February 21, 1921.

Copy [illegible] in file 450 A.E.A.

My dear Professor Sprague:

In catching up my reading since my return from Europe, I have just had the privilege of reading the paper which you read at the meeting of the American Economic Association, entitled "A Review of Federal Reserve Board Policy." It is no exaggeration to say that I read it with satisfaction and enthusiasm, because it presents such a fair and judicial examination of the difficult subject that we are dealing with, and I may also say that it is almost the first report of that character which I have read from any of the students of this subject in our universities, which was not guilty of criticisms arising principally from lack of knowledge of the facts.

It would please me very much if I could have an opportunity to talk over this article with you when you next come to New York. There are certain matters in connection with our policy which naturally are not of general knowledge, which I would be glad to explain confidentially.

I take this opportunity of expressing my deep appreciation for the splendid presentation of this matter, which I am sure has helped us very much.

Yours very truly,

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Mass.

BS:MM

January 30, 1922.

My dear Professor Sprague:

You are most kind to write me at any time such a letter as you did on January 15, belated though it is; but why should one complain of a friend and correspondent who asks really only a few weeks in which to read such a dull dissertation, as that of which I was guilty before the Joint Commission of Agricultural Inquiry. I should very much like to write you fully in reply to your letter, at least to show my appreciation; but I have only recently been discharged from the hospital, after an operation, and only to-day am taking up work again.

As to the policies of 1919; you will find the key to that discussion on pages 502 and 503. I had asked the Chairman of the Commission if it would not be possible to have the Treasury's policy discussed by either Senator Glass or Mr. Leffingwell. I was a subordinate, and the whole Federal Reserve System was in some respects subordinate to the Treasury during that period, and in the policies of that time. Senator Lenroot was very anxious apparently to get an expression from me, as his questions indicated, but I did not feel then, and I do not feel now, that it was proper that anything by way of criticism should have found a place in the record from me when the former officers of the Treasury were available. I would personally have preferred to see discount rates and the government borrowing rate advanced coincident with the decline in prices which took place in January, February and March, 1919. Nothing like an insistence on that course was possible at that time, nor was anything like insistence attempted until later in the year. But as I frankly stated "I should say that an increase in discount rates at the period when the decline was suffered, from January to March of 1919, to which I have referred (Senator Lenroot here interrupted) would have been as close to an ideal 100 per cent policy of perfection as could have been adopted." That was my belief at that time, as is disclosed in my private and confidential correspondence with the Treasury, and has been my belief ever since. I am writing this to you frankly, and quite confidentially, because I think it is necessary in order to make my position clear in reply to that paragraph in your letter. What I am unwilling to do is to now turn upon my former associates, with whom at that time I shared these responsibilities to some extent, and publicly condemn their policy, as has been done by at least one other man who was also associated with all of us during that period. They acted in good faith according to the best of their judgment and with the most high minded purposes. If, in the light of after events, it appears that a mistake was made, I am sorry that the onus of it has to be borne by the Federal Reserve System, where I do not think the responsibility rests. But I am unwilling to attempt a defense by a policy of accusation.

In reading over the statement which I made on the subject of the relation of the discount policy of the reserve system to prices, I think I can well understand your criticism and the ground of your disagreement. I still feel that prices are not directly our concern, and possibly must take refuge behind my willingness, which appears in an earlier part of the statement, to adopt as my own the views expressed in the Cunliffe report, which have always struck me as illuminating, of the policy of the Bank of England since 1873. This in fact I did employ as a better statement of the case than I was capable of making extemporaneously. On the other hand, there is much in what you say as to my personal attitude of to-day, and the extent to which it is governed by present day conditions. It is sometimes folly to beat your hands against a tornado. The regulation of prices through the volume of our discounts, and in consequence through the volume of bank deposits and currency, is unescapable. The argument cannot be refuted that it is an influence. But I cannot help feeling that in this country, with the enormous variations in rates of interest in the different sections, with the enormous inequalities in free capital in the different sections, with the great fluctuation in sentiment caused no doubt by the superabundant vitality, optimism, and speculative spirit of the American people, it would be unwholesome for the twelve reserve banks, operating under twelve very different sets of conditions, to govern their discount policy with a direct eye to prices. What can be done in a great banking country like England, no greater in area than New England, or in a country like France or Germany, cannot, in my opinion, be done in this country. It would be like operating a Federal Reserve System with one office in London, one in Paris, one in Berlin, one in Petrograd, one in Constantinople, one in Rome, one in Madrid, &c.

I am not as reactionary as your reference to Lombard Street would indicate; but I am endeavoring to recognize the difference between Lombard Street in England and twelve Lombard Streets in the United States.

To answer your reference to the implication in regard to the self-liquidating character of commercial loans would require a long discussion of the experience of the past seven years in the reserve banks. I must reserve that for some time when we can have a good discussion of this over dinner.

As to the sequestration of gold in 1915-16; it is very difficult to say what effect that policy had, because of the possibility of pyramiding reserves which still existed under the reserve act at that time. What I do feel confident of is that we had no means at all at our command of minimizing the inflationary effects of the gold imports, and if our policy had any effect at all, it did serve to reduce the inflation in price advances. It struck me as well worth trying, and it was a policy for which we in the New York bank were responsible for inaugurating. All that we relied upon was to reduce the amount of reserve money, which might be the basis of pyramiding the loan and deposit account, of both member and nonmember banks. Had the gold been left in circulation and paid out to meet the demand for hand to hand currency, it might have resulted in earlier recourse to the reserve banks for discounts than was the case. It is a matter, however, of which we can only surmise.

Yours sincerely,

Professor O. M. W. Sprague,
Jacksonville, Ala.

BS.MM

CONFIDENTIAL

August 4, 1922.

My dear Professor Sprague:

Ever since our country entered the war this bank, as you know, has been facing a series of problems of the first magnitude in the development of its policies, especially that with respect to rates. At the time of the inquiry conducted by the Joint Agricultural Commission last summer, it became obvious that this question of policy was likely to be extensively examined and reviewed, and in anticipation of that, one of our men prepared a resume of all the correspondence and actions of the bank in respect of rates over a period down to the end of the year 1919. I have had it in mind a good many times to ask some friends such as yourself who have made a special study of our banking system to go over this statement and to give me a real critical opinion upon it. It did not seem fair that this should be done at a time when there was so much controversy on the subject, as there was last year, and I disliked very much asking any one to undertake a task of that character which must, of course, be surrounded by every safeguard of confidence.

There are various reasons which I would gladly explain to you had I the opportunity for a chat, which would lead me to wish to have this done within the next few weeks or say within a couple of months. I may say that the document comprises about 100 typewritten pages. I think I should also say that even this statement is inadequate without some verbal explanation in connection with it.

Will you feel willing sometime to read the document quite in confidence and give me frankly your comments upon the attitude of the bank so far as it is exposed in this document? It is so arranged that I think it will not take very much time, and your own knowledge of the subject I believe will enable you to form an opinion without it being necessary to consult anything beyond what is contained in the paper.

Please write me quite frankly how you feel, and oblige me by holding this letter in confidence.

Very sincerely yours,

Professor O. M. W. Sprague,
c/o Harvard University,
Cambridge, Mass.

BS.MM

August 11, 1922.

My dear Professor Sprague:

Your note of the 8th has just reached me, and I am most grateful to you for your interest in the matter I wrote you about.

It seems distinctly unfair, however, to ask you to do this during your holiday and especially when you are without stenographic help; so instead of sending you the document just now I shall take a little time to prepare the figures you suggest, and if you will be good enough to let me know the date of your return to Cambridge, I will send you the papers then, and possibly arrange to run up to see you about it.

Will it be sufficient if I have prepared in tabular form two statements; one for the Federal Reserve System as a whole, and the other for this bank, giving the following information:

(1) Total reserves

(2) Reserve percentage

(3) Note liability

(4) Deposit liability

(5) Total of loans and discounts to members

(6) Total of all other earning assets.

This statement would be for the entire years of 1919 - 1920 and the first three or six months of 1921, and would be shown by weeks.

Yours sincerely,

Professor O. M. W. Sprague,
Greensboro, Vt.

BS.MM

September 30, 1922.

My dear Professor Sprague:

Referring to my letter of August 11, I am hoping that you will bear it in mind to let me know in case you have occasion to visit New York, and if you do not expect to do so before very long, I think I shall take the first opportunity to run up to Cambridge for a visit with you sometime when you can endure a visitation.

With kindest regards, believe me,

Yours sincerely,

Professor O. M. W. Sprague,
c/o Harvard University,
Cambridge, Mass.

BS.MM

October 16, 1922.

My dear Professor Sprague:

It was very kind of you to write me so fully on October 10, and I should prefer, were it possible, at the earliest opportunity to discuss this matter with you, rather than to attempt an exchange of views by correspondence, which is usually unsatisfactory. It might be possible for me to run up to Cambridge the latter part of this week so as to spend, say, Friday with you; but of course I realize how very busy you are and that this is rather short notice.

If you feel able to see me and wire upon receipt of this letter, I shall then plan accordingly.

Commenting upon the matters touched upon in your letter, may I make the following observations:

(1) As to Mr. Leffingwell's letter, and in general his comments in regard to these difficulties with the University men; I am sure you will recognize that without that correspondence the picture would be incomplete, but that I have sent it to you quite reluctantly and in strict confidence, in order that when we meet we may have an unreserved discussion of all of these matters. But as you say, they are now of historical interest.

(2) A "borrow and buy" policy must be an invariable accompaniment of a cheap rate or a cheap money policy. The argument upon this point is not made upon the memorandum, which is more designed to be a narrative than a brief.

(3) In general, I agree with you that during the war period the Treasury Department controlled, and must have controlled, the financial

policy. The Federal Reserve System is not a super-government, could not assume to be, and had it attempted to exercise powers and to adopt policies contrary to the policy of the government, I would suppose that the provisions of the Overman Act might have been invoked to curb the exercise of these powers, which might have been construed as attempting a defeat of the whole financial program.

(4) The hesitating attitude as to rates to which you refer is simply a reflection in the record of the result of innumerable conferences and discussions which in some cases resulted in compromise; in other cases in the adoption of the program put forward by the Treasury without much modification, as the result of our recommendations.

I wish you would particularly observe, however, that the introduction to a change of policy after the end of the war, was really my letter of February 6, 1919, written after considerable discussion of a change of policy, and that it was not until the end of the year 1919 that representations became urgent, in fact insistent, as to rates. In fact, the imminence of a loan of possibly six billion dollars made any change in the Treasury's rate program one of considerable difficulty to them as well as to us. What you observe in regard to the rate making power has been the subject of discussion in the System ever since it was organized, and I am frank to say, with considerable difference of view. All of this we can discuss when I have the pleasure of seeing you.

Your remarks in regard to bank acceptance rates are decidedly pertinent to the present situation; but after all, do they not apply equally to all international transactions so long as free gold shipments have been suspended?

Please regard this letter as quite confidential. I shall elaborate upon it a little later; and in the meantime, may I ask you to retain the papers sent to you until we have opportunity to meet.

With kindest regards, and many thanks for your letter, I am,

Yours sincerely,

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Mass.

BSMS

October 20, 1922.

Dear Professor Sprague:

Thank you for your note just received. I shall expect you at the apartment which is on the 11th floor, 470 Park Avenue (corner of 58th Street) at any time to-morrow Saturday morning that meets your entire convenience, and am most delighted that you are able to come.

Yours sincerely,

Professor O. M. W. Sprague,
c/o Harvard Club,
27 West 44th St.,
New York City.

BS.MM

October 23, 1922.

Dear Professor Sprague:

You gave me a great deal of pleasure by coming to New York for a visit of a kind that is most helpful to me and really the only kind which is capable of producing the understanding that I think one needs. I am most grateful to you for doing so and if I could only reciprocate by advising you at once that I could go to Cambridge early in November and talk to the students of the Business College, I would feel that I was doing only what your own courtesy requires of me. Unfortunately, I have to be in Washington the last half of this week and I must be in Cleveland next week for one day; and these absences result in an accumulation of work that I find it very difficult indeed to keep up with.

