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CHARLES HAMLIN
PAPERS

Miscellany

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WRITINGS --
"MEMORANDA CONCERNING THE
FEDERAL RESERVE BOARD..." DIARY
JUL. 5, 1 APR. 1919 - 19 MAR. 1920
(PP. 357-411) (8 OF 19)

VOLUME V

April 1, 1919.

Yesterday Governor Harding told me that Williams had ordered the president of a North Carolina bank to Washington and had told him his examiner had reported that a Mr. Cooper (brother of the Cooper who tried to defeat Williams for confirmation) was a borrower from his bank and he ordered him to have the note taken up; that Cooper said the loan was a good one and well secured and that he saw no reason for doing this; that Williams said if he did not remove the note he would put his bank down for frequent examinations.

Last week Williams wrote Glass a letter protesting against approving branches in West Indies, Egypt, etc. for National City Bank; his letter referred to Board as granting these applications without special consideration, etc., and pointed out the dangerous condition of the Banks Russian branches. I at once wrote Williams that the Board gave more careful consideration to this application than to any other it had ever passed on et., etc.

Am satisfied Williams is meditating a further attack on National City Bank and also on the Board, in case he should finally not be confirmed. His vindictiveness is simply monumental!

April 8, Tuesday

Miller again brought up a declaration on Elliott's appointment explaining why he voted for it (which he did not). Finally after long discussion he asked to change his vote to Aye which was allowed.

April 11, Friday

Strauss returned from Paris.

Long discussion in Board about Kent; Bankers Trust Company loaned him to us but now want him to go abroad for them. Leffingwell and Secretary Glass wrote me protesting against his going as Government needed him. Board felt if he did go, he should sever all connections with Federal Reserve Board. Will be decided tomorrow.

June 7, Saturday

This week early we decided on opening the gold market and repealing embargo, or rather advising Secretary of Treasury and President that this should be done. After consulting Glass a cable was sent by Glass to President expressing Board's opinion that the embargo should be lifted as to all nations except as to points under Bolshevik control. The President replied that he fully approved this except reference to Bolshevik control which should be omitted. We were all amazed at this and Strauss said he would prepare another cable for Glass to send explaining why it would be unwise to take such a course.

June 20, Friday

Had conference with Executive Committee of Federal Advisory Council: Messrs. Forgan, Rice, Rowe and Wing--as to best method of relief in furnishing long credits to Europe. Described Davison's plan of a central corporation to loan to corporations representing cotton, leather, copper, etc., etc.

Question arose as to whether the Government should take any stock in central corporation--all the council and Governor Harding, Dr. Miller and Williams and Strauss voted No; C.S.H. said he much preferred

having Government keep out of it but if necessary for its success he should vote Aye.

Question next arose whether central corporation should have one or more Government directors. Dr. Miller favored this and so did C.S.H. but all the others were violently opposed. The council voted unanimously No; no vote was called for from Members of Board. Dr. Miller said if a committee was formed to decide abroad to whom loans should be made at least one of committee should represent the public interest. Strauss fought this as it would give a political tinge to the committee and foreign governments would try to influence it for selfish purposes and the loans might go to those not deserving them. C.S.H. said if the new corporation were organized under Section 25 it would give the Federal Reserve Board the right to require reports and to examine it and this would go far to relieve necessity of having Government directors.

It was finally determined that a new law must be enacted broadening Section 25 and all agreed to an amendment permitting all national banks (whether or not of capital of one million dollars) to subscribe 5% of their capital and surplus to corporations acting under Section 25 as amended.

July 9, Wednesday

Governor Harding prepared a letter on Czechoslavic cotton credit providing for acceptances for 90 days which three renewals. Took ground that capital loans were not for Federal Reserve System and that while renewals could be made where the sale or export had not been liquidated, yet it must be within a reasonable time and that, while during war time we had to be liberal, now that Peace had come, we must be more conservative. At Strauss' request we agreed to hold it up until Leffingwell, Governor

Strong, Lamont and Davis could talk matter over. In morning Davis called and said the Czechoslavic credit was a real commercial credit and would certainly be liquidated in a year and perhaps sooner.

July 10, Thursday

Board decided to let the Czechoslavic credit through as it was finally made a simple 90 day credit. I voted for this chiefly because Norman Davis told Board it was a real commercial credit and not a capital loan.

