

## The Papers of Charles Hamlin (mss24661)

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CHARLES HAMLIN  
PAPERS

Box 356

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Miscellany

WRITINGS --

"MEMORANDA CONCERNING THE  
FEDERAL RESERVE BOARD..." DIARY  
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January 17. Williams told me the other day that Secy. McAdoo had decided to issue some more Aldrich-Vreeland notes to a Texas bank. Williams said he thought this a great mistake. I agreed. To my mind it is a torpedo fired at the Federal Reserve Act and will encourage Congress to extend this Act again which would be tantamount to a repudiation of the Federal Reserve Act.

February. Nothing especial to write about except that Secy. McAdoo at one time wanted to force Richmond to make a lower rate. The other members took the ground that although the power was clear, it should only be exercised after careful consideration with the bank.

Prior to this, the Governors at their conference, protested against any rate fixing by the Board. They claimed to have the right to initiate rates and that our power was confined to approving or disapproving that particular rate.

Even Warburg combatted this view and told them that altho the power might never have to be exercised yet it was clearly vested in the Board.

February 26. Board discussed the matter of fixing rates for rediscount between Federal Reserve Banks. Warburg & Harding said rate should be  $\frac{1}{2}\%$  below the discount rate of the bank for which the rediscounts were made. I satisfied them that this would be unworkable and that if any differential were fixed it should be a differential below rate of the discounting bank.

At a previous meeting, Secy. McAdoo took position that rate should be as low as rate for acceptances but it was pointed out that the acceptances rate was fixed in competition with the whole world.

During the month the Board seriously objected to opinion of Atty. Gen. that monies received by the Board from Bank assessments were public monies to be accounted for through the auditor for State Dept. and appointed a committee to consult with Atty. Gen. to seek to obtain a reconsideration of this opinion.

I thought this a bad policy; think it better for Board to account with the U.S. than with 12 Reserve Banks and 7500 National banks.

March 3. Amendment to Federal Reserve Act passed both Houses. President sent it over to Treasury. Sent to me. I told Secy. McAdoo I would write President ap-



proving bill. He said he would write as Secy. and as Chairman of the Board. He seemed to be eager to do it himself altho I, as Gov. should have written the letter. Gov. Strong told me today that he furnished Senator Root with the material for his speech to prove possibility of tremendous inflation under lowered reserve requirements of Federal Reserve Act.

March 4. Discussed rediscount rates again. Harding said Col Brown of Atlanta-- a director of the Reserve Bank and a cousin of President Wilson, had just had a long interview with Secy. McAdoo and had talked like a wild man. Said Atlanta had forced banks to rediscount ~~even~~ when they did not want to; that Atlanta could use all the money N.Y. had--wanted a rate of  $2\frac{1}{2}\%$  etc. Harding said he feared the banks there were over-extending at existing rate of  $4\%$ ; that a  $2\frac{1}{2}\%$  rate, if it did not result in lower rates to customers would be a pure gift to the member banks. I asked him if he had any evidence that the  $4\%$  rate had resulted in lower commercial rates. He said No and pointed out that the Federal Reserve agent in his reports showed rate had not changed. He said Banks in South of all kinds, paid from 3 to  $6\%$  on deposits. He thought rediscount rate should be the N.Y. rate or a fraction below it. We were told unofficially that N.Y. had agreed to rediscount at  $2\frac{1}{2}\%$ . Gov. Strong told me he would give them a very low rate in order to demonstrate the harm it would do to Southern banks.

I believe that if N.Y. has offered such a low rate it was done to embarrass the Reserve Board. It was pointed out that the spirit of the Reserve Act pointed to high rates for rediscount, e.g. an early draft of Act provided that compulsory rediscounts should carry a rate of from one to  $3\%$  above highest rate of the two banks interested. Harding also said that any rate below  $4\%$  would encourage speculation and would result in another enormous cotton crop to the great injury of the South.

March 9. Tuesday. Secy. McAdoo called me up at 6.30 P.M. and said Board was equally divided on a  $4\%$  rediscount rate for Atlanta and would come up again tomorrow when he hoped I could be present. He said they had a bitter fight. I told him I feared the Southern banks would get this money at a low rate and loan



it at existing high rates & the people would not be benefitted. He seemed very angry with the conference of Governors which, I understand, had advised a 4% rate. I said I would go over the matter carefully and would come to the meeting tomorrow. Secy. McAdoo said the President also felt strongly that the Governors were arrogating to themselves the functions of a central bank and that it should be stopped and I agreed with him.

March 10--Wednesday. Willis called and went over whole matter with me. He thought a rate of 2-4% would be right; that if the rate were 4% the Atlanta bank would have to raise its rates and then would give N.Y. member banks a chance to raise their rates to South.

3 P.M. Full meeting of Board. Long discussion as to rates of rediscount. I asked if it was not true that N.Y. had offered to rediscount for Atlanta at 2½%. Mr Harding said Federal Reserve Agent Wellborn of Atlanta had written him that he had written to Reserve Agent Jay who replied by letter that they would rediscount at 2½%. I said Gov. Strong had also told me that, when Delano rather brusquely said--tell him he said. I asked him to do so & he said Gov. Strong said--"They want a low rate--I'd give it to them to break their necks" or words to that effect. This made Secy. McAdoo very angry. Then Warburg said something indicating that I ought not to have used this rate as I must have known it was not made in good faith. I told him I had not so construed Strong's remarks and asked him to explain this rate. He said in a rather low voice, so the Secy. could not hear--"They felt he was so insistent on low rates that they would make one and put it up to him". They ought not to have done it." meaning that the Bank had put an absurdly low rate purely to embarrass the Secretary. I said to Mr Warburg--"If that was their motive, I would cheerfully vote to remove every officer and director participating in this scheme." Warburg has from time to time intimated that some of his colleagues were guided by political motives in their actions (e.g. in appointing Wolf a Govt. director, in offering to approve lower rates for Richmond & Atlanta Etc.) yet here we have an instance of his own pet bank deliberately playing politics and endeavoring to embarrass the Federal Reserve Board.



March 11 --25. At home with severe attack of grippe. While away, question<sup>87</sup> arose whether acceptances under Sec. 13 included import and export trade between foreign countries. Harding, Warburg and Delano said Yes. Williams and Miller said No and it was referred to me. I wrote a letter to Williams stating that even admitting as matter of law that the term did include such trade, yet under Sec. 13 we had right to impose restrictions and limitations and that for present at least such acceptances should be confined to foreign trade with the U.S. altho if a case should arise in which one of the parties was an American --I should be glad carefully to consider the matter. Williams read this at meeting. Warburg was very angry and said he desired to have recorded his protest as refusing to banks and bankers rights given under Federal Reserve Act. Williams said he ought to do this and he would file my letter. The matter was then dropped.

March 26 to May 2. Left with Bertie & Anna for California. Went to Los Angeles, San Diego, San Francisco where we stayed about two weeks. Made four addresses in San Francisco and then visited every Reserve City in that district; then went home, visiting other Reserve Banks.

In San Francisco. Speeches on Federal Reserve Act.

- |                       |                            |               |
|-----------------------|----------------------------|---------------|
| Harvard Club.         | In San Francisco district. |               |
| Bakers Lunch.         | Seattle.                   | Also Denver.  |
| Dinner at Exposition. | Tacoma.                    | Kansas City.  |
| Commonwealth Club.    | Spokane.                   | Misskogee (2) |
| Chamber of Commerce.  | Portland.                  | Dallas.       |
|                       | Los Angeles (2)            | St. Louis (2) |
|                       | Salt Lake City.            |               |

May 2. Sunday. Arrived home. Talked with Secy. McAdoo; found him up but very weak and much worried over Riggs Bank suit.

May 7. Thursday. Have had several talks with Secy. McAdoo. He is still very weak and I think is worrying about Riggs Bank matter. I have advised him strongly against trying the case and said if a compromise were suggested to surely arrange it. I also strongly advised him to think of himself in this matter and to



drop Williams. I think he would like to do this but his loyalty to Williams prevents.

Today Brandeis asked for an interview at the Gordon. We were together an hour. He said he was satisfied Williams was absolutely in the wrong & that the President should suggest his approval of a letter by the Govt. counsel to Williams advising him that he should remit all penalties etc. He said this would take away all the equity of the Bill & do away with a trial. That this course would save McAdoo's reputation which would be seriously injured if a trial took place; that he had told McAdoo this & he seemed rather pleased with it but had done nothing. Such course would leave all the allegations of the Bill met by McAdoo's answer and would end the matter; that if a trial took place the Ballinger case would be mild in comparison. He asked me just what connection I had had with the case & I told him I had not approved the tax deposit plan. He said I ought instantly to see the President & tell him all I knew and advise him to adopt course favored by him. H<sup>h</sup> said the Atty. Gen. had suggested that he should see me & ask me to see the President & that all the lawyers agreed the case was an ugly one &  $\bar{x}$  should not be tried as Williams would in all probability be beaten.

I then went to the White House & had a half hour talk with the President --he seemed to think it was merely a local fight between Williams & the Bank which should go to a finish; that there was no possibility of involving the Administration but that if Williams were beaten, we should not hesitate to take proper action. I told him I felt certain the Administration would be involved and injured. I said --suppose it appeared that the withdrawal of the 2 million deposits were considered and approved by the Cabinet & by himself--he replied quickly it had not been. He further said he could not turn Williams down without a hearing altho he said the letters written by him were clearly improper & he agreed with me that on this subject Williams was not of sound mind. He also thought that McAdoo's evidence as to what Ailes said would turn the trial against the Bank. He seemed absolutely confident & serene. I finally told him that he was in error & that I feared a trial would seriously injure the Administration. He said the Atty. Gen. agreed with him.



I then saw Brandeis again & told him I was satisfied that the President did not understand the case. Brandeis said the Atty. Gen. in his (the President's) presence had told him that he agreed with what Brandeis said.

Sherman Allen told me Glover told him that he had been "carrying" one of present Cabinet officers since beginning of Administration. I told Warren & Brandeis of this but kept source confidential. Have not told Secy. McAdoo of my talk with President as I felt he--because of loyalty to Williams--could not consent to putting in his own defense wholly apart from Williams. I think Secy. McAdoo feels that he has encouraged Williams & is really responsible for his queer actions.

May 11--Tuesday. Called up McAdoo 6.30 P.M. He said he was sorry I had talked so frankly with Brandeis who had told him of our talk. He also said he wanted me to read his affidavit. I went right over. He seemed very displeased at my talking with Brandeis especially with my statement that I might have to testify vs. Williams on the tax loan matter. I told him that I felt it my duty to tell Brandeis all I knew about the matter--that it was hardly necessary to say I had no desire to testify at all but that in the unlikely event of being summoned, I should testify to the actual facts, but that it would be like tearing out my tongue to have to say anything in the matter. I also told him that Brandeis told me--before I said a word to him--that in morals & equity Williams' conduct was not justified. I again strongly advised an honorable settlement of the matter, as a trial--however it might result technically--would inevitably drag in and injure the President, the Administration & him also. He said he would not object to a fair settlement & I assured him that the <sup>11/13</sup> must see that many of his & Williams' allegations--even if not relevant to the Bank would greatly injure the Bank & I felt sure they would make some offer of settlement.