Would it suit Mr. Donham's convenience just as well were my visit to be deferred to say sometime in December? If that cannot be done very well then possibly the last part of November? I have engagements for the 14th and 16th + 18th of November, but nothing in the last two weeks of that month that would interfere.

I am sending a copy of this letter to Mr. Donham who was good enough to write me.

Yours sincerely,

Professor O. M. W. Sprague,
c/o Harvard University,
Cambridge, Mass.

BS.MM

October 30, 1922.

Dear Professor Sprague:

On my return from a few days absence I find your letter of October 25 and one from Mr. Donham dated the 26th. – See File Donham

November 20 will suit me about as well as any other date unless you would prefer to have me address the students a few days later in that same week. It is not very material to me except that I am obliged to travel on Monday and should come back the same night, whereas if I went later in the week I could take the night train up, spend one day in Cambridge and come back the following night. However, I leave it entirely to you and to Mr. Donham to say finally when it shall be.

You could help me very much in deciding what to say if you could give me a little idea of what aspect of the Federal Reserve System would be most illuminating to the students, as I presume that they would want to hear about the System. Also whether they would prefer to hear something of the theoretical or the practical side of the subject.

Yours sincerely,

Professor O. M. W. Sprague,
c/o Harvard University,
Cambridge, Mass.

BS.MM

October 27, 1922.

My dear Sir:

Your letter of October 25 has just been received. Mr. Strong went to Washington on Wednesday and will not return to the bank until Monday when I will hand him your letter.

Yours very truly,

Secretary to
Mr. Benj. Strong.

Professor O. M. W. Sprague,
c/o Harvard University,
Cambridge, Mass.

BS.MM

November 3, 1922.

Dear Professor Sprague:

November 28 will suit me fine for a trip to Cambridge. I would plan to go up Monday night, spend Tuesday in Cambridge, and if possible come back on the Tuesday night train from Boston.

I think I would like to outline to you a little bit of what I had in mind to say to the class, but just how far I should go will depend upon the extent to which these talks are printed and circulated. If I have sufficient freedom in that respect I would propose to explain that the literature regarding the Federal Reserve System has now become so voluminous and the reports of their transactions so ample that students of banking and finance have everything before them that is needed not only to judge of the System's actual business transactions and operations, but to a large extent to gain some knowledge of its policies and of why those policies are adopted, and how they operate. On the other hand, there is very little discussion, and I think - as you realize - very little general understanding of just how the Federal Reserve System fits into the great economic structure of the country as a new influence.

Then I would propose to lay the foundation for describing that influence by a reference in a very general and broad way to the quantity theory, and point out that since the Federal Reserve System had found its position as a large lender it becomes one of the most important factors in the economic machine because it must, whether it wishes to or not, exercise control over the volume of credit which in turn has such a far reaching effect upon prices, wages, etc. That prior to the war, the development of speculation and extravagance in a period of expansion would normally have been checked - so to speak - by advancing prices, adverse trade balance, and loss of gold. With the world no longer shipping gold, and the American exchanges at such a premium, and with such an enormous gold reserve in our hands - as we now have - no such check upon speculation and advancing prices can be expected to operate - at least not until such a development had reached an extreme stage.

Therefore, the Federal Reserve System, as the central factor in the control of credit, must rely upon the application of wisdom and intelligence of the first order. There are no automatic penalties which would apply as in ordinary times to an orgy. In view of that, students of the System should watch it, criticize its affairs, protect it against invasion from political or other sources, as the protection of the System hereafter will depend upon the interest of the member banks in insuring that it has good management, and in sound public opinion to protect it against misuse.

There will be opportunity, I think, without making the talk too long, to bring in something about the operation of the London market in contrast with ours. How does this all strike you? Is it too theoretical and abstruse? It is an aspect of the affairs of the System which has been little discussed and I fear has been less understood. Please write me frankly and critically, and again accept my warm thanks for the courtesy you have shown me.

Yours sincerely,

Professor O. M. W. Sprague,
c/o Harvard University,
Cambridge, Mass.

BS.MM

November 15, 1922.

Dear Professor Sprague:

Thank you for your letter of November 13 which is exactly what I needed as a guide to what I should say to the Graduate students. Possibly I can take the lid off a little bit and do what you say about the character of the meeting.

There are only two things that I should do other than giving all the time at my disposal to seeing something of Cambridge or at least of my friends there. I would like if possible to call for a few minutes to see Professor Hughes. He is the head I believe of the Engineering course and his family are old Woods Hole friends. I would also like to take a few minutes to see one of the sophomore students who is the son of some warm friends of mine. Other than that I am entirely at your disposal for all day and the evening as well.

Yours sincerely,

Professor G. M. W. Sprague,
c/o Harvard University,
Cambridge, Mass.

BS.MM

November 22, 1922.

Dear Professor Sprague:

Thank you very much for your note of the 21st. It will be fine for you to meet me at the Federal Reserve Bank of Boston sometime Tuesday morning, as we could then have a little chat at the bank with Morss and Curtiss. The undergraduate is John Pratt. I just wanted to see him for a minute or two at any time that is convenient. Other than that I have nothing to do, outside of the engagement which you have already been good enough to make for me; so I shall expect to be with you at lunch and spend some part of the afternoon, if agreeable to you, with the people connected with the Harvard Bureau of Economic Statistics, which would interest me very much, and later in the afternoon to stop with Prof. Hughes, if that is altogether convenient.

The post card announcement was not enclosed with your letter, but the important information about dressing is contained in your letter.

I much appreciate your courtesy and all the trouble you have taken in connection with my visit, which I fear is not justified by what I am able to do in the way of making a talk.

Yours sincerely,

Professor O. M. W. Sprague,
c/o Harvard University,
Cambridge, Mass.

BS.MM

November 29, 1922.

Dear Professor Sprague:

This is to thank you most warmly and cordially for my delightful entertainment yesterday. The pleasure was in meeting friends with whom I seem to feel a warm and sympathetic accord. But it is too bad not to reward your very successful efforts to give me a good time by giving those boys a little more pleasure than it was possible for me to do in talking about such dry matters as I did.

With kindest regards, I am,

Yours sincerely,

Professor O. M. W. Sprague,
c/o Harvard ~~University,~~
Cambridge, Mass.

BS.MM

December 12, 1924

My dear Professor Sprague:

Governor Strong has just received a letter from Mr. I. R. Bellerby, saying that he is in New York as the envoy of the International Labor Office, and asking for an appointment to discuss monetary questions with Governor Strong. In his letter he has used both your name and that of Professor Seligman, to whom I am also writing a similar letter.

Inasmuch as the Governor knows nothing of Mr. Bellerby or his work, he has asked if you would not be good enough to advise him of anything you may know of him. If he is a responsible and reliable person, Governor Strong would like to be of service in any way possible, but at the present time his is so very pressed for time that he feels obliged to ascertain in advance something of the importance and nature of the work Mr. Bellerby is undertaking.

Anything that you may feel willing to send Governor Strong in this connection will be very much appreciated by him and will be considered entirely confidential.

For further correspondence see Bellerby, Maj. I. R.

Very truly yours,

MSB

Secretary to the Governor.

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Mass.

MSB

June 5, 1925.

My dear Sprague:

Following are some informal comments in regard to the memoranda relating to the two McFadden bills.

First, as to the one repealing amendments to the Federal Reserve Act:

I rather agree with what you verbally stated to me, that it should not be difficult to deal with this proposal and expose its inadvisability. But one point impresses me which is not dealt with in your memorandum.

Either by law, or by usage, banks of issue have become, as they should be, the "market" for gold. Such a market for gold, in a monetary sense, implies that the bank must stand ready to redeem its notes in gold coin or gold bars at a fixed value at any time and in unlimited amounts. It also implies that the bank must stand ready at all times to buy gold or to receive it on deposit in any amount also at fixed prices.

Leaving out all technical questions in regard to free coinage and the extent to which Federal Reserve Banks should intervene between the mint and the public, is it not a fact that a sound monetary and banking system necessarily implies that the bank of issue must always be prepared to receive gold on deposit from its depositors? If, therefore, kt stands ready to receive gold on deposit for credit to reserve accounts, what rules, either of law or of prudence or of judgment should govern a bank in paying out gold? And, in fact, is it necessary to have any law which would at any point require the Reserve Bank to pay out gold whether in the judgment of its management it was desirable to do so or not? It seems to me that the crux of the problem presented by the second McFadden bill (as to gold) lies right at this point. Shall the Federal Reserve Banks be required to pay out gold when a demand for currency arises instead of paying out Federal reserve notes?

My belief is that it is an unnecessary and an unwise restriction, hostile to the real purposes of the Federal Reserve Act and to sound principles of our type of central banking; and that it is particularly unfortunate that the proposal should be advanced at the present time when there is a possibility, in fact a likelihood, that we are approaching a period when the Reserve Banks may suffer a large loss of gold as the result of reconstruction and increasing monetary stability abroad.

Some light might be thrown upon this problem by a study of the conditions which arose in 1919 - 1920 when our reserves were low and when we were called upon to export about $400,000,000 gross out of our reserve; and likewise by study of the situation of the Federal Reserve Bank of Atlanta, where gold has been accumulated through issues of Federal reserve notes in Cuba and where it is quite likely that demand for redemption of notes circulating in Cuba might make it necessary for them to turn to other Federal Reserve Banks for assistance.

As to the provision of this bill that bankers acceptances should not be used as collateral to note issues, the following comments are justified:

1. There is no type of paper in this country which is so desirable and appropriate for use as security for note issues as the bankers acceptance, which represents an actual movement of commodities, which has a short maturity, and which bears the obligation of the drawer, acceptor, and one or more good bank indorsers.

2. The proposal comes at a time when the first favorable opportunity arises for a large development of the use of acceptance credits for financing our own foreign trade, especially our imports. The program of resumption of gold payment in various parts of Europe may necessitate for a period, possibly for years, higher money rates in those markets than in ours. Bankers financing exports of goods to us from all parts of the world will be tempted to take advantage of lower discount rates in New York than those in London or on the Continent. While our own banking institutions are not organized in foreign countries to handle the volume of business which may

develop, it seems to me quite likely that foreign institutions will themselves develop the business for us, either by opening their own establishments in this country, or by making close alliances with American banks. If the Federal Reserve Act should be amended so as to discriminate against the use of this paper as security for our note issue, it would discourage the development of this business at the most opportune time which has yet arisen for its sound encouragement, especially for its employment in financing our own imports.

3. The proposal is based upon a misapprehension of the way in which the Reserve Banks operate, and upon the assumption that the act of buying bills is purely a voluntary one with the initiative entirely in the Reserve Banks; similar to the act of purchasing Government securities. That is not the case. Most of the bills are purchased for the System by the Federal Reserve Bank of New York. Bills come to us in greater or smaller volume according to the adjustment with market rates of the rates at which we buy them, and there is a certain compensation between increases or decreases in our holdings of acceptances and increases or decreases in the amount of discounts by our members. With certain exceptions, when special purchases of bills are made, principally for foreign account, almost all of the bills bought in New York are sold to us by member banks, just as though they were discounted, the banks taking advantage of a lower rate for bills than for discounts. It is, in fact, a species of discounting which is more controlled by the rate than is realized. Of course, our hope is that with the growth of a larger amount of bills in the market, it will ultimately be the bill rate which will function, and the discount rate for commercial paper will be more in the nature of an emergency rate. One reason for this is that banks do not like to owe borrowed money. They cannot afford to borrow money at our usual discount rate, any more than they can afford to pay such a high rate upon deposits. Whether the influence is actual, as to cost, or sentimental, as to owing money, it is true, nevertheless, that changes in our discount rates have a pronounced and widespread effect. Advances made when banks are borrowing from us have an immediate effect upon

money market, which at times is greater than is desirable. Whereas changes in the rates at which we buy bills have a more indirect effect and do not so immediately result in such urgency to repay as to force a sharp contraction of loans and deposits such as results from advances in discount rates. Inthe course of some years development of the Reserve System, I should hope that the major contact between the Reserve Bank and the Money Market would be through our operations in bills (both carrying and discounting them) and that discounting of commercial paper will be more seasonal and of reduced importance. The discrimination against the use of these bills as collateral for the note issue will operate as some restraint upon the development of the kind of money market we need, and of policies for the Federal Reserve System which are along sound lines and which should be encouraged rather than discouraged.