Governor Harding prepared a letter reserving all rights as to loans which were not commercial credits. It was referred to me for report. The interview on call loan market appeared in some of this morning's papers; nothing was said about it at the meeting!

July 23, Wednesday

At meeting of Board Governor Harding read letter from Richmond Federal Reserve Bank strongly urging higher rates on Government paper. Reserve of bank exclusive of rediscounts down to 10%; said banks in District have taken Treasury certificates far beyond their banking power.

Governor Harding was very ugly--said tired of being dominated by Leffingwell--that he should write a personal note to F.R. Hardy expressing agreement with his views--that Treasury must adjust itself to Federal Reserve position and not vice versa. Strauss combatted this view vigorously.

The Federal Reserve Bank has about 90 millions loaned on war paper, about 50 of which is in certificates. We pointed out that if certificates were allowed to run off banks position would be all right. Agreed that Richmond banks had taken too many certificates and that if any further apportionment made by Leffingwell it should be on a more equitable basis.

Governor Harding said Secretary Glass blamed Board for letting Richmond get into this position while Leffingwell kept insisting on Richmond banks taking certificates; that evidently Glass and Leffingwell pulling at cross purposes. Governor Harding suggested asking Glass to confer with us. I suggested Leffingwell also but Harding did not seem to relish this.

After meeting went in to Glass' office and advised him to insist on Leffingwell being present: that there was no necessity for a controversy and that by being easy on Richmond as to future certificates, all would be well.

He seemed greatly surprised when I told him Richmond banks had taken more certificates than their banking condition warranted and said if that is so they must be helped.

Board also talked over new Secretary to take Broderick's place. I favored Chapman and Governor Harding and Strauss had no objections unless Board decided it wanted a man who could work more like Willis. I suggested asking Willis to return. Governor Harding did not seem averse to this but Strauss rather objected--said Willis got on his nerves on gold committee, etc. He did not, however, seem very positive.

I told Secretary Glass I should like to see Willis back. He said he also would but felt sure Willis would not come unless his position was made more dignified and less of a purely clerical nature.

September 2, Tuesday

Strauss told me he intended to resign within the next few months; that he agreed to accept Delano's term and was very much surprised when his name was sent in for the 10 year term; that he had an understanding with McAdoo that when the war was over and the post-war problems worked out, he should be at liberty to resign.

October 28

Returned from Mattapoissett. Conference of Governors of Federal Reserve Banks as to changes in rates to bring about liquidation of credits. Began at 10 A.M. and lasted without recess for lunch--until 7:30 P.M.

Governor Harding presented a plan putting up all discounts of whatever nature and maturity to $4\frac{3}{4}\%$, the present rate on 90 day commercial paper, including paper secured by Government bonds, with some exceptions;--(1) 15 day paper secured by U.S. Treasury certificates; (2) Acceptances; (3) Trade acceptances; (4) Agricultural paper. One was fixed at $4\frac{1}{4}\%$. I understood that this plan was agreed upon by Governor Harding, Secretary Glass, Leffingwell and Governor Strong.

We went over it carefully. Governor Strong said he was prepared to recommend this to New York directors tomorrow morning; that in his judgment, however, $4\frac{1}{4}\%$ was too low for 15 day paper secured by Treasury certificates; that it should be $4\frac{1}{2}\%$ and that ultimately it should be $4\frac{3}{4}\%$, but that Leffingwell felt that any rate over $4\frac{1}{4}\%$ would shoot to pieces the Treasury policy. All of the Governors expressed themselves of same opinion; that we could not bring about liquidation unless the Treasury as well as all other customers had to pay higher rates.

Secretary Leffingwell came in and explained the Treasury policies; he said he wanted to put out an issue of Treasury certificates about November 15 at $4\frac{1}{2}\%$ in order to place in December a larger issue at $4\frac{1}{2}\%$. Much discussion ensued. Leffingwell said a rate of $4\frac{1}{2}\%$ would smash the Treasury plans--later he said he thought he could put out $4\frac{1}{4}\%$'s in November even if we fixed discount rate at $4\frac{1}{2}\%$, but he rather retracted this again.

Governor Strong said he did not agree to Treasury policy of issuing certificates at $4-1/4\%$, that it was too low and rate should be $4-1/2$ even if it did force Treasury to change its plans; however, he was prepared to accept $4-1/4$ if Treasury insisted.

