

The Papers of Charles Hamlin (mss24661)

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CHARLES HAMLIN

Miscellany

PAPERS

Box 356

Folder 16

WRITINGS --

"MEMORANDA CONCERNING THE
FEDERAL RESERVE BOARD..." DIARY
JUL. 2, 15 MAR. 1913 - 15 JAN. 1915
(PP. 38-83) (2 OF 19)

JH

to take any responsibility in the matter. He asked me my conclusion and I said I had reached none yet but I was gradually tending towards the opinion that in view of Arnold's report and subsequent doct, I could hardly take the responsibility of advising an abandonment of the proceedings but that it rather seemed to me that the W's should be permitted to go before the jury and that the jury should be permitted to consider the case without any influence by the District Attorney other than a fair, honest presentation of the evidence, with of course a cross examination of the W's; that I felt that a crime had been shown--the long continued absence of the particulars in the Custom's invoice prescribed by law,--which I understood to be the gist of the case--Mr Arnold having repeatedly said that any conspiracy counts would be merely to get in evidence otherwise perhaps inadmissible; that this crime in fact had resulted in loss of duties by the Govt; that the W's had directly benefitted by the scheme; that the gift of the camera and the payment of insurance commissions to the appraiser, and also the apparent knowledge by John Wannamaker of the continued absence of specifications in the Consular invoice --all certainly called for answer if they were not evidence directly of personal guilt. Secy. McAdoo asked me to prepare a letter to the Atty. Gen. along these lines for his careful consideration.

December 19th. Friday. Secy. McAdoo walked home with me last night and said he had incorporated in the Currency Bill my amendments as to issuing Bonds to raise gold to ^{redeem} ~~redeem~~ the Reserve notes and he hoped he could keep it in the Bill.

December 23rd. Invited by President to go to White House at 6 P.M. to see him sign Financial Bill. An impressive sight--the Cabinet--House & Senate Committees et als were present. The President, after signing, delivered a short address.

Some weeks ago I ordered that expense of trucking sugar from ship to scales must be born by the refineries at Boston and New York et als. For years this expense at these Ports had been paid by Govt. although at New Orleans it was paid by refineries. New Orleans refiners protested and after studying the matter held that expense at all Ports must be paid by refiners. Thousands of dollars annually were thus saved to Govt.

December 25--Thursday.

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Secy. McAdoo sent for me at 4 P.M. . Told me Mr John Skelton Williams was to be made Comptroller of the Currency and that he felt that it was vital that his successor as Asst. Secy. in charge of Fiscal Bureaus, should be a man of the most absolute integrity and one well versed in financial matters, also said he wanted a man he knew and could work with; he added that he wished very much that I could take this position although he hated to ask me to give up the Tariff work I was so eminently fitted for and so successfully undertaking; that he was tired out and knew he could rely on me to help him as he appreciated the work I had done in getting the Financial Bill in shape; that he would have to go west early in the New Year and be away perhaps six weeks; that I would be the ranking Asst. Secy. and acting Secy. and would have to manage the Treasury in his absence even as to appointments etc. but that I could keep in touch with him by wire; that he hated to put this extra burden on me but that he knew of no one in the country so well fitted for the work. Asst. Secy. Williams was also present and he begged me to undertake it. I told the Secy. that I was enlisted for the war and his wishes would be carried out by me with pleasure, that while I was attached to the Customs work, I had had much familiarity with the financial work 20 years ago and would be glad to undertake the other if he wished it.

He seemed very much pleased and asked me to suggest some man for the Customs work; I at once suggested Halstead, the chief of the Custom's division and the idea seemed to please him; he asked me to look up his record, endorsers etc. on files of appointment division. Mr Williams suggested Mr Polk of N.Y. whom the Secy. originally wanted for Collector at N.Y. but the Secy. said he thought he would not do as the appointee should be an expert.

December 28. Thursday. Secy. McAdoo has been laid up with a bad cold and general fatigue for several days. Goes tonight to Georgetown S. Carolina for a few days rest. Conference with Arnold as to W. case. Told him to say to Atty. Gen. that Secy. McAdoo wished to go over the case with me before making any definite recommendation but that on the present record I could not ask that the proceedings be dismissed as the facts seemed imperatively to call for an explanation

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from all concerned; that W. should be allowed to go before the Grand Jury and that possibly his testimony might throw light on the question.

Denied application of C.P.R. to seal cars at Abercorn Junction as a means of sending them through to Newport Vt. without entry at Richford.

January 2--1914. Friday. Postmaster Gen. Burleson called. Said he had written Dr. Coughlin that Chase and Costello could not be appointed and to seriously consider McClintock. I took no part in this contest other than to give Jim. Carroll a letter to Burleson.

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Saturday, Jany. 3. Mr Watson, chief clerk Dept. of Labor, called and said Secy. wanted to know the political situation in Mass. as regards Commr. of Immigration--I said Skeffington was ideally equipped for the place and was my friend--that I did not claim to know the political situation--advised him to write to Dr. Coughlin & Judge Riley.

James Folan of Norwood wrote thanking me for the good words I spoke as to George Fred. Williams--said he heard this from Washington.

Tuesday, Jan. 6. 4.30 P.M. Howard Elliott called and wanted to go over New Haven R.R. matters. I reminded him that when here a month or so ago, I advised him to consult Brandeis; he said he had but Brandeis wanted to force New Haven to sell B. & M. stock at once which would be a terrible sacrifice. He showed me a list of proposed trustees for B. & M. stock but I advised him to show it to Brandeis as I felt sure he would be fair and helpful; he also spoke of lawyers suggested by him to carry out Atty. Gen.'s wishes--said Atty. Gen. would not consent to Robbins or Choate; that while he admired Olney, he thought he had been too much mixed up in the matter to act etc. I again advised his seeing Brandeis especially on question as to whether Moorfield Storey would be a good lawyer to act. I called up Brandeis at his suggestion but he was out and Elliott said he would surely see him later.

Wednesday, Jan. 7. Sherman Whipple wrote asking me to make appointment with Atty. Gen. as representing situation of N.H.R.R.--said Directors were trying to secure immunity in their settlement and that stockholders had a right to be heard on this. I sent his note to the Atty. Gen. asking him to write him directly and wrote him (Mr Whipple) to this effect.

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Monday, Jan. 12. 1914 Secy. McAdoo went over Treasury matters with me; said he wanted me very much to take the Fiscal Bureau and that for my own sake he thought it very desirable as no one could foresee what might happen perhaps in the near future. From ~~what~~ he said or the way in which he said it, I begin to think there may be something in rumours that he does not expect to serve his term out. He asked me to think of some one to do the Customs work; he seemed favourably inclined to Peters whom he had been speaking to on the train and who evidently had told him what he told me--that he would like as Asst. Secretaryship. I said he was a fine fellow and merely suggested that he tell him or anyone else applying for the place what a difficult task it was--necessarily continuous work, little vacation etc.

Secy. Redfield sent for me to see his experts just going abroad to investigate pottery costs. At my suggestion he wrote a letter to McAdoo stating that his investigation would be private and details as to sources of individuals will not be made known to any other department except merely the result in general: I said foreigners would not open their books except on such assurance and advised him to have Secy. McAdoo and the President endorse approval in the letter. He said he would take it up with the President.

Tuesday, Jan. 13. Wise, Counsel of Wannamaker, called and I told him that Mr McAdoo and I had reached the conclusion that we could not advise the Atty. Gen. to dismiss the Grand Jury proceedings in view of the record. He said Arnold talked to him of a settlement of the personal goods by part of \$100,000. I said I had no authority even to discuss this until asked by Atty. Gen. and the matter had not been mentioned by him to me.

Secy. McAdoo said he had talked with the President about making Peters Asst. Secy. but that he thought it would not be wise politically to have two from Mass. also he had some doubts as to Peters industry and capacity for hard work.

Jan. 16--Friday. Secy. McAdoo told me in absolute confidence that Wm. Bayard Hale had reported to the President that Huerta's downfall was simply a question of time: that the Constitutionists had plenty of money and if they could only

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buy ammunition etc. they could quickly dispose of Huerta; that the Collector at Nogales, Arizona, was very strict in forbidding exports of what he called munitions of War and was unduly severe on Constualists: that a vessel would shortly leave San Francisco bound for China and that he hoped its clearance would not be forbidden. He then said squarely that the President hoped we could be reasonably lenient as the prohibition of exportation of what were called munitions of War --a very indefinite phrase--as it was now a direct boon on success of Constualists. I told Secy. McAdoo that the clearance of vessels was under control of Secy. of Commerce--the Collector acting under him. He asked me to bring matter to the attention of Secy. Redfield. Also asked me to call Collector at Nogales to Washington to be sure he was not unduly severe in interpretation of munitions of War.

Jan. 17. Saturday. Secy. McAdoo again spoke of above. Also asked me to review dispute between Treasury & War Dept as to which under new civil Govt. the Treas. or War Dept. should collect tolls through Panama Canal and as to system of accounting and to submit my conclusions direct to President. Also, at Request of Oswald Villard, asked me to review dismissal of two negroes from Custodian force of Atlanta Custom House--involving a charge of segregation.

Jan. 19--Monday. Atty. Gen. called me up and said Arnold was fearful that delay in taking up addit. civil settlement vs. Wannamakers might prejudice Govt. case. I told him of Wise interview and said I would not even discuss a civil settlement unless directed by him. From his manner I rather felt that he wanted to discuss the criminal proceedings. I told him MrMcAdoo and I had gone over the matter and we could not advise this in view of the record. He asked me to call him up when I returned from Boston.

Jan. 22. Thursday. Called up Atty. Gen. as requested; told him of my memo. reviewing Wannamaker case and said if he wished it I would send him a copy. He said he would like to see it and would later discuss matter with me. I accordingly wrote him a letter in my own hand sending the memo. but had a copy printed for my copy book.

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Jan. 23. Friday. Collector Hardy of Nogales, Ariz. came to Washington on orders. Said the Constualists had plenty of money and were getting arms and munitions--asked how this could be done. He said the only way he could think of would be by concealing them in coal shipped to Mexico from Denver.

Jan. 27-- Secy. McAdoo wired from west to announce that I was to succeed Asst. Secy. Williams in charge of Fiscal Bureaus and to be acting Secy. of the Treasury.

Jan. 29. At Secy. McAdoo's request, prepared memoranda for Pres. in favour of having all accounts of Panama Canal zone audited by Auditor of the War Dept. See letter book. President acknowledged this by letter.

Ordered Maine Central to repair injury to Custom House, Vaneboro caused by undermining illegally.

Refused request of J.W. Myer to permit entry of free goods along Canadian border destined for export from Atlantic seaboard without production of Consular invoice.