He asked me to read his affidavit & let him know by 9.30 how it struck me. I took it with me. Brandeis dined with me & said again--whatever the legal decision--the trial would ruin McAdoo & Williams & irretrievably injure the Administration & the President.



I called him up at 9.30 and told him the affidavit put his case in the strongest possible manner & that if this were filed & the case settled, it would put him in a strong position.

At my interview, I had explained to him that some of the reasons given in the tax deposits would be claimed to be reasons which he did not know till later. He said Williams had verbally told him these reasons before May 6--on the record however, it appears the Examiner only discovered them May 18 when he examined the bank & reported it officially May 28. How Williams could have known the facts or anything more than rumor--I want understand. McAdoo also said his decision of May 6 was only a tentative decision subject to consideration & was finally determined only in his letter to Glover of June 9 or 11. He said, however, he did not tell me of this when he directed me to tell Flather his bank could have none of the deposits.

Thursday May 13. Stopped in at Warren's office. He said at the hearing yesterday, suggestions of settlement were made & that the postponement was to enable these to be worked out. At about 11 A.M. Williams came in and asked me squarely if I did not think his affidavit was complete answer to the Bill--he had previously sent it in to me and I had read it. I told him he had greatly strengthened his case by specifically waiving all penalties except that for \$5,000 for refusing to give list of all loans back to 1896; that I felt sure he would have lost on this question. I added, in presence of Dr. Miller--that the \$5,000 was to my mind a question of law on which much could be said on both sides & that there was at least a fighting chance that the Govt. would lose. I further said if the other side suggested a settlement, he ought to try in every way to reach an honorable one, as a trial might injure the Secy. & the Administration seriously even if it was the case on legal points. He did not agree with me & he even fought the suggestion of abandoning the penalties imposed for failure to give a list of securities available for Aldrich-Vreeland notes, which I told him he clearly could not lawfully impose or collect. As a matter of fact, he had already waived this as his affidavit specifically stated but he could not



see the propriety of it. He seemed absolutely blind & could not see how any of his acts could even be criticized. He was very bitter with Brandeis But I told him Brandeis' judgment was good & he did not fear to take risks.

May 14. Friday. Asst. Secy. Newton said there was a rumor that Brandeis was trying to queer Williams so as to rehabilitate himself with the financial interests. What rubbish! Am sorry Brandeis told Secy. McAdoo all I said to him; I expressly stated that what I said was in absolute confidence merely for his information in making up his mind as how best to handle the Govt. case.

May 16. Sunday. Mr McAdoo called. Seemed in very good spirits as to Riggs Bank case to be argued tomorrow. I asked him as to newspaper rumor of compromise. He passed it over very lightly & said all talk of compromise was nonsense or something to that <sup>↑</sup> <sup>17</sup>

Charles Warren took supper with us. He said that there had been efforts on both sides to compromise; that the Riggs Bank was perfectly willing & that they had offered to comply with all information which Comptroller had demanded and for which the \$5,000 fine was imposed if Williams would waive the fine & further that they would dismiss their Bill against both McAdoo & Williams; their only condition was that neither McAdoo or Williams should file their affidavits as if <sup>1</sup> Bill was dismissed there would be nothing left to answer; that he thought this a wise settlement but neither McAdoo nor Williams would agree as both insisted the affidavits must be filed and--the litigation would go on.

Warren said McAdoo made a great mistake in putting his letter to Atty/ Gen. in his affidavit asking Counsel for Williams & saying he did not wish to do any injustice to Riggs Bank as it would probably make relevant the advice the lawyers gave Williams & which he disregarded. Brandeis, Warren said, advised Williams the charter of the Bnk could not be forfeited for the alleged offenses of the Bank as all of these had been discontinued.

At the trial of Motion to dismiss and for <sup>4.18</sup> petition injunction the Judge declined to give any injunction except as to the \$5,000 fine and said that was purely a question of law. Also said no malice in Williams nor conspiracy on part of McAdoo--that they were justified in what they did & should not have done otherwise.



May 23--30. Pan-American Financial Congress. See official programme.

May 25--Tuesday. I gave an address on the Federal Reserve Act to the Convention. Received with great applause and is to be printed in Spanish & English.

May 29. Saturday. Dinner to the delegates given by Secy. of Treasury. The Secy. gave a copy of my Index-Digest handsomely bound to each delegate, saying that it was prepared by Gov. Hamlin who "made such a wonderful address before the Convention on the Federal Reserve Act".

May 28. Friday. Asst. Secy. Rowe asked me for Mr McAdoo if I would serve on a secret committee to go over the reports of the various committees & see that there was nothing in them to injure the results hoped for by the Conference. The Committee consisted of myself, Frank Vanderlip, Mr Fahey & John Bassett Moore. We met this evening & went over the reports and suggested the immediate appointment of a Secretary of the proposed Joint High Commission. The question arose as to funds pending appropriation by Congress. Vanderlip said he would give \$10,000 for this either directly or to the Chamber of Commerce of the U.S. He also said he would undertake to raise all money necessary to send the U.S. delegates to S. America.

May 29. Saturday. Moore and I saw Secy. McAdoo; he said there might be something left over from the appropriation which would be available for the Secy.'s salary so that it would not be necessary to attempt to raise any outside funds & he doubted its propriety anyway. I explained this to Fahey, President of the Chamber of Commerce of the U.S. He said the Chamber had the necessary funds without any subscription & would be glad to defray expense of a Secy. if we in the future should call upon him.

May 30. Monday. Saw the delegates off for Annapolis. Andrew Peters told me Secy. McAdoo thought the Federal Reserve Board ought themselves to pay for the tea the Board gave to the delegates. Before sending out the invitations, I saw Peters and he said this tea was a proper charge against the appropriation of Congress and that his committee would send out all the invitations. As a matter of fact the Board merely lent its name and the Committee invited whomsoever it pleased.



I called Secy. McAdoo on the telephone and he said the Board had better pay it as otherwise there might be a political attack & I told him I would arrange <sup>the</sup> it. I do not see any reason for this feeling on part of Secy. It would be just as proper to charge the expense of the dinner he gave the delegates Saturday evening in his own name. Evidently the Secy. hardly considers the Reserve Board as a part of the Administration--I am fearful there will be friction in the future as to our status.

June 5, Saturday. Palmer, director of N.Y. Federal Reserve Bank and Starek, Deputy Reserve Agent came down complaining of Gov. Strong for not appointing a cashier as authorized by Board of Directors. Secy. McAdoo told me the President would be very much incensed if we were to remove Starek. Gov. Strong complained that Starek went to Mr Sailor, the proposed cashier and told him to hold out for \$12,000 salary. We had an informal hearing and Harding & DeLano were appointed a committee informally to look into whole matter. Stopped in at Charles Warren's office. In speaking of Atty. Gen.'s opinion as to status of Reserve Board, he said there was one sentence in it which the Atty. Gen. struck out because Secy. McAdoo objected so vigorously to it, and that this was done over his --Warren's--protest. This shows that Secy. McAdoo--unknown to Reserve Board had been shown this opinion before it was sent to us and had had it changed--an extraordinary thing. ~~xxxx~~.

June 20--<sup>11</sup>Tuesday. Had conference with Secy. McAdoo, Atty. Gen. Gregory & Postmaster Gen. Burleson in Secy.'s office as to Petition of Fowler against issue of Federal Reserve notes which later might be used for purchase of War Munitions.

Drafted letter to Atty. Gen. asking opinion as to law. Atty. Gen. said Reserve Board could not ask opinion from him. Finally said Secy. of Treasury could ask his advice as to law to enable him to vote on any proposition in Reserve Board as Secy. of Treasury. Said clear that officers of Reserve Banks were not officers of U.S. and that Reserve banks were not Govt. Banks. As the Petition said the collateral offered for Reserve notes were legitimate notes not based on War munition purchases--Atty. General said clearly we could not refuse to issue Federal Reserve notes nor look to future use when offered.



Also said if Reserve Banks were asked to discount acceptances bond on War munitions purchases he might, if asked, give opinion to Secy. of the Treasury to guide him as to his vote in Board. All 3 favoured taking no action on the Petition but I said Board must take action. They all agreed that Board should ask Fowler to name the Federal Reserve Bank directors who were charged by him to have received personal profit from discounts by Federal Reserve Banks. The general consensus of opinion was that the Federal Reserve Banks had right to discount any acceptances which the Member Banks were authorized to make under Sec. 13, and that we ought to go ahead relying upon opinions of our Counsel which I told them about.

Fowler called on me Monday, June 28 and explained his contention; I told him to put what he had to say in writing to which he agreed. Gov. Strong was before Board Wednesday, June 30 but the subject of Fowler's claim was not considered except that I told of my talk with him adding there was nothing to do until his petition was received. Gov. Strong on Wednesday June 28<sup>30?</sup> spoke of a plan by which French banks were to draw on American banks against exports of cotton, boots & shoes, clothing etc. if American banks could agree to give them a line of acceptance credits; Brown Bros. were to represent the foreign banks and the acceptances when discounted by some other American bank were to be placed to their --<sup>^</sup>Brown Bros.--credit. They would pay each seller by check taking the Bill of lading & documents which they would send to the French bank. Security in shape of French Treasury notes were to be furnished the accepting banks and Strong said French Govt. agreed no moratorium should affect obligation of the Foreign banks to pay acceptances & that the prohibition of exportation of gold from France, should not apply to gold shipped by the drawers.

We discussed with Comptroller whether a National Bank could agree to give a line of acceptance credits & we all agreed it could if each draft drawn complied with Federal Reserve Act. We also agreed that National banks could not enter into a contract to give a new acceptance or any renewal of old acceptances if it brought the limit beyond 6 months. A letter was sent to Strong as above July 15.



July 16--Friday.

While in conference at Reserve bank in N.Y. Strong said he had told the bankers as to our opinion but that he wished we would omit the reference as to when such acceptances would be rediscounted by Federal Reserve Bank--we had said in the letter that while in law presumably they could, a question of policy also might be involved, meaning a question on which the Reserve Board would have to be consulted. Warburg made several suggested changes in the letter and struck out reference to rediscount by Federal Reserve Banks.

Strong said this matter was an open door to settle when it should arise-- that he had not been asked such a question & of course had not told the bankers that such acceptances could be rediscounted by Federal Reserve Banks.