After all day discussion, it was finally announced by Strong that in view of Leffingwell's position he would advise his Directors to fix rate of $4-1/4\%$.

Governor Strong said he feared Leffingwell would think he had gone back on the schedule they had agreed upon in morning and Leffingwell said he felt such was the fact.

There was some discussion as to the $4-3/4\%$ rate on paper, 90 day, secured by Government bonds. Leffingwell said he feared this would bring about a forced sale to the benefit of speculators which would borrow to carry the bonds they bought so that there would be no liquidation. Governor Strong said speculators would not buy on a market of rising interest rates but that these bonds would be bought by investors for cash and there would be liquidation. All of the Governors agreed to this.

I had supposed that Leffingwell had agreed to the $4-3/4\%$ rate and also Secretary Glass, as Leffingwell constantly referred to the agreement as to rates.

10:30 P.M.

Secretary Glass called me on telephone--said he and Leffingwell had tried to find Governor Harding but could not locate his house--that he could not come to meeting tomorrow as he had to be with King of Belgium all day--said he wanted to be present and I said I would have meeting postponed to Thursday. He was very much excited--said Governor Strong was trying to dominate Treasury and Federal Reserve Board--that if we

that if we approved the $4-1/4\%$ rate he would come out publicly and protest; that rates should not be put up on paper secured by Treasury certificates in order to curb Wall Street gamblers; that credit should be retained; that the governors of the Banks had permitted the gamblers to raid the Federal Reserve banks and that Governor Strong was unwilling to curb them. He intimated even that he should press for removal of Governor Strong; that he had told Bank of England he should put up rates; that at a meeting the other day he told the Secretary that the Federal Reserve Bank of New York was a central bank; that it had a right to fix rates; that the Federal Reserve Board had no right to initiate rates, etc.

I told him Governor Strong at end of meeting said his directors would put in a rate as above indicated to take effect Thursday A.M.; that I at once told Governor Harding no rate could be effective until we approved it; that he at once said so to Governor Strong who in my presence said I had misunderstood him--that there would, of course, be no publicity as to action of directors on Thursday until the Federal Reserve Board had approved it.

We are evidently in for a terrific fight. All this time I thought Secretary Glass was referring to the 15 day $4-1/4\%$ rate but he suddenly said he disapproved of the $4-3/4\%$ rate on 90 day paper secured by Government bonds. I told him I understood that Leffingwell and he did not object to this rate and that it formed part of the schedule Governor Harding reported this morning as satisfactory to Secretary Glass and Leffingwell. He said Leffingwell had no authority to approve any such rate--that it would injure the Liberty Loans, etc.

October 29

Asked Governor Harding about this schedule. He said it represented an understanding between Leffingwell, Strong, Secretary Glass and himself and that they had accepted it as consistent with the Treasury policy. I asked Strauss and he said while the Treasury had not specifically agreed to it, as neither Secretary Glas nor Leffingwell wanted to interfere with our rates, yet that they offered no objections to it as being inconsistent with the Treasury policy.

Governor Harding & Strauss both pointed out that member banks generally had marked up their rates to their customers on paper secured by Liberty bonds to 5% and that the new rate of 4-3/4% would still leave profit for the member banks.

Governor Harding said he feared the expansion was so great in the country that a panic worse than 1907 might come if we did not force liquidation.

Strauss said the advance in rates would help but little--it must be accompanied by vigorous credit rationing. I told him I said this to Strong yesterday who replied it could not be done. Strauss said he absolutely disagreed as to this. The matter went over until tomorrow.

October 30

Governor Harding said Strong telephoned from New York that his directors feared a 4-3/4% rate would depress Liberty bonds to 90 and might cause a panic. He will reconsider whole matter.

October 31

Governor Strong here on consultation with Governor Harding. I told him I had told Leffingwell he had played absolutely fair with him.

He said he would have to insist on rate advances, that the reputation of New York Bank was at stake, etc., etc.

November 1

New York directors, after agreement between Strong, Leffingwell, Glass and Harding offered an increased schedule of rates which we at once approved. This schedule left the 90 day rate on eligible paper unchanged at 4-3/4% but raised other rates making all war paper rates 4-1/2% whether 15 day or 90 day, except 4-1/4% Treasury certificates which were made 4-1/4%.