Feb. 6--Friday. Have been acting Secy. beginning last Tuesday Feb. 2nd.: also have Customs work and all of Asst. Secy. William's work.

Last week issued letter to Manager of C.P.R. at Lowelltown, Maine that entry must be made of all merchandise before examination and appraisal and if R.R. promptly entered them would not be the delay now objected to.

Feb. 7. Saturday. Some days ago Mayor Curley of Boston wrote me stating that negro delegations had waited on him and he hoped segregation in Treas. Dept. would cease. I sent for Thompson and he said there was segregation today in Treas. Dept. especially in Internal Revenue Bureau and in Auditor of P.O. and also in Bureau of Engraving & Printing,--in lunch room; that separate toilets were provided in Treas. building etc. He also said that Asst. Secy. Williams sent for Chief Clerk Wilmarth and ordered him to segregate all negroes; that he also sent for all chief of divisions etc. under him and confidentially told them to segregate; that he recently said that segregation did not go nearly far enough. He gave me file relating to Belle LaFollette who quoted letter from Chief of Bureau of Engraving & Printing admitting segregation in lunch room;

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the particular case complained of by Mrs LaFollette was the removal of Rosebud A, Murray for insubordination Aug. 20 1913 by Asst. Secy. Williams. Examination of this record failed to disclose her removal because of color.

Feb. 9. Monday. Mr Gilman told me that Mr Gantt, Chief Clerk of the Commissioner of Internal Revenue, had just told him that Mr Williams, as one of his last acts as acting Secy. directed him to remove all colored messengers now having desks in the rooms of the Internal Revenue Service into the corridors and keep them there. Gantt said there had been no complaints whatsoever about them. Gilman said he told Gantt to forget the order and I told Gilman that was right and that no such order should be issued or carried out while I was acting Secy.

March 9. Saturday. Comptroller Williams came in and asked me to tell Mr Spear of the Income tax division--not to send to the Secy. copies of the returns of the names he gave him but to send the originals and I at once told Thompson to convey this message to Spear. Later Williams said the names referred to were J.P. Morgan, Rockefeller et als. Later Spear said he wrote to Collectors for copies of the returns and later wired for the originals. Later Williams told me just what Rockefellers return was, showing that it had been shown him.

March 11. Wednesday. Met Atty. Gen. at Metropolitan Club at lunch; I was with Robert Munroe and was with a N.Y. lawyer Mr Coudert. Atty. Gen. said he did not know what to do with Wannamaker Grand Jury matter; I advised him to do as I suggested in my memoranda which I sent him,--to insist on their giving the Jury an explanation of the frauds and not to dismiss the proceedings.

March 21. Saturday. Atty. Gen. telephoned over that he had \$100000 from Wannamaker Co. in settlement of their liabilities to Govt. --asked me as to accepting it. I asked if this meant dismissal of criminal proceedings. He did not answer directly but from what he said I inferred he intended to dismiss them. He said he had sent for Arnold to discuss it. I told him I would prefer to have them explain to the Grand Jury as to this fraud but that, of course, it was for him to determine.

March 23. Monday. Arnold called: said Atty. Gen. asked him to see me: I told him Secy. McAdoo and I had sent a memo. to the Atty. Gen. setting forth our views

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and that we must rest there; that while my opinion had not changed, I realized that the responsibility for action was on the Atty. Gen. and that he must consider every phase including the chances of winning or losing if criminal proceedings were pushed. Arnold said our chances were 4 to 1 against our winning; that practically the only hope was to get a disagreement; that even if we convicted them, the evidence would be so purely circumstantial that the Govt. could hardly ask for and the Court would certainly not impose a term of imprisonment; that if we should press the civil case it would be almost impossible to prove the value of the personal goods; that we could not get at the French books of those who sold the goods to the Wannamakers unless the French Govt. ordered them produced; that in present condition as between France & the U.S.--great irritation because of new Tariff Sch. --the French Govt. would certainly not help us; that even if it did, it would cost a very material part of a dollar to recover a dollar --that the civil settlement of \$1000 000 was a very good one. He evidently was inclined to accept the offer.

March 24. Tuesday. Secy. McAdoo told me the Wannamaker case considered by Cabinet this A.M. and it had been decided not to proceed with criminal proceedings.

March 27. Friday. Atty. Gen. by telephone asked if Treasury was ready to report whether acceptance of \$100 000 from Wannamaker was a good settlement of civil liability. I told him I thought it was but would let him know definitely as soon as Halstead had reported on it.

April 23. Thursday. Question arose along Mexican border on report of Calles that arms & ammunition were coming in en route to Mexico, some for Federalists and some for Constualists. Malburn & I went to Secy. who had with him Lane, Garrison & Houston. I advised sending telegraph to ^{all} ~~tell~~ Calles ^{Tos} to hold all such exports pending final instructions and told him one such telegram sent day before. He rather sharply said he could not do that at least until he could talk with Pres. who was then out driving. That evening just as we were going to Russian Embassy to dine, Secy. McAdoo telephoned me to send such a telegram to all Collectors. I called up Gilman & told him to get Malburn & send out such telegraphs which they did.

April 24. Friday. More telegrams came and Collector Cobb especially asked for

specific orders as to arms etc. already there. Secy. McAdoo considered matter. 47
April 25. Saturday. Secy. McAdoo not at office today. Told me to settle all matters with Malburn. I advised Malburn to have conference with War. Dept. and at 12.30 we went there and had conference with Asst. Secy. Breckénridge and Gen. Wotherspoon, Chief of Staff. We agreed to wire Calles to hold all munitions of War and to give them constructively into possession of army officers. There was no authority of law for this but we agreed that such munitions might later be used against our people and that the emergency demanded quick action. Gen. Wotherspoon said he would assume all responsibility.

April 26. Sunday. Secy. McAdoo by telephone asked me to see that all Collectors were wired that above order did not cover food or food supplies.

April 27. Monday. Told Secy. McAdoo, in my opinion, it was most advisable to issue 100 millions of Panama Bonds out of the 200 millions available; that the Treasury was not in good condition as there was not over 10 millions surplus, of assets over liabilities unless you include in assets the subsidiary silver coin and bullion which was not really a debt paying amt; that of the net balance in general fund of about 83 millions, 51 millions were in the depositary Banks leaving only 32 millions in T^Rasury & Sub. Treasury; that the subod. silver coin and bullion amounted to about 25 millions leaving only about 7 millions over liabilities. Secy. McAdoo did not seem to be at all disturbed--he took the view--as he has several times before; that the liabilities did not become due all at once and that therefore we could treat the assets like a Bank reserve and as long as they were 25% of the liabilities, everything was smooth. He has often said that we could loan another crop money fund from present assets perfectly safely. He seems to have queer ideas of Govt. finance; more like Mrs Howe's bank. He said he would not think of issuing bonds now as everyone would think it meant war; I told him that if he issued them at any other time, he would be criticized as admitting the Treasury position was weak; as it really was; that this was the time to put out Panamas & that Williams agreed with me absolutely. He could not be brought to see any necessity for any action. The papers say he told Underwood that the T^rasury could easily spare 50 millions now for war purposes--I hope for his reputation he did not say this. Later he asked me as to his power to issue

certificates of indebtedness under old War Revenue Act of 1898 as amended ⁴⁷
by Tariff Bill of 1909. I gave him a memo. on this. These certificates run only
for one year and it would be very poor policy to issue them.

April 27. Monday. Some time ago a committee of the Clearing House association
of Washington National Banks called and later wrote asking that 5½ millions be
deposited with the Banks to help in paying the District taxes, as had been done
for past few years; last year four millions were deposited and apportioned in
preparation to individual and Trust Co. deposits. I spoke to the Secy. and he
said he would not give the Riggs National Bank a dollar because of their unjust
attacks on himself and Williams. I told him this would cause a bitter row and
that he would be severely attacked. He said he did not give a damn--he would
fight them back.

Abbut this time a statement as to receipts from taxes was sent us by Auditor of
State et als Dept. saying it had been prepared by a clerk Hodgson at request of
Ailes, Vice-Pres. Riggs Bank and Auditor referred it to us. I said this informat-
ion should not be given. Later Williams called me up and asked me to look up
this clerk, intimating he ought to be discharged. I did this but found that alth-
ough the clerk had given this information to Ailes in past years, he had not given
it out this year but had referred it to Auditor who referred it to me. Williams
also said he had heard that Ailes was delighted that I had been made Fiscal Secy.
--meaning thereby to prejudice me against him.

This morning I told the Secy. we must decide as to the tax deposit. He said he had
decided on this Saturday (without consulting with me) and that he would make a
deposit but would not give the Riggs Bank anything. I protested saying that I
accepted all he said as to its attacks on him and Williams & as to his statement
that Ailes was a "damned scoundrel" but that this was a business question, that
the Riggs Bank would be entitled --because of its individual & Trust Co. deposits
to 1½ millions (if four were deposited in all) and if it were not given this
amount it would incommode the Bank; that in any event if he gave the four millions
to other Banks they would not need as much and could not use it but in all proba-
bility they would give the Riggs Bank its share. He said he did not give a damn
what the Bank did with the money. I earnestly begged him not to do this as it

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would justify a charge of vindictiveness in making public deposits and that it would cause a scandal and probably a Congressional investigation. He said he was not afraid of the Riggs Bank and he directed me to prepare a letter to the Clearing House Committee saying he would deposit four millions in certain Banks but the old apportionment would not be followed but he would apportion it according to his own judgment. I accordingly prepared such a letter and sent it in to him.

His action is extraordinary, no matter how unjustly the Riggs Bank attacked Williams and himself and I am seriously considering whether I ought not to resign. Williams seems to be his evil genius--he is evidently secretly influencing McAdoo and they are allowing personal vindictiveness to dominate their management of the Treasury finances. If this keeps up I shall resign.

April 29, Wednesday. Saw Williams that A.M. & he spoke of District tax matter saying Riggs Bank should not be given a dollar. I told him such action would surely result in charges of vindictive discrimination; he said we would be criticized if we did not refuse to give them any money. He has evidently persuaded the Secy. to adopt his view. Later Williams told Thompson that the apportionment perhaps could be made on basis of Reserves and suggested that I ask each Bank what their reserves were.

April 30--Thursday. I checked a letter for Secy. to sign to Clearing House Com. of District saying not exceeding four millions would be deposited with certain National Banks but the old rule of apportionment would not be followed but the Secy. would apportion in his discretion. I also signed a letter to Auditor saying he had properly refused to allow his clerk to give out information as to tax receipts from District. Later I sent a letter to each National Bank in District asking for surplus--there was none written to the Riggs Bank and I asked Thompson to ask Williams whether he thought we should write it also and he replied "Yes!"

May 1, Tuesday. One of committee of Washington Nat. Bank Clearing House commission called. I told him the Secy. had just sent them a note fixing four millions as maximum to be deposited and that the Secy. would apportion and fix security to be taken in his discretion and he would advise them shortly.