On returning to Washington took up the matter. I had all along felt that Board had right to have something to say as to the policy & <sup>that</sup> ~~that~~, assuming the legality, which I did not doubt, the banks should be most careful about investing Federal Reserve funds in exported war material.

Finally our Counsel <sup>H</sup>arrison, advised us that we had no power to say that munitions of War should not be discounted--that such a power, even if given expressly by Congress, would be unconstitutional & void; that all exports ~~were~~ legal; that while we might limit total amount to be invested in export & import acceptances, our power ended there & the question of policy was to be previously determined & finally determined by the Federal Reserve Banks. Later he gave us this opinion in writing.

July 28--Wednesday.

At meeting we agreed on a supplemental letter to that of July 15 amplifying these views.

This morning, in train from Boston, DeLano told me that yesterday July 27, he went with Gov. Strong to see Morgan who was on his yacht at Marblehead to talk over the matter of arranging credits to Foreign countries to pay for our exports to them. Gov. Strong suggested that plan be arranged by which exporters of cotton draw on American banks & Foreign banks agree to indorse these. Morgan told Strong to go ahead & that he would be responsible for from 25 to 50 millions.

I had intended to leave Mattapoisett on Monday but DeLano wired Saturday



that "unforeseen circumstances" would bring him to Boston Tuesday & as there <sup>96.</sup> would be no quorum of Board in Washington, I might want to stay over until Tuesday. I wired I would do so. Delano has lost his head on this question & is very much worried especially as he sails for Panama Saturday. He ought to have asked me to go to M<sup>U</sup>rgan with him but he did not.

July 29. Thursday.

Sent letter to Fowler dismissing his petition. Sent letter to Strong on accept. lines of credit, dated July 28.

July 29. Secy. of T<sup>A</sup>asury sent letter from Tumulty saying President Wilson wants McAdoo to make special effort to appoint Mr Ogilvie a Princeton man. McAdoo asked us to appoint him to place in Federal Reserve Board. We declined to waive age limit. He later got job under Dept. of Labor.

Aug. 4. Wednesday.

Gov. Strong came over from N.Y. Said letter of July 28 forbidding renewals of drafts under revolving letters of credit made it impossible for the banks to enter into such arrangements. Read us a long memo. on necessity of providing credit arrangements here to take care of our exports. Presented also a memo. on the law to show renewals or rather new drafts--as between drawer and acceptor--were not prohibited provided acceptor paid draft to holder at maturity.

On Aug. 2, I had received letter from Warburg stating that our letter to Strong of J<sup>U</sup>ly 28 was in error in refusing such renewals--that they were merely cash advances as between drawer and acceptor and if the new draft was within 6 months limitation--it was perfectly good. Dr. M<sup>I</sup>ller was present and was given a copy of Warburg's letter. He--M<sup>I</sup>ller--vigorously objected to either Member banks or Federal Reserve Banks giving or discounting acceptances based on War materials; he contended that they could not discount notes or accept Bills when the goods were to be consumed or destroyed by ultimate purchaser--under existing regulations. I pointed out that if I bought e.g. large quantity of flour from a manufacturer to consume myself or if I bought a gun from a manufacturer to shoot birds or men, the note given by me to Manufacturer would be eligible for discount under our Regulations. Then he claimed that there was no authority to accept when goods ultimately were to be used by a foreign nation.



I pointed out there was nothing in the law preventing anybody--individual or corporation--from buying goods from our agriculturalists or Manufacturers; that while we did not authorize a foreign Ambassador to draw on our banks (Russian)--that was because under proposed arrangement he was to be given credit on discount and could draw his own checks and use proceeds for goods or any other purpose he saw fit--there being no tying down of proceeds to exportation of goods. Then he claimed these acceptances were not liquid & I pointed out that they would all be drawn (under Brown Bros. plan) by a French bank which would be responsible & that <sup>this</sup> ~~this~~ was the best form of liquidity known to banking. Also that French Treasury notes were to be deposited with accepting bank as collateral & that Bank had obtained assurance from French Govt. that no Moratorium would ever be applied to these acceptances and further that existing prohibition of export of gold from France should not apply to them. He then claimed they were practically loans to a foreign Govt. & that adjustment for renewal turned them into long term loans. I replied that the privilege of renewal or substitution did not differ from the ordinary loan of credit to an individual & that no directors would be foolish enough to let them be extended indefinitely. He then said these loans might be repudiated but I pointed out that there was no more danger here than in case of any individual foreign purchaser & that it was absurd to think a foreign bank would think of repudiating its obligations, especially when Acceptance held security. He also said all these exports should be sold for cash. I replied that the domestic manufacturers would get cash from <sup>the</sup> Brown Brothers without any liability on the Bills as they would not draw or sign in any way. That in essence our banks gave the cash to our Manufacturers and looked to their pay to funds to be furnished by the drawer,--the foreign bank; that if our foreign trade were to be relegated to a cash basis & our banks forbidden to lend them credit in moving exports, it would effectually put an embargo on our export trade, as credit not cash is its underlying structure just as in domestic trade. Harding added that if Miller's views were published as those of Reserve Board, credit would quickly cease and we should have a financial panic.



Above meeting was on Thursday Aug. 5.

On Wednesday Aug. 4. took up matter with Harrison our Counsel, Elliott being away. H. wrote us that our letter of July 28 (founded on Elliott's opinion of July 9) was not warranted by said opinion of July 9; that that opinion merely was intended to say that banks could not contract to give renewal or substitute acceptances when the holder was bound to renew, but if holder was paid at maturity the bank could give new acceptances to drawer. I then prepared a new draft of letter to Gov. Strong; Miller vehemently fought it, but Board voted for me to put it in shape with help of Counsel for meeting Friday.

Aug. 6. Friday.

Read tentative letter--Miller objected vigorously--said Warburg & Secy. should be called back to consider it. Finally we voted to send a copy tentatively to Warburg & Secy. & call meeting later, Miller objecting. I suggested sending draft of tentative letter to Gov. Strong & H. opinion, to be sure it met the exact question raised by him but Miller objected. Later I remembered I had told ~~I had told~~ Harrison he could send his opinion to him. Then told him to get back from P.O. or wire Strong to return it unopened. Finally we all--even Miller--agreed that I could write Strong the exact legal question as we understood it, to be sure we were making no mistake & I drafted & Harding signed & sent this letter. Later Harding said Miller was very angry & even intimated that we would keep away from our meetings to break a quorum. Finally Harding and I agreed that a meeting should be called for Monday Aug. 16 to finally settle question & I so ordered and went to Mattapoisett.

Aug. 10. Monday. Harding called me from N.Y.--said he went over to meet Secy. McAdoo who was there; said McAdoo was very angry with Miller and fully approved of our proposed letter to Gov. Strong; that if necessary,--he--the Secy. --would advise Comptroller to sign and send the letter alone--as it was really wholly within his jurisdiction; he said Secy. would call me on telephone at 12.30. I asked Harding what we had better do in view of Gov. Strong's statement that matter could not wait until Monday and asked if he would favor calling a meeting in N.Y. tomorrow. He said Yes & advised me to ask the Secy. I called up Secy. McAdoo



at Sub-Treasury, N.Y. He fully approved tentative letter and strongly favored meeting in N.Y. tomorrow. Said he probably could not attend but write a strong letter favoring our tentative letter to Gov. Strong. He was very bitter with Miller & said he understood fully what was behind his attitude. I told him what Harding told me & he said he wished Miller would try to break a quorum by staying from meetings--implying that he would know what to do in such event. I then wired Compt. Williams (put in call for Willis and if he not there, then for Comptroller) he said he would have Willis call the meeting for N.Y. & would ask Miller to be there. Later he telephoned that Willis & Miller & he would be there. Later Allen wired meeting would be in Sub-Treasury instead of at Reserve Bank.

Took Fall River line to N.Y.

Tuesday Aug. 10.

Went to Federal Reserve Bank & had talk with Gov. Strong; he said acceptance matter must be decided one way or the other that day as Brown Bros. must cable that night.

Then went to Sub. Treasury. Williams was there & said Warburg, Harding, Miller & Willis were across the street & insisted on having the meeting at Federal Reserve Bank. We decided that meeting should be in Sub-Treasury as finally called but if they positively refused to come it would be better for us to go to Bank as matter was so urgent. I telephoned Bank and talked with Warburg & Harding. The latter said he would meet anywhere but the 2 former positively declined to meet at Sub-Treasury unless I would agree to immediately adjourn to the Bank. They said Secy. had no right to change place of meeting & that to meet at Sub. Treasury would expose them more to newspaper reporters and would make it seem as if the Board was part of Treasury Dept. I said, that as our meeting was in a sense adverse to the Banks it would be better to meet elsewhere as it might seem as if the Bank were dominating us. They, however, refused, so Williams & I went over to the Bnk and I opened the meeting. Harding had prepared a draft of letter differing from mine which all had read and to which all



100.

agreed, including Gov. Strong. I raised point that it did not specifically say new acceptances could be given in substitution for old--within the limits of the letter of credit. Warburg, however, said it plainly necessarily implied this and that it was all right. I said on this understanding I would accept it. I then added a clause that as related to the precise question submitted by Gov. Strong, the letter should be considered as a modification of our letter to Strong of July 28 and this was agreed to. Warburg made a strenuous effort to repeal whole letter of July 28, especially that part relating to discounts of such acceptances by Federal Reserve Banks where we said it was primarily for determination by Federal Reserve Banks. I strenuously objected to this & no vote was taken on it. Finally it was voted to send the letter with my addition to Gov. Strong.

We then attended to Miscellaneous business, and Secy. McAdoo called me from North Haven. I told him about Warburg and also that Warburg said the Board should receive some advice from him as representing the Administration as to the policy of National & Federal Reserve Banks in giving & discounting acceptances covering War munitions. Secy. McAdoo said he personally favored the letter to Strong & felt that our letter to him of July 28 as to policy of Federal Reserve Banks etc. was absolutely right, but as our Counsel had advised us that we could not legally forbid a Member of Federal Reserve Bank from issuing or discounting such acceptances there was no occasion for discussion as to policy with the Administration, all of which I told the members. Warburg objected to certain conferences held with Col. House--evidently referring to DeLano and said we ought to trust one another.

He then went into question of neutrality and said while he admitted Reserve Banks were not Govt. institutions, they were so near to it that we ought at least to intimate to them not to discount acceptances clearly relating to War munitions.

After the vote Dr. Miller read a short memo. expressing personal opinion that Federal Reserve Banks should not discount War material acceptances altho he admitted that so far as Member banks were concerned, we could not legally interfere with them. He voted for the letter to Gov. Strong as did also Warburg. We then adjourned and lunched with Warburg at Mid-day Club. Dr. Miller asked Gov. Strong to talk to us in the P.M. as to credit operations generally.



