely available we must apply promptly and rigorously to the things that count most for winning the war. But what industries are essential and what are non-essential? This question is not an easy one to answer, ~~and this Committee does not believe it practicable to classify American industries under these two heads.~~ A few guiding principles, however, ~~in the substitution of essential for non-essential industries~~ may be briefly stated.

No sharp line can be drawn between essential industries and non-essential industries. There are very few industries which are not essential to some extent in time of war, while some products of the most essential industries are frequently non-essential. Strictly speaking, industries are not essential and non-essential but merely "more or less essential". The differences in degree, however, are often very great so great that the use of the terms "essential" and "more essential" is permissible! The industries that are more essential must be developed in an ever increasing degree at the expense are less essential. Luxuries must be sacrificed for war necessities, but as the war continues many of the necessities of today must become the luxuries of tomorrow.

An apparently essential product becomes a non-essential one if used in excess of the needs of a rigid war economy. The man, for example, who buys a new suit when his old one could be made to do reasonably well is diverting labor and capital to a non essential--from munitions to dressiness-- and, to that extent, is making the clothing industry a non-essential industry. He is doing an unpatriotic act.

Products which in a simple form are essential often embody elements that are non-essential. Simple clothes, for example, are essentials, but not expensive ones involving a large amount of workmanship and costly materials. During the strain and stress of war, people need a moderate amount of recreation. To a reasonable extent, theatres, moving-picture shows, and pleasure automobiles may be essentials; but recreation in times like these should be of a simple and inexpensive sort. These are not times for frills and trappings. An industry producing an essential product is a non-essential industry to the extent that it devotes labor and capital to these non-essential qualities. The man who buys such products is not measuring up to his full duty as a citizen.

If the consumer refuses to buy non-essentials the producer will stop producing them, and most of the labor and much of the capital released will be turned to the factory manufacturing military supplies, to the farm and to the ship-yard. Many consumers have responded generously to the government's appeal for economy in consumption, others will respond when they are made to realize the urgency of the call, some selfishly will continue to indulge themselves regardless of the fact that nothing less than democracy itself is at stake. On the whole it is very doubtful whether voluntary economy will adequately meet the situation. There is a growing conviction that the government will be compelled soon to take more energetic measures. To this end it may be called upon to enforce a rationing policy in the matter of certain foods, and to place positive limitations upon production itself in the case of certain non-essentials whose production is tying up large labor forces and also in many cases equipment useful for urgent war work. The government has a large power over non-essential industries through its control of railroad transportation with the power to give priority privileges in the moving of freight, and ~~through~~ by its influence through the federal reserve system over the country's credit machinery. Restrictions upon non-essential industries should obvioulsy be imposed cautiously and only when clearly demanded in the public interest, so as to reduce to a minimum the resulting hardships to both labor and capital. Plants now producing non-essentials may ~~frm~~ often be adapted to the production of essentials and much of the present labor force be retained. The government, moreover, through its various employment agencies and otherwise can do much to expedite the prompt redistribution of released labor. Such readjustments, at best, however, will cause hardship and loss to many. By them the price to be paid is a real one, but not so large as millions are cheerfully paying on the battle fron for the same great cause.

E W Kemmerer

[Signed]

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PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

April 1, 1918.

Mr. Benjamin Strong, Governor,
Federal Reserve Bank,
New York City.

My dear Mr. Strong:

This note is to again thank you informally for the splendid gift to Princeton in the form of the war paper money collection, which you intrusted to my care Thursday. I showed the collection to Professor Fetter and to Professor Gauss, the Head of our French Department, as soon as I arrived in Princeton, and they were both very enthusiastic about it. A brief note on the subject will appear in the next number of the Princeton Alumni Weekly, and we hope to have a fuller account at a later date. We are planning to make a special exhibition of the collection in the Exhibition Room of the Library at commencement time. When I looked over the collection in your office I was very much impressed with its value and possibilities for usefulness, but I really had no idea how complete it was until I returned to Princeton and had an opportunity to examine it carefully. We certainly appreciate very keenly your thoughtfulness and generosity in making this collection and turning it over to the University. In due time you will receive a more formal acknowledgement.

I am sending you, under separate cover, a copy of the revised manuscript of my article on Inflation. Will you kindly return to me at your leisure the rough copy which you now have?

Cordially yours,

E. W. Kemmerer

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PRINCETON UNIVERSITY

ECONOMICS AND FINANCE
E. W. KEMMERER

PRINCETON, N. J. April 3, 1918.

RECEIVED
APR 1918
MAIL TELLER
FEDERAL RESERVE BANK
of New York

Governor Benjamin Strong, Jr.,
Federal Reserve Bank,
New York City.

Dear Governor Strong:

Your letter of the 2d is at hand also the first copy of my rough manuscript on Inflation. Please do not feel at all perturbed about the necessity of postponing the preparation of the Introduction until the latter part of this week. That time will be entirely satisfactory to me. Let me again assure you of my sincere appreciation of your kindness in writing the introduction.

Cordially yours,

E W Kemmerer

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PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

April 5, 1018.

Mr. Benjamin Strong, Jr.,
Governor, New York Federal Reserve Bank,
New York City.

My dear Mr. Strong:

Your letter of the second is at hand. I do not want you to feel at all conscience stricken over the delay in preparing the introduction. In times like these the Government certainly has the right of way, and considering the urgent and responsible work you have been doing in connection with the Liberty Loan drive, I do not see how you could have done differently than you have.

I congratulate you on the success of the loan in the New York District.

Cordially yours,

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PRINCETON UNIVERSITY

ECONOMICS AND FINANCE
E. W. KEMMERER

B.A.L.
APR 19 1918

PRINCETON, N. J. April 12, 1918.

REC'D
APR 12 1918
MAIL TELLER
FEDERAL RESERVE BANK

Mr. Benjamin Strong Jr.,
Federal Reserve Bank,
New York City.

My dear Governor Strong:

In the preparation of an annotated balance sheet for all federal reserve banks as of March 28, 1918, to be used as an appendix in the A B C of the Federal Reserve System, I find myself rather uncertain as to the exact meaning of certain items. Will you kindly give me a brief explanation of the following items:

(1) "All other earning assets. . . . $3,523,000"

(2) "Due from other federal reserve banks--net . . . $26,945,000"

(3) "All other resources. . . . . $3,724,000"

Cordially yours,

E W Kemmerer

Will Mr. Jefferson prepare full memo for me

B.S.

Appendix A

COMBINED BALANCE SHEET OF TWELVE FEDERAL RESERVE BANKS, MARCH 28, 1918, AND BRIEF EXPLANATIONS OF THE VARIOUS ITEMS.

Resources.

	$
Gold coin and certificates in vault.[1]	489,948,000
Gold settlement fund--federal reserve board.[2]	399,568,000
Gold with foreign agencies.[3]	52,500,000
Total gold held by banks.	942,016,000
Gold with federal reserve agent.[4]	852,192,000
Gold redemption fund.[5]	21,496,000
Total gold reserve.	1,815,704,000
Legal tender notes, silver etc.[6]	58,359,000
Total reserves.	1,874,063,000
Bills discounted for member banks.[7]	583,228,000
Bills bought in open market.[8]	304,065,000
Total bills on hand.	887,293,000
U.S. Government long-term securities.[9]	58,190,000
U.S. Government short-term securities.[10]	252,579,000
All other earning assets.[11]	3,523,000
Total earning assets.	1,201,585,000
Due from other federal reserve banks--net.[12]	26,945,000
Uncollected items.[13]	339,130,000
Total deductions from gross deposits.[14]	336,075,000
Five per cent redemption fund against federal reserve bank notes.[15]	537,000
All other resources.[16]	3,724,000
Total resources.	3,445,984,000

PRINCETON UNIVERSITY

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ECONOMICS AND FINANCE
E. W. KEMMERER

PRINCETON, N.J. April 18, 1918.

RECEIVED APR 19 1918

Mr. Benjamin Strong, Jr.,
Governor, Federal Reserve Bank,
New York City.

B.S.Jr. APR 19 1918

MAIL TELLER FEDERAL RESERVE BANK of New York

My dear Governor Strong:

I want to thank you cordially for your letters of the 15th and 17th. All of your suggestions have been incorporated in the proof.

I was under the impression, from the wording of the fifth paragraph of section 13 of the federal reserve act, that domestic acceptances with maturities up to six months were rediscountable at federal reserve banks, and I am glad to be straightened out on this point. My error in figuring the possible note issue of federal reserve banks was due to the failure to deduct from gross deposits in my calculations the item of "uncollected items". I have changed the figure in the galley from \$3000 millions to \$3,333 millions.

Concerning your suggestion for the small paragraph in the middle of galley 21, I would like to have permission to insert with a few slight verbal changes the excellent statement contained in the second and third pages of your letter. This would mean that to the paragraph as it now stands would be added the following:

Events pointed clearly in this direction prior to our entrance into the war. Governor Strong of the New York Federal Rerserve Bank writes me: " The first deposit of government funds made by the Treasury with the Federal reserve banks was on September 4, 1915, when certain special deposits were made in a number of banks. Later, arrangements were made to have the collectors of customs and collectors of internal revenue in the twelve Federal reserve bank cities deposit all of their funds in the Federal reserve banks, and as a matter of fact, for a long period prior to the passage of the bond act of April 24, 1917, which altered the status of public deposits, the Federal reserve banks had been receiving the principal revenues of the Government outside of postal funds, and had been paying a very large proportion of government checks and warrants. The limitation of this fiscal agency service to the collection of revenue and payment of checks in the twelve Federal reserve bank cities was, of course, due to the inconvenience of extending this operation to places where Federal reserve banks had not yet established branches. The plan, therefore of actively employing the Federal reserve banks as fiscal agents had been put into operation some time before the first bond bill was passed, and fiscal agency work for the Government became an important and very active part of the work of the reserve banks almost immediately after the arrangement was established."

The first sentence in my following paragraph I am cutting out entirely. The insertion of the above paragraph from your letter serves the additional purpose of placing a little more stress upon the important fiscal agency work for the Government the Federal reserve banks have been doing. I found it difficult to say much more about that work than I did, unless I were to go into it with considerable detail and that would have compelled me to give more space to it than I had available. I agree with you that that subject is one deserving of being written up carefully, I am inclined to think, however, that the task is one that can only be well performed by some one like yourself who is thoroughly familiar with the workings of the Federal reserve system from the inside.

Under separate cover I am sending you the second and third publicity notices of the Committee on the Purchasing Power of Money in Time of War.