May 2, Saturday. Had another talk with Secy. McAdoo as to District tax deposit.

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He said he positively would not give a dollar to the Riggs Bank; asked me to prepare apportionment with Williams on this basis; I said I did not agree with Williams and wished he would make the apportionment. He said he understood fully that I believed he could not lawfully discriminate vs Riggs Bank and that I assumed no responsibility for his action; that he had positively made up his mind in this matter and that he hoped I would help him and prepare some form of apportionment with Williams, although he said Williams had really nothing to do with it. I went to Williams and had a talk with him; said I did not approve this discrimination but would of course help in any way to apportion the money as directed by the Secy. I told Williams that if we took four millions as the maximum and then apportioned it in proportion to deposits and then struck out Riggs Bank leaving say 2½ millions apportioned as if four in all, it would be possible for the Banks to work back and show that the apportionment was based on four millions and thus prove deliberate discrimination vs Riggs Bank. He said he did not object to this as the intention was thus to discriminate and the Secy. would say so openly. I told him I did not believe the Secy. would publicly state that he intended and had discriminated vs Riggs Bank, but he said he would do so. Finally he said he would like to talk it over with Mr Sands of the Commercial Nat. Bank as to maximum amount needed and would ask him to see me Monday about it.

May 4. Monday. Williams brought Mr Sands, Vice. Pres. of Commercial Nat. Bank(?) to see me. We asked him as to necessity of deposit for District Banks. He said they would get along with three millions but if this at least were not given them, they would severely suffer and would have to call loans. Williams asked him as to the Riggs Bank and he said they did not loan as commercial paper as much as did the other banks but he said it would suffer as all the other banks if deposits not made and would have to borrow money to keep up their reserves.

After he left I asked Williams what he thought ought to be done and he said he thought the only thing to be done would be to deposit three millions among the Banks but nothing to go to the Riggs Bank. He said to apportion it among the Banks as last year in proportion to individual and Trust deposits. He added that it would be better not to apportion among all Banks at four millions and

then strike out the Riggs Bank as thus they could figure back and see mathematically the discrimination vs Riggs Bank. Last week he said he did not object to this.

I had thoroughly pointed out to him my objection to this discrimination and consequently preferred to have him take charge of it. I then told Huddleston to write letters apportioning it on this basis. One Bank--the Franklin, I think, had not sent in its statement as to deposits and later Williams sent me the apportionment list adding in his own hand about \$300,000 I think, for this Bank.

I then checked letters to the Banks signifying the apportionment for the Secy. to sign. He signed them but directed Kelly not to mail them until after Cabinet meeting tomorrow.

I hope he will take it up at the Cabinet meeting and that sound sense will prevail. At first I thought I would refuse to check them but as they were ordered to be sent by the Secy. on his own responsibility and over my protest I felt it my duty to check them.

Later I talked with the Secy. as to necessity for a bond issue to record Panama expenses. I said we were in a critical condition because paying out more than we took in and were losing our gold; I thought the Banks were strengthening their gold reserve at expense of Treasury but would let him know definitely when he returned after his wedding trip. He seemed willing to issue bonds up to fifty millions; I said one hundred would be better to put Treasury in good ~~position~~ position. He said he would like to issue certificates of indebtedness but I pointed out they must be redeemed in one year and would ultimately intensify the situation. He asked me confidentially to prepare form of public subscription--which we agreed was the best form altho we would lose money by it.

May 5--Tuesday. Late this P.M. the Secy. ordered letters to be sent out to District Banks apportioning the 3 millions of dollars but giving nothing to the Riggs Bank. This P.M. Flather of the Riggs Bank called but was told the letters would go out tonight.

May 6. Wednesday. Mr Flather Vice. Pres. of the Riggs Bank called at 10 A.M. and asked me what the Riggs Bank could get. I told him the Secy. personally had distributed the fund among the District Banks and had not allotted anything to the

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Riggs Bank. He seemed very much disturbed--said Riggs Bank had to pay 1/5 of the District taxes and would be severely injured by this discrimination. He then asked the reason for this discrimination. I told him as directed yesterday by the Secy.--that the Secy, personally had made this apportionment and that I must refer him to the Secy. for his reasons. He said it was a rank, unjust discrimination and asked if I thought it would be of any avail to try to see the Secy.; I said he had better go to Cooksey and say he wished to see the Secy. and he went out saying he would do this. Later Cooksey told me he did not come to him. Later in the day Mr Glover wrote the Secy. a letter asking for an explanation for this discrimination. Cooksey brought it in and I told him to give it to Secy. McAdoo. That afternoon Secy. McAdoo told me in presence of Williams--that Williams could prepare a statement to show the Riggs Bank did not need this deposit as it had little commercial paper and loaned its money to the National City Bank in N.Y.

Their whole attitude has changed; until now they were ready to say frankly that they declined to make the deposit because of unfair political attacks of the Riggs Bank and Nat. City Banks vs McAdoo & Williams; now however, they wish to defend their action on other grounds. Later Secy. McAdoo told me he had consulted the Pres. with regard to the matter; I am amazed that the Pres. did not carefully look into this. Sec. McAdoo also said the Riggs Bank had established in past an espionage on the Treasury through loans to employees and that he knew just what employees had loaned from there and that he would see that the loans were paid or dismiss the employees.

Last week the Secy. asked me--the other members of the Organization Com. being present--whether I thought the designation of the National Shawmut Bank as one of the Banks to form a reserve Bank. would be looked on as a discrimination against its rival the 1st. National (?) Wing's Bank--who represented the Nat. City Bank interests; he said he wanted to designate it. I told them that the National Shawmut was one of the strongest Banks and that its directors were men of character and influence in the community and that it would be only natural to turn to this Bank. I added that Gaston & I had been bitter political opponents but that I felt able to rise up above any such consideration.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date 12-22-81To insert at p. 52 of Vol II & III
of Hamelin diary transcripts
From Merritt Sherman

This note is inserted at the May 7, 1914 entry of C. S. Hamelin's diary (p. 52) transcript because that contains Hamelin's first reference so far noted about Secretary of the Treasury McAdoo's having told Hamelin that he (McAdoo) had urged President Wilson to appoint Hamelin to the F. R. Board. Hamelin then was an Asst Sec. of the Treas. From here on, the entries refer largely to the Board's and System's affairs. J

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Secy. McAdoo said today, I ought to attend the Cabinet meetings in his absence and that he would so advise the Pres.

This P.M. Mr Paul Warburg came over from N.Y. in response to telegram from McAdoo to take over ^P Panama Bond issue; he said on facts submitted by me such an issue was necessary and he would advise us how much could be floated.

May 7. Thursday. Mr Warburg called me from N.Y. on telephone; very difficult to hear him but I gathered that in his opinion it would be very difficult to place even 50 millions of Panama bonds. Said he would write me a confidential letter.

Yesterday morning, Secy. McAdoo told me he had urged the Pres. to put me on the Federal Reserve Board but ~~that~~ ^{that} the Pres. while appreciative of what I had done for the administration felt that as there would be three members--McAdoo, Williams and Miller on the Board taken from administrative office holders, he would be criticized for putting on another. I said that I had had no intimation that my name was before the Bd. except thro the newspapers; that while of course I should have accepted if offered, I felt that when I saw Miller's name, that settled the matter even tho Olney declined as Secy. McAdoo said he had already done. Secy. McAdoo seemed very disturbed lest I should feel that he had not urged my appointment, he said he had had it in mind from the first. I did not say to him what I felt-- that the Pres. should have offered me the appointment before appointing Miller, or should have at least sent for me and have expressed some appreciation for what I had done for the administration in accepting a subordinate position and have explained why he could not offer me the position.

May 8. ^FFriday. Several newspaper representatives have called and said there was a general consensus of opinion that I was entitled to Olney's place and that I would be appointed.

May 9. Saturday. Hugh Wallace called and said in confidence that Col. ^House had urged on the Pres. the necessity of appointing me. He said the only trouble seemed to be that it would mean four members of the administration officers; also that it was the chairmanship and that the Pres. feared I was too young for such a position. I said if this were the only objection, he could appoint someone else chairman--he said he felt sure the Pres. did not want to make Warburg chairman and

might have to if the man in place of Olney were not made chairman. He said he thought House ought to go on and talk with Olney; I said I had never expressed any desire for this position and could say and wanted to be able to say that no friend of mine by my knowledge or consent had urged my name. He said--then you forbid me to see Olney or Col. House to see him." I said "absolutely." From his manner, however, I am convinced he will see him.

He said House saw Olney, Sunday May 3 and thought he would accept. I told him that if I were Pres. I would not appoint myself after Miller had been appointed. He said if not appointed, there would probably be changes in the Cabinet and I would be in line. He said Col. House and he both felt it was essential that I should be appointed.

May 15. Comptroller Williams ^{2m}sneds letter addressed to Secy. showing the condition of the Riggs Bank,--that it loans little or nothing on commercial paper, but largely on investment securities and makes large deposits in N.Y. in Nat. City Bank; says their claim that business men in District will suffer if no deposit is made against tax payments is false and insincere. (This Bank never made such claim; Mr Sands said this Bank loaned little on commercial paper. Mr Glover, Pres. -in letter to Secy. said its customers paid 1/5 of the taxes and that the Bank would be injured by not being given a share of these deposits.)

The Secy. called me up from N.Y. this A.M. to ask about proposed easement to N.Y. city to put subway under the P.O. ~~xxxxxxx~~ I told him I had the gold situation well in hand and could give him at least a weeks notice in advance of any critical situation.

May 26. Tuesday. Gaston called & stayed over a 1/2 hour. His ostensible reason was to see Comptroller Williams & urge appointment of Directors in Reserve Banks by the Reserve Board before the local Directors were elected. He seemed pleased that his Bank was selected to form the Reserve Bank of Boston; I told him the Organization committee asked me and I went over the Directors of his Bank and said there was no reason why his Bank should not be designated. He said he hoped I would do all I could to secure a member of the Reserve Board from Boston. I told him the Pres. had not consulted me in the matter and added that I had seen

his name as well as my own mentioned in that connection. He said he could not even consider such a proposition & that he probably could not get it anyway. He never said a word to me about my chance of being appointed & thus clearly indicated his opposition. Later Andrew Peters called and they went together to see Williams.

6.30 P.M. Peters called at house: said he saw the Pres. last week and presented names of Jeremiah Smith and Prof. Sprague of Harvard but told the Pres. that my name was on all lips & would please everybody; that the Pres. praised me most highly but said the S.W. wanted a man on the Board & seemed rather inclined to pass over New England. Peters said he thought Gaston really wanted the place. In the evening dined at the McClintocks. Senator Hollis was there & he said the Pres. ought to appoint me--that all factions would unite on me. Said he would write the Pres. tomorrow and call on him THursday. I told him I would not let anyone speak to him on my behalf. He said he fully appreciated this but what he had to say was in behalf of N. England & not of me personally.