P.M. Gov. Strong came in--he was not at morning meeting. He said there were probably 1100 millions in War contracts mostly involving munitions of War and he said Continent could pay us only <sup>to</sup> limited extent in gold and would have to send us securities or establish credits here. He figured that about 500 millions in securities would have to be sent to discharge our obligations & he said some hundreds of millions had already been sent us & sold. Referring to the French loan, he said he had impressed on Brown. (Bros.) that he could not in any way be responsible for the contract but could only lay down general principles applicable to this or any other contract. He said, however, incidentally he knew many details of their contract & told us about it.

1. The French banks draw on the American banks pay. to their order & indorse to Brown Bros. as syndicate Agent.
2. Brown Bros. discount it & proceeds deposited to their credit.
3. When a foreign purchaser wants to pay for e.g. American cotton, he goes to French bank.
4. The French bank or the Govt. of France draws check on Brown Brothers for amt. not to be paid except on presentation of the documents.
5. Brown Bros. pay <sup>the</sup> check & send documents to French bank or the Bank of France if it drew the check.
6. The accepting banks hold Treasury notes as collateral throughout whole transaction.

Warburg at once said agreement of banks was that no War munitions were to be thus financed. Gov. Strong said no such agreement--that it was not made specifically to finance War materials but general exports from U.S. but that very likely War munitions might be among the transactions to be financed but only incidentally. Warburg then claimed that it was a loan to the French Govt. Strong said absolutely No--that French Govt. or rather Bank of France, if it drew checks would do so not as purchaser but merely to keep control of the situation as it had guaranty of French Govt. that no Moratorium would be applied and that the existing prohibition against export of gold from France would not apply to it. In addition



Gov. Strong said the Bank of France had agreed to ship gold, if necessary, to pay the acceptors. Gov. S. added that the contract was made not for French Govt. as a purchaser but for individuals who had bought American goods. Finally Warburg agreed it was not a loan to French Govt. & was legal if based upon exportation. Dr. Müller then claimed that these acceptances would not be liquid & I asked Warburg if he agreed with this; he said No and admitted that a draft drawn by a French bank was in every way a first class liquid transaction. Finally Warburg raised the point that no bank could renew or substitute other acceptances after the goods were delivered to purchaser under Regulation J. which imposed the limitation on drafts drawn by Banks. Gov. Strong pointed out that this regulation merely covered eligibility for rediscount by Federal Reserve Banks and had nothing to do with power of Member banks--which was only question now before us. He also said that this regulation even as to Federal Reserve Banks was an absurd one and should be revoked as it seemed to imply that Banks could only draw documentary drafts which however Warburg strenuously denied. I said it plainly referred to drafts drawn by banks in this country on exports but Warburg denied this. (This clause of J. was added while I was in West)

Harding & Williams had left before this talk took place.

Finally Warburg claimed that no National bank had power to renew or substitute a draft after the goods were delivered. We said our letter to Gov. Strong of this A.M. settled this. Warburg said Compt. never intended to make any such ruling. The matter was discussed and Dr. Müller and Willis said Harding had talked over this with him & clearly intended that our letter should bear that interpretation. I begged Warburg to hurry the discussion as I had to leave at 5 for the boat. He persisted however in going over it again and again in most leisurely fashion evidently hoping that I would leave at 5 and the meeting would break up without determining what the letter to Strong really meant. Gov. Strong said on Warburg's interpretation of Regulation J. no draft could even be renewed for in vast majority of cases a documentary bill is accepted in its earliest stages and the documents stripped by the Acceptor who then gives up the documents taking either a past receipt, some other collateral or if he wishes--and what is <sup>very often</sup> ~~often~~ done --without



taking any receipt or security but simply trusting the purchaser. On Warburg's theory also even if collateral were taken, the Bill could not be renewed.

Finally I became convinced that Warburg was fighting against time, relying on Williams not being there and on my leaving at 5 am as Gov. Strong said Brown must cable today, I gave up any idea of taking the boat & dismissed the taxicab waiting for me. I then announced that the question of interpretation of our letter was a vital one & that Gov. Strong could give no answer to Brown until we settled what the letter really meant; that if any member differed as to its meaning I should call a meeting of the Board Friday in Washington, Warburg at once flared up & said this was a threat. I said No--merely a statement of fact. After some <sup>further</sup> discussion Warburg would not yield his opinion but said he had no objection to our fixing the interpretation by majority vote. I said this would not do--there was no majority present. Harding & Comptroller not being there.

I added that I was prepared to return to Washington at night and take up matter at a meeting & stay there until settled. I then asked Willis to call up Sub-Treasury & see if Williams was there. He found him there and he came over. He said he intended squarely to rule that such substitution acceptances could be made altho goods had been delivered. Finally after another long discussion, Warburg said he thought the interpretation was a possible one under the law and later he said he was satisfied that under the law such substitution was legal and he withdrew all objections. He added, however, that such acceptances could not be red discounted by Federal Reserve Bank under Regulation J. after delivery of goods and that if such acceptances were offered they must be refused unless & until we abolished that part of Regulation J. intimating he would fight such abolishment.

Gov. Strong then said that--acting under our permission--he had read our letter to him to B<sup>r</sup>own who was satisfied with it but that he had specifically told him that he could give no assurance whatever as to whether these acceptances would be eligible for rediscount or would in fact be rediscounted by Federal Reserve Banks; that that question could not be settled until raised. Mr Harding during the morning session spoke of interviews between himself & Sir Richard Crawford on the sub-



ject of possible purchases of cotton by Great Britain. He said from his 104.  
talks with Sir Richard, he had no doubt Gt. Britain would make cotton contraband  
--the only question being at just what time. He said he told Sir Richard if it  
must be done, it should be done before the cotton crop began to move and then Gt.  
Britain by buying could steady the market. Some allusion was made to fact that  
Harding had these conferences as a member of the Cotton Committee of the Board.  
To my recollection, however, no such authority was ever given to the Cotton Comm.  
nor was the matter ever officially --or unofficially--acted upon by the Board,  
and Mr Harding was acting purely in his own individual capacity. My only know-  
ledge of this matter grew from a talk with the Comptroller of Currency--perhaps  
a month ago when he said, I think, that Mr Price of N.Y. was taking matter up with  
British Embassy. Williams asked me to meet Sir Richard & Harding at lunch but I  
declined saying their interviews were purely personal and not in any way offic-  
ial with the Board. Mr Harding also said that the State Dept. had asked him to  
confer unofficially with Sir Richard.

I forgot to mention that Mr Warburg relied on Bryan's statement of August 15--  
1914, disapproving the proposed French loan by American bankers as violative of  
the spirit of neutrality--(see 91 Scrap book p. 1) --as tending to show that the  
same spirit of neutrality was violated by Federal Reserve Banks rediscounting War  
acceptances. Mr Harding also told Board of an interview with Secy. McAdoo in  
which the latter expressed fear that U.S. was in immediate danger of a rupture  
with Germany in connection with the English Orders in Council. Harding gave me  
the impression that some agreement might be entered into with Gt. Britain, in  
connection with the purchase of cotton, which Germany would regard as a direct  
breach of neutrality. Perhaps, however, I misunderstood him.

Sent Secy. McAdoo full account of meeting. Williams did also, sending me a copy  
Aug. Sent additional letters to Secy.

August 16. Secy. sends me proposed letter to Harding, Warburg & Miller. Said  
he had called meeting at Sub. Treasury after consulting with me. I wired to  
strike this out as I did not remember any consultation with me as to place--if  
he had said Sub. Treasury, I would have called meeting for there. Proposed let-



ter call them for explanation. Also wired suggesting holding back letter until minutes of meeting approved by full Board, Wednesday Aug. 18.

August 17. Found telegram from U<sup>n</sup>iversity Club N.Y. from Secy. --said he had cut out reference to me before receiving my telegram. Advised Williams & me to enter protest at meeting on the R<sup>ec</sup>ords. Dined with Gov. Strong & Curtis at Metropolitan Club N.Y. Talked over proposed modification of Acceptance Regulation J so as to remove any doubt but that acceptances under revolving letters of credit with renewals as between drawer and acceptor are eligible for rediscount. Told him to prepare statement in writing & send it to Board. Said nothing as to dispute as to place of meeting.

Aug. 18. Wednesday. Williams gave me a copy of a letter he sent to Warburg. Said that he noticed his criticism of Delano & C.S.H. for talking with Col House & he asked him if he had not talked with German Ambassador & other German agents in U.S. as to neutrality of credit arrangements.

Settled minutes of N.Y. meeting. Williams filed statement of call etc. & protest vs meeting at Sub-Treasury, I also filed statement concurring with Williams etc. Miller also filed statement. Dr. Miller & Harding said Willis was also opposed to meeting at Sub-Treasury. Williams said Willis told me in morning meeting should have been at Sub-Treasury. As a fact Willis did not come to Sub-Treasury but stayed at Bank with Harding, Miller & Warburg.

August 19. Thursday. At meeting Wednesday, Harrison Asst. Counsel came in and asked if I had any objection to his being present. I said No and he remained taking notes of our talk in N.Y. meeting altho he heard only latter part of our talk. This P.M. Harrison came in and I asked him as to power of Chairman to call a meeting. He said he was looking it up but was about convinced chairman of Board could not call a meeting as that was duty of Gov., the active exec. officer. I said my opinion was *contra* and asked him if any Member had asked him to look matter up. He said Harding had asked him. As a matter of fact the legality of a call ordered by Secy. of Treasury was not questioned in N.Y. either before or during meeting. Only ground given was danger from newspaper reporters at Sub-Treasury.

At meeting Wednesday Aug. 18., Miller for first time suggested that Secy. could



not change a call ordered by the Gov. but I expressed a contrary opinion very strongly. At meeting Wednesday Dr. Miller read a statement to be placed on files explaining that no discourtesy to Secy. McAdoo was intended; that if he had been present at meeting they would have attended at Sub-Treasury but in absence of Secy. he felt they had a right to consult their own convenience. Not a word was said by him in his memo. as to it being illegal for Secy. of Treasury to change call issued or order of Governor. When minutes finally approved, it appeared that Miller had withdrawn his memo. In afternoon, late, Harding & Miller had Secy. send out notices of a meeting the next A.M. as Warburg had wired he would be here.

Friday, August 20/ Williams wrote letter objecting to such short notice & said he had had to give up an important engagement to attend. We had meeting after informal conference with Senator Smith as to cotton. It appeared that Warburg did not after all come down. After Williams had left, Harding & Miller said it was evident that matters had come to such a pass that the powers and authority of the Board must be definitely defined, especially in view of the letter from the Secy. of the Treasury calling them to account for their action in New York. Harding said we ought to prepare by laws definitely settling as to special meetings. I said this would be agreeable to me. Harding said that if Richard Olney had been Gov., Secy. McAdoo would not have changed the call implying that he would not dare to attempt such a thing. He added that he and his associates, meaning Miller & Warburg, realized how intimate Mr McAdoo and I were and felt that for that reason--he McAdoo--did not sufficiently bear in mind the powers of chairman & Gov.