As to the National Bank amendment bill, I regret that your memorandum of May 14 reached me so recently that I have been unable to give it the study that it requires. But I will venture the following preliminary comments:

In general, I think all legislation dealing with the subject of branch banking should be embodied in a separate bill, and that highly controversial question be eliminated from the consideration of general amendments to the National Bank Act.

As to legislation looking either to restriction or encouragement of branch banking, the experiences of the last few years afford much convincing evidence that the time has arrived when branch banking is inevitable and will be developed by the State institutions, even though the National Bank Act imposes severe restrictions upon the establishment of branches by national banks. In fact, if restrictions are imposed upon national banks, it seems to me likely, after what we have witnessed in New York, that there will be a gradual withdrawal from the National Banking System by banks which feel the necessity for meeting State bank competition. National banks in this city representing gross assets of about $400,000,000 have, in fact, taken State charters in connection with various mergers and consolidations in the past two and one-half years, largely for the purpose of developing a system of branches within the City of New York. The same thing has developed in other cities, notably in Cleveland.

It would also appear that the small independent bank has failed to measure up to the requirements of the situation during the past five years of unusual banking conditions to a degree that is startling and exhibits a weakness which requires immediate remedy. In the year 1924 there were 613 bank failures in the United States and during the past five years the mortality has been 1,991. These were mostly small banks which lacked the support of the larger capital and resources and better control and supervision which would exist under some system of branch banking. The failures have been principally among State institutions not members of the Federal Reserve System.

It is too often customary to critise these small banks for extortion in rates of interest charged borrowers, without considering circumstances which seem to make those charges inevitable. They are largely in small agricultural communities where credit requirements, seasonally, and in some cases constantly, exceed the accumulation of local funds from depositors. These small banks offer very high rates of interest in order to attract deposits and to meet the demands of their borrowing customers. If they cannot get deposits in that way, they borrow heavily and, as a rule, pay high rates, 5% and even 6%. The overhead and taxes are large in proportion to resources and make a heavy interest charge to customers inevitable, where ach rates are paid for deposits. And the loan business in such communities has the extra hazard of crop failure and of other vicissitudes of agricultural sections. When bad times come the margin is not sufficient to save the bank. They borrow on their best assets, deposits decline sharply, and the result is a wreckage comprised principally of poor assets wholly insufficient to meet liabilities to depositors.

Small banks are unable to pay the salaries necessary to secure the services of competent managers and the result is bad loans.

It is too frequently the case that lack of supervision results in the abuse of the bank by officers and directors who borrow for their own enterprises.

It requires little argument to show to what a considerable extent these difficulties in our present system would be remedied by the establishment of some system of branch banking strictly limited and under proper supervision, so as to strengthen the whole banking structure. A study of bank failures for the past five years would, I believe, confirm what I have written above.

And now, as to general amendments to the National Bank Act, I make the following comments directly addressed to your memorandum:

1. Violations of the National Bank Act.

(a) Deficient Reserves - more or less persistent, are one of the most frequent violations of which we know. Many of them are the result of conditions over which the individual banker has little or no control. I believe that some change should be affected as to reserve calculations in order to obviate the difficulties under which the banks now labor; and, that having been accomplished, penalties for wilful violations should be heavier. It seems as though this could be appropriately studied by the committee of which Mr. Curtiss is chairman.

(b) Excessive Loans. These are frequent and persistent according to our own information, largely drawn from reports of examination of member banks. They are not only direct, but, to a considerable extent, indirect, where loans are of considerable variety as to obligors but really relate to the same enterprises. The revision of Sections5200 is discussed later in this memorandum and the subject should be dealt with in connection with that section of the National Bank Act.

(c) Impairment in the goodness of loans. One of the most frequent causes of bank disasters is the failure to realize in time that impairment has occurred in the goodness of loans or in the value of investments. In other words, overvaluation of the bank's assets. This might be dealt with by giving the Comptroller more power to enforce increases of capital.

(d) False or misleading reports. It is impossible to distinguish between honest and dishonest misleading reports because of the impossibility of proving intent. On this subject, as well as a, b, and c, I believe that a greater degree of responsibility should be placed upon directors of banks than is now the case.

2. New Banks.

A study of the situation in the Minneapolis district will, I believe, produce convincing evidence that the excessive organization of small banks in that section, as is probably the case in other sections, has been one of the principal causes of the bank disasters of the last three years. A certificate of public necessity, with supporting evidence, might well be required before any new bank is permitted to be established. If such a policy were adopted it might be misunderstood, and construed as a restraint upon healthy competition. State Banks would no doubt organize to satisfy the demand which is now being satisfied by the organization of small national banks. But if national banks had the power to open branches in these smaller communities where demand for banking facilities arise, it would likely operate to restrict the organization of State banks of small responsibility and poor management.

3. The capital requirement.

While I agree with you that the minimum capital requirement should be increased as you suggest, I am not sure that the requirement to maintain a ratio of 15% of deposit liabilities would prove practicable or even fair. It assumes a certain constancy in bank deposits which we know does not exist, and would not give regard to the protection afforded by varying proportions of surplus. If the capital requirement for national banks is increased to a minimum of $50,000, should it not be done in such a way as not to interfere with conversion into National banks by State banks with smaller capitalization, nor with their admission to membership in the Federal Reserve System? This is a subject which Mr. Jay and I have discussed at some length, and I believe we are both agreed that the protection of the System in the long future will be best served by having as democratic and widespread a membership as possible, notwithstanding the responsibilities resulting from that type of membership.

4. Segregation of Savings Department Assets.

The present situation may be briefly outlined as follows: Most state banks and trust companies have the right to take savings accounts. National banks are widely advertising and developing interest departments where depositors accept passbooks containing a contract under which the bank retains the right to require a thirty or sixty day notice before withdrawal. We have estimated that 40% in the growth of commercial bank deposits in the last twelve years consists of accounts of this character, - a total of possibly $9,400,000,000. When the bank gets into difficulty it usually requires the notice of thirty or sixty days, and then converts or pledges its best assets in order to meet withdrawals of demand deposits. If the bank finally fails, the savings depositors are left with the poorest assets to liquidate their claims when, as a matter of fact, they are the depositors -- generally poor people with small savings -- who should be afforded the maximum of protection. The following list of dividends paid thus far in the case of four closed trust companies in Boston illustrates the protection afforded to these depositors where there is a segregation law:

	As of April 18, 1924	
	Commercial Department	Savings Department
Hanover Trust Company	35%	100%
Prudential Trust Co.	53-2/3%	100%
Cosmopolitan Trust Co.	16%	70%
Tremont Trust Company	29-1/6%	86-2/3%

And it is not unlikely that the reverse of this result would have been the case with these concerns had there been no segregation law. I am told that a proposal for the segregation of assets for the benefit of savings depositors would meet with strenuous opposition from bankers generally. This might be overcome if requirements as to the investment of savings deposits were generous, but such requirements should, nevertheless, contain definite prohibition against the investment of any such deposits in loans or investments in which any officers or directors

. the bank are directly or indirectly interested; and it should be safeguarded as to operations which would effect, indirectly, exchanges of assets between the two departments. Has it occurred to you that some added protection might be afforded these depositors by giving them a prior claim upon the uncalled liability of stock holders?

5. Loans to Officers and Directors.

Statistics have been made as to causes of bank failures in this country which I think quite uniformly disclose the fact that the great majority arise from some form of abuse of the bank by directors and officers. It has been generally considered that this is particularly true of banks in the larger cities, but I doubt if that is the case. In our experience, small banks in small communities generally have as officers and directors the active business men of the community who are the bank's largest customers, both depositors and borrowers, and I believe that conditions of this character causing bank failures are much more prevalent in smaller than in larger banks. The data on this subject could be obtained from the Federal Reserve Banks as it is now all in their files (so far as it relates to members) and I believe the results would show a startling and striking exhibition of bad, if not dishonest, management. New safeguards are certainly required.

6. Section 5200.

This entire section should be rewritten to make definitions clearer. And much light could be thrown upon the subject by the investigation of bank failures discussed under #5. I believe that this should be done, and that the operating officials in the Federal Reserve Banks who pass upon the paper offered for discount, and who are familiar with the various difficulties caused by Section 5200 should be asked to submit their views. But in asking their views they should have before them a specific questionnaire covering all aspects of this section, so as to secure uniformity of expression. I do not think that any limitation should apply to loans secured by United States obligations, and am very doubtful of the wisdom of attempting to cover paper given in settlement of past due accounts. The difficulty of definition and of proof as to past due accounts would seem to me to be considerable.

7. Borrowing by Banks.

A careful investigation of all cases where additional collateral is taken from member banks will throw some light on this subject. While I am opposed to the practice as developed in some cases, I think you will agree with me that the Reserve Banks have some responsibility to see that the loans which they make are good. And many banks have been saved from failure by Reserve Banks taking doubtful paper with additional collateral. But there is a point where discretion must be exercised in the taking of additional collateral, in order to avoid the charge that the Reserve Banks are doing injury to depositors. Is not this really a question of policy which could be dealt with by more definite understandings within the System rather than a question to be dealt with by amendment to the law? If the restraint is to be applied to the borrowing bank, it would very much hamper the Reserve Bank in exercising discretion; and what is really needed is sound discretion rather than statutory restriction.

I have not yet had opportunity to make even a preliminary study of the provisions of the McFadden bill mentioned on pages 4 and 5 of your memorandum following #7, but will hope to cover them in a second letter.

In general, I think any scheme for amending the National Bank Act should be directed towards simplification rather than elaboration. Our banking laws, with the addition of the Federal Reserve Act and various other Acts bearing upon the operations of the Federal Reserve Banks, have now become so complicated as to be a cause of confusion and complaint. A conscientious officer of a national bank must familiarize himself with the provisions of the National Bank Act, of the Federal Reserve Act, of the Regulations of the Federal Reserve Board, of the various circulars of the Federal Reserve Banks (which are legion in number), of the Clayton Act, and of the other Acts of less importance. Banking in this country is largely conducted in ignorance of the law rather than with due regard to the law. In fact, I think much of the law on the subject is unnecessary. The best illustration of that is afforded by the Federal Reserve

Act itself. As I recall, the original bill occupied about sixty-five pages in the usual type in which bills are printed by Congress. The Act is badly drawn, confusing and misleading in various of its provisions, and it is almost hopeless to interpret parts of it. On the other hand, the sole provision of that Act which authorizes the Federal Reserve Banks to conduct the vast transactions which they now do for the United States Government occupies only four or five lines, and yet there has been no difficulty, no confusion, there have been no losses, no scandals in conducting the great business for the Treasury. There has, however, been endless confusion and difficulty and complaint in conducting the other business of the Federal Reserve Banks. If we could have less law and more intelligence and integrity in the management of banks, the country would be better off.

Very truly yours,

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Mass.

Bb.USB

Miss McCarrick

October 24, 1925.

My dear Professor Sprague:

Mr. Jay has asked me to acknowledge your letter of October 20 to him, enclosing a copy of the investment banking proposal so amended as to be inserted at the end of section 5200, as you have rearranged that section for your report to the Advisory Committee.

While I have not got a copy of your rearranged draft, nevertheless there are one or two comments concerning the investment banking proposal which Mr. Jay suggested that I might make to you in acknowledging your letter.

As I understand it, what you are trying to accomplish in amending section 5200 is to place a maximum limit of 25 per cent. not merely on the investment securities issued by one borrower, but rather upon the aggregate of investment securities and other obligations which would come normally within the 10 per cent. limitation of section 5200. If that is so, I am wondering whether it might not be clearer to reword the restrictive phrase in your proposed section so as to read somewhat as follows:

"Shall at no time exceed 25 per centum of such capital and surplus, less the amount for which such borrower is directly liable to such national bank under the original 10 per cent. limitation of this section."

This may not be precisely in the form that you would want, but it conveys the idea that is in my mind.