May 27. Wednesday. Ex-Mayor Fitzgerald called; said I ought to accept position on Reserve Board. I said no offer had been made to me. He said he had talked it over with Gaston who seemed friendly but said I would not accept it. I said if offered I would accept. He asked if he could write or see the Pres. I said I had told my friends not to ask for this, that if it came it must come absolutely unsolicited.

May 30. Saturday. Took Brandeis to ride. He spoke of Reserve Board & said my appointment would be ideal & that to his knowledge my name had been strongly urged upon the Pres.

June 1. Monday. Brandeis dined with us. Seemed very much interested in my appointment. Spoke very enthusiastically of Warburg.

June 5. Friday. Mr Cooksey, private Secy. of McAdoo, said a number of newspaper representatives yesterday asked Mr McAdoo about my chances for Reserve Board & McAdoo said that was for the Pres. to determine; that my appointment would be a very great loss to him personally but that he wanted to say that there was no appointment under the Govt. that I was not eminently qualified to fill & that I

ought to have anything I wanted.

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June 7. Sunday. Mr McAdoo has not mentioned the Reserve Board to me since his return except once last week when he asked me to consider a legal question he was talking over with Elliott saying--"this is a matter you will be interested in" and then suddenly corrected himself by saying--"we shall have to have many talks about the Reserve Board from the Treasury point of view". Mr Williams nearly every day intimates that I am to be appointed & from his intimacy with Secy. McAdoo, I feel quite sure they must have talked it over together.

June 9. Tuesday. Mr Dudley of the Washington Star told me in confidence that Tumulty had just told him I would not be appointed to Reserve Board. Have every reason to believe Secy. McAdoo asked the Pres. to appoint me. Am disappointed that the Pres. does not promote me--he does not seem to be very appreciative of what I have done for him.

June 10. Washington Post announces that I am not to be on Reserve Board.

June 12. Friday. Secy. McAdoo, just before going to Cabinet meeting called me in & said the Pres. at his earnest request had decided to appoint me on the Federal Reserve Board; that his only hesitation had been because putting four members on from his official family might be criticized; were it not for this I would have been among the first to be appointed. I thanked him and assured him that I gladly accepted. He then asked me if the Pres. was obliged to designate the Gov. & Deputy Gov. when the names were sent in--I said "No" --he could not designate them until they were appointed & confirmed. He added that he should ask the Pres. to make me Gov. In the afternoon he sent for me again & said that the Pres. would send the names to the Senate on Monday & that he had determined to designate me as Gov. and Mr Jones, a lawyer, of Chicago as Deputy Gov. He said Secretaries Houston & Burleson strongly backed him up in his request for my appointment & designation.

I told him how I appreciated the honor, that I hoped the Board would be harmonious as dissenting opinions would weaken its influence; that there were many questions which must come up under the Act, in the relation between the Board and the Treasury which could only be adjusted by most cordial and intimate relations between the two, that in some of these e.g. deposits of public moneys the Treasury was necessa

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-sarily paramount and that in all these relations there must be perfect harmony between the Treasury & the Board. He said he could not tell me how pleased he was at the President's decision although he did not know how he could get along without me in the Treasury & that I must help him in choosing my successor. I suggested Malburn & he said he would talk with me about it.

He seemed very much relieved at my appointment for he said the large financial interests would move heaven & earth to control the members. I told him the only special quality I claimed was tact in harmonizing conflicting interests & that in that way I could be helpful & that I should do my utmost to weld the Board together in a united whole. He said if this could be done, we could demonstrate to the country and even the extreme radicals that the Act would really benefit the people.

He told me not to mention my appointment to anyone except that I could in telephoning Bertie say I thought the matter was arranged satisfactorily.

June 13. ^Saturday. Received letter from Stuart Gibboney enclosing letter to McAdoo warmly endorsing my appointment. He referred to a talk ~~with~~ we had together Thursday P.M. late walking home with me. He then said he hoped I would be appointed and I told him I had never sought it directly or indirectly nor had any of my friends with my knowledge solicited it for me; that I felt I could help McAdoo if appointed by securing fair play if any attempt was made by big financial interests to control the Board in any undue way. This was in response to his statement that he feared Harding would be influenced by Wall St. as Mr Bertrand who recommended him was a millionaire very close to the interests. He also distrusted Warburg --knew little of Miller. I told him I could do much towards tactful harmonizing and felt I could be useful in bringing the Board together in unity for without this, the Act would fail.

As a matter of fact the only time Mr McAdoo spoke to me of the Reserve Board was the day before he was married and yesterday--Friday.

^U June 15. Monday. 12.30. celebration of Flag day at Treasury--I delivered an oration. 2 P.M. President sends to Senate my nomination as member of Federal Reserve Board for a two year term.

^U June 17. ^Wednesday. xxx Received enormous number of letters of congratulation.

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June 22, Monday. Senator Hollis sent me a letter saying I would surely be confirmed. Senator Weeks called at 5 P.M. asked me to give Asst. Appraiser George 30 days leave letting him resign Aug. 1. Said I would ask Secy. to do this. Senator Weeks then said--"Well--you are subject to congratulations on your own account". I said "Yes" and he then began to talk about the Reserve Board & said the Committee wanted to be sure that none of the members were subject to any entangling alliances or influences. I said this was clearly their duty. He said he was on the sub-committee to which my name had been referred & that no objection would be made to me or to Miller. He asked if I had ever been a director of a National Bank & I said "Yes--the National Eagle Bank about fifteen years ago--it was absorbed by the Shawmut". He then asked as to my business affiliations--I said I had absolutely none--that I retired from law when I became Metropolitan Water Commissioner except for Boston Chamber of Commerce for a short time--and that I had no business affiliations & owned not a share of any Bank or Trust Co. He said he also gave up business when he went into the Senate. I said my wife had a few shares of Bank & Trust Co. stock & that I should sell this also. He seemed to think this not strictly necessary but I said I preferred to do it. I said also I was trustee of the Peabody estate but should also resign from that. I added that I felt that membership on that Board was like membership on the U.S. Supreme Bench. We then talked about Warburg & Jones. He seemed very favorably impressed with Warburg but wanted to know about Jones. I showed him a letter from Asst. Treasurer Sherman of Chicago enclosing an editorial from an opposition paper praising Jones and said I would send him a copy also showed him a letter from Frank Hamilton praising Jones.

Senator Hollis also called this morning--said there was no opposition to me--that Senator Bristow told him I was the only man whom he recognized as fit for the position; that he supposed if George Fred. Williams were here, he might revive his old charge of a secret retainer from the B. & M. R.R.; that he had spoken of this to members of the committee & had told them it was a laughable absurdity. I told him Williams had come to me & we had made it up and that Williams had written me a letter from Greece congratulating me on my promotion to the Fis-

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cal Bureau. Mr Brandeis and Mr Rublee of Wisconsin dined with me at Army & Navy Club. Brandeis said--"Your friends will take care of you as to confirmation".

June 23. Secy. McAdoo called me up late at night and asked me to do all I could with Senator Weeks as to confirmation of Mr Jones.

June 24. Mr Laughlin, former Asst. Secy. of State and now representative of Chicago paper, met me on cars and said I surely would be confirmed but Jones and Warburg would be rejected.

July 2. Thursday. A.M. Senator Hitchcock, acting chairman of the Senate Banking & Currency Committee called me at Treasury about 11.30 A.M. He said he had read the sketch of my life and he wanted to say to me that Charles E. Russell's book had been sent to the committee--he did not say by whom--in which I was attacked as having had a secret retainer of \$10,000 from the Boston & Maine R.R. while practising law in Boston. I told him fully as to this, explained how it originated and showed that it was simply a political attack as there was no secrecy about it whatever. He asked me the exact time during which I was retained and I explained to him fully as in the letter subsequently sent Senator Hollis. He then hung up the telephone. A little later Senator Hollis called me up to say the committee had voted 12 to 1 (he must have meant 10 to 1 as Senator Oliver is in Europe) to report favorably on my nomination after carefully considering the Russell article and my reply. He said Senator Bristow voted against me because of this article and said he would have voted for me otherwise. Hollis said--on my inquiring whether it would not be well to ask Mr Brandeis to see him--that this was an excellent idea and I at once telephoned Brandeis to the Gordon Hotel--he said he would see Bristow at once and later telephoned he had seen him and he felt sure he would not violently oppose me altho he could not say he had completely disarmed his opposition. I then wrote Hollis a letter giving all the facts as to my relationship with the Boston Chamber of Commerce and the B. & M. R.R.

July 2. evening. Met Senator Weeks in N.Y. at station--he told me about same as Hollis--said he had urged Bristow to vote for me and Hollis confirmed this.

He said he would use every means to bring Bristow over and at one time he thought he would insist on my being given the opportunity to go before the committee, but they were all--except Bristow--of opinion that as I was in private life I had a right to take any case and were satisfied there was no secrecy in my retainer. For letter to Senator Hollis & clippings showing attitude of committee, see my Treasury letter book and Scrap book.

July 6. Monday. Sent another letter to Senator Hollis and Senator Weeks & Senator Brandegee as to B. & M. R.R.--going fully into matter. Senator Brandegee was on train with me last night and he said if Bristow attacked me, he would gladly defend me in Senate. At Treasury found letter from Hollis that he had shown my letter of last Thursday to Senator Bristow and he felt sure he would not oppose me.

July 6. 5.45 P.M. Senator Brandegee has just telephoned that I was just confirmed by the Senate without a dissenting vote. A minute later Senator Hollis telephoned to the same effect, and said Senate passed a vote to notify the Pres. of the confirmation. I at once went home and called up Bertie at Mattapoisett and told her and then sent a wire/less to Secy. McAdoo on the "Onandaga" on Long Island Sound.

July 7. Tuesday. Dined with Senator Hollis at Chevy Chase Club. Present-- Senator & Mrs Hitchcock, Senator Salisbury et als.

July 8. Wednesday. Wrote letter to Judge of Probate Court, Boston and sent formal application resigning as Trustee for Mrs Phillpps et als under Will of Anna P. Peabody to take effect Saturday, July 11. I found the estate had some few shares in National Shawmut Bank (about 75) and a smaller number in a Salem Nat. Bank or Trust Co. While probably my co-trustees would have sold this stock if I had asked them--I thought the fairest thing was to resign absolutely to qualify as member of Reserve Board. Also wrote Lee, Higginson & Co. to sell Bertie's shares in National Bank of Commerce of N.Y. & Union Trust Co. of N.Y. I thought it was better to do this altho the Act did not seem to require it.