I replied that Secy. McAdoo did not in any sense over-rule me in changing the call--that in my opinion as chairman, he had that right but if the Board had come together at the place he mentioned, it could then by a majority vote have adjourned to the Bank or any other place favored by a majority of its members. I added further, that if any member had wired me suggesting some other place for the meeting, I would have gladly myself amended the call naming that place. Harding said the Secy's letter calling them to account made it imperative to fix the aut-



hority and status of the Board and if this were not done there would be a change in the personnel of the Board or a movement in Congress to radically amend the Act. Later I was in Williams' office when Harding came in. He repeated his remarks as to Richard Olney and also as to possible changes in the personnel of the Board (meaning as I understood it the resignation of himself, Miller & Warburg) and the possibility of Congressional action if the authority and status of the Board were not fixed. He said a new draft of by-laws should be enacted covering all disputed questions. I said again as did also Williams that this was agreeable to me & asked him whether he would vote for a by-law giving the chairman, Gov.--- vice-Gov. or any 2 or 3 members/<sup>(authority)</sup> to call a special meeting at any time. He said he would vote for this and that Miller & Warburg also would. I said I doubted this as I believed they were against giving any power to the Secy. of the Treasury to call a meeting. Dr. Miller down in the Board room after Williams had left, said it was evident the members were not giving one another the mutual trust and confidence which they ought and that it was--imperative to have rules laid down covering our power & authority. Upstairs when with Williams, Harding said that this was a Democratic Board each member having as much power as the Secy. of the Treasury and that he had written the Secy. that he would discuss his action only in a full Board meeting. He seemed very indignant that the Secy. should assume the right to call him to account. From a remark made by Harding to Miller about an appointment, I gather that they are to meet Warburg tonight or tomorrow. This is a mere suspicion on my part however. (Their contention that the chairman of Board cannot call a meeting is made almost ridiculous by fact that Miller & Harding themselves called the meeting for this morning to meet Warburg !! )

Aug. 21. Saturday. Sent a long letter to Secy. McAdoo stating as fairly as I could, the position of Harding, Miller & Warburg.

Aug. 24. Tuesday. Harding called at my house 9 A.M. on way to train going South. Said he had had a long talk with Pres. Wilson going into detail as to his conferences in behalf of State Dept. with British Ambassador & Sir Richard Crawford as to buying of cotton by British Govt. to sustain price. Said the Pres. fully approved. Said Miller had changed his views as to policy of rediscounting War



acceptances. Said Secy. had no right to call of fix place of meeting--that he did not care personally where meeting should have been held in N.Y. but felt it was wise to keep with Warburg & Miller to head off any agreement together they might make as Pro-Germans.

Aug. 25. Wednesday. Several letters from McAdoo. Asst. Secy. Allen said Harding once said he very decidedly objected to the members of Reserve Board rising when Secy. McAdoo came in to attend meetings of Board. Had long talk with Miller. To my amazement he said he had no doubt and never had any against propriety of our sending abroad munitions of War; also that he had no doubt that acceptances for war exports were eligible for rediscount by Federal Reserve Banks. This seems to be absolutely reverse of his position at N.Y. meeting & *prior* thereto as shown by my telegram to Delano *prior* to N.Y. meeting which telegram was shown to Miller & assented to by him before sending. He also attacked militaristic class in Germany--related experiences of discourtesy by Army officers--attacked the Junkers--the landed gentry--said the militaristic classes & the industrial magnates had joined hands. Said his sympathies were more with France than with Germany. I was perfectly amazed at this talk.

Aug. 28. Saturday. Had long talk with Col. House--he said McAdoo had consulted him about row over N.Y. meeting of Board--he had strongly advised him to consider it as a trivial incident--as if pressed too far might injure Federal Reserve System. I said real underlying trouble arose from failure to give definite status to Federal Reserve Board--that they felt degraded and humiliated--that while Secy. McAdoo treated them delightfully personally yet they felt that officially he rather looked down on them; that if President would give them the status they really deserved--say--just after Congress and ahead of Asst. Secretaries, in my opinion matters would go perfectly smoothly; that there were many important questions looming up & if the members individually felt humiliated, it would ~~in my opinion~~ in long run injure the whole system.

Sept. 1. Wednesday. *Great* dissatisfaction *in* Reserve Board over Secy. McAdoo's statement that he will deposit 30 millions in Reserve Banks at Atlanta, Richmond & Dallas without interest to be used in rediscounting cotton paper. We all felt



that the Federal Reserve Banks by rediscounting can take care of every possible demand & that such deposits will make it harder than ever for some of the Reserve Banks to pay expenses at this time. Furthermore the Secy. can not deposit money in Reserve Banks in trust for rediscount of any special kind of paper. The money when received must be used for rediscounting of all kinds. This A.M. Harding said Secy. wanted us in framing regulations for lower rates in commod. paper to provide that banks can get the lower rate on Commod. paper only when they do not charge their customers more than 2x the rate of rediscount. Warburg objected to this as it apparently fixed rates to be charged by member banks and that too over the heads of the Federal Reserve Banks. Finally Warburg suggested that in the circular we suggest to banks to issue appropriate regulations as to rediscount of such paper to ensure the customers of member banks the benefit of their specially low rates. I talked with Secy. & said I was not as yet certain we could in this way fix rates for Member banks but in any event we should not attempt it except in some great emergency which was not now before us as the Member banks were rotten with money. He finally agreed to accept Warburg's suggestion. Harding said to me there was no need of any such deposit but that he did not intend by objecting to be held up as a Judas by the people of the South. He agreed that Warburg's plan was the best way to put it through. I am satisfied this is purely a political move of the Secy. and am fearful it will injure the Federal Reserve System.

Talked with Secy. as to N.Y. meeting dispute. He seemed to want to have a fight with the Board but I urged him to treat the whole matter lightly. I told him frankly the whole underlying trouble was in not giving the Board as official status commensurate with what they believed to be the importance and dignity of their office. I said that while this question did not appeal to me at all, yet I could see how the members felt. He was very bitter about the matter and finally said the trouble was with the President who did not believe this Board should be placed above the Interstate Commerce & Civil Service Commission. I said the fact that it was a Board of which a Cabinet officer was a member clearly differentiated it from any Commission. He said the President was perfectly willing to put the Board on a



parity with Asst. Secys. This was my first intimation of this; if the President was willing to do this, Secy. McAdoo had never told us of it. I said, however, that the Board would not be satisfied with this; that it seemed to them anomalous to have the Secy. preside at a meeting of a Board of which the members ranked only as high as Asst. Secys.; that the very fact of disparity in rank of itself tended to magnify the importance of the Secy. as a member and to minimize the importance of the other members. I told him frankly that the Board should be given a status just below a member of Congress and above the Counsellor of State Dept, & the Solicitor General, as well as above Asst. Secys.

He said this would make the Board more obstructive than ever as it would swell their heads. I differed with him. [ I told him what Harding said as to the possibility of changes in the personnel of the Board, or in the law by Congress. He said they might resign if they wanted to--he seemed rather to welcome this & intimated that if the President were to see the correspondence he might take some of them by the scruff of the neck. He said he was tempted to show the correspondence to the President--but I believe he has already done this. Secy. McAdoo can not see the other side of this question--he cannot comprehend "what the other fellow is thinking of". On the other hand the 3 members and perhaps also Delano do not quite understand or appreciate the Secy.'s position. Each side is destructively jealous and unappreciative of the other and I am fearful it bodes trouble for the Board in the future. ) I am inclined now to the belief that it would have been better not to have had the Secy. made chairman of the Board but to have merely given him a seat on the Board, or even not to have him on the Board at all. His presence means and I am afraid must necessarily mean jealousy and friction. Nor can I see any good reason for putting the Comptroller on the Board. He is merely the head of a Treasury Bureau under the control of the Secy. as to everything except examination of banks, possibly, and call of Federal Reserve notes for which he is directly under the Federal Reserve Board. Am inclined to think the Comptroller should be taken entirely from control of Secy. & put directly under Federal Reserve Board, ceasing to be a member of said Board. Certainly he would not have been put on Board were it not for his friend-



ship with the Secy.

Sept. 2. Thursday. Secy. McAdoo decided to pay no more attention to N.Y. row & so told Board, accepting their explanation.

We voted today to give Reserve banks right to make a specially low rate on commodity paper where the maker pays 6% or less to member bank. Warburg agreed to the principle but wanted to allow banks in first instance to fix a max. rate on original discount as a condition to getting the special rate; he also agreed to fix this condition at 6% if the banks fixed any higher rate. Drew amendment expressing Warburg's views for purpose of discussion. Warburg offered it later, voted against it because of Harding's statement of exigency. I thought his way of doing it was better than for us in first instance to fix the condition but Harding said this would cause delay & urged us to fix it at once. I finally decided to vote for fixing it at once. Warburg & Miller voted No.

Voted to amend Regulation J. on acceptances so as to authorize drawing of bills by seller or purchaser whoever he may be, i.e. even a Foreign Govt. Miller & Warburg vigorously objected. Warburg agreed, however, to let a Banker draw for a Foreign Govt.

Sept. 3. Gov. Strong was present and earnestly asked us to broaden the regulations, as no one could foresee what might happen. He said the banks had ample funds to finance domestic business, rediscounts & foreign business. Miller, I think yesterday, got very mad--said he drew the original of Regulation J.--said he thought he had about reached the end of his usefulness as a member of the Board--that we had surrendered to Wall St. etc. The Secy. asked him if he meant to impute any misconduct to his associates and he somewhat grudgingly said No.

Sept. 7/ Wednesday. Mr Harding said Miller was bitterly offended because Harding & McAdoo slightly changed a press interview prepared by Miller & Harding. The only objection he apparently had was to the statement that the Secy. was to make deposits in the Federal Reserve Banks, as he thought this statement was an implied approval of such action. Harding explained that he thought that McAdoo's suggestions of change were good & he desired to make them & went with them to Miller's office but he had gone & he--gave out the statement. He said Mil-



ler told him he should give out a personal statement showing his disapproval of such deposits but finally he did not do this but instead wrote Harding a letter which he said he could show to Warburg. Harding said he was in doubt whether he ought to open this letter at all but would consult Warburg. [The Secy. asked me today how the members would feel if the President were to suggest to Miller that his resignation would be for the best interests of the country. I said I thought there was no present occasion for this;--that Miller had no practical sense nor experience but had a fairly good theoretical knowledge of Political Economy etc. and that perhaps it was wise to have one such man on the Board. In my opinion, Miller is getting ready to resign--his wife has been ill all summer & I know he hates Washington at least in summer. I believe he wants to go out in a blaze of glory & is setting the scenery for the occasion.]