Again thanking you most cordially for your valuable cooperation in the preparation of The A B C of the Federal Reserve System, I am,

Simcerely yours,

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PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

April 27, 1918.

Mr. V. O. McLaren,

Secretary to Governor Strong,

Federal Reserve Bank,

New York City.

Dear Sir:

Permit me to thank you for your letter of April 19, enclosing statement relative to some figures about which I wrote Governor Strong a few days ago. These figures served my purpose very well. I appreciate very much Governor Strong's having them prepared for me.

Sincerely yours,

E W Kemmerer

PRINCETON UNIVERSITY

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ECONOMICS AND FINANCE

E. W. KEMMERER

B.S. Jr.

APR 30 1918

PRINCETON, N. J. April 29, 1918

Mr. Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.

RECEIVED
APR 30 1918

MAIL TELLER
FEDERAL RESERVE BANK
Of New York

My dear Governor Strong:

The enclosed letter was received from the Princeton University Press this morning. I know that these days in the midst of the Liberty Loan drive must be very busy ones for you and feel that government duties should have priority rights to the time of all of us under existing conditions. I am sending you this note therefore merely to ask you to let me have the introduction as soon as you conveniently can. The publishers, I understand, are anxious to get the book on the market before the dull summer months if possible.

Cordially yours,

E. W. Kemmerer

PRINCETON UNIVERSITY PRESS

Princeton, New Jersey,

April 29, 1918

Dear Mr. Kemmerer-

Is Mr. Strong's introduction ready for us? I understood from you that we could probably expect to have it last week, but I have not heard from you, and I should like to ask, therefore, that if the copy is now in shape you will turn it over to us as soon as it may be convenient for you to do so. We are anxious to get your book out as soon as possible, for the spring season is already well advanced, and I fear if we delay much longer we shall lose the benefit of a considerable sale.

We are ready to go right ahead as soon as we receive the copy for the introduction.

Yours sincerely,

Paul G. Tomlinson

Manager Princeton University Press

Professor E. W. Kemmerer,
Princeton, N. J.

T-F

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PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

May 29, 1918.

RECEIVED
MAY 31 1918
MAIL TELLER
FEDERAL RESERVE BANK
Of New York

Mr. Benjamin Strong, Governor,
Federal Reserve Bank of New York,
Equitable Bldg., New York City.

My dear Mr. Strong:

The Introduction to the A B C of the Federal Reserve System was received this morning, and, as I told you when you read it over to me a couple days ago, it is satisfactory in every way. I want to again thank you for your kindness in writing this introduction.

I have made a few petty changes in the phraseology of the introduction. I am requesting the Princeton University Press to send you a copy of the proof when they send the copy to me. I will take care of all typographical corrections, and there is no need of your returning the proof that is sent to you unless you should wish to make some change in the form of presentation. I am taking the precaution of having the copy sent to you so that in case any of the petty changes I have made should not be acceptable to you, you would have an opportunity to modify them.

I am sorry that I shall not be in Princeton to see you at commencement time, but am looking forward with much pleasure to the opportunity of being associated with you and my other friends in the Federal Reserve Bank during the summer months.

Cordially yours,

E. W. Kemmerer

PRINCETON UNIVERSITY

ECONOMICS AND FINANCE
E. W. KEMMERER

FILING DEPT.

PRINCETON, N. J. Nov. 3, 1918.

MAR 5 1919

Governor Benjamin Strong Jr.,
Federal Reserve Bank of New York,
New York City.

FEDERAL RESERVE BANK

My dear Governor Strong:

The enclosed copy of an article which I shall probably publish in the near future may possibly interest you in view of the growing agitation on the subject. It seems to me that the time has arrived for some vigorous protests.

Cordially yours,

E W Kemmerer

"Doing Something for Gold."

By E. W. Kemmerer,
Professor of Economics and Finance in Princeton University.

From 1873 to 1893 the average annual gold price of fine silver per ounce fell from $1.30 to 64 cents. A number of our western states in which silver mining was an important industry were greatly disturbed over this decline, and a vigorous campaign was instituted by representatives of these states, both within Congress and out, demanding that the Government "do something for silver". This demand was the chief force leading to the passage of the Bland-Allison Act in 1878 and the Sherman Purchase Act in 1890. It was an important factor in the campaign for sixteen to one national bimetalism, under the leadership of Mr. Bryan. We are now confronted with a similar agitation, eminating from the same mineral producing regions, only this time it takes the form of a demand that the Government "do something for gold".

The argument as it is usually advanced is well expressed in the preamble of a resolution submitted to the American Bankers Association at its recent annual convention in Chicago the last week of September. This preamble, as quoted by the Daily Banker and Stockholder of Chicago under date of September 27, 1918, was as follows:

"Whereas, the gold production of the World is rapidly decreasing, having declined from $469,000,000 in 1915 to $430,000,000 in 1917 as the World's output. Of this decrease, the United States declined from $101,000,000 in 1915 to $84,000,000 in 1917, and it is predicted by those conversant with the facts, that the decrease in the United States this year will be much larger in proportion, it being estimated by government officials to be $11,000,000, based upon the production for the six months ending June 30, 1918.

"Whereas, this decline in production is due entirely to the fact that the cost of producing the gold ounce as a commodity has exceeded the fixed price of 20.6718 per ounce, and

"Whereas, the only form of relief that will prove effective and can be applied promptly is action by the United States government in such form and by such methods as may be deemed fit and proper under the circumstances, and,

"Whereas, gold is the standard of value and the basis of all credit, and is vitally important to the financial and commercial life of the nation and of the world, and,

"Whereas, the Secretary of the Treasury of the United States has stated that, next to food and ammunition, gold is the one most needed war essential . . ."

From premises such as these the conclusion is drawn that the United States Government should "do something for gold". A number of plans have been suggested but the two that have received most favor are: (1) that the Government buy all new gold presented to it at a substantial premium over its present fixed price, namely, \$20.67 per ounce of fine gold and \$18.60 per ounce of American standard gold .900 fine; or (2) that the Government give the producer of new gold a bounty in proportion to the amount of gold produced. Milder forms of government assistance have also been suggested, either to be used alone or as supplementary to stronger forms. Among the milder forms of relief that have been suggested may be mentioned priority privileges as to transportation, as to the purchase of raw materials, the hiring of labor, or the obtaining of credit; relief from certain tax burdens, or more liberal allowances for depreciation in computing income for purposes of federal taxation. We need not take up here the discussion of these and other mild methods of relief suggested. The only methods that are being strongly advocated amount in substance, whatever they may be in form, to a government bounty on the production of gold.

These proposals are apparently finding favor in high places. A few of many possible citations on this point will be sufficient. An American gold conference was held at Reno, Nevada, August 12, 13 and 14; and similar conferences have since been held at Portland, Oregon, and Spokane, Washington. These conferences all favored government aid to gold mining. The Spokane conference of September 12, 13 and 14, held under the auspices of the Northwest Mining Association, with former United States Senator George Turner presiding, passed resolutions calling for priority rights for gold mining concerns in the matter of transportation, labor and credit, and for a government bounty on every ounce of new gold produced, a bounty sufficient to encourage the mining of gold bearing ores by insuring a reasonable profit therein.[1] The first clause in the preamble of the resolution of the Portlant conference declared: "Whereas, Secretary of the Treasury, William G. McAdoo, has called the attention of the country to the necessity of the largest possible output of gold in order that the credit of the country may be stabilized . . ." etc.

A committee appointed by Secretary Redfield of which Mr. Hennen Jennings, a mining engineer of the Bureau of Mines, is Chairman is now making a study of possible methods of stimulating gold production. The Commercial and Financial Chronical, our best known American financial weekly, in an editorial on "Encouraging Gold Production" in its issue of September 28 (pages 1228-29) said: "Why then is there not a duty incumbent here to study the question of how to increase the output of gold? . . . At all events why not encourage gold production, as a mere precaution, while we are encouraging everything else, from fixed double prices on wheat to a spoonful of sugar a meal for saving?" The American Bankers Association in national convention in Chicago the last week in September

1. See Commercial and Financial Chronical, Sept. 21, 1918, p. 1141.

passed a resolution to "respectfully request and urge upon the Government of the United States the desirability of maintaining the production of gold to at least its pre-war volume, and ask that steps be taken immediately to that end . . . ."

In England also the subject of "doing something for gold" is being agitated. The British Treasury has recently appointed a commission to investigate "the war's effect on gold production in the British Empire", and the commission's instructions call upon it, among other things, to suggest a plan designed to show how the production of gold can be stimulated. (See New York Journal of Commerce, Oct. 15, 1918.)

Proposals with support like the above must be taken seriously.

The Use of Gold in the Arts.

Of the world's annual gold production, part goes into the arts for the manufacture of jewelry, plate, etc., and part into monetary uses. Estimates differ as to the proportions of the net annual production of gold that goes into these two groups of uses, namely, merchandise uses and monetary uses. The proportions, moreover, vary from year to year. For a normal year one would probably not go far astray in assuming that one-third of the new gold produced goes into the art and two-thirds into monetary uses.[1] The proportion of America's annual gold product that goes into the arts is probably somewhat larger normally than the proportion of the world's gold product so used. For 1913, the United States Director of the Mint estimated the net amount of new gold bullion used in the arts to represent 42.2 per cent of the total gold produced in the United States. For 1914, he estimated it to represent 36.6 per cent.

1. See on this subject André Touzet; Emplois Industrieles des Métaux Précieux, Paris, 1911, p. 116-128.

For the past six years the annual gold production of the world and of the United States by calendar years have been as follows, according to the figures of the Director of the Mint:

	World Millions of dollars	U. S. Millions of dollars	Percentage of total represented by U.S. production
1912	466.1	93.5	20.1
1913	459.9	88.9	19.3
1914	455.7	94.5	20.7
1915	468.7	101.0	21.6
1916	457.0	92.6	20.3
1917	429.0	84.0	19.6

Under the pressure of war economies, there has probably been a great falling off in the proportions of the world's new gold produced since 1914 that have annually gone into the arts, but on this subject no comprehensive statistics are available. This curtailment of the consumption of gold for jewelry, plate, etc., since the war broke out has probably much more than compensated for the small reductions that have taken place in the world's annual production of gold. This, in itself, would mean a more than normal increase in the amount of gold going into the monetary uses. Furthermore, wildly heralded patriotic appeals in belligerent countries have led to the turning over to the Government for monetary uses substantial quantities of gold in the form of jewelry and other ornaments.