July 16. Thursday. Mr Elliott told me Secy. McAdoo decided not to designate the Gov. & Vice Gov. of Reserve Board in the commissions but simply to make out

all commissions as members of Reserve Board and later to make the designations.
Aug. 1 Saturday. Secy. McAdoo telephoned me to go to N.Y. and later asked me to come down to Washington Sunday A.M. for a consultation.

Aug. 2. Sunday. Arrived at Washington 1.30. Left with Secy. McAdoo for N.Y. 9.P.M. Attended Banker's Conference. See Scrap book.

Aug. 3. Monday Aug. 3 through Thursday Aug. 6 in N.Y. in charge of Sub-Treasury. Asst. Treas. Vogel being in Europe. Passed on collateral for Aldrich-Vreeland notes with Mr Harding of Reserve Board. On Tuesday Aug. 4, there was a line of three or four hundred people asking for gold in exchange for National Bank notes and silver certificates. Altho not legally entitled to gold, I instructed the Asst. Treas. to pay gold freely when asked for in reasonably small amounts. Later I telephoned Secy. McAdoo; at first he ~~opposed~~ this but I told him a refusal might cause a panic and he agreed to let me do as I wished. The result was that the line disappeared in a day or two.

Aug. 8. Saturday. Secy. McAdoo said the Pres. had designated me as first Gov. of the Reserve Board and he ordered a designation to be drawn up by the appointment division. *begin*

Aug. 10. Took oath of office in Secy. McAdoo's room. Bertie was present and a large number of people including Secys. Houston & Lane, Senators Owen, Simmons, & Hoke Smith, Mr Glass etc. Secy. McAdoo made a speech and called on me to reply. First meeting called for Thursday.

Aug. 12. Vanderlip called me from New York in behalf of committee of Chamber of Commerce. Said they wished legislation to authorize holding National Bank notes as part of lawful reserves--that our Banks owed Canada and England about 130 millions: that England had appointed an agent in Canada to receive all amounts due English people; that it would be dangerous to pay this out of Bank reserves.

I at once asked Senators Owen & Simmons and Mr Glass to come to Dept; held conference 3 P.M.: they said impossible to change law under 2 weeks: I pointed out to Comptroller that he could permit reserves to be drawn on without any legislation & we agreed this was proper course to pursue. Arranged with Vanderlip for conference Thursday morning at which Eldridge --representing his

Bank would be present.

August 13. Thursday. Conference 10 A.M.; Present McAdoo & Reserve Board-- Senator Owen, Mr Glass and Eldridge. Whole situation gone over. Shown that England's moratorium excused her people from paying any debts: it seemed inequitable for us to draw down gold reserves of Banks to pay her. Eldridge thought if necessary could be worked out by Comptroller allowing reserves to drop.

2.15 Conference at White House with President. He delivered an address. 3 P.M. Reserve Board organized. Secy. McAdoo said President would be grateful if Dr. Fine of Princeton could be made Secy. of Board; that Mrs Wilson's dying request was for this. Board unanimously elected him.

Also passed resolution that Comptroller was justified in permitting reserves to fall under present extraordinary conditions.

August 14. Conference of Chamber of Commerce trades bodies, bankers etc. In afternoon had talk with Woodward & Eldridge. Brought out clearly that Banks in N.Y. had not yet decided to pay Canada ^{dian} & English credits in gold to Canada; the Treasury had merely said it would allow reserves to be encroached and that if ultimately it was decided that gold must be sent to Canada, it would be taken from the reserves altho they might be depleted. Seth Low, Gov. Francis & Peters dined with me at Metropolitan Club.

(For work done in Reserve Board see minutes of meetings.)

Aug. 27. Thursday. Mr Warburg in written memorandum strongly opposes opening Reserve Banks until some amendments are made to the Reserve Act; strongly advocates change so as to require member banks to deposit their reserves with Reserve banks taking therefor Federal Reserve notes which should be made available as part of lawful reserves; said that new banks under present law would not get more than 250 millions of gold and as $\frac{1}{2}$ could be paid in with com. paper the net would be only about 150 millions--too small a sum to be of any avail in present emergency. On other hand he said that if member banks would deposit reserves --over the ^{1.139} money --with Reserve Banks, we would get 800 millions of gold which would sustain our whole commercial system without difficulty.

August 28, Friday. Went over Warburg's suggestions in full Board. Much discussion as to Reserve notes: I pointed out they were tied down to and represented Commercial paper. Warburg & the Secy. thought that Reserve notes could be issued for gold under Section 14 (a)--power to exchange Federal Reserve notes for gold etc. Williams and I agreed that this meant merely to exchange notes already issued for gold. The Secy, said the intent of the ~~Committee~~^{Committee} was that new Reserve notes could be issued for gold. I pointed out that this would constitute a new kind of Federal Reserve note not authorized by the Act & if authorized would require the gold to be held as a trust fund-- & if this were so, the Banks might prefer a present gold certificate to such notes.

The Secy. then said we ought seriously to consider the propriety of the U.S. suspending gold payments. He did not say this had been considered by the Cabinet but from his manner this seemed clearly to have been the case. He pointed out that this would enable the U.S. to keep the gold ~~against~~^{against} gold certificates were outstanding, altho the certificates would still be in circulation. Miller said that they would be at a discount which Secy. McAdoo denied. Till now I rather felt that the Federal Reserve Act was not passed to keep U.S. on a gold basis but rather to make commercial paper liquid so it could be used instead of call loans & further to keep the Govt. money deposited with Reserve Banks and the member banks reserves similarly deposited away from Wall St.--the duty of maintaining parity being on the Secy. of Treasury who was given extra powers to issue gold bonds for this purpose. The minute the Secy. mentioned suspension however--I made up my mind that I would consent to any amendment of the Reserve Act which would avert such danger. Warburg felt confident that with these amendments we could keep U.S. on gold basis without much if any danger of suspension. In evening we met and drew up certain amendments.

September 7--14. Mr Glass said no hope of amendments as any bill would be loaded down with vicious amendments. Senator Owen at once introduced a bill containing draft provisionally adopted by us at above evening session. It was understood however that no bill would be put in until we had shown amendments to Secy. and President. The next morning we changed the amendments by striking out ac-

ceptances of 2 name commercial paper etc. The Owen bill does not represent views of Beard and some things in it e.g. lower cap. limit of National Banks we had not agreed to and had so informed Senator Owen.

Sept. 12. Saturday. Mr Miller presented computation to show that Federal Reserve Bank of Atlanta would soon have to shut its doors if called on for gold. This was based on Warburg's views. They both forget that Bank could protect itself by raising discount rate. They also seem to think that Reserve Banks must furnish all gold needed for export as if they were the only banks in the U.S. They are both unduly pessimistic.

Oct. 7. Wednesday. Today we finished election of Govt. directors by electing the Cleveland bank directors. Until now every election was unanimous but in this election of Henry Wolfe, Messrs Delano, Miller and Warburg voted No. Mr Harding said that while satisfied that Wolfe had the character and ability requisite, yet he feared that this matter might be construed as a political issue & he felt constrained to vote no Wolfe. He said however, that in view of the fact that Wolfe was elected last week and the Secy. was authorized to tell this^{to} Mayor Baker of Cleveland, an adverse vote now--the matter having already been re-considered--would put the Secy. in a very awkward and embarrassing position & he should vote for Wolfe. The vote stood: aye, Williams, Hamlin & Harding. No. Delano, Miller & Warburg. The Secy. thereupon voted aye & Wolfe was declared elected. There was quite a bitter contest over this matter. Miller even told the Secy. that he--Miller--was voting to save the Secy. from himself. Some time ago Senator Burton went over the various names with me and objected to Wolfe not apparently on any ground of character or fitness but chiefly as I remember, on the ground that Wolfe had not treated him fairly in his newspaper--that once he had taken a few sentences from one of his speeches and had magnified them unfairly and had attacked him unjustly.

I have high opinion of Burton and would not willingly do anything to offend him but in looking over Wolfe's endorsements, I was satisfied that he was among the best men for this place & that not to appoint him would be to do the very thing we all sought to avoid--to allow political reasons to influence us.

Senator Pomerene was very strongly interested in Wolfe & testified to his high character. Last week or the week before we elected Homer Johnson of Cleveland to this position but he declined to take it because of his professional relations to banks etc. At our request he came on and was very bitter towards Wolfe. Warburg said he told him that whenever Wolfe got drunk he would say that he owned Gov. Cox and that once Wolfe asked him to appear for him in a law suit but it was of such a nature that he declined. Last week one morning, the Secy. sent down a note while we were in session, asking us to give Senator Pomerene a hearing. Thereupon Warburg moved to adjourn on the ground that we should never give a hearing to any Senator or Congressman except upon our invitation. Williams & I protested & said this would put us in a *false* & ridiculous position. Miller said on adjournment we could go up to my room and listen to Pomerene informally. I said it would be ridiculous to hide our face in this manner but they persisted and voted to adjourn--Williams and I voting No. I felt this was most discourteous to the Secy.

Later we met Pomerene in my room--this was Thursday, Oct. 1 at noon.

After some discussion, Warburg said to Pomerene--speaking as he said for the Board, that the only reason we had for not voting for Wolfe was that he could not give the necessary time to the work as it would involve almost continuous presence in Cleveland at first and much time always. This statement was not in fact true as Warburg and some of the others were influenced against Wolfe by Johnson's statements. Shortly after Warburg said to Williams his statement was not true. I very nearly objected to this statement when it was made but did not want to have any dispute before Pomerene. Miller then asked Pomerene if he could obtain assurance from Wolfe as to whether he would give the necessary time even if it involved residence in Cleveland. This was done as Miller later admitted, in hopes that Wolfe would say No. In afternoon I said to Board that in my opinion, the above statements committed the Board to Wolfe if he gave satisfactory assurances & I should in such event vote for him. Warburg said if he gave such assurances, we must then vote that the director must move to Cleveland and give all his time --altho in San Francisco, Texas and other States we had not required this.

While we were speaking, Senator Pomerene called me on telephone & said he had just been talking to Wolfe who gave all necessary assurances. Later Senator Pomerene wrote me as to this. (See his letter)

Later that afternoon or the next day after long discussion, we voted to elect Wolfe and Treadway of Cleveland & Warburg said if Treadway would serve with Wolfe he would be perfectly satisfied. We then asked the Secy. to call up Mayor Baker and ask if Treadway would serve on above conditions. Friday or Saturday the Secy. said he had telephoned Baker who said Treadway would serve & that he (Mayor Baker) on whole thought Wolfe's selection would be a wise one.