I am also a little doubtful whether your proposed draft covers the question of foreign government obligations. At the present time, section 5200 has been ruled not to apply to such obligations since a government is not a person, a company, a firm, or a corporation. Your draft of limitation on investment securities would clearly subject a foreign government obligation to the 15 per cent. limit since it would be an obligation of "a borrower in the form of bonds." But what would be the significance of the further phrase "in addition to such 10 per centum of such capital and surplus," if, as has already been ruled, such 10 per cent. does not apply to the obligations of a foreign government? There may not be anything in this thought, but it does seem to me that it is sufficiently ambiguous to be another reason for redrafting your restrictive phrase in the manner I have suggested. If that is done, then there is no doubt that a national bank might purchase up to 25 per cent. of its capital and surplus in foreign government obligations as well as in any other form of investment securities, provided there are no other direct liabilities using up a part of the total authorized.

Your proposed draft provides that any contingent obligations incurred in connection with the sale of investment securities shall be included as liabilities under section 5202. It seems to me to be doubtful whether this clause would be necessary now that your investment security amendment is not a grant of further power to national banks, but is merely a limitation upon existing power. Any liabilities incurred under existing power, therefore, would automatically come within section 5202 unless expressly exempted. As I remember our discussion, our only fear that contingent liabilities of the kind to which you refer might be excepted was the present provision in section 5202 "excepting liabilities incurred under the provisions of the Federal Reserve Act." Since your proposed amendment does not purport to amend the Federal Reserve Act, and particularly since it is not a grant of new power in any event, it seems to me there is nothing to be gained by making any reference whatsoever to section 5202.

There is only one other thought which we had in mind. That relates to the last proviso of your proposed draft concerning the applicability of person, a company, a firm, or a corporation. Your draft of limitation on investment securities would clearly subject a foreign government obligation to the 15 per cent. limit since it would be an obligation of "a borrower in the form of bonds." But what would be the significance of the further phrase "in addition to such 10 per centum of such capital and surplus," if, as has already been ruled, such 10 per cent. does not apply to the obligations of a foreign government? There may not be anything in this thought, but it does seem to me that it is sufficiently ambiguous to be another reason for redrafting your restrictive phrase in the manner I have suggested. If that is done, then there is no doubt that a national bank might purchase up to 25 per cent. of its capital and surplus in foreign government obligations as well as in any other form of investment securities, provided there are no other direct liabilities using up a part of the total authorized.

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There is only one other thought which we had in mind. That relates to the last proviso of your proposed draft concerning the applicability of

State laws. While I am not certain of your purpose in including this provision in your proposed draft, it was my impression that when we discussed the question at our first meeting in New York, we were all inclined to the belief that it would be better to eliminate that particular clause. It may be that you have further reasons making it advisable to include it. I mention the matter merely because we thought you might possibly have included it only by inadvertance.

I know that you will consider these suggestions merely as a result of our ex-parte consideration of your draft. Mr. Jay and I will both be in Washington the latter part of next week, as I presume you will be, and we shall be glad to talk to you then if you have any further thoughts that you would like to discuss with us.

Very truly yours,

GEORGE L. HARRISON,
Deputy Governor.

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Mass.

GLH.MM

Sprague

April 17, 1926

My dear Professor Sprague:

With this I am enclosing copy of Bankers Trust Company Letter of Credit #58936, in the sum of $2,500. together with two specimen signature forms to accompany the letter of credit.

Will you be good enough to sign the letter of credit on the reverse side, as indicated in pencil, and place a specimen of your signature on each of the forms, returning all three direct to the Bankers Trust Company in the enclosed envelope.

The original letter of credit, together with the necessary identification, will be held here awaiting your arrival next week, when, with your passport, it will be ready for you.

Very truly yours,

Secretary to
Mr. Benj. Strong.

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Mass.

Encs.

Stuyvesant Road,
Biltmore Forest,
Biltmore, N.C., February 14, 1927.

Dear Professor Sprague:

I know you understand that this very belated note of thanks for the books you kindly sent me would have gone long ago, had it not been for my illness. It was most thoughtful of you to send them, and I have enjoyed them both.

I shall long remember our trip abroad with the keenest pleasure and wish we might do it again. I shall in fact be going to Europe this year again, if health permits, and if there is any chance of your being over there, do let me know so that we can have a meeting.

Probably you have heard that the Indian Government has adopted the plan of the Currency Commission "in toto". I hope it proves to be a success. The only important point on which I dissent, as I believe you do, is in making the 1-rupee paper note unconvertible into silver rupees, and I hazard the guess that, either before the plan is put into effect or after experience shows the need for it, the plan in that respect will be changed.

I shall not be back at the office until April, and hope then to have the pleasure of seeing you.

With warmest regards and many thanks for many things, I am

Sincerely yours,

Dr. O. M. W. Sprague,
Harvard University,
Cambridge, Mass.

BS:M

Sl[illegible]

2

Stuyvesant Road,
Biltmore Forest,
Biltmore, N.C., February 27, 1927.

CONFIDENTIAL

Dear Professor Sprague:

The two articles from the "Annalist" have just reached me and been read.

In reading over the testimony given before the Young Commission and the Commission's report, I was again impressed, as I always have been, by the apparent complication of the Indian monetary situation and the almost complete lack of knowledge of the Indian difficulties by American bankers and others. Your article in the "Annalist" will help to give the folks who read it some idea of the situation, but I am glad you wrote it anyway, for the further important reason that it should serve as some assurance to people who have been making all sorts of dire prophecies as to the outlook for silver.

By the plan which Blackett proposed, there would have been a deliberate purpose to liquidate a vast amount of silver, which I believe would have spelled disaster as we all agreed. By the plan now recommended and, as I understand, adopted by the Indian Government, the agencies of the Government and the new reserve bank are both committed by declaration and will be induced by motives of policy to do what they can to maintain the price of silver. It is in fact upon this particular point that I think you and Hollander and I may take some credit for having influenced the attitude of the Commission.

But I wanted particularly to write you about your other article as to discount rates, and you will, I know, regard what I write as quite for your own information only. Speaking very broadly, the policy of the Reserve

System of the past three and one-half to four years, so far as I understood or had any influence in forming it, was designed to accomplish three major purposes:

(1) One was to take the pressure off the money markets and both indirectly and directly bring relief to the embarrassed banking situation throughout the West.

(2) The second was to endeavor, through lower rates and a freer use of credit, to afford some stimulus to business and to overcome the tendency which developed so strongly in 1923 towards a period of real liquidation and price decline.

(3) The third was to open up our markets to foreign borrowing and so to lay the foundation for monetary reorganization abroad.

You probably heard me outline something of this before the House Banking and Currency Committee.

Now, the question arises as to whether circumstances of the present day suggest or justify again a lower level of interest rates. I would like to have your views about it in more detail than expressed in the article. My own thought has been that the policy of the past few years has accomplished its main purposes, that is to say, the banking pressure has been relieved. So far as the use of credit could accomplish it, the danger of a business liquidation has been avoided, and certainly our contribution toward the restoration of monetary order in Europe has gone a long way towards complete success. Viewing the consequences of this policy, however, we must bear in mind that the total amount of Federal Reserve credit of all of our markets is in the neighborhood of $200,000,000. above what it was a couple of years ago, and that during the last year we have in addition received about $100,000,000. of foreign gold, net. The accumulation of foreign loans in the hands of American investors has now imposed upon Europe a burden of paying interest and amortization to this country (including the debts funded to our Government) of about a billion dollars. The ability of borrowers abroad to meet this heavy charge has, in my opinion, been furnished as the result of three developments:

(1) Shipments of gold;

(2) The return of fugitive capital to Europe;

(3) The repurchase by Europe of large amounts of these foreign loans placed in our market.

I think our judgment about a rate policy should largely turn on a determination, if that can be made, as to whether the present volume of credit is adequate for our own trade and whether, on the other hand, if that is the case any increase in facilities to borrow money from the Reserve Banks or any reduction in interest rates due to open market purchases may not stimulate excessive and unnecessary borrowings from abroad in our market, and at the same time stimulate speculation of one or another kind, principally in stocks. A period of cheap money which invites this sort of a development is almost invariably accompanied by large investments by banks of deposit in securities. Their investment account is now already very large.

On the whole, I have ~~not~~ felt that, with business well sustained in this country, with our banking difficulties pretty well behind us, and with the progress made abroad in monetary matters, we could now well afford to maintain our discount rate and our rate for purchasing bills at about the present level. By so doing, as money rates during the dull Summer period sag below our rates, we would naturally absorb the surplus of credit in the market and so reduce the total volume of our own earning assets. If we lost control of the market, that is to say, if money rates eased so appreciably, due to the accumulation of surplus balances in New York, these could be mopped up by gradual liquidation of our security holdings. On the other hand, at some point, I recognize that a real liquidation might result which would have some effect upon general business and the minute evidences of it appeared it would then be desirable for us to purchase securities and so lay the foundation, if necessary, for a lower discount rate.

This whole question is involved in the problem of gold. If we maintain our rates at too high a level, we prevent the foreign banks of issue from reducing their rates and we invite further gold shipments. Most of the banks abroad have themselves already lost control of their own money markets, but if we reduce our rates and if money is sensibly easier in this country, we then certainly invite speculation and overlending. The fact is we are laboring at present under the disadvantage of having too much gold and rather too slender a hold on our own credit situation. If we could only induce Congress to permit us to convert all of the National Bank notes, giving us a new form of Government security which would really be marketable, we would be in a much more comfortable position.

I have written you quite frankly what is going through my mind, in the hope that you can find time to write me yourself. I value your views and your disinterested point of view.

With best regards, believe me

Sincerely yours,

Dr. O. M. W. Sprague,
Cambridge, Mass.
BS:M

Stuyvesant Road,
Biltmore Forest,
Biltmore, N.C., March 7, 1927.

Dear Professor Sprague:

I liked your letter, both for the substance and the form. With most of it I think I can agree. My own letter to you was defective in that I did not give you two points of view which I believe are essential to a meeting of our minds. It involves a long and complicated discussion of our relations with European banks of issue and with the general trend of development abroad, as well as at home.

To put it in a nutshell, I think the opportunity is now approaching for us to undertake some new developments in the Federal Reserve System which are in every way desirable and which will meet some of the requirements of a plan along the line of your analysis. The other omission from my letter has to do with the possible termination of the period of active and constructive cooperation towards monetary reorganization abroad, followed (for the memory of favors conferred is always short) by the development of nation-wide, organized and possibly international competition with the United States.

The outlook now is for my return to New York some time in April, always barring accident. There is also a possibility of my leaving for Europe say in June, again barring accident. In that interval, I would enjoy opportunity for a talk with you about the subject of our correspondence and other matters of equal or greater importance. So prepare yourself some day for a telephone message or a wire asking you to come to New York to spend a day or two with me for this purpose. A letter is inadequate to cover the ground. But just the same, I enjoyed your letters, and if you feel inspired to write me again, please do so.

It was very good of you to suggest to Allyn Young that he send me a copy of his letter to O'Connor. I read it with much interest - in fact with some amusement - and wondered whether you had been preaching to him. But it is not the kind of letter which I could comment upon very fully.

Nothing is going to happen between the date of this letter and when I hope to see you, except possibly that we may be formulating views more definitely than just now, at a season when changes are rather rapid.

Did you see that bills to give effect to the recommendations of the Indian Currency Commission have been introduced in India; it looks as though the program were marching ahead pretty rapidly.

My best regards to you as always.

Sincerely yours,

Dr. O. M. W. Sprague,
Graduate School of Business Administration,
Harvard University,
Cambridge, Mass.

BS:M

Strong Files
Sprague

copy of this and
follow letter
March 22 + 25, 27
on file 010.82

Stuyvesant Road,
Biltmore Forest,
Biltmore, N. C.,
March 16, 1927.

Dear Professor Sprague:

During the last few weeks I have had some correspondence with Congressman Strong in regard to his bill which we discussed at hearings in Washington. I want your advice about the matter.