In the United States there has probably been a falling off in the consumption of gold in the arts since we entered the war. Figures on this subject are not available. If there has not been such a falling off, the Government should bring pressure to bring it about, for these are not times to permit the tying up of labor and capital in the production of gold jewelry and plate on any considerable scale. A reduction of one-half in our normal peace-time consumption of gold in the arts would release enough gold for the monetary uses to much more than compensate for the decline in American gold production that has taken place since the war broke out.

Monetary Uses.

Let us now pass to a brief consideration of the proposal to stimulate the production of gold for monetary uses.

Assuming the maintenance of the gold standard, gold is the only commodity in America whose price never changes. If the supply of potatoes, copper, steel, or anything else decreases relative to the demand, their prices rise. If, on the other hand, the supply increases relative to the demand, their prices fall. Not so with gold. If the gold supply of the world, or the gold supply of the United States under its present gold embargo, should suddenly be multiplied five-fold, the price of an ounce of standard gold would still be $18.60, while if the production of gold in the United States and its importations should suddenly be stopped, the price of gold per ounce would not advance one iota. The reason is obvious. We are on a gold standard, and our mints will coin freely all gold brought to them at the rate of 25.8 grains of gold .900 fine to the dollar. At any United States mint 258 grains of gold .900 fine can be sold for ten dollars, while a new ten dollar gold piece when melted down yields gold bullion to the amount of 258 grains .900 fine. The bullion and the coin are practically equivalent in value because they are interchangeable without appreciable expense to the owner. Our unit of value, the gold dollar, is 25.8 grains of gold .900 fine when minted into American coin, and all of our different kinds of money are maintained at a parity with this gold dollar. Therefore anything that affects the value of gold affects the value of the dollar, and no matter how much gold is produced, or how little, no matter how large a proportion of our payments are made by means of bank checks and bank notes, or how small, the price of 25.8 grains of gold .900 fine at the mint is one dollar, and the price of an ounce of standard gold is $18.60.

But to say that the price of gold in the United States does not change is not to say that its value does not change. These are very different propositions. The market value of gold, like the market value of any other commodity, is expressed in its command over goods, namely by what it will bring in the market in exchange for other goods. While the producer of gold unlike the producer of any other commodity in America can always count upon a fixed price for his product regardless of how much he produces or how little, he cannot count upon fixity in his expenses of production.

The more gold that is thrown on the market relative to the demand, the less valuable gold becomes in relation to other goods and the higher the price level for other goods rises. An increasing supply of gold on the market relative to the demand does not reduce the price of standard gold below $18.60 an ounce, but it tends to push up the prices of everything that the gold producer must buy, plant, machinery, tools, zinc, copper, cyanide, etc. This rise in the expenses of production is the natural economic force that comes into play to discourage excessive gold production, just as a decline in price is the natural economic force to prevent an excessive production of things other than gold. Rapidly rising prices in a gold standard country are an expression of the depreciation of the gold monetary unit. In the United States they register the fact that the market value of the gold dollar, namely its purchasing power over other kinds of goods, is rapidly declining. Dollars of rapidly declining purchasing power are dollars whose supply is increasing faster than the demand, for the market value of dollars, like the market value of everything else, is a resultant of the forces of demand and supply.

The purchasing power of the gold dollar in the United States has been declining almost continually since 1896, and this decline has found expression in the rising cost of living which has agitated the public mind for the last twenty years. If one measures the market value of the gold dollar by its purchasing power over the two hundred to three hundred commodities whose wholesale prices are covered by the index number of the United States Bureau of Labor Statistics, and if one calls the dollar of 1896 (the year when the present upward movement of prices began) a 100 per cent dollar, then the dollar of 1913 was a 67 per cent dollar and that of August 1918 was a 33 per cent dollar. The depreciation of the dollar has been particularly striking since the war broke out, its purchasing power over wholesale commodities, having been cut in half since July 1914, and its purchasing power over retail commodities, such as constitute about 80 per cent of the average laboring man's family budget, having been cut down about one-third.[1] Never before in recorded history would an ounce of gold buy so few goods as it will today.

There has been a similar depreciation in the units of value during this period in all gold standard countries which have maintained the gold standard.

The general rise in prices, in other words the depreciation in the market value of the gold monetary unit, in gold standard countries throughout the world between 1896 and 1913, was due to a number of causes; but the chief cause in the judgment of most scientific economists was the large gold production of those years. According to computations based on the figures of the

1. See pamphlet on War Time Changes in the Cost of Living, being research report No. 9, August 1918, published by the National Industrial Conference Board, p. 78.

United States Director of the Mint, the average annual production of gold throughout the world by five year periods from 1890 to 1917 was as follows:

Period	Value (millions)	Percentage Average 1890-1899 = 100
1890 - 94	$147.0	100
1895 - 99	246.1	167
1900 - 04	297.5	202
1905 - 09	418.5	285
1910 - 14	459.8	313
1915 - 17 (3 years)	451.6	307

Here, in a little more than a quarter of a century, is a three-fold increase in the world's annual production of gold. So great has been the production in recent years that the production from 1890 to 1917 amounting to 9,199 million dollars has exceeded by 15 per cent the total estimated production for the period from 1493 to 1889 (namely 7,985 million dollars). The world's total supply of gold today is more than double that of 1890. The demand for gold has been increasing, but nothing like as rapidly as the supply, and this fact has ~~been~~ registered itself in an almost continuous depreciation in the purchasing power of gold from 1896 to 1913. The average annual depreciation in the purchasing power of gold over wholesale commodities in the United States during the period 1896 to 1913 measured geometrically was 2.1 per cent. This downward movement in the market value of gold was greatly accelerated by the war. The average annual depreciation in the United States from 1914 to 1917 having been about 13 per cent.

Since 1914 the world's annual gold production has been maintained at high figures, although somewhat lower ones than those of the years immediately preceding, but the world has been economizing gold on an unprecedented scale. As we have seen its use in the arts has probably been curtailed, hoards have been depleted and dumped into government treasuries, and gold jewelry and ornaments have been transformed into money. In belligerent countries gold coin has been almost entirely withdrawn from circulation and transferred to government treasuries and central banks, its place in active circulation having been taken almost entirely by paper money and circulating bank credit. In government treasuries and central banks this gold has served as a basis for a large and rapidly rising structure of circulating bank credit and paper money. In the vaults of central banks gold does its most efficient work. In our own federal reserve banks, for example, one dollar of gold is an adequate legal reserve for $2.50 of federal reserve notes or for $2.86 of deposits of member banks' reserve money; while each dollar of member banks' reserve deposits provides the legal reserve on the average for about eleven dollars of bank deposits. The average dollar kept on deposit in a commercial bank turns over many times a year through the checks that are drawn against it.

The United States has today over three billion dollars worth of gold money, representing a net increase of about a billion dollars since the European war broke out, and representing by far the largest supply of gold to be found in any country of the world. The great bulk of this gold - over two billion dollars of it, - is held by the twelve federal reserve banks, where it serves as an ultimate gold reserve for nearly two billion and a half dollars of federal reserve notes and for something like fifteen billion dollars of deposits ~~of~~ held by member banks. The federal reserve system has come into being since the war broke out. It has made wonderful improvements in our banking system, and in doing so has effected great economies in the use of gold, making a dollar of reserve money support a much larger structure of circulating credit than it would before. All this has tended to make gold cheap and prices high.

In the light of these facts, is it reasonable to attempt to stimulate gold production by means of a government bounty? Obviously the money to pay the bounty would be obtained immediately or ultimately from federal taxes collected throughout the entire country. The burden would fall upon the tax payer. The proceeds of the bounty would go into the vaults of a few gold producing concerns. The payment of the bounty would tend to increase the production of a commodity whose supply is already so great, relative to the demand, that its value measured by its purchasing power over wholesale commodities has been approximately cut down one-half in four years' time and nearly two-thirds in twenty-two years' time. It would be encouraging the production of a commodity whose rapid depreciation expressed in the rising cost of living has been causing and is still causing great hardship to millions of people and to thousands of endowed institutions throughout the country, whose incomes have not kept pace with rising living costs. The proposition is one to tax the people to provide bounties for stimulating an industry whose stimulation would boost still higher the high cost of living ~~for~~ from which these same people are at present suffering.

There is no reason to believe that the new supplies of gold whose production would be stimulated by a bounty would not be used as the present ones are being used, namely, chiefly as bank reserves for a continually rising structure of circulating credit, a structure that is rising much more rapidly than is the physical volume of business to be done.

It is not more money and circulating credit that the nation needs, for we are already unduly inflated. The great need is for military supplies, simple food, ships, and fighting men. These are the essentials of war. They are not obtained by mining more gold.

The gold bounty, even if adopted, would probably fail to accomplish its purpose. If the bounties should stimulate gold production, the increased gold production in boosting the general price level would boost the prices of the machinery, supplies and labor used by the gold mining concerns; and these advances in prices would in turn lead to demand for additional bounties, to cover rising expenses, and so forth ad infinitum.

For years there has been discussions among scientific economists concerning the question of the advisability of bringing about by international agreement a curtailment of the world's gold production, so as to hold back the upward movement in the cost of living with all its resulting hardships. This is the very opposite of the idea of stimulating gold production by a bounty at a time when the cost of living is rising at rates unknown since the green-back days of the Civil War. Professor Irving Fisher in a letter published in the Providence Journal, under date of September 28, 1918, said that he knew of no economist who favored the idea that gold production should be maintained at a maximum. "On the contrary", he said, "economists are, so far as I know, agreed that the present high cost of living is largely due to the enormous importations of gold which the war has caused, and are further agreed that any increase in gold production at this time would, by monetary inflation, raise prices still further to the great embarrassment of the public."

It is unfortunate for the owners of gold mining plants that the war is putting up the prices of their labor and supplies, while the price of their product remains unchanged, and that it is threatening to force some of them temporarily to shut down their plants. It is likewise unfortunate for the owners of many other worthy enterprises the demand for whose products the war has greatly curtailed or whose supply of labor, fuel and credit it has narrowly limited. But this is one of the unfortunate costs of war which concerns producing, the less essential things must pay. These are times when great sacrifices are called for, and the gold producer must bear his share, perhaps a large one. There is no adequate reason why he should be singled out for a government bounty. There are strong reasons why the production of gold should not be stimulated.

Gen'l

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

FILING DEPT.

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

MAR Dec. 5, 1918.

FEDERAL RESERVE BANK

Governor Benjamin Strong,
Federal Reserve Bank,
New York City.