November 5, 6 & 7

Other banks submitted rates which we approved when modified so as to have uniform rates throughout system on war paper, which Leffingwell insisted on.

November 7

Governor Harding said Strong telephone his bank must have 100 millions rediscounts today--that demand for funds was increasing--that he was greatly disturbed over outlook and would insist on Sunday morning.

Governor Harding submitted resolution lowering the required reserve percentage on deposits at New York. Miller bitterly objected--said this would ratify course of New York bank. Governor Harding said this was better than pulling down resources of other Federal Reserve Banks--I agreed with him. Strauss objected. Finally I suggested a vote authorizing reduction to be announced to New York bank by Governor Harding only in case facts warranted such course--Governor Harding and Strauss to meet Strong in New York Sunday and confer with leading bankers.

This was voted--Miller voting No, on assumption that counsel said it was legal.

I raised point that such lowering would require a tax. Governor Harding said counsel had said no tax necessary for lowering deposits reserve. Finally left to counsel.

I also raised point whether we could lower reserve for one bank and not for all. Mr. Mohlenpah attended meeting but did not vote as his commission not yet signed by President.

Later in day Strong telephone would not need rediscounts today. Governor Harding and Strauss will go to New York Tuesday.

Secretary Glass came in to meeting in afternoon. Said he was glad Strong was scared--that it was monstrous for Federal Reserve banks to put up commercial rates to thwart Wall Street speculation, etc.

Governor Harding said Secretary Glass wanted new legislation forbidding national banks to loan in call market for other national banks. We all agreed--except Miller--that proper way was to ration credit--although Strong said this could not be done effectively but must be done through Rates--thus reversing his position of a year ago.

Our whole trouble comes from necessity of protesting the Treasury situation, but Treasury assumes whole responsibility for this.

Governor Harding read letter from Glass saying that while the Federal Reserve Banks properly looked to Treasury while its operations were being carried on, now they must look to Federal Reserve Board. I don't know what he means as Leffingwell still insists on having rates on war paper made uniform at all Federal Reserve banks although the Banks are largely not satisfied with this.

I think Glass by this letter puts the buck up to Federal Reserve Board in one breath but insists on protecting Treasury in the other.

I am inclined to think we must cease making the Treasury interests paramount and treat it like any other customer.

November 10, Monday

Dr. Miller read a statement to be filed explaining his opposition to vote authorizing Governor Harding to suspend New York reserve request. It was voted that each member could file a statement. Governor Harding and Strauss prepared on which I signed but I added a postscript to effect that lowering the reserve requests was a public notice of the condition--perhaps unavoidable of the New York bank which the public was entitled to know, and that keeping reserve intact would deceive many of public, while a few knowing the real condition could profit at expense of the many who did not know. I predict Miller will now withdraw his memorandum.

November 12

Governor Harding and Strauss reported as to New York conference. Said they met Hepburn, Alexander, Mr. Gauch, Stillman, Hines and others. They all said they were doing all they could to check speculation; that it was not being engineered by New York but by Western interests; that the stock exchange was to take hold of the situation; that we should wait awhile to see how matters developed before taking any drastic action. One of them suggested putting up rates at once to 6%; that such a rate would probably not discourage legitimate business. Most of them thought we should wait before any further rate increase.

Governor Harding and Strong advised taking no further action at present and Board concurred in this.

It appeared that about 700 millions was being loaned on call by Western banks and Strauss put total loans on call market at about

2 billions but Governor Harding thought only 1.3 billions.

I suggested asking each Federal Reserve bank to report on loans in New York call loan market. Governor Harding feared this might result in calling in of loans which would be disastrous. I suggested that I did not want Federal Reserve banks to examine individual banks but merely to give us benefit of their own knowledge which I thought would be fairly accurate. Governor Harding and all agreed to this suggestion.

P.M.

Strauss reported very critical condition in New York. Call loan rate 25% but no money available. Motors company stock dropped 100 points. Strong called up Harding--confirmed what Strauss said--said he feared business failures--that he had advised some bankers to put out some money to help tide matters over and that this had eased the situation somewhat; he said he was to be in Washington tomorrow at a lunch to Prince of Wales. Miller and I said he should not leave his post of duty and Harding told me he had said to him that we felt he ought not to leave New York but that he said there was no reason why he should not go.