He is very earnestly seeking to accomplish what appears to him to be a very simple thing, and what impresses us to be a dangerous thing. He is conscientious and not in any sense making an attack upon the System and its management, but rather the reverse. He writes me that he believes the Federal Reserve System has had a remarkably brilliant management during the last few years. He has no complaint on that score. He fears changes in personnel and the influence of time upon the management under the terms of the Act as now written which contains no direction or mandate or even suggestion as to stabilization policy. He thinks that if something could be written in the Act it would afford all the protection to the country against some drastic policy of inflation or deflation, and that without some such amendment to the Act Congress will be derelict in its duty, and the System may drift into hands which will be careless or unintelligent or even actuated by improper motives, political or otherwise.

Under these circumstances my inclination is to endeavor, if possible, to be of some assistance to him in finding a formula which will meet his views and avoid our objections. He has prepared a third revision of his proposal, of which I presume you have received a copy. A difficulty has arisen by the fact that he submitted his proposal to the Federal Reserve Board and they submitted it to the Federal Advisory Council, and I believe both the Board and the Advisory Council turned down his proposal or raised some objection to it. This rather cramps my style. I ~~am~~, however, considering whether it may not be feasible to have some informal discussion at the next conference of the Governors of the Reserve banks, to be held early in May, which I shall be able to attend, and see if a friendlier and more constructive spirit and attitude cannot be developed.

Without attempting language, my own thought has been to endeavor to introduce language in the preamble to the Act so that it will indicate intention by Congress that the Reserve banks shall have some responsibility for the establishment and maintenance of the gold standard, and then, somewhere else in the Act, introduce some language which will indicate that Congress intended that the Reserve bank should serve as a stabilizing influence on business, and not necessarily as an instrument for making earnings for the Treasury or for financing the Treasury's loan operations.

This, of course, is very difficult to frame, so that it shall not by implication go too far. It has occurred to me to couple it with a general declaration that the Reserve banks are really public service organizations to perform certain banking services for the banking community and for the public. An amendment of that character would go some distance in relieving us from the constant criticism by member banks and others that we are invading their functions. I should hope it could be so worded as to get away from the idea which he has so strongly in mind that we can at all times and under any conditions serve the purpose of the price stabilizer.

I hope you are not too busy to give this matter a little thought, and give me the benefit of your views.

With kindest regards,

Sincerely yours,

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Massachusetts.

I hope you are not too busy ~~to~~ give this matter a little thought, and give me the benefit of your views.

With kindest regards,

Sincerely yours,

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Massachusetts.

Stuyvesant Road,
Biltmore Forest,
Biltmore, N. C.,
March 24, 1927.

Dear Professor Sprague:

An old friend of mine, Mrs. Postel Thwaite Cobb, has a son in Harvard who has become interested in the courses in economics. She is anxious to get some good advice about his work at Harvard, and I have taken the liberty of recommending that she try to see you. She will be in Boston probably on the 12th of April and will communicate with you. If you can give her some indication of what you think will be a good programme for the boy I am sure it will please her very much and be very helpful as she has no one to advise her.

You may know something of him. His name is Henry Cobb, and it may indeed be that he is in one of your classes.

I have taken the liberty of singing my old swan song to her and expressing the view that school and college courses should be to train the mind and not stuff it full of information. If he is going into a profession his mental training should be well advanced before he enters medical school, law school, or technical school of any kind, and the selection of his courses prior to undertaking his technical education should be with a view to his aptitudes and for the furtherance of his later preparation for a profession.

She thinks that he will not take up a profession, but will go into some business, in which case I rather encouraged the idea that if it interested him he might concentrate on economics and build up his courses around that subject.

If you disagree with this I hope you won't hesitate to tell her so.

Stuyvesant Road,
Biltmore Forest,
Biltmore, N. C.,
March 24, 1927.

Dear Professor Sprague:

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If you disagree with this I hope you won't hesitate to tell her so.

I shall appreciate very much any advice or help you can give her.

Sincerely yours,

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Mass.

Dear Professor Sprague:

A [illegible] friend of mine, Mrs. [illegible] Cook, has a son in Harvard who has become interested in the courses in economics. She is anxious he get some good advice about his work at Harvard, and I have taken the liberty of recommending that she try to see you. She will be [illegible] probably on the 12th of April and will communicate [illegible] can give her some indication of what you think will be a good [illegible] for the boy I am sure it will please her very much [illegible] as she has no one to advise her.

The boy [illegible] him. His name is [illegible] Cook, and [illegible] in one of your classes.

I have taken the liberty of [illegible] my old view [illegible] to her that [illegible] school and college courses should be to train the mind [illegible] full of information. If he is going into a profession his special training should be well advanced before he enters medical school, law school, or technical school of any kind, and the selection of his courses prior to undertaking his technical education should be with a view to his aptitudes and for the furtherance of his later preparation for a profession.

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If you disagree with this I hope you won't hesitate to tell her so.

Strong
Sprague

Hotel Brighton,
Atlantic City, N.J.
April 12, 1927.

My dear Sprague:

My address here indicates that I am gradually marching back towards the bank. The delay in answering yours of the 31st is occasioned by my having no assistance for mail, which has now arrived.

I am most grateful to you for your assistance to Mrs. Cobb. You have doubtless seen her by now.

As to the problem you propounded, I am a bit puzzled. My own experience with a period of declining interest rates is in the late nineties, and it was not a pleasant experience but, of course, it was when our banking machinery was unregulated. I remember the City of New York borrowing money at 2 1/2 per cent. on tax exempt bonds when Meyer was comptroller; the Northern Pacific putting out a 3 per cent. bond issue. The ease of money was the result of the immense liquidation in the last decade of the last century. It culminated in what we knew in Wall Street in those days as the "Poor + Greenough" period. That firm, you may recall, put out a prospectus for some new consolidation of industrial or other concerns almost every day. We had a booming stock market and, as I recall, a very pretty collapse afterwards. Banks were making bad loans pretty generally, and the final culmination was undoubtedly the panic of 1907.

This comments on your paragraph No. 1. As to No. 2, the rigid rate of interest on deposits has been somewhat modified by the various clearing house arrangements for reducing interest rates when conditions such as changes in the Federal reserve bank discount rate indicate the need for it. Such arrangements may apply indeed only to deposits in a dozen or so of the more important banking centers, but it is really only there that these changes of rates on deposits areimportant because most of our country banks, as you know, maintain fixed rates at around 6 per cent. for most of their loan business. I think a long step has been taken towards introducing an element of flexibility in the cost of deposits to offset changes in rates realized on earning assets.

No. 3. Here I agree with you that we have been in a period for some time now where capital funds have been replacing bank funds due to the ease of placing security issues. But after all, this period of financing our great industries, and especially the railroads and public utilities, has been long deferred. It is a dozen years or more since they could get capital on reasonable terms, and it may be that they have leaned too heavily upon the banks pending this opportunity to do some real capital borrowing.

No. 4. As to the suggested conclusion, I am not as much afraid of the consequences of a speculation as are many of my colleagues, but I am perfectly satisfied that the introduction of more Federal reserve credit just now either through security purchases or lower discount rates, would invite a speculation which might become dangerous.

What I am more inclined to fear would be the invitation of easy money to an even greater amount of foreign financing than is now being done, and of a character which on the whole would not be as good. To my mind the most significant decline in interest rates which has taken place is that occurring in foreign markets. I should like to see that progress further and invite to a larger degree domestic financing of their industries rather than too great a reliance upon our markets. The two outstanding developments of the last three or four years have undoubtedly been the enormous foreign loans made by our markets and at the same time the development of a greater reliance upon our banking establishment through the operation of ~~a~~ the so-called gold exchange standard. It makes the world financial position one of great sensitiveness just now to any important change in the cost of credit in this country. Just how it is all going to turn out is as yet to me a mystery, but we are doing quite a little studying on this subject at the bank, and in the meantime I am rather inclined to leave the situation just about as it is upon the general theory of letting well enough alone. But I am open to conviction, and shortly after my return about the 20th I want, very much to get you and Allen Young and Wesley Mitchell and Hollander and one or two others to come down to dinner and talk over some of these things. I have already sent a warning to Mitchell and Hollander, and as soon as my plans are a little more certain, will indicate a date. How does it strike you?

Sincerely yours,

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Massachusetts.

Hotel Brighton,
Atlantic City, N. J.,
April 16, 1927.

My dear Sprague:

This is just one parting shot in reply to yours of the 14th, as I am leaving here for New York on the 21st and shortly thereafter I hope we can have, not one, but many meetings.

What reflections are stirred in my mind by the last line of your letter in which you refer to "those other economic babblers." One word sometimes starts a trend of thought as in this case does the word "other." Surely you do not class yourself as an economic babbler? I don't want you to shake my confidence in your advice which I so often seek and find so good.

I am in hearty agreement with what you write about the dangers of this growth of time or savings deposits. Eight years ago we started to take this up with the Federal Reserve Board and have repeatedly brought the question up. I can see no possibility of any modification of reserve requirements, and would hardly dare advocate it myself anyway. It was for that reason, as much as any other, that I had the temerity to suggest over a year ago when we were in Washington together that a segregation of assets should be imposed upon banks doing this class of business. Unless I am mistaken substantially one half or more of the entire growth of bank deposits in the United States in the last eight or ten years has comprised these particular accounts, carrying but 3% reserve, and in most cases without any restriction or limitation upon how the funds should be employed except those applying to real estate mortgage loans. It seems to me the development is weakening banking in this country, both in its foundations and in its superstructure.

As to the last and more immediately pressing question in your letter I had not heard that any serious move had been made towards liquidating our investment account. Of course, I am only one of many voices in the councils on these matters, but I can tell you frankly for myself that such a proceeding would only take place over my dead body. I am satisfied that every director in our bank in New York would feel as I do. As for increasing the amount, I think the possibility of doing so depends upon certain specific developments of which we have fair knowledge, and just how they turn, but partly upon a more definite disclosure of the tsend of business than we yet have. The only question in my mind is whether there should be an increase, whether it should be sampler to deal with certain specific developments which may shortly arise, or whether it should be extended to a more general policy. I have been too long out of the atmosphere of the bank to have a definite opinion, and my correspondence with you and Mitchell and others has been with a view to getting outside opinions which are detached from the day to day problems of the bank.

I hope you have decided to take part in the inquest. I am afraid of that sort of thing. It is just now utterly uncalled for, but a few wise counsels there will be very helpful. Dr. Stewart who was down here has been in touch with Chellis Austin of the Seaboard Bank who is chairman of the committee, and if you get in touch with Dr. Stewart he can tell you a lot about it.

My best to you, as always,

Sincerely yours,

Prof. O. M. W. Sprague,
Harvard University,
Cambridge, Mass.

Sprague

April 25, 1928.

My dear Professor:

I stopped by the Marguery this morning to see Mr. Strong, told him of your telephone conversation, and asked him whether he had as yet received a transcript of his testimony before the Banking and Currency Committee on Congressman Strong's stabilization bill. He said that he had received it the first of this month but that his doctors would not let him tax his eyes to the extent necessary to read or edit it.

I suggested that I send the record directly to you today so that you might read it before your visit to Washington. To this he agreed and added that he would appreciate your making pencil changes or suggestions anywhere you think fit. I know it would be a great help to him if you would take that trouble as he is supposed to send it to Washington sometime this week. Please do not burden yourself with the details of editing, but as much as you can do he would appreciate.

If you will send the record back to me when you have finished with it, I shall turn it over to Mr. Strong or else ship it along to Washington.

It is not yet certain whether he will go to Washington next week. I think, myself, that it is unlikely. That being so, he will probably be here in town on Sunday, but I shall let you know more definitely tomorrow or Friday.

My best to you, as always,

Faithfully yours,

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Mass.

GLH.MM

Enc.

Miss Sprague

CONFIDENTIAL

May 7, 1928.

+ copy ? this letter on file 010.82

Dear Sprague:

I was glad to have your letter of May 3. It is one of the few that I shall attempt to answer before sailing for Europe on Friday.

The question of direct action or rate action is entirely one of opinion, and my opinion is largely based upon experience. I cannot give you a fair expression of my opinion without writing very frankly, and to do that I must write very confidentially, so please hold this letter as between you and me alone.