My dear Mr. Strong:

A propos of the meeting of the Advisory Committee of the Princeton Department of Economics and Social Institutions Saturday evening of this week, I am sending you enclosed a copy of the Departmental Announcement for 1917-1918. You will find on pages 19-22 a description of the undergraduate courses which were being offered in the Department prior to our entrance into the War, and on pages 23-25 you will find a description of the graduate courses together with a reference to the undergraduate courses which are open to graduate students.

Anticipating with pleasure to seeing you Saturday evening, I am

Cordially yours,

E.W. Kemmerer

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Feb. 27, 1919.

Mr. Benjamin Strong,
Lake George, N. Y.

on file

Dear Governor Strong:

Your letters of Feb. 10 and Feb. 19 were received a couple days ago. I appreciate very much your giving me such a full and carefully prepared expression of your judgment concerning Professor Bogart's report. As soon as I have an opportunity to study your criticisms carefully and compare them with the text of Professor Bogart's report, I shall write you in detail my reactions to your suggestions. It may be a few days before I can do this, as at present I am in the midst of a large pile of examination papers which I must take care of before I undertake anything else. You will hear from me on this matter, however, in the near future.

attached

The figures I quoted you some months ago, concerning recent estimates of the saving power of the people of the United States, were the estimates of Professor David Friday. These estimates you will find summarized in the article which I am enclosing. A more detailed statement of Professor Friday's investigation is to be printed in the March number of the American Economic Review, which is now in press and should be issued within a week or so. The review is printed at Princeton and I shall try to obtain an advanced copy of the proof-sheets for this article, and will send it to you if I am successful. There is considerable difference of opinion among economists as to the value of Professor Friday's estimates. Personally I am rather doubtful of a considerable number of his assumptions. They are, however, the only comprehensive estimates on the subject that seem at all worthy of careful consideration. With all their faults, they are the best we have.

You ask me concerning the reception which the A B C of the Federal Reserve System has had. In reply I am glad to report that the book has received a very favorable reception. The reviews that have so far been printed are all favorable. The sale of the book has been large, considering the type of book that it is. The first edition of 800 copies of the cloth-bound volume has been exhausted and a second edition is now being bound up. The Princeton University Press tells me that orders are coming in daily, and that the sale of the book seems to be increasing rapidly. Of the pamphlet editions, there ~~has~~ also been a considerable sale. The Philadelphia Federal Reserve Bank distributed among the bankers and business men of its district 20,000 copies. The New York Bank, as you know, bought 2,000 copies, and I understand that smaller numbers have been ordered by other banks. The University Press does not sell the pamphlet edition in smaller lots than 100 copies. Several of the other federal reserve banks have been inquiring concerning the pamphlet edition, and we are still hoping that there will be additional sales. Some time ago one of the Deputy Governors of the Boston Federal Reserve Bank told me that the Boston Bank had decided to purchase 10,000 copies for distribution, and would plan to distribute them in January. Apparently either this official was misinformed, or there has been a change of opinion, for the Boston order has not yet materialized.

The Princeton Faculty is now considering seriously the problem of a reorganization of our entire curriculum. A number of the changes contemplated will materially affect our department, and there is a good prospect that next year the economics work will be given both in the sophomore and freshman years. We are expecting that this increase in work will lead to a substantial increase in our teaching staff. If we are to handle the new work at all successfully, we shall need to have our numbers materially increased. I have never known the students to be so interested in the field of economics, as they are now since their return from war activities. The attention we receive is unusual, and the enrolment in our classes is large. Only three of the ten members of our departmental staff are now back teaching, the other seven being still in war work. Our enrolment is so large that the three of us are now carrying about as many students as the ten ordinarily carried. We have now nearly 700 students in our courses. It is unfortunate, of course, that we must handle the men in such large sections, and we are hoping next year to do much more effective teaching than this year, for we hope to be able to handle the men in much smaller sections. The increased interest in the work, however, offsets to some degree the unfortunate circumstance of our being compelled to handle the men in large classes.

I hope you are enjoying your vacation at Lake George.

Cordially yours,

E. W. Kemmerer

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Mar. 13, 1919.

Governor Benjamin Strong,

Lake George, N. Y.

Dear Governor Strong:

on file.

I have read with much interest and profit your good letter of Feb. 10. With a large number of the points you make, I have always been in full sympathy, and with a number of others I find myself in agreement, although I held a different opinion before reading your letter. Had our Committee had the benefit of the side-lights you throw upon a number of questions during the process of its discussions, I am sure that our judgment would have been different on a number of points.

Before taking up specifically any of the points you raise, I want to make a few general statements.

In the first place the fact should be mentioned that the section of our work dealing with public credit was first assigned to Professor Henry C. Adams. Professor Adams, as you know, is our leading American scientific authority on the subject of public credit. His book on Public Debts although written a generation ago is still considered a classic on that subject, and is by far the best known discussion of public debts in the English language. Professor Adams acted upon our Committee for a short time, and we counted upon him carrying the work on the subject of public credit. Unfortunately, after the work had progressed somewhat, he was called into the government service in Washington and resigned his position on the Committee. There were two other members of the original committee who had given considerable attention to the subject of public debt. They were Professor Sprague of Harvard and Professor T. S. Adams of Yale. Professor Sprague resigned his position on the Committee because of other duties, and Professor Adams resigned because of his official position in the Treasury Department. Professor Bogart is not a man of the standing in this field of these other men, and was called in to assist us somewhat late in our proceedings. At the time he was appointed on the Committee he was very busy with finance work in Washington, but consented to help us out of our difficulty. He was by no means the first choice of the Association for this position, and was handicapped both by the pressure of other work and by the fact that he came on the Committee rather late.

The second point I wish to make is that while the report was approved by all of the members of the Committee, and while it was read in the general Committee and discussed by those present, the different sections none the less represent to a very large extent the opinions of the chairmen of the respective sub-committees. Professor Bogart's section was modified in a number of particulars in the general Committee, but in the main his report stands as he prepared it. The chief modifications made in his report were the addition of certain sections dealing with certificates of indebtedness, which were prepared by Professor Jacob H. Hollander of Johns Hopkins University who was a member of Bogart's sub-committee. Professor Hollander has been working for some time on the subject of certificates of indebtedness, and spent some time, I understand, in Washington obtaining first-hand information on this subject. He had a book on the subject about completed at the time we were holding our sessions, and inasmuch as he had devoted so much time and attention to it, we assigned much weight to his opinion.

The very limited time available for the preparation of the report, together with the fact that the chairman of each sub-committee was so fully occupied with the preparation of his own report, made it necessary for the Committee to depend very largely - too largely, I fear - upon the conclusions of the chairman of the respective committees for the treatment of their particular division of the field. The members of the Committee were all keenly conscious that the report was full of shortcomings. It was prepared hurriedly under the pressure of war demand by men whose time was heavily mortgaged for their regular teaching duties and for a large amount of additional war work. We reasoned, however, that a report of a group of men who approached the subject from a purely scientific point of view might be of some value even though it were prepared hurriedly and it were very incomplete in its scope.

Your first general criticism is that Professor Bogart's report has a post mortem character, and that it presents an analysis of things that have happened but gives few suggestions of a helpful nature for those who must struggle practically with the problem it discusses. I think your criticism is a valid one, but that it applies to a larger extent to Professor Bogart's report than to any of the other reports of the Committee. In this connection there is one important fact to bear in mind. It is this: our entire report was practically completed and a substantial part of it, as I recall, was in print when the armistice was signed. The report was drafted with particular reference to war conditions and a large part of the treatment was based on the assumption that the war would continue for some time. The sudden signing of the armistice changed the situation completely, and a hurried revision of the entire report therefore became necessary. Inasmuch as the entire report was to be submitted to the American Economic Association in printed form at its December meeting, there was very little time for a large Committee of this kind to avail itself of, for the overhauling of the earlier report and the adaptation of it to the new conditions. In the process of readapting the report, a substantial part of the earlier report was cut out and little time was available for the consideration of reconstruction finance. This explains the rather poorly proportioned discussions in many parts of the report and also explains in part its post mortem character. Had the armistice not been signed early in November, I think the report would have been a much better one and would probably have been more useful to the administrative authorities.

Your second criticism is that the discussion proceeds upon the assumption of 100 per cent perfection and efficiency being possible in government finance in time of war and that it pays too little attention to administrative and political difficulties. This criticism, I believe, has weight, but I think that you overemphasize it. It is obvious that the more knowledge a scientific man may have of the political and administrative obstacles in the way of carrying through any programme the better. But after all, these are not his special fields. They are the fields of the politician, the government official, and the practical financier. The scientific man suffers great disadvantages in his aloofness from practical politics and from the details of administration. These disadvantages he may overcome to a certain degree, but never fully. His energy must be devoted largely to his scientific work. This necessary aloofness, however, although it has many disadvantages also has some advantages. He can view problems from a distance. He is not so likely as the practical man to fail to "see the woods because of the trees". He can be an idealist, and, I am inclined to think, that to a considerable extent ought to be. It is in this way that he can perform his greatest services. If he can discover and elucidate the broad general principles and can set up the scientific ideal he will, in so doing, perform a valuable service. The administrator needs to have an ideal before him. He needs to know the fundamental principles involved in his problem, even though they may be stated rather abstractly. The administrator then with his knowledge of political and administrative obstacles can figure out how nearly it is reasonable for him to attempt to attain the ideal which the scientific man is setting up. Here is a place for division of labor. The work of the politician, the administrator and the scientific man should supplement each other. Either one is incomplete without the other. A reasonable co-operation of the three make for sound policies and efficient administration.

I am not disposed to dispute the point you make at the bottom of page 2. In the light of what you say on the following page, concerning the efforts of the Secretary of the Treasury to obtain more latitude, it appears clear that Bogart's statement places undue responsibility upon the Treasury. This part of the discussion referring to anticipatory loans was contributed, I believe, by Professor Hollander. He had made rather extensive studies in this field and had spent considerable time in Washington investigating the subject. His conclusions and the ground upon which they are based are discussed in detail in his book on War Borrowing, which is cited at the foot of page 76. This book is being published by the Macmillan Company. I do not know if it has yet appeared from the press. I have not read the entire manuscript, but did read certain parts of it. I would suggest that you will probably find in this book, when it appears, the grounds upon which the conclusions here discussed are based. Do not the fact that one billion eight hundred million dollars of subscriptions were rejected in the first two loans, and that the subsequent policy of the Treasury was to accept all subscriptions made give color to Bogart's conclusion that had a different policy been followed at least part of the anticipatory borrowing might have been avoided? Some of the members of our Committee took the position that had the interest rate been enough higher on these loans to prevent them from going below par immediately after the campaigns were closed, larger subscriptions would have been made in the case of subsequent loans, and that this likewise would have helped to reduce the amount of anticipatory borrowing. If my memory serves me correctly, a substantial part of leading New York bankers tried to persuade Secretary McAdoo at the time of the First Liberty Loan that it would be utterly impossible to float a loan of two billion dollars.