On Monday or Tuesday at another meeting, DeLano moved to reconsider election of Wolfe. Much rather bitter discussion followed. I said that as the opposition to Wolfe came from Johnson's remarks to Warburg,--Wolfe should have a chance to be informed of them & to answer them. Williams agreed with me, Warburg was very mad & said if this were done, he would never again give any confidential information to the Board. Finally on vote it was moved to reconsider, Williams, the Secy, & I voting No and Harding, Miller, DeLano & Warburg voting Aye, Finally as above stated, Wolfe was elected.

The Secy. was very indignant at the treatment of his request for hearing of Senator Pomerene--said he had talked it over with President Wilson who said he would consider it his duty to remove anyone taking the preposterous position that our Board would hear no Senator or Representative except by invitation.

During the discussion above, Mr Warburg stated that he would agree if Wolfe's election were voted down that he would vote for him on first vacancy one year from date, or that he would agree that we should tell him that we would use influence to have elected a member of the Advisory Council or of some local committee to be formed in connection with the Federal Reserve Bank. My answer was that if fit for election a year from now, he would be fit now.

Friday October 9. Festus Wade of St. Louis and a committee of St. Louis merchants came to advocate a 150 million fund to help cotton growers, handlers, mnfts. etc. Reserve Board named myself, Harding and Warburg to hear. We discussed plan for three hours. As originally presented a syndicate was to be formed which

would raise \$150 millions for which they were to receive 7% net. The syndicate managers were to loan this through banks as their agents to banks in South who were to lend to individuals at rate of not over 6% per lb. & were to rediscount the notes at rate of 7% plus further sum of $1/10$ of 1% per month ($1/10$ % per year) to cover expense of managers and commissions to Managers & their agency banks. No limit was put on what the borrowing banks should charge borrowers. After long discussion they voluntarily agreed to limit rate to $8 \frac{5}{10}$ %.

We further said that the exact commission to be paid must be expressly stated and I said that having one syndicate manager would not be satisfactory but it should be a committee of at least 3 prominent bankers at least 2 to be in South. October 10. Saturday. Warburg prepared a letter specifically approving details of plan but saying nothing as to syndicate manager. Mr Wade said only one he had talked with was J.P. Morgan & I felt this would not be satisfactory alone. I thought rate was too high but all present said rate in South was 10 % upwards --the anti-usury laws being got around. Finally we went to Secy. & later he came down to meeting & said he was willing to endorse such a plan on principle but that he would not endorse this particular plan as he thought interest rates too high. Later I prepared a letter, slightly changed by Secy. agreeing to such a plan in principle but declining to discuss or approve rate of interest, commissions etc. (See Scrap book)

As the Secy. was leaving room after Board approved my letter, he said he hoped we would use every endeavour to open banks as soon as possible. I said this would be done and that a call for capital subscription should be issued in near future.

Suddenly Warburg paced up and down the room violently angry attacking me for my conduct as Gov. in bull dozing the Board or some such expression; said it was absurd to open before conference with Gov. of N.Y. and other banks; that I often forced the Board to change its views to please the Secretary; that he was disgusted that he had voted for McLellan of Indiana when he saw him --that he was disgusted with waiting for Secretary when late etc. and that as Gov. I was responsible for dignity of Board, that he did not intend to stand it any longer etc, etc.

Then Harding opened by saying the banks could not open until certain preliminaries accomplished, that he should never again vote for anyone against his honest convictions etc., etc.--referring to the Wolfe appointment.

I replied to Warburg that I had never & could never influence Board to vote against its convictions; that Williams & I had fought & bled with the Secy.--had great affection for and respect for his opinions. Warburg then said or implied we were voting with Secy. because of affection etc. Williams and I denied this and I said the most significant deference to any others opinion was our deference to Warburg in appointment of Strong as Gov. altho we had reason to fear that choice might be attacked on ground that Strong would not have courage to withstand N.Y. capitalists influence. This rather staggered him & I added that the only criticism I had heard of myself that I was too lenient in presiding and *not* strict enough.

Warburg & Harding then both opposed my sudden opening of the banks & spoke of fact that if amendment as to reserves was not adopted by Congress, the banks would be quickly forced to close etc. I replied that even if amendment did not pass, I should vote to open the banks as soon as the necessary preliminaries were accomplished tho they were sure to close next day as I believed it was our duty to carry out the will of Congress. Harding thought I said that I would vote to open at once before even necessary preliminaries were accomplished and was very mad but I made my statement clear. I then said I appreciated that neither Warburg nor ^Harding were in sympathy with the Act unless amended & that they believed until amended the banks should never open. They denied this rather feebly when I reminded them of the report for the Finance Committee on the proposed amendments written by Warburg & expressly concurred in by Harding saying banks should never open unless amendments passed. This somewhat quieted them.

Finally Miller moved that they both be appointed a committee to consider & report next Wednesday just what preliminary steps should be taken before opening.

Then Warburg began again about dignity of Board & that Secy. was only one member etc.--that responsibility was on me as Gov. & I replied that I should shirk no responsibility & felt satisfied I had discharged my duties fairly & justly.

Then Miller delivered an analysis of the Secy.'s character--brilliant and impulsive but unable to give necessary time to duties of Board; that it was more or less annoying to discuss a question perhaps for hours & suddenly have Secy. come in and have to go over all again & he intimated perhaps have to change our views to please Secy's snap judgments. Finally the meeting adjourned.

I am about satisfied Warburg is absolutely out of sympathy with Reserve Act unless he can turn it into a vast system of centralization with N.Y. the predominating factor & that he is representing the wishes of the N.Y. banks rather than the people--in fact I suspect he has little sympathy with the people.

October 15. Thursday. 3 p.m. Board meeting. Secy. McAdoo read a letter addressed to him as Chairman of Board from President Wilson. The President said many complaints had been made to him by S^{ns}ators et als, that the Board was deliberately holding back in organization of the Reserve Banks; that he knew this was untrue: that in order to show it to be untrue, he hoped the Board would use every effort to expedite the opening. The Secy. who read a letter prepared by himself to the Board, urging haste & saying the banks should be opened by Nov. 2.

Warburg was very indignant, saying both letters implicitly criticized the Board; he added that had it not been for delays caused by Secy.'s being late at meetings, much faster progress would have been made. The Secy. at once asked Warburg what he meant and a bitter controversy seemed imminent. Warburg backed down, however, and could give no instances.

Delano said we had asked the directors to state at conference next week the earliest moment they could be ready & that it would be discourteous now to make any announcement. It seems the circular to the directors was signed by the Secy. of the Board & prepared by the committee & none of the other members had seen it. There was a long discussion, Warburg saying we could not open before Dec. 1 at earliest. Strong was in town and we called him down into the meeting. He said N.Y. bankers felt strongly Jan. 1 should be the earliest day because of ~~premium~~ on gold but he admitted to Williams the Reserve banks would not affect or be affected by that. His real reason seemed to be that this was a bad time for the Banks to open & he said we should wait until all could be heard at the

Warburg; he wants Reserve Bank to grant 100 millions of gold to cover finance bills. Mr Schiff and Gov. Strong were opposed to this.

Oct. 30. Friday. Session of Comm. with Sir George.

Oct. 31. Session. 10 to 1.30. At these sessions Gov. Strong read a number of memoranda covering --a. Price allowed for gold at Ottawa. Claimed not high enough. Sir George said if England allowed ^{more} --it would facilitate gold exports from U.S. and thus injure us. We replied this would be so in normal conditions but not now. Sir George advised us not to figure exact cost etc. which Bank of England should allow but merely claim as a matter of justice we should be allowed a greater sum. B. ^Facilities for free opportunity for selling cotton to England and assistance from England in financing its movement.

Gov. Strong said advised that there was an understanding between English mfgs. not to buy cotton save from hand to mouth, Sir George denied this and said matter was slowly righting itself; that ^{the} Manchester spinners at first were short sighted but were now more reasonable; that he had cabled London cotton Exchange should now be opened etc.

C. Opening Stock Exchanges. D. Payment to England of indebtedness not yet provided for. We took these up together using C. as an excuse for bringing up the principal question--D. Gov. Strong said Comm. of N.Y. Stock Exchange should go to London to consult with London Stock Exchange Comm. before opening.

After long discussion Gov. Strong said he, Wiggin & Brown would make a statement in writing as to a plan for taking care of the Stock Exchange in case our securities were dumped upon us after opening. The plan suggested was a syndicate of banks and bankers who would lend to Stock Exchange brokers taking Stock Exchange collateral; a Comm. representing the syndicate to draw on certain English banks or on Bank of England the Stock Exchange collateral to be given as security; thus the banks in the syndicate would be individually liable on the Bills; furthermore the English Banks were to agree to renew these bills if considered necessary by the syndicate and this would relieve our banks from necessity of covering these bills with gold which Strong said they would never be willing to do. Wiggin said to me, these Banks could get gold from Reserve Bank by discounting commercial paper if necessary in future.

Gov. Strong said Reserve Bank could not safely guaranty to deliver gold in future. If system was successfully established, they could do it but would not agree to do it.

Sir George at first insisted on Govt. bonds as collateral but finally said he would advise British Govt. to agree on some such plan as above.

Question then arose as to how this plan should be presented to Sir George --whether as a suggestion of the bankers, Gov. Strong, Wiggin and Brown or as a suggestion from our whole sub-committee. Sir George said he could not cable a suggestion merely from bankers--it must have approval in principle of Secy. and Reserve Board. Warburg then called up Secy. McAdoo in N.Y. & he said he had no objection to the memo. being given to Sir George if understood to be merely a memo. from the bankers but if anything more, he & Reserve Board must have opportunity to consider it. (I had previously telephoned him and advised him to say this).

Finally we adjourned until next Wednesday. We then called a meeting of Reserve Board and I suggested that if any memo. were to be given to be cabled to Chancellor of Exchequer with approval of Secy. & of Reserve Board, we ought first carefully to consider it as also the Secy. & the President. We all agreed to this.

As a basis for all discussions as to amounts owed abroad, we took the figures prepared by bankers Comm.; showing due 379.1 millions --Can. owing 56.6.

Net debt 322.4--as follows.

		Millions.	
Credit balances	95		Exchange we must deliver
Time drafts	63	Debt	not covered by above. 13
Acceptances for		balances	Banking house & corp.
our acct.	86	due from	obligations pay. abd
Com. credits		all count-	Securities 5
still unused.	50	ries,	Dividends 8
Travellers credits		56.6	Due Europe for Sec's
	15	millions.	recd. but not yet paid 7
Loaned pers.			Amt. due Europe for Sec's
for Europ.			sold but not recd. from
clients	12		Europe 18.

As I understand it from this net balance is to be finally deducted the 80 million N.Y. notes for which gold has been provided. Also the 100 million gold pool & the exchange made on exports.