Direct action turns upon the phrase on the second page of your letter, "in a careful and elastic fashion." Is there any such fashion possible? The way things work is about as follows:

Bank No. 1 borrows a considerable sum of money from us at the same time that it is lending on the Exchange (or even for the purpose of lending on the Exchange) at a time when rates advance and become profitable, although the latter is now almost eliminated. Observing your phrase "careful and elastic" we say to the president of the bank, "Please do not borrow from us when you can adjust your reserve position by calling loans on the Exchange." The bank takes our word for it and they are thereupon in a frame of mind where they won't lend a cent on the Stock Exchange to adjust their reserve position when they have any loans that they can call, with the minor exception of loans to brokers who are really customers. Then we do the same thing with Bank No. 2 and Bank No. 3, etc., all of whom are only occasional borrowers from us and all of whom are constant lenders on the exchange. In other words, they are always lending on the Exchange and they occasionally borrow temporarily from us to adjust their position until maturities, sale of investments, increase of deposits, or the calling of Stock Exchange loans restores their Reserve. This usually takes place in a very few days. If we should pursue this policy with so few as twenty of the largest banks in New York and they observed our admonition, there would come a day when, due to the movement of funds out of New York or due to the coincidence of a number of these banks having reserves impaired at the same time, or due to gold exports, or due to any of the various causes of reserve deficiencies, there would be absolutely no money to lend on the Stock Exchange at all. Money could go to almost any figure. The result would be an immediate alteration of the rate structure of the whole money market. It would, of course, have the inevitable consequence of inviting a large amount of out-of-town funds to New York.

Now let us go a step further and show that, applying the rule of doing all of this in a careful and elastic fashion, we say to each of these banks, "We want you to use good judgment about your stock exchange loans. Do not come to us unless circumstances really justify your doing so. I will ask you to try and describe those circumstances. Who is to instruct each of these twenty banks about the circumstances and when the coincidence of need arises? The fact is, there is no middle ground between almost complete freedom of lending on the Exchange and rationing credit. We have too many banks, and loans are made from too many quarters other than banks. If we say to the member banks that they should pursue a certain policy about their loans, they at once say, "This is all well enough for us, but we have many industrial or other customers for whom we lend on instructions, to whom we cannot extend the rule of conduct that you endeavor to impose upon us."

As to the out-of-town banks, I would regard any rule of conduct as unnecessary and superfluous if we could control the New York banks by direct action. But assuming that we did endeavor to control the out-of-town banks through the interior reserve banks, I think I can prophesy, with reasonable certainty, that the results would be about as follows: A certain number of them would tell their reserve bank to mind their own business. A certain number of them would observe the rule just as the New York banks would, and make no loans at all., A certain number number of them would raise such a howl that we would be in hot water at once.

Now there is a method of dealing with this matter which I believe would be effective, and there is really only one reason why it cannot be employed. If all the large reserve banks except New York raised their discount rates by one per cent, say to 5%, the drag upon New York would be such as to throw the burden of borrowing from the Reserve banks entirely upon the New York member banks. It is astonishing how promptly and effectively this works. It is due partly to the withdrawal of funds from New York which results from that action, and largely to the fact that large borrowers having borrowing facilities in various markets, under those conditions borrow in New York. The minute we have a very large loan account at the Reserve Bank of New York, the large member banks are continually calling their stock exchange loans. This calling of loans is a process of selection or discrimination. Each bank picks out the weak house or the house which has loans with pooled stocks or stocks which have advanced rapidly in price, or those which are less well-regarded. Every day this churning process takes place. The less desirable borrowers are harassed to death by the need for borrowing money. The better borrowers are harassed by the discrimination against certain types of collateral. They in turn go to their customers for more margin or to take up the stocks that are complained of, and it is not very long before the whole psychology changes. I admit that this very process does itself inevitably effect an alteration in the general level of the money market but it involves much less danger than such as first described by direct action. Now the reason why a policy of this sort cannot be adopted in the Federal Reserve System is because there is not courage enough in the System to do so. The outcry against advancing discount rates in the agricultural section, the outcry against cheap money in the speculative market, and all of these various unsound objections are harped upon and rehearsed in the press and dinned into the ears of Congressmen, and then everybody says, "Look out, we shall have some legislation which will destroy us."

Had I not been ill and had been able to appear before either the Senate Committee or the House Committee, or both, I would have said exactly what I have written to you, but possibly in more discreet language. There are, of course, always two dangers confronting us. One is a serious, violent and calamitous collapse of stocks. I regard that as rather slight so long as there is always a supply of funds at some price. The other is that either advancing rates for money or a combination of advancing rates for money and a collapse of stock prices will have an adverse effect upon business. That is where discretion must be shown as to the extent to which aggressive action is taken. There is, of course, another more remote danger, but one of which I have little fear just now, namely, that high money rates would so restrict our loan market as to have a definitely adverse effect upon our foreign trade at the same time that large balances were returning to this country from Europe. That danger is much less than it was, and is one that can be promptly remedied after a wholesome dose of medicine has been administered in curing the domestic situation.

The really fundamental difficulty in a number of these matters is lack of courage to act effectively or sufficiently effectively and with sufficient promptness so that the remedy is accomplished without damaging consequences.

I hope you will pardon the vigorous language used in this dictation. If you have ever had the shingles you will understand that it affects one's nervous system to a point where little short of profanity appears to be an adequate expression of one's opinions or views. But any way, dear Sprague, I send this with my blessing and good wishes, and I am glad you gave the committee a good dose of your views, whether I agree with them or not.

Sincerely yours,

Professor O. M. W. Sprague,
Harvard University,
Cambridge, Massachusetts.

HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

Jacksonville, Alabama.

Jan. 15, 1922.

My dear Mr. Strong:

Pray, accept this belated acknowledgement and appreciation of your courtesy in sending me a copy of the hearings before the Committee on Agricultural Inquiry relating to the reserve system. I have finally read the volume with very great interest and profit, here in the rather retired spot where I am spending a part of a year's leave of absence from Harvard, working on a book about means of lessining cyclical industrial changes.

While I find myself in hearty agreement with most of your analysis of the operations of the reserve banks, I could wish that you had placed responsibility #squarely upon the Treasury Department for the policies that permitted the excessive credit expansion of the twelve months period ### from the late spring of 1919. It is most unfortunate that the reserve system, especially in these its first years, should be obliged to bear burdens which are mainly the outcome of the short-sighted policies of Government officials. Altho I am a more or less ## partisan Democrat, I should prefer to see the guns of Heflin et al. trained upon Messrs McAdoo, Glass, and Leffingwell.

With the view, you express, that the course of prices

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CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

is not should not be a factor in the determination of discount policy, I am in violemt disagreement, unless it is based upon the present unreadiness of the public for action with that end in view. In periods of active business, the reserve banks are the most potent single factor in the determination of prices. I hope you will pardon me if I say that your attitude reminds me of that taken by the directors of the Bank of England before the publication of Lombard Street.

One further matter of general import! It seemsto me that you exaggerate somewhat the self- liquidating character of commercial loans, e. g. p.794, with the implication that the limitation of discounts to commercial loans is very nearly a sufficient and almost automatic safeguard against undue expansion. But as prices rise, an increasing volume of commercial paper is created in connection with a given physical volume of transactions, and for such price advance expanding credit is largely responsible.

It is a matter of no great significance, but I doubt whether the sequestration of gold in 1915-16 had an appreciable effedt in restraining credit expansion. More pocket currency was required, and if Federal Reserve notes had not been available, banks would have been

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O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

obliged to pay out money of the kinds that could be counted at that time in meeting reserve requirements.

What you said about the significance of the presence or absence of branch banking, and the comparison between the New York and the London money markets seemed to me particularly good in a discussion which abounds in good things.

Very truly yours,

O. M. W. Sprague

GOVERNOR'S SEC'Y.

JAN 20 1922

HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

WILLIAM JAMES CUNNINGHAM
JAMES J. HILL PROFESSOR OF TRANSPORTATION

CAMBRIDGE, MASSACHUSETTS

ACKNOWLEDGED
AUG 11 1922
R. S.

Greensboro, Vt.

Aug. 8, 1922.

My dear Mr. Strong:

I shall be much interested in looking over the document on discount rates, and will gladly set down my thoughts on the subject. As I am my own typist, here in the woods, I shall probably content myself with a rather brief statement of my impressions.

If the document is accompanied with data on the volume of the various kings of loans, it might be helpful. I may also add that the open market investments of the bank are to me the subject requiring the most elucidation.

Very sincerely yours,

RECEIVED BY
GOVERNOR'S SEC'Y

AUG 10

HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS
October 3, 1922.

My dear Mr. Strong:

Returning to Cambridge after an absence of more than a year there have been many loose ends to catch up, but I am now in position to give *attention to the* data on the discount policy of the Reserve Bank.

The statistical material listed in your letter of August 11 will be quite ample.

I go to New York from time to time, but the possibility that you might come here would incline me to stay away. Both Dean Donham and myself want very much to have you talk to the students of the Harvard Business School on some banking or business subject. There are nearly five hundred students in the School, all of whom I am sure would greatly benefit from such a talk, or address, if you prefer the more dignified expression.

I should think that I would be able to put together my comments on the discount policy of the reserve bank within the week after receiving the material. If, then, you could plan to come over here at the end of that time we could talk over the subject in detail and, as I very much hope, be favored with an address by you to the students.

Yours very sincerely,

O. M. W. Sprague

O. M. W. Sprague

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

OMWS:EJ

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GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

ACKNOWLEDGED
OCT 16 1922
B. S.

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS
Oct. 10, 1922.

My dear Mr. Strong:

The memorandum on the rate action of the Reserve Bank of New York in 1919 is a most interesting document, suggesting comments along a number of different lines. I am not certain that the aspect of the subject that seems to me of most importance, the significance of the experience of the last few years in its bearing on the future policies of the Bank, is the one that happens to be of most interest at the present time. Before tackling that rather illusive problem I will venture to free my mind briefly of some few observations on matters which have merely an historical interest, at least until we become engaged in another great war.

I find myself in hearty agreement with most of your analysis of the situation contained in your long letter to Mr. Leffingwell of February, 1918. Our war finance experience points clearly to the desirability of imposing drastic consumption taxes at the beginning of a war, and also to the ability of the country to meet heavy direct taxation from the outset. It was because consumption taxes were not imposed that I suggested tentatively the plan which Mr. Leffingwell entirely misconceived, in styling it a "proposal for compulsory bond-buying." I suggested consideration of an issue of bonds to be excluded from reserve bank loans, registered and non-transferable until after the close of the war, these bonds to be offered in lieu of payment of some portion of income taxes, such taxes to be materially increased on moderate incomes to something approaching the British level. For some part of these taxes the taxpayer was to be offered the option of taking, say, twice the amount in this special class of bond.

Even in the actual circumstances during the course of the war, our experience seems to me to indicate clearly that a slightly higher interest rate on the successive bond issue and less in the way of stimulation of the "borrow and buy" policy would have been both desirable and feasible.

Coming out of the course of events in 1919 it would seem that the reserve banks, together with the Reserve Board, possessed sufficient power to have put pressure on the Treasury. Of course I recognize that the Reserve Board as constituted was completely controlled by the Treasury Department. Whatever the composition of the Board, the policy determined upon by the Treasury necessarily had to be furthered in every possible way by the Board and the reserve banks during the war, and perhaps indeed until after the flotation of the Victory Loan. After that time there was no imperative necessity. A Board on which the Treasury was less largely represented,- and I do not here refer merely to ex-officio members,- might have felt free to take a position which would have enforced the adoption of a different policy by the Treasury Department. Whether this would, in fact, have happened, one may very well doubt, partly because the Reserve System is new and in part ~~was of~~ from a certain controlling momentum gained by the Treasury during the course of the war. However this may be, definite responsibility for the rate policies adopted in the latter half of 1919 clearly rests primarily if not exclusively upon the Treasury Department.