The point you mention on sheet 4 concerning mechanical difficulties involved in the work of engraving a larger supply of bonds was not discussed by our Committee. Those were times in which exceedingly impossible mechanical achievements were being accomplished every day. It seems to me difficult to believe that with the number of private engraving establishments in the country at this time this mechanical work could not have been carried out if the larger programme involved seemed to be an urgent matter of war necessity. Was it absolutely nedessary that the bond should be completly negotiable and saleable when the printing process was completed? Could not an extra process in the government plant, or an extra signature have been required to complete the process? On this subject I am completely ignorant, but it is hard for me to believe that a mechanical difficulty of this kind would have been absolutely insuperable in time of war.

It seems to me inaccurate to say, as you do(on page 78) that Professor Bogart takes a "slam" at the optional bond. As I read his statement, he is here merely giving the conventional statement of the pros and cons of the optional bond, and he concludes by saying "in the main, therefore, no serious criticism can be urged against the choice by the Treasury of both the optional and the straight bonds, with a preference on the whole for the former category."

The statement you quote on the last line of page 5 Bogart might better have left unsaid. But I do not think it is quite as absurd as it appears at first sight. Bogart is thinking of our American experiences during the eighties and the early nineties. During those years we were paying off our bonds when they matured and were buying them up at heavy premiums in advance of maturity in order to get rid of our heavy surpluses without impairing our protective tariff. Again, during the thirties of the last century, the problem of the surplus was a serious one, as you know, in this country. We have, I believe, frequently paid off substantial issuesof bonds at maturity without refunding them, and it is experiences of this kind from American history that Bogart had apparently in mind when he made this rather naive statement. He certainly was not thinking of paying two or five or ten billion dollars off at one stroke of the pen, and he was not apparently thinking of making such payments by means of the old-time sinking fund policy, out of proceeds of a slowly accumulated sinking fund. This comment is meant to apply to the discussions in the first two paragraphs of page 6 of your letter. Although Professor Bogart maintained that had bonds of fixed maturity, of, say, twenty or thirty years, been sold they could have been sold at a higher price, I do not understand him to be advocating such bonds; for the advantages, he apparently thinks, more than offset this advantage. Personally I think that the government acted wisely in selecting the optional bonds, but I also believe that bonds of fixed maturities of twenty or thirty years could have been sold at a higher price than the optional bond. I believe that most thinking men expected the interest rate to decline after the war, and this being true the market would have been disposed to bid materially higher prices for bonds of fixed maturities than for bonds that could be paid off or refunded by the government at the end of comparatively short periods. This conclusion of course would be greatly strengthened had the government offered a higher interest rate on its bonds and depended to a somewhat less extent on appeals to patriotism for the sale of the bonds. It is my judgment that the government should have done this, for I believe that it was a mistake to place the interest rate so low as to cause the bonds to drop below par as soon as the campaigns for the liberty loans were closed, and, as you know, I also believed that the low interest rates were directly and indirectly to a very considerable degree responsible for our excessive inflation.

On page 8 you say that you are surprised that Professor Bogart should ignore the general subject of conservation of materials and labor. It would be my guess that his reason for doing so was the fact that this subject had been stressed by another Committee of the American Economic Association, namely, the Committee on the Purchasing Power of Money, which had devoted a considerable amount of attention to this subject and had given it wide publicity. Bogart's report, like the report on the excess profit tax and the income tax, was chiefly intended to be for the benefit of the government rather than for the education of the general public.

You say, on page 10, that you would like to ask Professor Bogart how he would arrange the debt's repayment. Why do you not write to him upon this and some of the other points? Tell him that you have written to me on the subject and that I have referred you to him. I am sure that he would be glad to give you his judgment. When this part of his report was before the

Committee, I made the criticism that it ignored the fact of the War Savings Stamps becoming due in substantial quantities in 1923, and I understood that he would make a reference to this fact in his discussion. It was apparently overlooked, however, in the final revision. I think his answer to your question would be that when this report was first prepared it was not realized that the Fifth Liberty Loan would be of short maturities and that a period from 1918 to 1927 was a rather long one to permit to elapse before any of the large bond issues would be ~~redeemable or~~ refundable. Professor Bogart is primarily an historian of American economic history, and he probably had in mind throughout this discussion the difficulties the United States has had through the issue of bonds of unduly long maturity. He probably feared that the government might be confronted with a situation like that which confronted it in the eighties, when it could not retire bonds for which it had ample funds without buying them in the open market at substantial premia. I am sure that all of the members of our Committee would agree with you in your proposition, that the government should begin to retire its war loans just as soon as possible after it quits borrowing.

With reference to your comments on pages 10 and 11, I would say that all of the members of our Committee were thoroughly and enthusiastically in sympathy with the government's policy of trying to obtain a very wide distribution of bonds among the poorer classes. We took that for granted. I am sorry that Bogart's report failed to make a favorable comment upon the government's success in that matter. The Committee was also, I believe, unanimously in favor of the desirability of not exempting either federal or state or local bonds from taxation. Of course in this opinion they were viewing the problem from the economic point of view, and they realized that there was a debateable constitutional question involved.

¶ On page 11 of your letter you comment on the statement given on page 87 of Bogart's report to the effect that the practice of encouraging people to borrow money in order to buy bonds is to be deprecrated, and you mention three courses open to the government. I think that there would be no disagreement between us that the first course you mention was by far the most desirable one and should have been resorted to as fully as possible, and that the third course you mention was the least desirable one and should have been avoided as far as possible. The second course, namely, that of encouraging people to borrow money in order to buy bonds is a more debatable one. To the extent that these borrowings would be liquidated within a reasonable time out of funds obtained through economies in expenditures, the plan was clearly desirable. To the extent, on the other hand, that the loans were to be carried for long periods of time by the banks, and were not to involve economies in consumption on the part of the borrowers for the purpose of liquidating them, such loans, it seems to me, were to be deprecated, although even then under certain circumstances I appreciate they may have been desirable. At the height of the Liberty Loan campaigns I fear that a great many banks in their enthusiasm encouraged people to borrow in excessive amounts in order to buy these bonds, with the implied understanding that they would carry the customers almost indefinitely at a rate of interest that would involve them in no loss. I have heard numerous instances of this sort of thing, and frequently have seen notices posted in banks encouraging their customers to borrow to the limit, in order to buy bonds, without any statement at all as to the desirability of liquidating the loan at a reasonable date by means of economies in expenditures. One acquaintance of mine, for example, whose salary is about $4,000 bought $10,000 of Liberty bonds in the second loan, borrowing the entire amount from the bank and is, I believe, carrying all of it or most of it as a loan to this day. You are doubtless familiar with the figures on this subject contained in the pamphlet prepared by the Savings Bank Section of the American Bankers Association, a copy of which I am enclosing. Now I realize that such excessive borrowing for the purchase of Liberty bonds was not only not encouraged but was discouraged by many persons in high authority in the federal reserve system, and in the banking world generally. None the less, in the enthusiasms for the Liberty Loan drive there was a very large amount of encouragement given to excessive loans, loans that by no reasonable prospect could be paid out of savings for long periods of time. Liberty bonds purchased in this way might just as well have been purchased directly by the banks, for the result was essentially the same. The banks received the bonds as collateral, the customer paid the same rate of interest on his loan that he received on his bond, and the bank made a good return so long as it held the resulting government deposit. ~~as a deposit~~. Later it passed these bonds on as collateral for 15 day loans to the federal reserve banks and there they served as a basis for bank notes and bank deposits expansion, resulting in a reduction of federal reserve bank reserves. So long as the persons who borrowed to buy the bonds did not economize to liquidate their debts, but went on buying goods as fully as before, there was little good from the transaction. The federal reserve banks carried the loan in reduced reserves, measured percentage-wise. I can only see three grounds for justifying such a procedure, the first is that when a liberty loan drive was started for a definite sum, there were psychological reasons and military reasons why that sum should have been obtained. A failure to obtain the amount sought for would have had a bad effect both at home and abroad. Rather than have the government fail to obtain the amount it set out for, but only as a last resort to that end, such borrowing was justifiable as likewise would have been appeals to banks to purchase heavily out of their own funds. A second argument might be advanced that the inflation resulting from such a policy, by forcing up prices, forced economies on the part of the public. On this subject my own philosophy was expressed in the last paragraph in my article on Inflation in the American Economic Review. That paragraph is as follows:

> "The pressure that inflation exerts is often cruel and very inequitably distributed. Probably the benefits of inflation can be obtained by methods involving less injustice - methods such as the curtailing of transportation facilities to non-essential industries, restriction, through the instrumentality of the federal reserve authorities and the proposed war finance corporation, on loans to non-essential industries and on the flotation by such industries of new securities; the inauguration of a rationing policy and the resort to taxes in an increasing degree as compared with bond issues as a means of securing funds. Inflation as a deliberate national policy should be tolerated only as a last resort. But the labor and capital resources of the country must be applied vigorously and to a rapidly increasing extent to the serious business of war. The public must economize and economize rigorously. Non-essential industries must be cut to the bone. If inflation with all its cruel injustice for this generation and with its menace of injustice for succeeding generations is a necessary means to that end, then inflation must be tolerated. Economic justice to individuals and the distribution of the war burden is an important desideratum; but the nation is more than the individual, and a higher ideal than temporary justice in the distribution of economic burdens is the preservation of democracy."

A third possible justification might be found in the fact that after the loans were made the banks might bring increasing and perhaps unexpected pressure upon borrowers to economize and liquidate them rapidly. I fear that many banks at the present time are not doing their full duty in this direction.

I participated in the discussion of the Committee on this part of Professor Bogart's paper, and I believe that what the Committee had in mind was the evils resulting from loans made for the purchase of liberty bonds out of all proportions to what the borrower might be expected to pay off within any reasonable time. The Committee had in mind the resulting evils of inflation, and the fact that such inflation helped the government very little because, while it provided funds for the government, it put up the prices of most things that the government would be compelled to buy, so that the government although having more money by reason of that policy needed more money by reason of the same policy.