We all agreed with Gov. Strong that in all human probability the increasing exports with the 100 million gold pool would amply take care of our indebtedness and that the only cause for anxiety would be whether on opening of Stock Exchange we should be flooded with our Securities sent back for sale. The above suggested arrangements, the bankers thought, would take care of the possibility provided it could be carried through.

Nov. 3--Tuesday. Went to Boston to vote.

Nov. 4. Wednesday. In Boston with Mr Harding of Reserve Board. 10 A.M. met Comm. of Clearing House. After long discussion they said would meet tomorrow and would probably advise taking of 5 millions towards Cotton loan provided Atty. Gen. of U.S. gave opinion that it did not violate Sherman anti-Trust law, Clayton Bill or other laws of U.S. I said I would ask Secy. to obtain an opinion from Atty. Gen.

1 P.M. Lunched at St. Botolph Club with directors of Federal Reserve Bank and later visited offices also the offices they expected to have permanently. Left for Washington at 5 P.M.

Nov. 4 Wednesday. In Washington. Reply wired would appoint Comm. to raise 5 millions if opinion of Atty. Gen. were obtained. They also stipulated in Boston that the Guaranty fund was to give preference to Class A. contributors. Nothing in the agreement as to this but Harding said it was the intention & such power must have been omitted by error.

Secy. McAdoo said Atty. Gen. did not want him to ask opinion by formal letter as yet but would see him. Later he came over and had conference with Secy. At Secy.'s request I wrote him a letter & stated request of Boston Clearing House Comm. Secy. McAdoo said he would give the suggestion of the banker's comm. as to a 100 million loan from British Govt. or Bank of England to Sir George with his general approval. I pointed out that Warburg & I were appointed a sub-comm. to represent Reserve Board & we should pass on it & he finally agreed to this.

3 P.M. Meeting between Secy., Warburg, C.S.H. and Sir George and Mr Blackett. Secy. McAdoo said he approved in principle of the suggestion of the bankers Comm. & that Sir George could cable it over informally altho bankers would not sign it until tomorrow. I suggested that reference to British Govt. be eliminated as it was merely a suggestion of a plan from the bankers and finally the suggestion was amended so that it read that the loan was to be arranged by or through the Bank of England or other British Banks.

I redrafted letter of bankers--originally addressed to me--so that it read addressed to Warburg & myself as a sub-comm. of Reserve Board; also drafted a letter from Warburg & myself to Secy. transmitting the banker's letter to the Secy. with an approval of the principle of the plan, stating that we were authorized by Reserve Board thus to transmit it. The Secy. promised Sir George to send him a letter of approval tomorrow.

4.45 called meeting of Reserve Board which authorized us so to forward letter to Secy.

At Sir George's suggestion, the banker's letter to Warburg & myself was slightly amended by adding clause that the suggestion was merely a tentative one & making it clear--as was the fact--that it came from the bankers & was not suggested by Sir George. Warburg called up Strong and dictated the letter which the bankers Comm. was to send us.

November 13 Friday. Fixed discount rates. Williams wanted all districts fixed at 6% and I rather agreed with him as a purely temporary matter. After long discussion however, the conclusion was reached that rates should be higher in districts where money or rather credit was needed. We fixed rate of 5½% for 30 days or less at N.Y. & Phila. and 6% for others; at 6% flat for Boston, Cleveland, Chicago etc. and 6 and 6½ for San Francisco, St. Louis, Dallas, Minn. Richmond, Atlanta etc. We decided to give Boston, Cleveland & Chicago 5½ for 30 days or less & telephoned them but they said they did not want it.

Nov. 14 Saturday. Decided to put Richmond down to 6% class also St. Louis--straight. Finally announced rates.

Boston.

N.Y. 5½ for 30 days or less. 6% for others.

Phila. $5\frac{1}{2}$ for 30 days or less. 6% for others.
 Cleveland 6% straight.
 Kansas City 6% & $6\frac{1}{2}$.
 San Fran. "
 Minn. "
 Dallas "
 Richmond 6% straight.
 Atlanta. 6% & $6\frac{1}{2}$
 Chicago. 6% straight.
 St. Louis. "

Festus Wade wired us asking for very low rates to be increased later--as I remember he wanted as low as 3%. We all thought this foolish as it would quickly drain every cent from the southern banks and no funds would go there.

Originally Kansas City wanted 7% but when Warburg telephoned, Gov. Sawyer said he did not want to be out of line with rest of country and asked for 6%. Atlanta originally asked for 5% but explained this was on theory Govt. would deposit large sums with it, and later said if no such guaranty could be given it wanted 6%. San Francisco originally asked for $5\frac{1}{2}$ % and 6%. We felt that while this would be all right for San Francisco, it would not do for the whole vast district and that 6 & $6\frac{1}{2}$ was more wise at least in first instance. The report as put out was unanimous.

November 17. Tuesday. Cotton loan fund of 100 million dollars completed today. We had much trouble with the Boston banks. Harding & I went to Boston & met the Clearing House comm. (see scrap book); they said they would approve subscription of 5 million--we had asked ten--if I would secure opinion from Atty. Gen. altho later Beal intimated that even then they might not do it unless their counsel Hutchinson said it was not in violation of anti Trust law. I went back and the President asked opinion of Atty. Gen. who said it did not violate such laws. Meantime Hutchins had given an opinion that the question was doubtful and that any director voting to subscribe incurred risk of indictment by a future administration.

Hutchins also went to Phila. and secured opinion of John G. Johnson, The⁷⁵ complete opinion was not published--only the latter part advising against such subscription. Mr Dwinnell--Vice-Pres. of 1st. National Bank of Boston--told me that Johnson held that the anti-Trust laws were not violated.

The Secy. invited a number of Boston bank Presidents to meet him in Washington, Friday Nov. 13--but all regretted for one reason or another except Amory Eliot of Webster & Atlas who came on & later subscribed to fund.

Gaston told me in confidence that Stockton of Old Colony Trust Co. defeated the motion to subscribe--it was defeated by one vote. Gordon Abbott came down Saturday, Nov, 14 and said Stockton (or his father Howard Stockton or both) also voted against it in the Merchants National (Howard Stockton is a mill Treasurer).

Gaston also said that the cotton Mnfts. were fighting the fund as they felt it would raise price of cotton they had to buy. Col. Higginson wrote to same effect to Secy. McAtee. Dwinnell told me that the Stocktons, Mr Dumaine and Mr Prendergast and also Kidder, Peabody & Co. fought it bitterly.

Nov. 17--Tuesday A.M. Called up Stockton & Thayer and asked them if they could not vote to invest in \$500,000 class A. certificates without joining the agreement. They said they would take this up.

Stockton was somewhat angry at statements that Boston wanted the gold pool for its own benefit but was unwilling to help South as to cotton; said Boston did not want or need the gold pool,--that the banks gave their share --7 millions --very reluctantly; he even intimated that statement given at the banker's Convention that Boston had 35 millions of gold obligations--was not true.

Nov. 18-Wednesday. I wrote Stockton a letter quoting Beal, President of Clearing House association, strongly urging necessity of gold pool--saying the whole Clearing House Comm. concurred. (See letter to him)

Stockton & Thayer both wired they could not subscribe. Stockton said in telegram that he would not even put it to a vote as their policy was never to put to a vote any matter against which there was strong opposition. (!) Am disgusted with the Boston banks and am satisfied their refusal to come in was due to--

1/anger at indictment of New Haven directors.

2/ Republican politics.

3/ Influence of cotton mnfts. who hoped still further to depress cotton.

4/ That question of anti-Trust laws was merely a subterfuge.

Nov. 20--Friday. Sir George Paish called on Secy. who asked me to be present. Last week the Secy. told the Reserve Board that the British Govt. had told Sir George that it was so busy it could not answer the suggestions of the Banker's Convention for some days; the Secy. added that financial matters had so far improved that he felt it would not be harmful if the whole matter were dropped. He asked Warburg, who was going to N.Y. to ask the bankers Convention, if they agreed to this, to make this suggestion which the Secy. would give to Sir George.

Sir George, at this interview--Friday--said he had heard nothing from the British Govt. but it was not surprising considering the matters on their hands such as the War loan, double income tax etc. Secy. McAdoo said he was in no hurry as Sir George could confer with me while he was away at Jekyll Island and it was so arranged.

Mr Cooke of State Dept. called and said Dept. was besieged with requests to know status of Reserve Board. I advised him to tell Asst. Secy. Phillips to take matter up with Secy. McAdoo. He said the State Dept. felt positively that our Board outranked Asst. Secretaries & clearly outranked all Commissions. He said further they thought the Gov. should come next after the Solicitor Gen. --outranking Rear Admirals. Later I talked it over with Secy. McAdoo; I said he was clearly wrong in stating some days or weeks ago that Compt. Williams outranked the Reserve Board as the Federal Reserve Act--so far as related to Federal Reserve notes, suits for violation of Act etc. put the Compt. as much under Reserve Board as under the Secy. of the Treasury. He seemed to agree with this. I also advised him to suggest to President to be very liberal in fixing status of the Board as many of them felt humiliated and that it would be easier for us to insist upon the legal limitations of the Board in many matters sure to arise if personally the President gave them a high status. I told him Cooke said the State Dept. felt they were clearly above Asst. Secys. He said Atty. Gen. was about to rule that the Board was an independent Board & that it w

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 would be easier ~~for~~ rule they outranked Asst. Secys. if they were a branch of the Treasury Dept. He further said if they outranked Asst. Secys. this could not apply to Williams the Comptroller. This seemed to trouble him very much. He said the President would probably be annoyed to have the matter brought before him but I pointed out that whatever their status was it should be fixed once for all and he agreed to this. I told him also what Cooke said as to status of Gov. He said clearly the Gov. outranked other members of the Board but if he were put clear above them it would seem anomalous e.g. on New Years day to have the Gov. from rest of Board and he thought the whole Board should have same status.

Nov. 29--Sunday. (Interview with Tumulty in regard to withdrawal of President from ceremonies connected with the dedication of a tablet on the Octagon house.) He spoke also of Reserve Board & rumour of a split & resignations; said this would ruin the Democratic party as the members or at least Warburg & D^{lan}o were big men and the people might side with them. I told him there were and would be divisions but I felt I could keep the Board together provided they did not feel humiliated & I told him of their desire to have their status fixed. He said the President was disgusted with four of them & would like to remove them; that he said "they want their status fixed? well, I will status them"! I explained to Tumulty that it might originally have been their social status, as President thought, but that was not the condition now; that they felt they were part of the army under lead of President & that he should let them know whether they were fighting as privates in the ranks or as officers; that there were many questions ahead in which they could give great trouble--that they felt they had great powers--far greater than I believed they had--and that it would be far easier to induce them to accept reasonable limitations of power if the President showed that he had a high appreciation of their status, but that if he humiliated them by e.g. putting them below Asst. Secys.--it would certainly make them more tenacious as to their extensive powers, and that if these powers were what they claimed, they would be as powerful as the President himself. He agreed with me & said he would get the President to tell Asst. Sec. Phillips to take no

action in the matter of status until he could see him; also said President should invite them to lunch & pay some attention to them.