Even without Treasury influence seconded by the Reserve Board, the record indicates an hesitating attitude on the part of the directors of the Reserve Bank in proposing rate advances,- an hesitating attitude which, though excusable in the first years of the working of the system, it is to be hoped ~~that~~ the experience of 1919 will effectually remove. That experience emphasizes the wisdom of marking up rates by a succession of decided steps at short intervals when the object is to influence a runaway market. The advances in rates in November and December, 1919, were inadequate, and while the advances made in January and in May, 1920, were considerable enough, both, and especially the last advance, should have come earlier. One is rather impressed with the cumberousness of the system, when it comes to a question of the determination of rates. I am also disconcerted at the discovery that the Federal Reserve Board is held to have power to establish rates even in opposition to the views of the directors of the reserve banks, and this, though I rather approve the more considerable advance,at the behest of the Board which was made in January, 1920.

The memorandum contains not a little discussion upon bank acceptance rates, upon which for the present I content myself with the observations that rates decidedly below other rates tend to induce borrowing by that method for transactions which are not of the specially liquid character for which the power of acceptance was authorized. I may also express doubt as to whether in the existing state of world commerce foreign trade bills as a class possess on the average ~~en~~ the quality which characterized them in pre-war days.

I am taking the liberty of retaining the memorandum until I hear from you,on the chance that there may be particular matters covered in the report on which you may wish me to express an opinion.

Very sincerely yours,

O. M. W. Sprague

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

OMWS:EJ

Notes On Discount Rate Memo. Of Reserve Bank .

Tendency to attach over-much importance to international factors. Far less important than in case of London market. This appears in long letter to Leffingwell. Also in letter of Glass, pp. 35-36.

While sale of certificates to Reserve Banks might permit mor e inflation than sale to other banks, as an offserr to be noted that it would permit an advance in discount rates. The retention of discount rates without change in the Spring ~~6~~ of ~~0~~ 1919 not in accord with letter to Leffingwell.

Why would it not have been good policy to advance commercial paper rates in Sept. 1919 as an indication of what might be expected in regard to all rates after October.

P. 29. Contains expression of unsound views which pervades the business community. The notion that credit will always induce enlarged production also appears in the Glass letter,~~3~~6

Why the radical change in attitude of the Reserve Board between Dec. 2, and Dec.10? pp. 50-51.

P. 52. Too optimistic as to effectiveness of bank rate?

~~######~~ Pp. 58-9. Is not the acceptance rate proposed and the one adopted reversed in the memo?

CLASS OF SERVICE	SYMBOL
Telegram	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a telegram. Otherwise its character is indicated by the symbol appearing after the check.

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CLASS OF SERVICE	SYMBOL
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Day Letter	Blue
Night Message	Nite
Night Letter	N L

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BENJAMIN STRONG

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FRIDAY ENTIRELY CONVENIENT AFTER ELEVEN OCLOCK

O L W SPRAGUE.

1922 OCT 17 PM

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GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
EDVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

11 Francis Avenue
Oct. 17. 1922.

My dear Mr. strong:

Since I wired you late this afternoon that Friday would be quite convenient, another arrangement has occurred to me. I believe Dean Donham wrote to-day ,asking you to talk to uor banking students at such time as might be agreeable to you. In order not to place any obstacle in the way of that much desired event, I will run down to New York Friday night for the purpose of our discussion. Quite possibly, you have other objects in view in coming to Boston, I merely suggest the other arrangement on the chance that it may be more satisfactory to you.

If you do come on Friday, please let me know where I may reach you.

With kindest regards, I am

Sincerely yours,

O.M.W. Sprague

Tel. No. 1539-W(Not in book)

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OCT 19 1922

HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

October 19, 1922.

Dear Mr. Strong:

I appreciate your cordial invitation for breakfast. I shall plan to reach your house shortly before eight, after a plunge at the Harvard Club. If the time is not right, a message there will reach me.

Sincerely yours,

O M W Sprague

ACKNOWLEDGED
OCT 30 1922

HARVARD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS
Oct. 25, 1922.

Dear Mr. Strong:

Such a talk as we had on Saturday is of immense advantage to a teacher of business subjects. Recognizing the need of contacts between the Staff and the business world, this department of the University has established a fund for traveling purposes. Consequently, you need not feel that going to New York subjected me to any financial burden.

I find that arrangements have already been made for an address by Mr. Fosdick to the students in the School sometime in December. As one evening a month seems to be about all that the students care to use in this way, it will apparently be better to place you sometime in November. I have talked over the matter with the officers of the students' organization and have fixed tentatively upon November 20 as the date for your address. This seems to fall within the limits which you indicate in your letter, and I very much hope that it will prove satisfactory.

Yours sincerely,

O. M. W. Sprague

O. M. W. Sprague

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

OMWS:EJ

HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CASE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS
Oct. 25, 1922.

OCT 27 1922

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Dear Mr. Strong:

Such a talk as we had on Saturday is of immense advantage to a teacher of business subjects. Recognizing the need of contacts between the staff and the business world, this department of the University has established a fund for traveling purposes. Consequently, you need not feel that going to New York subjected me to any financial burden.

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Yours sincerely,

O. M. W. Sprague

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

OMWS:KJ

HARVARD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

ACKNOWLEDGED
NOV 3 1922
B. S.

CAMBRIDGE, MASSACHUSETTS

November 2, 1922

Dear Mr. Strong:

I find that it would be possible to shift the date of your address from November 20th to November 28th. I very much hope that you will find this a possible arrangement so that we may see something of you over here.

As regards a subject, I hesitate to make any suggestion. One possible topic has, however, occurred to me, - a comparison between the London and the New York money markets. It is a subject which you could enliven with your Bank of England telephone story, not omitting the thumb tacks. More seriously, it would appear to be a subject so broad in scope that you could find matters for discussion regarding which you would not be hampered in speaking by the limitations imposed by your position as Governor of the Reserve Bank of New York. Please remember that this is a mere suggestion which I make only because you invited it.

Yours very sincerely,

O. M. W. Sprague

O. M. W. Sprague

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

OMWS:ID

HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

NOV 3 1922

November 2, 1922

Dear Mr. Strong:

I find that it [illegible] possible to shift the date of your address from November 20th to November [illegible] hope that you will find this [illegible] possible [illegible] so that we may see something [illegible] here.

As regards a subject, I hesitate to make any suggestion. One possible topic has, however, occurred to me, - a comparison between the London and the New York money markets. It is a subject which you could enliven with your Bank of England telephone story, not omitting the [illegible]. More seriously, it would appear to be a subject so broad in scope that you could find matters for discussion regarding which you would not be hampered in speaking by the limitations imposed by your position as Governor of the Reserve Bank of New York. Please remember that this is a mere suggestion which I make only because you invited it.

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HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS
Nov. 13, 1922.

Dear Mr. Strong:

We are all looking forward with great anticipation to your visit in Cambridge on the 28th of this month. We have assumed that we should have the bulk of your time at our disposal, and have arranged accordingly. There will be a luncheon to which we shall invite various bankers from Boston and a group of students. I wish you to join them at dinner in the evening.

The subject of your address as outlined in your letters seems to me most satisfactory. No reporters will be present and it is the understanding of all of the students that whatever is said by business men who address them shall not be made public. I think, therefore, you can speak with a fair degree of freedom.

There is one suggestion which I will venture to make. It is this: our experience is that business men are apt to devote so much time to preliminary general considerations that they are cramped when they come to the latter part of their discussion. I think you may assume, for example, that our students here are familiar with the quantity theory of money and that it will only be necessary to indicate your ~~broad~~ way of looking at that fundamental monetary conception.

Very sincerely yours,

O. M. W. Sprague

O. M. W. Sprague

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

OMWS:C

No enclosure received

STRATION

ACKNOWLEDGED
NOV 22 1922
B. S.

CAMBRIDGE, MASSACHUSETTS

November 21, 1922

B

ng between
Reserve Bank
person of New York or at any other place which may be more convenient for you. If you will let me know the name of the undergraduate who you wish to see I will make arrangements with him. Going about the University an undergraduate is always to be preferred to a Professor.

After lunch it has occurred to me that you might be interested to see the people connected with the Harvard Bureau of Economic Statistics. Professor Bullock tells me that he recently had a talk with you about the work of that Bureau. In the latter part of the afternoon I shall turn you over to Professor Hughes who plans to take you to his house, for tea I suppose.

I enclose the post card announcement of your address, from which you will observe that you will not have to bother to dress for the occasion.

Very truly yours,

O M W Sprague

O. M. W. Sprague

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

OMWS:ID

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GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

ACKNOWLEDGED
NOV 22 1922
B. S.

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

November 21, 1922

Dear Mr. Strong:

I have a class next Tuesday morning between nine and ten, after which I will meet you at the Reserve Bank of ~~New York~~ Boston or at any other place which may be more convenient for you. If you will let me know the name of the undergraduate who you wish to see I will make arrangements with him. Going about the University an undergraduate is always to be preferred to a Professor.

After lunch it has occurred to me that you might be interested to see the people connected with the Harvard Bureau of Economic Statistics. Professor Bullock tells me that he recently had a talk with you about the work of that Bureau. In the latter part of the afternoon I shall turn you over to Professor Hughes who plans to take you to his house, for tea I suppose.

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

OMWS:ID

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GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS.

December 18, 1925.

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

Dear Governor Strong:

I am enclosing a transcript of those sections of the Maine Banking Law which relate to the segregation of assets as security for savings deposits. The Maine Law is by all odds the simplest of all of the segregation arrangements and it seems to me one which might be proposed for national banks without exciting widespread opposition. I am planning shortly to go to Portland in order to learn something about the working of this particular method of protecting the savings depositors.

Yours very truly,

O M W Sprague

Enclosure

OMWS/SD

GOVERNOR'S OFFICE
RECEIVED
DEC 31 1925 10 15 AM

From Prof Sprague

May 11, 1925.

SUGGESTIONS RELATING TO NATIONAL BANKING LAW STUDIES

Acting on the suggestion made on April 10 at the informal meeting of the Committee on National Bank Legislation of the reserve banks, I have prepared the following outline regarding investigations that might prove helpful in formulating changes in the present law.

The subject naturally seems to divide into two distinct groups of more or less inter-related problems -- those which are concerned with the liberalization of the national banking act, widening the range of activities of the banks and tending to make banking under national charters more profitable and serviceable; and, secondly, the working out of practicable modifications of the law, designed to reduce the number of failures and in general to afford increased protection to depositors.

Obviously, liberalizing changes in the law are comparatively easy to formulate, and ordinarily they excite little or no opposition. The banks are favorably disposed, and can on every occasion point to the broader powers enjoyed under charters granted by many, if not all, of the several states. On the other hand, it must be recognized that it is not possible to devise generally acceptable and at the same time adequate safeguards applicable to the many thousands of national banks. Differences in the size of banks, in managerial experience, and the diversity of economic conditions in different sections of the country render restrictions, which are advisable and even necessary for some banks, superfluous and burdensome for perhaps a much larger number. In view of these conditions, it is evidently advisable to confine within the narrowest possible limits legislation which would subject banking operations to detailed and complicated restrictions.

A further obstacle encountered in securing the passage of banking legislation is found in the divergent interests of those who have to do with the business of banking. Of these interests, that of the depositor is no doubt the most important, though it is patently the least articulate in any organized fashion. Ability of the banks to serve the community through the extension of credit and in other ways presumably comes next in public importance. But quite as clearly, the interests of shareholders are a potent factor, especially as the option is always available of organizing under a State charter. Closely akin to the interests of shareholders are those of officers and directors, though in regard to some matters, notably the branch banking question, a distinct point of view may be discerned. When account is taken of all of these diverse conditions and interests, it is not surprising that the national banking act, although it has been amended by nearly every Congress since its passage in 1863, continues to require extensive further revision. These many amendments, often tacked on as exceptions to the original law, have brought the statute into a confusing and ambiguous condition. In connection with the considerable revision of the act, now in contemplation, the moment seems opportune for a renewal of the effort made some fifteen years ago to secure a scientific codification of the national banking law.