To your comments on the bottom of page 13 inquiring where would Professor Bogart have raised the five or six billions produced under Plan B if not by the method adopted, I do not know what he would say; but my own reply would be that greater emphasis should have been placed upon Plan A, and that less funds would have been needed had Plan B been resorted to to a less extent.

You say at the bottom of page 13 "in no place in his report do I see any reference to the fact that the reserve banks, except through their discount operations, have been kept entirely clear of government loans." It seems to me that the policy of the federal reserve banks of thus keeping free from the direct ownership of government obligations was a very commendable one. The exception you mentioned, however, namely, the amount of government paper they held as collateral in connection with their loan and discount operations, was a serious one, and the difference between direct ownership and the holding of obligations as collaterals for notes was not from the economic point of view a very great one, as the ease with which a collateral loan could be changed to a purchase with the re-purchase clause illustrated. At the time our report was written, the members of the Committee, as I believe also many of the officials of the federal reserve banks and many bankers, were greatly worried at what seemed to be a necessarily rapid increase in the amounts of government paper that was finding its way into the federal reserve banks. Furthermore, we did not have figures as to the amount of such government paper that was held by all the banks of the country. As I recall it, at one time the paper held by federal reserve banks as collateral and held by direct ownership or as collaterals by the member banks that reported weekly, all told amounted to nearly four million dollars, and this did not include that held by the large number of banks for which no reports were received. Considering the situation as it was in November , 1918, it would hardly seem to me to have been advisable for a scientific committee like ours to emphasize the fact that the federal reserve banks held little government paper under direct ownership. It would have opened the Committee to much criticism.

On page 14 of your memorandum, you refer to the figures cited by Bogart on page 88 as being "surprisingly disingenuous". Those figures may be somewhat misleading, but I hardly think that they are open to the charge of being disingenuous. That is a rather strong expression, and I am sure there was no one on the Committee who was not desirous, above all things, to state the truth clearly as he saw it and to be as heldful to the government as possible in the emergency.

You say on page 17 that you had conferences on these subjects with Professors Sprague and Seligman. Both of these men, as you know, were originally members of our Committee. Professor Sprague, however, resigned before any work was done, and Professor Seligman continued throughout as Chairman of the Committee. Bogart's section of the report was the least satisfactory section of the entire report, and Professor Seligman himself devoted a great deal of time and attention to revising and remodeling that part of the report.

I will reserve comments on the parts of the last pages of your letter concerning my section of the report until I receive from you your letter dealing with that subject. I am greatly pleased to know that that part of the report in the main appeals to you as being well-balanced, conservative and temperate. Inasmuch as my philosophy of the influence of gold on inflation was cut out of the report for the purpose of brevity and as this philosophy is discussed more fully in my article on Inflation in the American Economic Review, I am sending you another copy of that article, as also a copy of the article on the proposal for a gold bounty which contains further treatments of my ideas on this subject.

In conclusion let me say that this reply to your letter has of necessity been written hurriedly and without the careful deliberation which I should have liked to give it, and which the importance of your letter justifies. I have furthermore spoken frankly and freely, accepting your invitation to answer your points "unsparingly". May I take this occasion to tell you what I may have told you before; at any rate what I have told many others, that in my judgment no man in prominent financial position during the war has been more eminently sound in his economic philosophy or has exercised a larger influence in the direction of sound financial theory and administration than you have. My judgment in this respect has been strengthened and my admiration for the services you have rendered been increased by a number of the points you mentioned incidentally in your letter. I am particularly pleased with your fearless actions, with reference to the comptroller's telegram directing the banks to loan to the extent of six per cent of their resources, and with reference to your actions in the direction of discouraging in every possible way the purchase of government securities directly by the federal reserve banks.

I hope it will be possible for you before you return to New York to carry out your desire to come to Princeton and spend a few days here, looking over the situation in the University. This is a critical time for

Princeton, as everything here is at present plastic and is likely to be moulded into rather definite form in the near future. Our departmental situation is at present rather serious. It looks as if four or five men of our teaching staff of ten would not come back, because of financial reasons, and that at a time when we are expanding our work and planning to increase the size of our staff. Of the twelve men we shall need in the Department for next year, only five are at present in sight. The Economics Department at Princeton, as well as in many other institutions, is facing a serious situation. The demands of the government and business houses for well-trained men in the field of economics during this period of reconstruction are unusually heavy, and the salaries paid are so much more attractive than are university salaries in this time of the high cost of living, that our men who went away during the war are not coming back, while the new men who are coming on the scene of action are being drafted into government and business work and passing by the numerous academic positions that are open all over the country in the field of economics. I am glad to say that as a result of the activities of our Advisory Committee and of the letter which you wrote to President Hibben on the subject, the President and also many members of the Board of Trustees realize the seriousness of the situation in our Department and are doing everything in their power to help us meet the difficulties.

Cordially yours,

E. W. Kemmerer

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

October 11, 1919

BA
OCT 14 1919

Governor Benjamin Strong, Jr.,
Federal Reserve Bank,
New York City.

My dear Governor Strong:

President Henry B. Gardner of the American Economic Association has just written me that he is inviting you to give a paper on foreign investments at the forthcoming meeting of the American Economic Association, and suggests that I write to you seconding his invitation. I am very glad to do so. The subject is one in which economists are greatly interested, and concerning which they are looking for light. I know of no one in this country who can speak on this subject with more authority than you can, and I am sure that your message would be valuable to us and would be very highly appreciated by the members of the Association. I hope you can join us at the Louisville meeting.

I returned to the United States about three weeks ago from my summer in Guatemala. It was a most interesting experience, and the problems there presented were quite different in many respects from any I have come in direct contact with before. At the first opportunity I want to talk the situation over with you, for I believe you will be interested in the peculiar monetary and banking condition that exists in that country.

Our work at Princeton this fall has started off with about a fifty per cent increase in the enrolment in our economics courses. We have six new members of the departmental faculty and the work has started off very well.

Cordially yours,

E W Kemmerer

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Dec. 12, 1921

ACKNOWLEDGED
JAN 10 1922
B. S.

Mr. George Beyer,
Secretary to Governor Strong,
Federal Reserve Bank,
New York City.

Dear Mr. Beyer:

I was very sorry to learn from your letter of December 7 that Mr. Strong is ill, and I sincerely hope that he will speedily recover. Of course we are sorry that he cannot be with us at Princeton at an early date, and we shall look forward to having him with us at some future time, that will meet his convenience. Please express to him my sincere hope that he may speedily recover his health.

Cordially yours,

E. W. Kemmerer

RECEIVED
GOVERNOR'S SEC'Y.

DEC 13 1921

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Jan. 17, 1922

ACKNOWLEDGED
JAN 19 1922

Mr. George Beyer,
Secretary to Governor Strong,
Federal Reserve Bank,
New York City.

Dear Mr. Beyer:

I was very glad to learn from your letter of January 10 that Mr. Strong is continuing to make fine progress and that he is expected to return to the bank within a short time.

My undergraduate course in money and banking comes to an end about the first of February and I have obtained leave of absence for the second semester of the current year. It is my intention to spend practically the full time, from early February until the latter part of September, in South America studying financial conditions in some of the leading South American countries. I am sailing from New York with my family on February 2. Under the circumstances, I am inclined to think that it might be wiser for us to postpone Mr. Strong's visit until the early fall, if that is at all practical. Of course the oftener we can have Mr. Strong with us at Princeton, the better satisfied we are. If we cannot have him both this spring and next fall - and I fear that would be too much to expect - we would prefer to have him in the fall when the students are paying particular attention to banking problems. Our undergraduate courses in finance next term will be primarily concerned with problems of taxation and the public debt.

Wishing you all sorts of good things for the New Year, I am

Cordially yours,

E. W. Kemmerer

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

My dear Sir:—

Professor Kemmerer sailed on Thursday, the second inst., for South America to spend some time in that country. Your letter of February second will be forwarded to him for his attention.

Professor Kemmerer may be addressed, in care of Mr. Wm. L. Schurz, Commercial Attaché, U. S. Department of Commerce, Rio de Janeiro, Brazil, for the next five weeks.

Yours very truly

Florence L. Hurd

Princeton, N. J.

February 4, 1922.

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

ACKNOWLEDGED
NOV 1 1922
B. S.

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Oct. 30, 1922

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

My dear Governor Strong:

I will be glad to see you any time Friday afternoon or evening November 17 that may meet your convenience. Sunday forenoon would be equally satisfactory to me if more convenient for you.

I am glad to know that you will bring with you the papers which you recently sent to Professor Sprague. If practicable, I would like to have them a few hours in advance of the time we get together, so that I will have opportunity to read them over carefully.

We are very anxious to have you give us a talk this fall, and will try to arrange it for any Friday that will suit your convenience. If practicable give us a couple choices as a few of our departmental non-resident lectures thia fall are already scheduled.

Sincerely yours,

E. W. Kemmerer

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OCT 31 1922

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DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Dec. 1, 1922

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

Dear Governor Strong:

I have been in either New York or Washington a good share of the time since your letter of November 21 arrived in Princeton, hence my delay in replying.

The lecture I spoke to you about was merely one of my class room lectures in the course in Money and Banking here at Princeton. It is of necessity rather elementary and I fear, upon looking over it, that it will contain nothing of interest to you. However, I am sending you my rough manuscript covering a few pages. The parts I had in mind are those on pages 48-51 and 75-84. This material, after considerable further revision, will be incorporated in my forthcoming book, and I should of course welcome any criticisms. When you are through with the manuscript, kindly return it to me. The accompanying pamphlet on "The Theory of Foreign Investment", you may keep if you find anything in it that interests you.

Mr. Gerould, Professor Dixon and I all enjoyed the chat we had with you Sunday. We all appreciate more than we can tell you the splendid way in which you are cooperating with us in connection with the Library. I think we understand what you have in mind, and we shall do everything in our power to carry through satisfactorily the plan agreed upon. Mr. Gerould is working out a plan along the lines we discussed for the collection of original material, and you will hear from us later in this connection.

I want to thank you again for your hospitality last Thursday evening. Opportunities like that to compare notes informally with men who are interested in our subjects and who approach it from different angles are exceedingly valuable. I had never met Sidney Anderson before. He struck me as a man with a good mind and an excellent balance wheel.

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DEC 5 1922

I am still rather concerned over the possibility of another inflation movement in the near future, despite the optimism of several of our friends from the West. The Bureau of Labor Statistic's wholesale price index numbers have shown already this year, I believe, a rise of about 12 per cent - one of the largest advances we have ever had in the same length of time while on a gold basis, except during the war period. Under present conditions I think the price index numbers will deserve very careful watching.