Wednesday, Sept. 15. Discussed commodity rate of 3%. Secy. McAdoo felt that those Federal Reserve Banks which declined to put in such a rate,--<sup>K</sup>ansas City, Minnesota, Boston etc. should be forced to do so by Board. Warburg vigorously opposed this & Harding veered from one side to the other. Finally we agreed to call on such banks for their reasons in detail and take up matter later. Also discussed question of open market regulations for domestic Bills of Exchange.

Warburg also vigorously opposed this; said our money was Reserve money and should not be used in competition with member banks; that it made no difference whether the Federal Reserve banks made their expenses & dividends or not. Secy. McAdoo said he had had many talks with prominent people who said the Member Banks withheld rediscounts from Federal Reserve Banks in order to prevent their making expenses & dividends. I said I had also observed same tendency e.g. in Minnesota & San Francisco. I added that Congress clearly intended that Federal Reserve Banks should preserve themselves & that open market powers were given them for this & other purposes; if the member banks would not give them food, we must give them power to buy food in open market. Warburg said they did not ask for this power. I said it was our duty to frame regulations & give it to them even if they did not use it. Warburg scoffed at this. He forgot, however, that in March he took the opposite position when he asked that acceptance regulations should authorize



Federal Reserve banks to rediscount acceptances based on sales from one foreign country to another, (See Sec<sup>upda</sup> p. 8) Finally Warburg & C.S.H. were appointed a committee to draft open market regulations covering domestic bills of Exchange. P.M. I drafted such regulations & gave other members a copy; I included also bankers domestic acceptances.

3.30 P.M. Warburg & Harding came in with a report against giving any open market powers even for domestic bills. Warburg gave me a draft however, providing for purchase of trade acceptances altho he said he would vote against it. They both objected to including domestic bankers acceptances in same draft and I said I would split them up. Warburg said he should openly fight giving any open market power as to domestic bills to Federal Reserve banks--he said they were not regular banks & should not be allowed to compete with Member banks using the Reserve money paid in by the banks. He was very ugly. Harding as usual, said that altho he had joined <sup>with</sup> Warburg against such power, he was open to conviction.

I then made a 2nd draft of regulation for purchase of domestic bills and another for purchase of domestic bankers acceptances and also wrote a dissenting report. 6.30 P.M. Took a drive with Secy. McAdoo--he asked me what I thought of his asking the President to call for Miller's resignation--that he had lost all confidence in him--that he was an ultra conservative and had only sympathy for the banks and none for their customers; he added that he thought Delano also was tending to ultra conservatism but that he believed him absolutely honest altho very obstinate. I deprecated any such action as to Miller--I said the trouble with him was that he had no practical knowledge of affairs and --distrusted his own opinions and was inclined to accept those of the bankers; that he did less work on the Board than any other member and that much of his apparent obstinacy was due to lack of careful study which the other members gave to all important questions. I could not deny his vanity and conceit but thought it not a bad policy to have one pure theorist on the Board. I pointed out that Delano worked very hard, that he was absolutely honest and had taken advanced and very radical ground as to Clearings and Acceptances. Secy. McAdoo was very bitter against Harding who, he said, wanted to run with the hares and course with the



~~with the bounds~~ on every subject. I impressed on him the necessity of over-ru-  
ling Williams as to examiners reports--I said the Board Members were plainly right  
and that such an issue would injure Williams. I said I had prepared a statement  
which he asked me to give him. He said he thought the Banks should have copies  
of all reports.

September 16. Thursday. This A.M. the Comm. of Governors came to talk with Mr  
Glass & spent morning with him. While in conference there came a letter from  
Mr Cotton, giving the opinion that a Federal Reserve Bank could not receive a  
check on a State Bank from a Member Bank for any purpose except collection. Also  
an opinion that the Federal Reserve Board could not require Member banks to permit  
their checks to be paid by Federal Reserve Banks out of their reserve deposits  
or to keep a balance with them for this purpose. I sent this down to Warburg  
who showed it to Glass & the Comm. The Comm. said progress was being made &  
thought in time the voluntary system would work satisfactorily. Warburg came in  
while I had the opinion; I said nothing about it as I suspected he knew about it  
but he did not mention it. Later Willis said Warburg told him that he had a copy.  
He evidently thought I would conceal it from the Glass conference. Later Williams  
asked if anyone had a copy & Warburg did not respond. We also unanimously voted  
to defer the open market regulations until Delano returned. I have laid before  
Board my minority report and drafts of regulations. Warburg then insisted on in-  
viting the Governors to our meeting--I demurred but Harding joined in the request  
and we invited them. In the afternoon they came in--Gov. McDougall--and Fancher.  
After some discussion of the Commodity schedules which they both opposed, we asked  
them about earning their expenses. McDougall said Chicago was about meeting it's  
expenses & Fancher said Cleveland was not. Secy. McAdoo asked Fancher why this  
did not show that Cleveland did not need a separate bank and this seemed to trou-  
ble him. I then asked Fancher if the Banks in his district would like to be ass-  
esses for the deficit & he said No. I then asked if we gave him open market po-  
wers to buy domestic bills if that might not help earn his expenses. He said Yes  
and that he favored such regulations. Gov. McDougall said the large banks might  
not object to an assessment but the small banks would. He said purch. in open



market would antagonize the member banks. They both agreed however, that <sup>the</sup> pow<sup>er</sup> should be given to the banks by appropriate regulations. Warburg seemed distressed at their remarks and told me we would hear from the banks shortly. Both offered for approval a  $3\frac{1}{2}$  % commodity rate & same for trade acceptances. On my motion the commodity rate was held up to await report from San Francisco. Warburg fought this. Harding said we had put through the 3% rate in the South and we had better drop the matter, implying that our course could not be defended. This was tantamount to saying he had deceived us into voting for the 3% rate. He evidently does not want to interfere with the Member bank rates except to please his own constituents.

Sept. 21. Tuesday. At meeting of Federal Advisory Council, Mr Forgan said that the executive committee held it's meeting in N.Y. in the library of Mr Morgan, one of it's members; that Morgan, referring to their coming down to Washington to attend full meeting, said they ought to have a private car and turned to an officer or director of the B. & O. R.R. and asked him to arrange it which he did and the members came to Washington in a private car furnished by the B. & O. R.R.

Sept. 22. Wednesday. Secy. McAdoo said yesterday, President was very much disturbed over Miller--felt he added nothing to Board and was considering calling for his resignation. McAdoo said he was tempted to ask him to do this. I begged him not to do it as it would be claimed it was done to control the Board. He said Miller had written a nasty letter to Harding.)

Sept. 23. Thursday. I told Secy. McAdoo, in my opinion would be most unwise to call for Miller's resignation or to remove him; that the other three appointments -ted members Delano, Warburg & Harding would line up with Miller. "But Miller would be out of the Board" he said. I then said I feared they would also resign. "Let them resign--I dont care" he said. He really seemed to have lost his head, altho Tuesday he told me that it would be very bad, politically, to have any split in the Board prior to the coming election. I told him the Board would in all probability recommend amendments to the Federal Reserve Act to Congress. This seemed to infuriate him, he seemed to think they had no right to do this.

I said they clearly have a right in their report to Congress to make any recom-



mendation they saw fit by a majority vote and that <sup>any</sup> of the members could of course, file a dissenting report. He said the President would make short work of any amendments he did not favor. Secy. McAdoo seems to feel that the Board is subordinate to the Administration as represented by him--his attitude will lead to trouble in the near future.

Today, Harding gave me a copy of a memorandum written by Warburg--his initials were at the top--but signed by Warburg & Harding, in reply to my minority report favoring giving open market powers for domestic bills i.e. trade acceptances and banking acceptances. It was most sarcastic and almost insulting in terms. It said that the question of earnings was more important to me than the future and safety of the system. It was also very sarcastic as to my statements of desire to prevent the banks from languishing. I shall answer it. It spoke of the danger of low rates but Harding did not see this danger when pleading for a 3% commodity rate for the cotton growers of the South. Harding at the meeting today, explained Secy. McAdoo's deposit in the Federal Reserve Banks as a shrewd political stroke of the Administration to curry favor with the South--saying this was the idea of Secy. McAdoo in doing it. Warburg & Harding evidently think that the Federal Reserve Board is simply a representative of the Banks and that the public have no interest--unless, as in Harding's case, cotton is involved. The unit with them is the Bank & what is good for the banks, the public must be satisfied with. The Bank of England, of France & the Reichsbank all have power to loan directly to the individual & the Federal Reserve Board, thro open market operations should have and will have--when we make the regulations--have a similar right.

Sept. 24. Friday. After the meeting, Compt. Williams asked Harding & myself if we saw any impropriety in his buying some cotton, We both said Yes as he had information as to action of British Govt. which the public did not have. He then asked if it would not be all right for Mrs Williams to buy some. We gave same answer.

Sept. 24 Friday to Monday Oct. 4 at Mattapoissett.

Oct. 4. Monday. Federal Reserve Agent Curtiss in Boston told me Warburg had written him a letter on subject of open market purchases setting forth the arguments



pro & con. Warburg never told any of the members as to this as matter is still in hands of Comm. I consider this action treacherous.

October 6. Wednesday. Delano showed me a draft of report signed by him as one of Comm. on Rediscounts & Govt. deposits, severely condemning Secy. McAdoo--stating it was a purely political move to make this deposit--that it was done without any consultation with Reserve Board and--they were not responsible for it and suggesting that Congress amend the law as it enabled Secy. to frustrate all plans of Reserve Board. I told Secy. of this and he was furious. Delano said he was inclined to think matter had better be dropped. I told him the Secy. was given right to do this by Congress & that if we interfered in a political fight such as this, it would destroy influence of Board & perhaps the Board itself. Willis told me Warburg had shown him a draft of history of Acceptance regulations which severely criticized me for changing my views. I wrote Warburg asking him to let me see it. Delano told me Warburg had shown it to him.

October 7. Thursday. Representative Glass called & said at Warburg's request he had had an interview with him at his house last evening Oct. 6. Said from what Warburg told him there was evidently a serious condition of division in the Board. He said he warned Warburg that if open market purchases not authorized by Board by regulation, the Board would be severely attacked in Congress & he also would attack it. He said he failed to convince Warburg however. I told him, confidentially, of the status of the matter, & spoke of my minority report. Glass said there would be a strong movement in Congress to displace Williams as a Member of the Reserve Board--that he felt that the office of Compt. should be represented on Board but that the trouble was with the personality of Williams. I told him of the examination controversy & he said it was clearly the intent~~xxx~~ of Congress that the Reserve Board and the Reserve Banks should have copies of all reports. I gave him a copy of my analysis of the law & brief. He also said there was no possible doubt of the right of Reserve Banks to go into open market to secure revenue for expenses & dividends.