I told Harding that if anything untoward happened tomorrow with Strong away from his post, he ought to be removed. Governor Harding said, in response to my suggestion, that we order him not to leave that if we did this and he should refuse to obey, we might have to remove him and that might precipitate a panic.

I cannot help feeling some lack of confidence in Strong--his health is bad and he is inclined to be panicky as shown in recent rate discussions where he fought Leffingwell's 4-1/4% rate, finally adopted it but said 4-1/2% absolutely necessary--then went back to New York and said any

increase would hurt Liberty bonds--then came back demanding higher rates and finally compromised.

November 13, Thursday

Governor Strong at meeting: said conditions better late yesterday afternoon: that he suggested to McGarrah to go to bankers and suggested putting out some money to ease matters: that 23 millions were secured but only 6 millions were used.

Said he also suggested to McGarrah to do same today if necessary. Governor Strong said he did not favor exercising any such control--that the only proper effective way was through discount rates--that this would control if the rates were effective; that Glass, Leffingwell and others disagreed with him and believed that higher rates would the Treasury policy and injure country--all of which he believed to be "bunk". He said he had loyally carried out Treasury and Board policy of control other than by raising rates and would see this particular crisis through, but after this he would resign rather than continue any such policy. He quoted Bagehot to effect that in every war the insidious hand of the Treasury appears; said they had same struggle last summer in England and that Bank of England had put up rates so that British loaning rate became 5-1/2%. He said that last August when Treasury revenues began to equal expenditures rates should have been put up whatever the result on Treasury operations.

He said the argument that the rate power in other countries did not succeed in bringing about liquidation was because these rates were not effective because of the preferential rates on War paper and same situation was in United States.

He said he wanted all rates put up to $4\frac{3}{4}\%$ at last conference with us. This was true but after arguing all day he finally accepted the $4\frac{1}{4}\%$ certificate rate because of Treasury insistence and went back to New York and same morning reported against any increase because fearful of injuring Liberty bonds; then later he came down and again demanded increase.

Whatever his views are, he certainly reached an agreement with Treasury reported to us at that conference.

He admitted to me that the whole question hinged on whether the Treasury policy of low rates was correct and I suggested to him that we did not fix Treasury policies but that the Board did not feel it could deliberately wreck a Treasury policy decided upon by the Secretary.

The trouble with Governor Strong is that he would not go to the mat with Leffingwell but compromised. It was on this compromise that Board had to act. I still believe higher rates would certainly wreck Treasury policies and perhaps force a refunding of all outstanding bonds, and I do not believe higher rates at this stage would check speculation although some increase, of course, should be made and has been made.

The Board for a long time has tried in every way to discourage speculation. It could not stop it by drastic rate increase without playing havoc with Treasury policies.

November 15, Saturday

Assistant Secretary Leffingwell told me that Governor Strong took part in meeting of Bank of England and encouraged Bank to put up rates and force Treasury to put up its rates for Government loans, promising in his part that the Federal Reserve banks, or at any rate, the Federal Reserve Bank of New York would do the same; that he is thus committed and this explains his action as to rates; that he told him this and that he--

Assistant Secretary Leffingwell--at once repudiated any such agreement and told Governor Strong he had no authority to speak either for Federal Reserve Board or the Treasury. He said Governor Strong was a very sick man and had lost all sense of proportion; that while putting up our rates might necessitate higher Government rates, he would not worry about this, except for fact that it would force Government bonds out of hands of holders and thus be of great injury. He said he fully appreciated that we must gradually increase rates but should do so very cautiously and that in a very few months the Treasury would be in such a good position that the Federal Reserve rates would be a matter of indifference to it.

November 19

At 12:45 the Board and the Governors of the Federal Reserve banks met at office of Secretary of the Treasury. Mr. Glass outlined briefly and Leffingwell in more detail the Treasury policy stating that the coming issue of 500 millions Treasury certificates would be issued at $4-1/4\%$ and the remainder needed--about 14 hundred million probably at $4-1/2\%$.

Secretary Glass then cited action of Federal Advisory Council advising against further rate increases before January 1. He said rates should not be increased until Treasury was out of the market, but that what was needed was credit rationing to put down the speculators. Whereupon Governor Strong with some vehemence said it could not be done--that only way was radical increase in rates.