I will return to you within a day or two your manuscript with reference to federal reserve policies during the war and early post-war period. At that time I will write you a few of my general impressions with reference to the policy pursued.

With cordial regards and with keen appreciation for your splendid cooperation with us at Princeton, I am

Very sincerely yours,

E. W. Kemmerer

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

December 11, 1922

Gov. Benjamin Strong
Federal Reserve Bank of New York
New York City.

My dear Governor Strong:

In accordance with our verbal arrangement while you were in Princeton, we have scheduled you for a Departmental lecture, Friday, January 19. Kindly let me have your subject as soon as convenient.

Mrs. Kemmerer and I would be delighted to have you stay with us while you are in Princeton at that time but we recognize that your own people, the Spaldings, may have a prior claim upon you. Our latch string, however, is out.

Mr. Gerould is making substantial progress in his arrangement for collecting original material on War Economics from abroad. He will write you further concerning the matter in the near future.

Cordially yours,

E. W. Kemmerer

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DEC 14 1922

Hemmerer

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PRINCETON, NEW JERSEY

ACKNOWLEDGED
DEC 18 1922

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

December 12, 1922

Governor Benjamin Strong
Federal Reserve Bank of New York
New York City.

My dear Governor Strong:

I am returning herewith by registered mail the memorandum you so kindly loaned me on "Rate Action of 1919, Federal Reserve Bank of New York."

From our conversation while you were in Princeton a few weeks ago, and from our previous conferences and my writings on the subject, you are familiar with my general view of the financial policy pursued during the war.

Your position in favor of a high discount rate policy during 1919 I think was a thoroughly sound one, and I think it was a great misfortune to the country that your recommendations in these particular were not carried out. There are widespread differences of opinion among economists as well as among bankers concerning the wisdom of various financial policies pursued during the war but I think the opinion is practically unanimous - at least among economists of standing - that a great mistake was made in not adopting a much higher discount rate policy shortly after the Armistice, certainly not later than May, 1919.

I agree with you that during the period in which the United States was a belligerent nation the Federal Reserve authorities were compelled to make their policies conform to those of the Federal Treasury. The one great job was to win the war and the responsibility for carrying through a program to this end rested squarely upon the shoulders of the Federal government. The Federal Reserve Banks, therefore, had no choice but to make their policies conform to those of the government.

In my judgment certain of the Government's financial policies were unwise, among which I would mention the policy of granting tax exemption privileges to incomes from Government bonds, the weakness of the Government's tax policy as regards the levying of excise taxes upon luxuries, the failure to adopt early a policy of rationing to be made increasingly rigorous as the war proceeded, the "borrow and buy" loan policy, and the low interest rate policy, from which the low discount rate policy of the Federal Reserve Banks inevitably followed. From our frequent conversations and from the position you take in the rate memorandum, I infer that there is not much difference of opinion between us upon any of these

points except the last one.

As to interest rates upon War loans I have been from the beginning in favor of the policy of making the interest rate upon Government bonds conform closely with the market rate of interest for similar high grade securities. This would of course, mean that most bond issues during the war period would have had fairly short maturities, thus making it possible to refund at lower rates of interest, after the stress and strain of the war was over. In time of war the supply of capital tends to be depleted, or, if it increases, it increases at a much slower rate than in time of peace, while the demand for capital increases inordinately. The interest rate is the equilibrator of the demand for capital and the supply of capital. If permitted to take its natural course, it will advance during any great war - in fact it will advance whether permitted to take its natural course or not, but in the latter case the advance is greater, although the nominal rate is held down, because the actual or purchasing power rate of interest advances. Man cannot repeal a natural economic law. Economic energy may be diverted but it cannot be destroyed. There is a fundamental economic law that says that when demand for capital increases more rapidly than the supply of capital the rate of interest will rise. All of the efforts of all of the belligerent nations of the world could not nullify this law. If the forces of demand and supply, in connection with capital, were such as to result in a six per cent interest rate for United States Government securities of a given tenure, the Government could not float them at four per cent (except as it might do so by appeals to patriotism resulting in a form of gift to the Government) without adopting a policy of inflation. Temporarily, of course, the Government can make any rate of interest effective if it will loan money to the public directly or indirectly in practically unlimited quantities at that rate. This spells inflation, and means that the Government is borrowing money of decreasing purchasing power, which it will be compelled to pay later, both principal and interest, in money of a greatly increased purchasing power, after the inevitable period of deflation occurs - and it must occur unless the currency is to be permanently debased - and this means that the actual purchasing power rate of interest the Government must pay is much larger than the nominal rate of interest called for in the bonds. If the tax payer who subsequently provides the Government with the fund for paying the bond, principal and interest, is a different person than the one who originally bought the bonds and continues to hold them, the injustice is very great. This was the situation that developed after the Civil War and led to much criticism of our Civil Wal financial policy.

As I said in my little book on "High Prices and Deflation", "We bought our low interest rate on Government papers at the price of very high prices for commodities. We kept interest rates down by a policy that kept pushing the price level up...When the discount rate was artificially pushed down prices bulged up. The Government, it is true, paid lower rates of interest on its bonds, but it was compelled to pay higher prices for the war supplies it bought, and was therefore compelled to float more bonds. It paid lower interest <u>rates</u> by reason of this policy, but it paid and will pay more <u>interest</u>."

These artificially low interest and discount rates encouraged excessive borrowing by private individuals - a borrowing which was stimulated by the rising prices which the "low interest rate - inflationary" policy caused. Wholesale prices increased about a hundred and fifty per cent down to May, 1920 and the cost of living much more than doubled. A substantial part of this increase - how much of course no one knows - was due to this "low interest rate - inflationary policy." The evil effects of these tremendous price changes, with their varying degrees of lag among different commodities and between prices and wages, were enormous during the upward movement of inflation and the subsequent downward movement of deflation. They have played havoc with the equities between debtors and creditors and have been a tremendous engine of wealth re-distribution which has acted blindly and not according to any rule or principle of social justice. They have taken much of the hard earnings of Society's most deserving members and given them to the least deserving. They have done untold damage to the cause of education in the United States and have robbed millions of people of a large percentage of their savings and of the values of their insurance policies upon which their dependents must rely.

Even the nominal or money interest rates were only temporarily held down by this inflationary policy and could only be held down so long as inflation was progressively continued. As soon as it was stopped the natural interest rates began to assert themselves. The actual interest rates since 1920 of course have been much higher than the nominal ones, because of the increasing value of the dollar in which interest and principal were paid. We have had, therefore, wide fluctuations in interest rates and also these extremely wide fluctuations in prices and wages.

In my judgment a frank recognition by the Government at the beginning of the war of the fact that the market rate of interest must go up and go up substantially and perhaps continually during the period of the war, would have had less evil consequences than the policy pursued, although I recognize that this policy would also have had its evil results. The higher interest rates would have discouraged much private borrowing which was harmful during the war, and which competed with Government borrowing. They would have encouraged saving and a save and buy policy on the part of the public in connection with the public debt. Prices would not have risen anything like so much as they did, and the Government would not have needed to borrow anything like so much money to obtain the same quantities of supplies, etc. Since prices would not have risen to anything like so great a height as they did they would not have had to fall so far as they have. In my judgment, the changes in interest rates that would have taken place would have been nothing like so serious or far reaching in their consequences as were the changes in the price level and the wage level that resulted from the policy actually adopted.

Of course the policy of high interest rates should have been accompanied by a policy of rationing and of vigorous taxation including heavy taxes upon luxuries.

Such a policy could doubtless have been carried out more effectively, if it were adopted by England as well as by the United States, but I do not agree with those who maintain that we could not have adopted such a policy alone. If we had adopted it alone interest rates would have ruled higher than in England and prices have ruled lower. England would have paid higher interest rates for what she borrowed here but lower prices for what she bought here. Any dangerous flow of capital from England to the United States under such circumstances I think could have been readily controlled. Rising prices in England would have tended to keep capital at home because of the increasing profit which they seemed to imply.

The subject is one containing unlimited possibilities for honest differences of opinion, and what I have said merely suggests the general line of reasoning by which I have arrived at the belief that a high interest-rate policy would have been the wise one for our war financing. When you come to Princeton next month I hope we cam have a further talk over this subject.

Cordially yours,

E. W. Kemmerer

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

JAN 13 1923
FEDERAL RESERVE BANK
OF NEW YORK

Jan. 9, 1923

Governor Benjamin Strong,
Federal Reserve Bank,
New York City.

Dear Governor Strong:

I was very sorry to learn from Mr. Beyer's letter of January 3 and your letter of January 4 that you were again having trouble with your throat. The only thing for you to do is to give it the very best care possible. We are, of course, disappointed that you cannot be with us on the 19th, but we shall look forward to having you at a later date. I sincerely hope that you will be in ship shape again very soon.

When I am in New York and fail to find you at the office, I will be glad to remember your invitation to try you at your apartment.

Sincerely yours,

E. W. Kemmerer

RECEIVED BY GOVERNOR'S SEC'Y

JAN 10 1923

PRINCETON UNIVERSITY
PRINCETON NEW JERSEY

Department of Economics and Social Institutions

ACKNOWLEDGED
MAY 16 1924
B. S.

May 10, 1924

Governor Benjamin Strong,
Federal Reserve Bank,
New York City.

Dear Governor Strong:

Upon my return to Princeton last week I found awaiting me your good letter of February 21. I have just learned that you are soon to be back in New York. I have rather interesting material in connection with Germany's currency experiences of the last year, which I think has an important bearing upon the question you raise in your letter of February 21.concerning the influence of the state of mind of the people on currency circulation, and therefore upon the price level. Germany's experience of last October, November and December I think represents a very illuminating chapter on this subject. Changes in business confidence I think have a great influence upon the rate of monetary and deposit turnover, and it is through this influence that changes in the state of mind greatly affect the price level. You are also probably familiar with the discussion in my book on "Money and Prices" of the relationship of changes in business confidence to the ratio of bank reserves to bank deposits. The evidence was very strong during the period 1879-1909 that the ratio of bank reserves to bank deposits varied directly as business distrust, or invertly as business confidence, and in my little book on "Money and Prices" you will find figures and a diagram showing the remarkably close correlation between these two movements. This is a point that I think Irving Fisher and I think many other believers in the quantity theory of money have unduly neglected in their statements and interpretation of the theory. Some time in the near future I hope to have an opportunity to talk with you about this subject, as also about some of my recent experiences in Europe in connection with the work of the Dawes Committee.