Friday, Oct. 8. At 1 minute before 11 this A.M., Harding brought in a letter to



Federal Reserve Agents on open market purchases which he said the majority of the Comm. (Comm. C.S.H.--Warburg & Harding) had voted to present to Board in lieu of open market regulations. I thought it rather strange that I was not notified of such meeting, especially as yesterday I told them I was engaged on an answer to their 2nd. report, attacking my position. The matter was called up by Warburg at the full meeting this A.M. & I very quietly stated my dissatisfaction with the Comm.'s action. Warburg said there were no reports ever given officially to Comm.--they were merely exchanges of views. I demurred to this statement. Finally the proposed letter was read, I said that it undoubtedly gave the Banks certain open market powers but was really a regulation in the form of a letter to Federal Reserve Agents and that I should vote against it. I then gave copies of my minority report to Warburg & Harding. Finally on Williams' motion, we referred whole matter back to Comm. to report at an adjourned meeting and I gave Williams a copy of my report. I told the Members that Mr Glass said yesterday a letter would not be satisfactory; Delano said Glass told him that he thought it would be satisfactory & Warburg said Glass told him he recognized the danger of a regulation at the present time & thought a letter was a good idea as it could be turned into a regulation at any time. Harding made a characteristic speech saying he was sick of voting to please this man or that man & he served notice that henceforth he should vote as his oath of office dictated. I replied that I assumed all of us had done this & would continue. Finally we met as a comm. & Warburg & Harding voted to report in favor of sending the letter instead of regulations & I voted against this & in favor of regulations.

We then had a full meeting of the Board (Except McAdoo & Miller) & the majority report & my minority report laid before the meeting. I moved to substitute the minority report--that it was the duty of the Board to frame regulations & that we should do this at once. On my motion to substitute, Williams & I voted aye & Delano, Warburg & Harding, No. On the majority report, we all voted in favor--I stating that the letter was better than nothing & was all I could get and--I should vote for it. Williams told me Warburg wanted very much to be Gov. of the Board & that was why he was so irritable; that he had tried to have the Gov. go by



rotation, but Williams said this was absurd. Delano told me he & the other members were very angry at Secy. McAdoo's action in publishing the President's letter to him favoring establishment of branch banks in South America by Federal Reserve Banks--as an attempt to force the hand of the Board. Warburg, at Secy's request had prepared a report on this & had reported against it--this report was referred ~~referred~~ to a comm. of which Delano was one and they will shortly report on it & I fear there will be a row. Today the Comm. --Warburg & Harding & I think Delano reported in favor of waiving the Municipal warrant regulations so as to permit the Federal Reserve Bank of Boston to purchase Municipal warrants altho the Municipality was under 10000 population. Federal Reserve Agent Curtiss spoke to me of this in Boston and later Gov. Aiken wrote me officially. At first the whole Board were in favor of it except that Harding said we might be embarrassed by applications from Southern States where the Municipalities were not sound. I said I favored the exception but as it involved my State I should much prefer having it carefully studied by a Comm. The Comm. reported unanimously in favor where the Town notes were registered *under* the Mass. law & it was so voted.

Oct. 12. Monday. Left for Indianapolis.

Oct. 13. Wednesday. Addressed Indiana State bankers Ass. Splendid meeting. Secy. McAdoo told me that the Reserve Board Comm. reported against his & the President's plan for branches in South America of Federal Reserve Banks--said the report was discourteous & he was evidently much troubled about it. It was suggested that it be recommitted to the Comm. to report back a plan for amending law to permit Municipal Banks to own stock in a corporation abroad. Miller objected to any recommittal--said country was stirred up at attempt to thus influence the Board. Finally it was recommitted but an interview or rather a statement was given to Press that the Secy. & President's recommendations were not approved. I was informed that Secy. McAdoo finally agreed to this statement being given out altho he did not approve it's contents.

The statement should not have gone out--it was a direct slap at McAdoo & the President & was so construed by the papers editorially--the N.Y. evening Post --Phila. Ledger, N.Y. Sun. (See Scrap-book)



McAdoo told me he gave out the President's letter merely to please the South Americans & that Cooksey published it without his knowledge; that he never thought even of antagonizing the Board. This is another instance of lack of tact on his part--he should not have published it--but on the other hand, the Board should not thus publicly turn down the Secretary & President.

At the meeting in Indiana, Federal Reserve Agent Bosworth in his speech advocated--amending law. 1. To limit capital stock of Federal Reserve Banks to amount paid in  $\frac{1}{2}$ ; 2. To abolish Comptroller & put his function under Reserve Board; 3. To prevent Secy. making any deposits in Federal Reserve Banks except with consent of and in manner prescribed by Federal Reserve Board. He met me at breakfast & said what he intended to say would make me very mad. I told him I was not mad at all but that I did not agree with him as to 2 & 3; that it was a question of good taste whether he cared publicly to attack the Comptroller & Secy but that I believed in free speech & it was for him to decide. I am satisfied from his manner that he has been put up to do this by other influences.

Oct. 14. Thursday. Delano & Harley gave dinner to Reserve Board & Federal Trade Commission. Afterwards I told Williams of Bosworth's attack & that undoubtedly there would be a strong movement in Congress to remove him from Federal Reserve Board. I advised him strongly to meet the attack by showing that under existing law he was under general control of F.R. Board & begged him to yield on matter of reports of examiners. I advised to take ground that if the F.R. Board passed a resolution that the F.R. Banks should report to Board as to condition of all member banks & should then ask him to give copies of his reports to the F.R. Agents to say he would do so--leaving the responsibility for use of the reports to the Board. He said he would think this over.

October 19. Monday. Willis told me that while I was away, he was called on telephone by Warburg & asked to come right over to his house. On going there, he found Warburg, Miller, Harding & Cotton our N.Y. attorney. Warburg had prepared a bitter attack on the Secy. in connection with the joint agencies of F.R. Banks which he had shown him--Willis; that Willis expressed himself against it & said if anything



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were needed Warburg should put it in form of a resolution deliberately attacking & censuring the Secy. and then fight it out; that Warburg that evening had a series of resolutions & was quite angry when Willis said they were better than the original report but he did not believe in them. Willis said Cotton rather took his view. Finally at 12 at night, Willis left. The next day, he said, McAdoo called him in the morning to his house & seemed greatly disturbed; that Willis advised him to make every concession to keep harmony. That when the Secy. went to the meeting & tried to have the whole matter postponed until his return by reference to a comm. which would make a unanimous report to which, Secy. said, he would agree--favoring amending the law to permit Member Banks to unite to form corporations in foreign countries. He said the Board absolutely insisted as a condition of doing this--upon giving out as immediate statement to the public; that a Comm. was appointed to prepare one and later Secy. McAdoo, after some minor changes, agreed to it. Willis said he was sorry McAdoo conceded so much as he had agreed to a statement in effect that, where there was any National Bank in a foreign country F.R. Banks would not establish agencies there--which to his mind was a fatal mistake. Willis also said that Cotton told them at Warburg's house, that the whole country was laughing at the F.R. Board, it was so dominated by the Secy.

This afternoon, I sent Harding a letter with regard to the petition of New Orleans branch bank for authority to purchase in open market State Bank acceptances. Harding, by letter had replied intimating that it might be possible to amend the Acceptance regulation to permit this. (Exactly the reverse of his position in his majority report) I favored such an amendment & accordingly wrote so to Harding who replied rather equivocally but not at all against it. Later, Warburg, to whom I sent a copy, wrote a rather offensive letter asking how I could have written such a letter, exciting as it would, dissension among the Member Banks. He evidently thinks only of the Member Banks and I will reply to him tomorrow. To show absurdity of Harding's & Warburg's majority report that the Reserve Banks do not want power to purchase domestic bills in open market--Atlanta has asked to have rate fixed & Cleveland & Phila. I think, have said they favored it; also Gov. Strong wrote he approved but that it should have been in form of a Regulation instead of a letter.



This P.M. Warburg also gave me a copy of his history of the Acceptance regulations in which he bitterly attacks Williams & myself for our sudden change of views. He carefully refrains from attacking Harding, who has constantly changed on this and every other question but he says in effect that Harding knew he knew little or nothing about Acceptances & was willing to abide by his, Warburg's, judgment! After that, I confess any attacks on us must be considered mild! He lets Miller off very lightly altho he has acted like a weather vane upon the whole subject. He is evidently very mad with Williams & myself and faintly implies that we were influenced by some improper motive. He utterly ignores the opinions of Counsel as to War acceptances & drafts which have been or may be used for importations or exportations; also the opinion of Counsel that F.R. banks are not Govt. institutions & that we have no power to forbid or restrict War acceptances. I shall make an extended reply, that will cause him to take notice.

~~October 20, Tuesday, XXXX Mr Brooks, representing Texas Topics~~  
 Oct. 21, Wednesday. An opinion from Elliott handed in, that F.R. Board had no jurisdiction over Comptroller except as to F.R. notes but that Comptroller was bound to furnish examinations reports or copies to aid Board in fixing salaries of examiners; further that Comptroller could legally give Board such reports to assist Board in determining condition of member Banks & that Act contemplated but did not require such action. Delano was angry at this opinion which he said should have been given to the Comm. of Board & not sent direct to Board--also said he wanted to go over matter with Elliott before he decided it. Later it appeared that the Comptroller--the Chairman of the Comm.--had asked Elliott to give the opinion. The Comm. had been directed to give Elliott my opinion but it did not appear that he had used it. Later I asked Elliott & he said, while he had seen a copy of my opinion, he had not read it as he preferred to reach his own independent conclusions & that he thought it more courteous not to seem to over-rule me. Thus all my work was thrown away. Yesterday Warburg told me he had sent my opinion to Cotton who had replied that while he had not gone into the matter carefully, he at first blush was inclined to differ with me. The Comptroller was not present until we had about finished our meeting, & Delano reported that the Comm. had made no progress



with Comptroller as to examiners reports. Later the Comptroller came in & announced that ; in accordance with a suggestion of the Board made long since, he had decided to instruct examiners or at least, to provide that examiners reports should hereafter be shown to the banks examined; that he would divide the Reports into 2 parts; that part 1. should be given to the banks examined & a copy also to the Federal Reserve Agent. We had already, before Williams came in, passed a vote to write F.R. Agents asking what in their opinion should be contained in Part 1, Delano saying the Comptroller & Comm. agreed upon this. Delano however did not tell us that Comptroller had agreed that Part 1 as finally determined upon, should be given to F.R. Agents & further that Part 2 should be shown F.R. Agents upon request of Agents or Govrs. in case any bank had rediscounted or asked to rediscount, or if for any other reason such information was desired. It seemed to me that this indicated a desire on part of Comptroller to come over to our position--of course, it all depended on what was ultimately determined upon that Part 1. contain. Warburg, however, instead of waiting to find this out, began to fuss & fight, apparently taking the position that there was nothing which should not be communicated to F.R. Agents. He really seemed much annoyed at the Comptroller's seeming readiness to meet our position & to want a fight. Delano also seemed to feel the same way. I explained to Board that we had better wait until Part 1. was determined upon as that might meet all desires. Miller moved that the Comm. at once obtain an opinion from Cotton; I replied that the matter was in the hands of the Comm. & that they had full power to do this. We discussed this for some time & I thought Warburg would have the fairness to disclose fact that he already had consulted Cotton but he remained silent. Later I spoke of this to Delano & he admitted that he also knew of this. I felt this was not fair to Williams & later I told him of the reference to Cotton & what he had said.