Nov. 30--Monday. Dined with Asst. Sec. Roosevelt. British Ambassador there; asked me if I thought it absolutely necessary for British Govt. to reply immediately to our proposals through Sir George Paish. Knowing Secy. McAdoo's attitude--explained to Reserve Board--that he would be glad to have all negotiations lapse--I told him that speaking personally and entirely unofficially, I saw no reason for urgency in view of the great improvement in our export trade.

Dec. 4. Williams, Compt. & Wallace came in--I think this was the day--to speak of Martin, Secy. McAdoo's son-in-law. They had a telegram from Peabody, Govt. director of Seattle, saying directors had voted not to employ Martin. Williams was very indignant & Wallace had a telegram he proposed to send Peabody telling him he must fix the matter,--I said this would not do & that it might embarrass the Reserve Board, Secy. McAdoo & the President. Williams said even if it became public it could embarrass nobody as Martin was the best man for the place etc(?) I said it would put in the directors hands a weapon they could use against us and the matter should now be dropped. Don't know what they finally did but fear Williams will make some break.

Dec. 5--Saturday. Called on Asst. Secy. Phillips at his request to talk over status of Reserve Board. He said State Dept. had reached conclusion that Reserve Board was inferior in status to Asst. Secy's.--& they showed me a list in which the order was Asst. Secys.--Secys. of Legation--Reserve Board & asked me my opinion.--I said I felt that Reserve Board outranked Asst. Secys. as the Board had on it the Secy. of the Treasury & had broad independent powers--that Asst. Secys. had no power except under orders of the Secy. He asked how Board differed from Interstate Commerce Commission & I said by fact that Secy. of Treasury was on it. He said the President must settle it. I then called on Tumulty on another matter and told him, also told him the State Dept. had dropped him down 8 or 10 numbers--as Phillips told me. He was furious & said no Republican Asst. Secy. should fix his status--he was also emphatic that we outranked Asst. Secys.

This evening dined with Miss Lee. Phillips was there and again spoke to me and asked about my opinion, saying he had sent letter to President. I reiterated my opinion and said the least that could be done would be to make Asst. Secys. and Reserve Board co-ordinate in rank, each to outrank Secys. of Legation. He at once agreed to this and said it was a happy solution and he would write the President. I advised him not to & said I would take it up with Secy. McAdoo. Dec. 7, Monday. Secy. McAdoo returned from South. Asked me about status of Board & I told him all the facts. To my surprise I found him suggesting all manner of difficulties as to giving status to Board ahead of Asst. Secys. He saw same difficulties to making them of equal rank. He kept saying that these difficulties were suggested by the President--that he had nothing to do with it--that he would be delighted personally etc. etc. It was perfectly evident that he did not want the Board to have any high status.

Williams showed me a letter from Reserve agent Perrin explaining why Directors turned down Martin. Said the only \$5,000 job was cashier & that Martin admitted he could not properly fulfil such duties; that Martin was affected with tuberculosis & there was great prejudice on Pacific coast to such invalids etc. Dec. 8 to Jan. 1, 1915. Too busy to write in diary.

Had several conferences with Asst. Secy. Phillips--once with Secy. McAdoo, at which Secy. McAdoo kept speaking of the difficulties of making Reserve Board rank ahead of Asst. Secys. and of course Mr Phillips agreed with him. I told them both frankly that I did not care a straw about the matter but that my associates felt very keenly about it and several had said they never would have accepted membership on the Board if they thought their relative position was to be on a par with Asst. Secys.--that it would interfere with their duties to put them in such a relatively low position, especially the rank originally suggested to the President by Phillips--to put Asst. Secys. ahead of foreign Embassies and Legations and to put the Reserve Board behind them. I added that in my opinion the Reserve Board outranked Asst. Secys. from the very nature of the great powers granted to them by Congress, while Asst. Secys. had no power whatsoever except to carry out the orders of the Secy. and from the further fact

that the Board was absolutely independent, as ruled by the Atty. Gen. in so far ^{80.} as its principal duties were concerned. Secy. McAdoo then expressed doubts as to the other Commissions--the Interstate Commerce, Civil Service etc. I said the Reserve Board differed from a Commission--a/ It has on it a Cabinet officer-- b/ It is independent--c/ There is no appeal from its decisions. I begged the Secy. to talk with the members but he did not want to and finally suggested that Phillips had better do this. Finally I brought matter before the Board and it informally asked Delano and Miller to see Phillips later. Subsequently Phillips told me he had had a talk with both and that Miller was very bitter.

I told Phillips that it was a far reaching matter, that the members were big men and had taken office--many at great personal sacrifice & that to make them feel humiliated would impair their work and usefulness. He seemed very much disturbed and said "you know the President has already decided the question". I did not know this nor how he had decided it and did not ask. He added--"However he will undoubtedly change if the State Dept. asks him and we must satisfy the Board and I will recommend that the Board be given a status above Asst. Secys." Have not heard from the matter since except that we gave a dinner Monday, Jan. 11 at which Harding & Asst. Secy. Malburn were present; I asked Cooke of the State Dept. how to seat them and sent him a diagram putting Malburn ahead of Harding. He wrote a letter saying that he had changed the list putting Harding ahead of Malburn.

1915. Jan. 1. Secretary Lane told me at my house New Years day that Secy. McAdoo was disturbed about the Atty. Gen.'s opinion that our Board was independent of the Treasury. Secy. Lane also told Mrs Miller that it was absurd not to put the Reserve Board ahead of Asst. Secys. & Mrs Miller told Bertie. At a dinner Jan. 13 at Secy. Burleson's--he told Bertie we were clearly ahead of Asst. Secys. Atty. Gen. Gregory in the latter part of December told me over the telephone that he had no difficulty in deciding that we were independent of the Treasury but that his opinion had been "held up" for a long time--adding that--"I would understand"--meaning that Secy. McAdoo had held it up.

Jan. 16. For the last month we have been preparing regulations on Acceptances

under Section 13 & 14 of Federal Reserve Act. Warburg has prepared many drafts in all of which he has mixed up 13 & 14 and I have insisted on their being kept distinct. Sec. 13 has to do with closed market operations while Sec. 14 is entitled open market operations. To my mind Sec. 13 merely gave the privilege to member banks to accept import & export bills while Warburg claims --our Counsel Elliott agreeing with him--that "Acceptances" in Sec. 13 means the same as "bankers acceptances" in Sec. 14. Such an interpretation would enable the Federal Reserve banks to discount when indorsed by a member bank--acceptances of State banks, Trust Cos. and as well as of private bankers. I do not believe Congress intended to give any such privilege to State banks and private bankers under Sec. 13. The F.R. Act as passed by H.R. in express words limited such discount of acceptances to acceptances of member banks when indorsed by at least one member bank. The Senate in various drafts of amendments retained these words until the Owen modified amendments of Dec. 1 which were adopted finally by the Senate. The Owen draft struck out the words of "member banks" leaving the power in Federal Reserve banks to discount "acceptances" generally. I thought this was done merely because it was unnecessary to repeat the words member banks, as it was plain that this was the intent of Congress. I called up Senator Owen who said while not clear in his recollection, yet he thought he intended to broaden the word. Even if true, I think the word is plainly limited to member banks and Willis thoroughly agrees to this & regards the distinction as vital.

To my mind Sec. 14--the open market powers--is much broader than Sec. 13 and extends to all acceptances, not being limited to imports & exports. On the other hand Elliott thinks the power to purchase acceptances under Sec. 14 is also limited to imports & exports. To my mind these open market powers were given--not to encourage the financing by American banks of the import trade (this was done by Sec. 13 giving member banks power to accept such transactions) but merely to give Federal Reserve banks a right to establish a liquid secondary reserve at times when there was no demand for rediscounts of commercial paper and also the right to protect its action in raising or lowering the rate of discount to

protect the gold reserve by buying or selling in open market in competition with member and all other banks so as to inflate or contract credits.

Warburg contends that Sec. 14 as also Sec. 13 was intended to encourage the financing of import transactions--a very narrow view. The question may be asked --what difference does it make? The answer is, on my view Sec. 14 relates only to extraordinary powers to be used only when actually necessary for the protection of the Federal Reserve system under stringent regulations, while according to Warburg's view Sec. 13 gives power to Federal Reserve banks to discount State bank acceptances and private bankers acceptances as a regular operation.

To my mind, everything under Sec. 13 must be done as a matter of right on the part of those benefitted, e.g. State banks & individual bankers as well as Member banks (if 13 covers this) while Sec. 14 is simply an authority to do certain things when beneficial to the Federal Reserve system.

In other words under Warburg's theory it is our duty to invest a certain portion of our resources in acceptances of State banks and private banks. I agree that such is our duty as to all property covered by Sec. 13--i.e. Member bank acceptances but that all other acceptances must be governed by one conception of the needs of the Federal Reserve System. In actual practice, Warburg's theory might result in a very large proportion of our assets being constantly invested in acceptances of banks or private bankers outside the system, resulting in inability of the banks to help other Federal Reserve banks by rediscounting operations. Originally Warburg confined all authority to make such purchases to acceptances when indorsed by Member banks which at least has the merit of giving the direct benefit of the operations to such banks. Gov. Strong objected vigorously to this and Warburg accordingly changed his views and tried to give all privileges without any limitation to member bank indorsements altho the ¹⁹⁹ Federal Advisory Council officially told us they should be so limited.

I also insisted a limit should be set to the amount which a Federal Reserve bank should so invest and Warburg fought this bitterly as also my proposition of its net amounts of any private bankers or bank thus accommodated.

Finally we arranged or rather Warburg drew a draft of regulations under Sec. 14 chiefly but including also Sec. 13 which avoided the broad construction of acceptances which he contended for under Sec. 13--I finally after consultation with Willis--agreed to accept this as a compromise, there being inserted a statement that the spirit of the law limited such transactions to acceptances of member banks or indorsements by member banks. I insisted however on the other limitations mentioned above.

This A.M. received a letter from Senator Owen enclosing a telegram from Jacob Schiff protesting against Federal Reserve banks discounting acceptances of banks and bankers for the assistance of the Russian Govt. Secy. McAdoo thought we could not interfere; I took the contrary view and told him we could not under the Act buy foreign Govt. notes or bonds or discount a note of a foreign Govt. and we ought not to do the same thing indirectly. Delano took or inclined to the opposite view. Finally we all agreed to write Owen that no regulation authorizing acceptances have yet been issued and that we would carefully consider the Schiff telegram.

End of vol. IInd