Glass replied with some heat that it could be done and must be done; that it was successfully done by Money Committee during war. Governor Strong replied that the way it was done was to pay off the loans made to call loan market and that that would require today 700 millions of dollars. Glass said the New York bank had fallen down and permitted its assets to be

encroached on by speculators. Governor Strong replied with some warmth that the New York bank had done much to exercise a restraining influence. The matter comes up again tomorrow and Governor Strong will try to carry the Governors with him.

Later Glass came into my office--I reminded him that Governor Strong said nothing could be done while money from other Districts poured into call loan market and that we must meet this and put a stop to it. He agreed and said he would see Harding.

Governor Strong evidently is either unwilling or lacking courage to cope with the situation and in his weakened physical condition, in my opinion, will soon make a dramatic coup and leave the bank. I think he knows that he cannot stand the strain much longer and he will choose the dramatic method of exit.

Glass said that at one interview he was denied right of Board to review the New York rates!

At the Board meeting this A.M. Mr. Forgan came in and read recommendation of Federal Advisory Council against rate increases prior to January next. He said that before Leffingwell came to meeting the council were all for a vigorous advance in rates, ignoring the effect in Treasury policies but that Leffingwell convinced them this would be a grave error and would seriously affect the outstanding bonds.

Nov. 20, Thursday

Meeting of Governors continued. Most of the Governors said they did not concur in recommendation as to rates by Federal Advisory Council; Governor McDougal pointed out that their recommendation was that rates should not be advanced at present--the heading of their report--

Rates up to June 1--being merely the heading of the topic made by Federal Reserve Board. On this statement some changed their opposition--many, however followed Governor Strong in wanting a change in rates before the coming issue of Treasury certificates December 1 at 4-1/4%.

Governor Strong pointed out that if no change were made prior to this issue the Federal Reserve banks would be morally bound to keep a rate of 4-1/4% during life of issue.

Governor Morse pointed out that there was much speculative activity in business matters--that e.g. a cotton conclave would be offered a contract for a year ahead; credit being cheap it would borrow at low rates to buy raw material and be able to take advantage of high or higher rates for its finished product. He strongly advocated higher rates even for commercial paper in order to regulate production and consumption--said country was being flooded with products of kind known as luxuries which also should be restricted by higher rates: said the vast majority of new credits were for business as opposed to stock market transactions. Governor Strong took same attitude.

Governor Strong pointed out that Treasury called usually for larger sums than needed in order to give subscribing banks a Government deposit for which no reserves necessary, which they could keep for periods of 60 days or so and loan out--that they made over 6% out of these deposits of proceeds of 4-1/4% certificates.

Governor Strong suggested possibility of cutting down offerings to absolute needs, the proceeds to be drawn by Treasury at once and put in Federal Reserve banks, and to compensate for loss of use of the deposits the certificates should be given a higher rate, that in this way the credits could not be used for inflation purposes.

November 21, Friday

Resumed conference with Governors. They all feel that Leffingwell is absolutely wrong in putting out Treasury certificates December 1 at $4-1/4\%$ as the banks will loan out the deposits created by their purchase of Treasury certificates on call loan market thus increasing inflation and speculation.

Went to Treasury at noon to see Assistant Secretary Norman Davis sworn in. Met Leffingwell there: he said Governor Harding had absolutely no authority to throw out to Governors intimation or suggestion that Treasury certificates might be issued in smaller amounts to be paid for by the banks at once and for a higher rate to compensate for loss of deposits; said banks would never do this unless paid a commission for placing the Notes.

November 25, Tuesday

Strauss at meeting said Governor Strong called him up last night at 6 P.M. and said his directors insisted on putting in new and increased rates and gave him the schedule: as Strong read it it put a higher rate on paper secured by $4-1/4\%$ certificates than $4-1/4\%$ and Strauss said Jay did not agree to this and believed that the rates should be same as the certificate rate, whether $4-1/4\%$ or $4-1/2\%$.

We voted to acknowledge the communication and advise the Directors that we would consider the new schedule and advise them shortly. Strauss said Boston also had voted to increase rates and the proposed schedule was read. Strong said Boston kept the certificate rate, differing from New York. We then voted to have a special meeting on Governor Harding's return--about 4:30 this P.M.

We also directed Chapman to prepare a schedule showing these rate changes.

When the schedule was sent in I found that New York had kept the certificate rates but had put up rates on paper secured by Liberty bonds and Victory notes and had advanced 90 day commercial paper from 4-3/4 to 5-1/4%.