At the meeting on Tuesday, Comms. were appointed to consider all pending redistricting & red<sup>e</sup>signation matters. I pointed out that we had officially announced long ago that we should not make any more changes in the work of the Reserve Bank <sup>Organization</sup> Comm. but that each case must depend on the working of experience. DR. Miller found this announcement & after some discussion, all agreed that this



was correct. A Comm. was also appointed to consider amendments to the Act--they were willing to put me on this Comm. but I felt that it would be better to put entire responsibility on them & suggested that Delano had given much consideration to this & should serve on it & this was adopted. I am satisfied that they intend to recommend cutting down the Districts to 8 & that they have banded together for this & other purposes. At meeting today they also dropped Williams off of one Comm. --I think Comm. on admission of State Banks--on ground that Williams could not give the necessary time to the work. I said I thought this not expedient but Harding insisted with much earnestness & it was so voted. Warburg was very indignant at being called to account by Secy. McAdoo for his action in refusing to attend the N.Y. Meeting at the Sub-Treasury, but he did not hesitate to call me to account for my daring to write Harding favoring giving to N. Orleans branch bank power to buy State Bank acceptances. I replied to him civilly explaining my reasons but would have been justified in writing pretty sharply. (See page 78) He also called us to account in his Memo. on history of acceptance regulation.

October 29. Friday. Early this week the Board voted to drop Williams from Chairmanship of Comm. of <sup>4.53</sup> on ground that he never called meetings & did not attend to his work. I advised consulting Williams first but was over-ruled. Later Williams came in & Miller told him nothing had been done not in docket--a mistake but made unintentionally. Then Williams wrote two hot letters to Board. Finally at next meeting, Board decided to drop all reference to removal as Williams had written letter resigning from Chairmanship and later another resigning from 2 Comms but said nothing about State Bank Comm. of which he is still a member. Warburg & Harding said if Williams wished to retain these letters on the files, they would also file memo. of their own. I asked Williams and he said he wished them retained on the files in response to a letter from me. Later he wrote me a letter very equivocal & I wrote another asking him directly what his wishes were.

Last Wednesday, Wellburn of Atlanta Bank, wired for authority to buy Georgia warrants in excess of amount allowed by our Regulations. Harding was decidedly adverse--said it would open door for Alabama & other States who would take all the money we had; said he did not think there was any tax fund or money receivable







-night for Chicago--I suspect he has gone to consult with Burke, He told me he was going but did not say why. Willis thinks only reason for change is to show Board is independent of Treasury. Board voted <sup>4 2/3</sup> that no more changes in Reserve Board re-organization Comm. plan--each change must rest upon experience. There has been no experience warranting this & in my opinion will be hailed an announcement that F.R. System is a failure as at present constructed. No one has asked for a change. No one has applied for a Rediscount. Everything has gone smoothly. As Willis said, from all we have seen--system has worked perfectly. Changing Minnesota will be hailed as vindication of Gov. Burke's attack on Minn. bank. Elliott in January gave opinion banks could not be cut down save by Congressional action. Will Warburg follow this opinion? He criticizes me for not following opinion as to Acceptances between foreign countries.

Wednesday, Nov. 3. Question arose of permitting F.R. Agent Rich to appear before Board with relation to Mosher appointment as his assistant. Warburg very ugly--said had been referred to <sup>H</sup>arding & himself as Comm. & had not yet been reported. I said they had reported generally and this report circularized & we did not know they had any further report to make. Finally I was added to Comm. & instructed to <sup>(Bill)</sup>him--Rich--at 3 P.M.

Also on motion of Williams, it was voted to take no action until Rich had been heard by Board. This made Warburg even more ugly. He seems to think that the full Board could not hear anyone without reflecting on the Comm. Miller had just said matter might involve wiping out of Minn. Bank--I added that if of that importance, Rich surely had a right to be heard by full Board & Miller agreed to this. At 3 P.M. none of the Comm. appeared--it seems they are lunching at the Metropolitan Club--they had not returned at 3.45 so I asked Rich & Williams to dine with me. Later Delano explained he did not come in order to give me a chance to see Rich alone. Miller evidently is going to use this as a pretext for voting to destroy Minn. Bank. Miller also said Broderick's report on the Atlanta Bank showed irregularities warranting abolishing that Bank--another excuse for so voting. I read Broderick's report & while it did disclose a number of irregularities, I could find nothing not curable by a simple order & I wrote asking Miller



what he relied upon in the Report to warrant his conclusion that the Bank should be abolished.

Later Delano said he hoped the Administration would not seek to make political capital out of the success of the F.R. System & the others--Williams had left--seemed cordially to agree with him. Delano said the Republicans would denounce the Act if credit for it was claimed by the Administration. Delano reported Comm. on redistricting not yet ready to report. Williams later read me a letter from Harding in which he said he would oppose putting Comptroller under F.R. Board --also intimated Comm. might decide to postpone redistricting for a year. H. is evidently weakening.

Nov. 4. Thursday. This A.M. at meeting, Harding wrote on a slip of paper "you have stumped DR. Miller by your letter"--referring to my letter of yesterday asking him to tell me what facts in the report <sup>of</sup> Brodarsick on Atlanta Bank, he relied upon to justify his statement that report proved the necessity of abolishing the Atlanta Bank. Delano also said--"The fool to blurt this out while it was still pending in our Comm.!" Later I wrote Dr. Miller another letter asking him what the facts were in the dispute between Rich & the Minn. Bank warranting his statement of yesterday to the Board that the issue in his opinion might warrant the abolishing of the Minn. Bank. While I was in Indianapolis, the Board issued a statement that the transfer of Minn. Bank to Chicago was not under consideration by it. This was an attack on Gov. Burke, but was not true as evidently the matter was then being discussed by the Comm. Asst. Secy. Allen told me today, that Willis had told Warburg I had obtained from Elliott his opinion given in January that Board could not cut down F.R. Banks; that Warburg et als had summoned Elliott before them; that he said he could not change his opinion but was more than even convinced of its correctness when it was considered that the Banks were chartered for 20 years; that the Comm. had determined to ask an opinion of Cotton.

Nov. 5. Friday. Conference with F.R. Agents. They voted unanimously that all of examiners reports should be given to F.R. Agents & Govrs.. Much discussion was on question of paying back to Banks part of capital stock already paid in. At



dinner in evening, whole time given to this & all taken down by stenographer.

The F.R. Agents were divided in opinion--Martin--Tennison--Ingle--Curtiss were strongly against it. Wellborn strongly for it--Jay not certain--Perrin inclined to favor it. Warburg positive for it. After long talk decrying any necessity for making expenses, he used fact of deficits as imperative argument in favor of lowering capital on which dividends must be earned. His argument based on fact that whole success of system depended on good will of <sup>m</sup>ember Banks--if they were irritated they would make no voluntary deposits of gold and we could not amass it so that in future large demands for export would leave us helpless. His evident purpose is to clip wings of F.R. Banks & prevent them from any competition with <sup>m</sup>ember Banks.

Ingle showed this up--said we are asked not to go into open market for fear Banks would be offended--now we are asked to buy back paid in capital for same reason--where will it end?

Miller spoke well--pointed out that for Reserve Board to ask for amendment to law would be admission that present abnormal conditions were usual normal conditions & that Reserve Banks were purely emergency Banks--to rest, <sup>7.90</sup> while waiting for emergencies. Even Perrin agreed would be folly now to ask for such amendment. Warburg is evidently willing to cripple whole system to please <sup>m</sup>ember Banks. At morning session, we voted to permit N. Orleans Branch Bank to buy State Bank Acceptances in open market--Warburg alone voting against it. He said if done, should be in form of a general regulation open to all. I agreed to this & moved such a Regulation. (Which Warburg of course did not want)

Finally we decided for present to try matter out by giving permission to New-Orleans & later consider question of a general Regulation.

Warburg seemed furious with Harding for changing his views, and, I think, with good reason. Every word Harding said was directly contra to the majority report he & Warburg signed against my minority report.

Nov. 6. Saturday. At meeting voted unanimously to issue Regulations covering open market purch, of State Bank Acceptances secured by Commod's. Even Warburg



voted for it altho absolutely in opposition to his majority report, supra.

Think Warburg realizes that his talk at dinner of F.R. Agents in favor of repaying large part of capital paid in to F.R. Banks and harking on fact that whole System depends on good will of <sup>the</sup> member Banks--all taken down by stenographer--has put him at last on record & he is scared.

Nov. 8. Monday. Williams told me Harding told him that Comm. on Redistricting could not agree--that Warburg wanted to annex North Alabama to Cleveland district and Harding opposed this.

Gave McAdoo letters & plans of N.Y. Bank for new quarters--McAdoo said would be very sorry to have Bank give up quarters now rented from his friend Pliny Fisk. Williams who agreed with all of us the other day as to advisibility of change--this P.M. said to me McAdoo--other things being equal--hoped no change would be made, because of his cordial relations with Pliny Fiske.

Nov. 10. Wednesday. Willis told me this A.M. that there had been a consultation between redistricting Comm. & Miller (not on Comm.) with Mr Cotton; that Cotton advised them that he thought power to create new districts up to 12.--carried with it power to reduce existing districts down to 8; that argument vs it because banks have charters for 20 years was a pin prick argument but that clearly the Courts could be appealed to & it would be 3 years before Supreme Court could finally settle the matter; he also said that in his opinion the grounds stated by Comm. for redistricting were very weak and inconclusive, and that it would be folly to attempt to change districts unless Board was practically unanimous in the matter.

Thus it appears that a majority of the Board has had practically a caucus with Cotton without letting the other 3 members know anything about it. While the Comm. could clearly consult with Counsel--to call in Miller also was a most extraordinary proceeding. I asked Williams & he said he did not know of any such caucus nor was I ever notified or given opportunity to consult with Cotton.

Yesterday we sent a stiff letter to the Atlanta Bank based on Broderick's report. Today Willis said Broderick told him he did not consider anything in report necessarily indicated a serious condition, as the paper might be liquidating & if so