Dissatisfaction with the present national bank act, and the proposals considered in the last Congress for its amendment are largely due to the increasing attractiveness of banking under state charters. Banking must be not less profitable under the national law, or the national system will continue to lose ground and presumably at an accelerated rate. It is to be expected, therefore, that the grant of wider powers and the modification of present restrictions will be urged with increasing emphasis, and there is consequent danger that the demand for liberalization may overshadow the requirement of adequate safeguards for the protection of depositors.

Investigation of the banking situation for the purpose of formulating legislative changes may appropriately start with an examination of the adequacy of the provisions of the law and of the administrative powers for the enforcement of those provisions which are designed to reduce the number of failures and losses to a minimum and in general to safeguard the interests of the various classes of depositors. With this object in view, I venture to suggest the following subjects for investigation:

1. Penalties for violation of the national bank act. Aside from fines for deficient reserves and failure to make reports, capital punishment -- forfeiture of charter -- seems to be the sole penalty. Is further differentiation practicable and desirable?

2. New banks. Whether evidence of public advantage from the establishment of additional banks should not be required of those seeking a charter? Investigation of the effects of excessive numbers of banks in different localities. Mortality among new banks, and corroding influence on older institutions. Suggested requirement of approval of Federal Reserve Board in addition to that of the Comptroller of the Currency (instead of the Secretary of the Treasury as at present for banks with capital under $100,000) applicable to all new banks.

3. The capital requirement. Whether it should not be increased to $50,000. No
The increase in wealth and advance in prices render that figure no more burdensome than was the $25,000 in 1900. Increase of capital on vote of half rather than two-thirds of the shares. Capital not less than to 15 10 per cent of deposit or 15 10%
liabilities.

4. Segregation of savings department assets. Savings depositors are now at a disadvantage compared with those having demand deposits, which may be withdrawn by check deposited with other banks, as well as over the counter. Moreover, the savings depositor as a class is less likely to become aware of the condition of a failing bank. No

5. Loans to officers and perhaps also loans to directors. Whether such loans are a frequent cause of failure, and if so, whether special safeguards are needed. This matter was discussed at hearings of the National Monetary Commission in 1908. No loans

6. Section 5200. Investigation of failures and near failures, to determine whether large loans to a few borrowers are a common cause of trouble. No Designed to determine, inter alia, whether the exceptions to the 10 per cent limitation are proper or whether they should not be allowed in lieu of the 10 per cent in whole or in part. Whether, further, the exception of the "discount of commercial or business paper actually owned" should not include a provision excluding notes taken on past due accounts. How can the bank tell

7. Borrowing by banks. Whether absence of restriction on loans from reserve banks may not have resulted in hypothecation of a larger percentage of good assets in the case of failed banks than formerly, and consequently a higher percentage of loss to depositors. Greatest cause of failures

Turning now to proposals designed to liberalize the national banking law, the McFadden bill may serve as a fairly comprehensive indication of subjects for investigation. The bill contains a number of provisions of a non-controversial character covering matters of detail, such as authority to elect a chairman of the Board of Directors, indeterminate charters instead of for a 99 year period, and simplification of procedure of consolidation of a State and national bank. Mention might also be made of provisions authorizing the purchase of real estate for business requirements instead of for immediate use, simplification of the process of capital increase by stock dividends, and the authorization of banks with a capital of 100,000 in the outlying sections of large cities. Obviously, detailed investigation is not needed in the case of any of these provisions, and the same can be said regarding those relating to thefts by bank examiners and authority to sign reports of condition by additional officers. The General Counsel of the Board has expressed some doubts as to the advisability of a modification of the certification of checks section of the statutes. it is a matter which may be presumed to be within the knowledge and experience of many members of the committee.

We now come to provisions of the McFadden bill, which definitely enlarge the statutory powers of the national banks. Two of them definitely authorize the conduct of certain kinds of business in which many of the banks have engaged for a long time -- safe deposit business and investment banking, dealings in bonds and notes but not stocks. Investment banking is to be conducted under such restrictions as to volume and character of the securities as may be made by the Comptroller, subject also to the law of the state in which a bank is situated, and to the further limitation of not more than 25 per cent of capital and surplus in any one issue. Neither the investment nor the safe deposit sections of the bill seems to require special investigation by the committee.

Section 18 of the bill would permit a positive extension of the powers of the banks in the real estate loan field, lengthening the maturity period in the case of city real estate loans from one to five years, allowing such loans anywhere within the Federal reserve district, as well as within a hundred mile radius as at present, and opening this business to the banks of central reserve cities. The bill as presented to the Senate also raised the limit to one-half time deposits, but this limit includes what might prove a burdensome restriction for some banks -- liabilities as endorser or guarantor. These real estate loan proposals seem to be a subject that might well be given detailed consideration by the committee. A further restriction appears in this section, limiting the interest that may be paid on time deposits to the maximum rate that state banks may pay under state laws. I question the wisdom of this specific provision, and would also suggest consideration of the general policy of subjecting national banks to the legislation that may have been adopted in the several states. Here and elsewhere, the bill exhibits a tendency to go further in this direction than heretofore.

Having already suggested the advisability of a comprehensive study of Section 5200 when discussing additional safeguards, the particular modifications of the section in the McFadden bill are passed over without comment.

The burning question of branch banking completely overshadowed all other features of the McFadden bill, both in hearings before the House and Senate Committees and on the floor. The issues involved, though important, are definite and somewhat narrow in scope. There is general assent to the grant of authority to national banks to open branches in cities in states which now permit branch banking. Opinion differs sharply regarding the prohibition of such national bank branches in states that may hereafter allow state banks to open branches, and also on the endeavor to use membership in the reserve system as a means of limiting the further extension of branches by state banks, depriving state member banks of the right to open mare branches outside city limits where it is now permitted and of power to open any branches whatever in states where branches are not now authorized. These issues do not seem to me to furnish the occasion for an extended inquiry, and further I venture to express the opinion that the reserve system may well adopt, so far as may be possible, a neutral attitude in this branch bank controversy. Taxation also seems to me a subject that it would be unwise to attempt to modify through the initiative of reserve bank authorities.

Christmas Cove, Me.

July 4, 1926.

Dear Mr. Jay

Your letter of July 1 reached me last evening, and in the same mail came the earlier letter about which you were making inquiry. It seems that it had found lodgment amid a mass of second class mail matter at my office in Cambridge, and was unearthed when certain publications for which I had written were being gathered together.

The amount of the check is entirely satisfactory. How could it be otherwise, when the trip itself was no eminently enjoyable?

Very truly yours,

(Signed) O. M. W. Sprague

Strong
Sprague

HARVARD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

March 2. 1927.

Dear Governor Strong:

Your two letters are particularly welcome as an indication that you are making a good recovery from your long illness. I shall look forward to a stimulating talkfest with you on your return to New York.

No doubt, you perceived that my "Annalist" article on reserve bank policy contained a pot shot at what seems to be the Miller view that developments in the stock market must be taken as a primary factor in the determination of credit policies. Note the last paragraph.

Now for the general question, which I shall try to handle in the suscinct manner of a Bank of England cable:

1. A world-wide declining price tendency, one factor in which is an actual and prospective scanty supply of additional bank credit in most countries other than the United States.

2. European situation:

(a) Budgetary equilibrium and monetary stabilization making satisfactory progress.

(b) Foundations laid for expansion of production and trade. No evidence of a generally over-extended condition of business. Increasing demand for bank credit to be anticipated, and reasonable to presume that in the main the credit will be wanted for productive purposes.

3. Gold imports to the United States.

(a) European gold in shallow receptacles. Slops over into the

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United States.

(b) Larger use of reserve bank credit calculated, tho to an uncertain extent, to reduce this inflow. Not necessarily perhaps over short periods, but surely in the long run. Assume that by 1932 reserve banks have increased earning assets presumably governments by say, $1,000.000.000, Gold imports during the next five years will be smaller than will be the case if earning assets remain at the present figure. (These assets, by the way, are running more than $100,000,000 under the totals of two years ago).

4. Can additional reserve bank credit be put into the market sans damaging consequences? This the crux of the problem.

(a) Immediate effect inevitably and always in the stock market. A matter of no great consequence aside from possible political comeback.

(b) No indications of a generally over-extended business condition. Always some weak spots, as now perhaps in certain classes of buildings, and installment sales.

(c) On the other hand: Farm land prices unduly low with few or no buyers. An abundance of current savings seeking investment. Security holdings of banks not excessive, when account is taken of increase in deposits of an inactive character.

(c) No doubt some danger of excessive foreign borrowing, but it would take time for it to reach serious proportions,

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CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

and therefore does not run counter to the:

5. Conclusion that the present seems an occasion for an elastic, experimental reserve bank policy. The system is an animal that is not very quick on its feet, or to change the metaphor, changes in the course of the vessel seem to involve a sort of senatorial pow-wow with no cloture. A policy, wise in one set of circumstances, is apt to be continued after conditions have changed. Accepting the view that policies of the last three years have been eminently wise, I would suggest the possibility that these policies may be pursued longer than may be disireable, precisely because they have proved satisfactory in the past.

Here is a nut for you to crack! In the good old days, gold movements brought back equilibrium through contrasting repurcussions in the money markets of the importing and exporting countries. Will the gold standard prove satisfactory if gold is persistently sterilised in as it comes in to this country?

Lest it precipitate a relapse, I will stop at this point for the time being.

Very sincerely ,

O. M. W. Sprague

HARVARD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

March 31, 1927.

Dwae Governor Strong:

I shall gladly be of whatever service may lie within my competence to Mrs. Cobb and her son. His record, so far is excellent is some subjects, in particular, mathematice, which I consider far better training than economics, a subject which is largely concerned with a common sense balancing of numerous and confusing factors.

What say you to this problem?

1. =iven the assumption of a slow doenward tendency of the rate of interest, a condition with which the business community has had no experience since last century,and
2. Rather rigid interest rates on deposits, and on most customer loans made by the banks.
3. May not much good commercial loan financing be lost to the banks by the substitution of long term security financing, (preferred by borrowers at moderately greater cost) and incidentally a larger proportion of ~~###~~ bank assets become securities and collateral loans?
4. Suggested conclusion: a reduction in interest rates on deposits, and of rates on customer loans, and possibly an increase in credit furnished by reserve banks rather than contraction of same as has been suggested in some quarters.

Sincerely yours,

O M W Sprague

HARVARD UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

O. M. W. SPRAGUE
EDMUND COGSWELL CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

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Sincerely yours,

O. M. W. Sprague

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O. M. W. SPRAGUE
CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

April 14, 1927.

My dear Strong:

I find myself agreeably in disagreementwith the position set out in your letter of the 12th. In the Annalist of April 16, you will probably find my ideas somewhat further developed, but if I had had the advantage of your letter, I might have carried the analysis a bit further.

I think the growth of time or savings deposits, especially in the case of banks outside the money centers, may have troublesome consequences. Many of them are reaching out after deposits from beyond their own locality, often offering as much as 4 1/2 and even 5%, and in order to secure the accustomed return taking in less satisfactory mortgage and other investments.

I quite agree that the funding of bank indebtedness has in general been advantageous from every point of view. And I draw the conclusion that the decline in commercial loans may be a token of health,and vice-versa. But may not this as with other good things be carried undesireably far?

But leaving details, what I have in the back of my mind in my letters and various articles is that there are no positive indications that the supply of bank credit in this country has been excessive during the last five years, and that there are some
experimentation
tho not compelling reasons for believing that~~#experimention#~~ with a bit more credit and at lower cost would not be an insane proceeding. I say this because it has come to my ears that the

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CONVERSE PROFESSOR OF BANKING AND FINANCE

CAMBRIDGE, MASSACHUSETTS

advisability of a $200,000,000 reduction in open market investments was brought forward for consideration a short time ago. No change may well be the wise course, but if a change were to be made, I should say the situation suggests an increase rather than contraction.

I go to 2ashington to-morrow night to decide whether I shall participate in the inquest on the reserve system which is being conducted by the Chamber of Commerce.

The dinner with Hollander and the otherswill be greatly to my liking, but I shall also expect some occasion for talk uninterrupted by the presence of all those other economic babblers.

Sincerely yours,

Oliver M W Sprague