I was sorry not to have been able to see you while you were in Paris. Most of the time you were there I was in Spain, and the day I returned General Logan told me you were ill and not receiving callers. The following day I left for home. I hope that by this time you are in good health again.

Looking forward to seeing you soon in New York or Princeton, I am

Cordially yours,

E W Kemmerer

E.W.Kemmerer.

PRINCETON UNIVERSITY
PRINCETON NEW JERSEY

ACKNOWLEDGED
MAY 2C 1924

Department of Economics and Social Institutions

May [illegible]1, 1924

Governor Benjamin Strong,
Federal Reserve Bank,
New York City.

Dear Governor Strong:

In reply to your letter of May 16, would say that at the present time I have no regular routine work in the University, so that my time is pretty well under my own control. I could come to New York for a conference with you almost any time you would care to fix.

Cordially yours,

E.W.Kemmerer

E.W.Kemmerer.

PRINCETON UNIVERSITY

PRINCETON NEW JERSEY

Department of Economics
and Social Institutions

ACKNOWLEDGED
JUN 9 - 1924
R S

June 4, 1924

Mr. Benjamin Strong, Governor,
Federal Reserve Bank of New York,
New York City.

My dear Governor Strong:

Replying to your letter of June 2, received this morning, would say that I expect to be in Princeton until June 12. The evening of June 12 I leave for about ten days in Maine on a fishing trip with my three brothers, returning to Princeton about the 22nd of June. I expect to stay here for five or six days, after which I am going abroad, to be gone until about the middle of August. I hope that we may be able to fit our plans in such a way as to enable us to get together for a short time before I go abroad.

Cordially yours,

E W Kemmerer

E.W.Kemmerer.

JUN 9 1924

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JUN 5 1924

Kemmerer

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

ACKNOWLEDGED
AUG 28 1924
R S

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

August 26, 1924.

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

My dear Sir:-

Your letter of yesterday to Professor E. W. Kemmerer will be brought to his attention upon his return from Guatemala.

When Professor Kemmerer left for Guatemala on June 28, he intended to be home around August 20. A letter received yesterday by a friend from his son, who is with him, said that they would not return as planned but would return by the time the University opened, which will be Sept. 23.

Very truly yours

Florence L. Hurd

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AUG 2[illegible] 24

Kemmerer

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Sept. 27, 1924

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

My dear Mr. Strong:

Upon my return to Princeton from Guatemala a few days ago, I found awaiting me your letter of August 25, which I think was answered by Miss Hurd. So far as I know now I shall be in Princeton all this fall and winter, and would be glad to see you here at any time that you may be coming this way. I shall be in New York frequently this fall and will come in to see you on my next trip to the City, which will probably be Thursday of next week.

I hope that the end of the summer finds you in good health.

Cordially yours,

E. W. Kemmerer

E.W.Kemmerer.

Attended to by telephone conversation of G.L.H. with Prof. Kemmerer on 9/29/24 M.E.B.

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SEP 29 1924

PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

DEPARTMENT OF
ECONOMICS AND SOCIAL INSTITUTIONS

Sept. 27, 1924

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

My dear Mr. Strong:

Upon my return to Princeton from Guatemala a few days ago, I found awaiting me your letter of August 25, which I think was answered by Miss Hurd. So far as I know now I shall be in Princeton all this fall and winter, and would be glad to see you here at any time that you may be coming this way. I shall be in New York frequently this fall and will come in to see you on my next trip to the City, which will probably be Thursday of next week.

I hope that the end of the summer finds you in good health.

Cordially yours,

E.W.Kemmerer.

Attended to by telephone conversation of G.L.H. with Prof. Kemmerer on 9/29/24
MEB

Kemmerer

PRINCETON UNIVERSITY

PRINCETON NEW JERSEY

Department of Economics and Social Institutions

Feb. 19, 1925

Governor Benjamin Strong,
33 Liberty St.,
New York City.

My dear Governor Strong:

Many thanks for your kind invitation to have luncheon with you on one of my early trips to New York, and to talk over with you a number of matters in which we are mutually interested. Nothing would give me more pleasure, and I anticipate accepting your invitation in the very near future.

I had a most interesting time in South Africa, and am looking forward to having a chat with you over the South African situation. Your cablegram was very helpful to us, for reasons that I will explain to you later when I see you.

Cordially yours,

E. W. Kemmerer

E.W.Kemmerer.

Kemmerer

PRINCETON UNIVERSITY

PRINCETON NEW JERSEY

Department of Economics and Social Institutions

March 2, 1925

READ AND NOTED,
3/5/25 B. S.

Governor Benjamin Strong,
33 Liberty St.,
New York City.

Dear Governor Strong:

I will be very glad to accept your invitation for luncheon at the Bank at one o'clock, Friday, March 5. There are many things about which I would like to talk with you, particularly matters in connection with my recent South African materials, and this opportunity for a quiet chat with you is much appreciated.

With all good wishes, I am

Sincerely yours,

E W Kemmerer

E.W.Kemmerer.

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PRINCETON NEW JERSEY

Department of Economics and Social Institutions

March 23, 1925

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

Dear Governor Strong:

The point you raised with reference to Mr. Van Der Hum's testimony is a valid one, I think, so far as that particular testimony is concerned; but I think that our Commission in its report and particularly in the questions we asked many of the witnesses made ample allowance for the possibility you have in mind. Of course it is perfectly possible that sterling remaining a non-gold standard managed currency might be for some time more stable in value than gold itself, and that therefore South Africa by deciding to tie up with gold instead of sterling might bring upon itself greater currency instability than she would have brought by tieing up with sterling. While this is possible, I doubt very much if one could say, in the light of past history and present economic and political conditions, that it is very probable. Considering the world's past experiences with paper currency and considing the political pressure under which the managers of paper currency will probably be compelled to act in the future, it would seem highly improbable, if England should fail now in her strenuous efforts to clinch gold parity this year, that her currency would be more stable during the next few years than gold. At any rate, we were under obligations to make a recommendation then and there involving a definite commitment by the South African Government for the future as to whether it would tie up with gold or tie up with sterling, and the probability seemed to us very strong that should England be unable to clinch the gold standard this year, sterling would be more likely to be unstable in value during the next few years than gold. Both England and South Africa have been for some time definitely committed to return to gold parity at the earliest practicable moment, so that our decision did not involve a question of permanent policy, but rather a question as to what should be done during an unknown transitional period.

I would like to talk with you further about this. The full reports of the testimony should arrive soon and

I will send you a copy as soon as they arrive.

I enjoyed every minute of our meeting Monday night. While I have many good friends in various banks down town, there is no place I feel so much at home as in the Federal Reserve Bank. You have a splendid lot of officers, and, so far as an outsider can see, there is a fine spirit of cooperation and of institutional loyalty.

Cordially yours,

E. W. Kemmerer

E.W.Kemmerer.

FEDERAL RESERVE BANK
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MAR 24 1925 9 14 AM

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W. T. 11. 20 M 12-24
FEDERAL RESERVE BANK
OF NEW YORK

TELEGRAM

COMMERCIAL WIRE—INCOMING

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WIRE TRANSFER
DIVISION

Kemmerer

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COMPANY

ATTENTION

11WU MQ 8 PRINCETON NJ 9A APL 16

GOV BENJAMIN STRONG

FRB NY

WILL CALL ABOUT ELEVEN OCLOCK PLEASE NOTIFY WRIGHT

KEMMERER

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B.G. 9000 Chase Bank.
Sherrill Smith's Secy
(Miss Prosinski)

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OF

MAR 16 1925 9 58 AM

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PRINCETON UNIVERSITY
PRINCETON NEW JERSEY

Department of Economics and Social Institutions

April 13, 1925

ACKNOWLEDGED
APR 14 1925

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Governor Benjamin Strong,
Federal Reserve Bank,
New York City.

Dear Governor Strong:

The last time I saw you I told you that Mr. Ben F. Wright, the Auditor of the Philippine Islands and General Wood's right-hand man, was to be in this country in the near future on leave of absence from the Islands, and you expressed a desire to meet him while he was here. He has just spent the week-end here with me at Princeton, and tells me that he will be in New York this week Thursday and Friday. I am dropping you this note to ask you if you could have luncheon with Mr. Wright and myself either Thursday or Friday noon. Mr. Wright knows more about recent currency and banking developments in the Philippines I believe than any other living person, as he has been in intimate touch with the situation for a number of years, both as bank examiner and auditor.

Cordially yours,

E. W. Kemmerer

E. W. Kemmerer.

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Department of Economics and Social Institutions

ACKNOWLEDGED
MAY 20 1925

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MAY 20 1925

May 19, 1925

Mr. Benjamin Strong,
33 Liberty St.,
New York City.

My dear Governor Strong:

It was good of you to send me a copy of your letter to Stewart with reference to the extent of loans made to Germany recently in this country. The figures are smaller than I thought they would be.

One of the reasons for the widespread opinion that very large German flotations were being made was, I think, the heavy request for German loans in our market immediately after the Dawes Plan loan had proven such an eminent success. At that time I talked with several of my investment banker friends on the subject, and they told me that the success of that loan had brought great numbers of applications for German loans in the New York market, and that they feared that the result would be a dangerously large amount of such loans. I am glad to see that the figures do not apparently justify that fear.

It is my recollection that in our conversation on the subject of the possible danger of large foreign loans in our market, my fear was expressed chiefly with reference to Latin-American loans, and in that connection particularly with regard to Brazilian loans. I still think that this field of loan operation needs to be watched very carefully.

We are planning to sail for Chile June 11. The Commission is now completed and I think that we have a good group of men. There will be five commissioners and three secretaries, in addition to such legal and clerical help as we may get in Chile. I hope to see you again before we sail.

I appreciate very much your granting leave of absence to Jefferson.

Sincerely yours,

E. W. Kemmerer

E. W. Kemmerer.

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PRINCETON UNIVERSITY
PRINCETON NEW JERSEY

Department of Economics and Social Institutions

March 15, 1926

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

Dear Governor Strong:

I want very much to see you some time this week and have a good talk with you with reference to the Polish situation, and to plans for the organization of a commission which I am forming to go there this summer. I am planning to be in New York all day Thursday, arriving about eleven o'clock and leaving on the eight o'clock train. I am free all day except for luncheon at one o'clock, for which I have an engagement of a couple weeks back. If it would be convenient for you to see me Thursday, I will be glad to come to the Bank at any time that may suit your convenience.

Cordially yours,

E. W. Kemmerer

E. W. Kemmerer.

Better come here first, don't you think?

Telegraphed to telephone on arrival.
3/17/26.
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