New York put up paper secured by Liberty bonds and Victory Notes 1/4% and 90 day commercial paper 1/2% while Boston put up paper secured by Liberty bonds and Victory Notes 1/2% and commercial 90 day paper 1/4%.

The meeting was called for 11 A.M. and we were notified that the Secretary of Treasury wished to talk with us. When we got them Strong said the Secretary had to go to the cabinet meeting and Leffingwell had to go to State Department, and as Governor Harding was away we postponed it until 4:30.

I went to Board room at 4:30 and on my way met Governor Harding's secretary who said the Governor had returned and was in his room. As I passed by I opened the Governor's door and looked in and saw Leffingwell, Strauss and the Governor in consultation,--evidently on the New York rate question. I went back to my room and waited some time but received no word. I then sent Foulk to ask Governor Harding's secretary when the meeting was to take place and he came back and said there would be no meeting until tomorrow.

I thought this very strange and went to Dr. Miller's office but he had gone for the day. I then went to Mohlenpah's office--he had some one with him but latter came into my office and we had a general chat together while Governor Harding, Strauss and Leffingwell discussed rates.

November 26, Wednesday

Met 11 A.M. Before meeting Secretary Glass came into my office and said he had almost made up his mind that Governors Strong ought to be removed. I suggested that before taking or considering such action it would be well to talk with our Government directors in the New York Bank and he agreed to this.

At meeting Secretary Glass sent word asking us to hear Assistant Secretary Leffingwell on the New York bank matter.

Mr. Leffingwell came in and said that Governor Strong had been at Bank of England meeting and encouraged them to put up rates so as to face British Treasury to pay higher rates for their borrowings and pledged Federal Reserve Bank of New York to do the same; that he was now unable to deliver his part of the agreement and was determined to wreck the Treasury policies in revenge; that putting up the 4-1/4 certificate rate to 4-1/2 was deliberately designed to prevent sale of the new 4-1/4 certificates; that putting rates in paper secured by Liberty bonds would play havoc with the bond market; that a rumor had got out that the New York bank was to put up rates just after the Governors left Washington and as a result larger quantities of United States securities had been thrown on market and Treasury had to buy a very large amount to steady the market; that yesterday alone Treasury had to buy 12 millions; that one grade of Liberty bonds was now selling on a 5-1/4 basis; that he believed these bond sales had been made by "insiders", either directors of Federal Reserve Bank of New York or their friends who had inside knowledge that rates were to be put up.

He also said that Governors Strong had said he did not expect our Board to approve this proposed increase.

He said friends of his in New York had said that certain of the directors had said they were whipped into agreeing to this increase, although Governor Strong claimed they had forced him into it.

Also said this morning a prominent banker, an intimate friend of Governor Strong, said all of his friends were wound about Strong, that in his state of health they feared he and the other New York directors might do something impulsively to rock the boat and do great damage.

Also said Governor Strong had dominated the other Governors--mentioned Morse--I quickly denied this and said Morse was absolutely independent--a man of great wealth--who stood in his own bottom, and I said I said this, disagreeing with Morse's opinions.

He then said the Governors had dined with Governor Strong twice before coming to our conference--once in New York and again in Washington. Also said Governor Strong told Secretary his bank had the right to fix rates wholly apart from Federal Reserve Board.

Also said Governor Strong said he wanted the previous increase--which our Board granted, to help him:

1. In effort to control stock market speculation;
2. To do away with dependence of interest in bank deposits on commercial rates, originally approved by Board;
3. To cease buying bills in market at such attractive rates;

Said also that having got their rates, he did nothing as to 1, 2 or 3 but absented himself from the Bank and played golf in Washington.

He also said, that if bond market kept steady, the floating debt of over 3 billions would be wiped out in 18 months. Also said situation was critical and that Board should act at once to save Treasury policies and protect innocent bond holders; that if the banks did not take the new 4-1/4 certificates, the Federal Reserve banks must.

Dr. Miller said he believed, on principle, rates should be advanced but that he should vote to protect Treasury. Strauss said he believed no occasion for increased rates and would have little effect as merchants would merely add extra cost of credit to their prices.

I suggested that we summons the Government directors and ask for their reasons-- this not to affect an immediate decision. Governor Harding said they should have consulted us before action and all opposed this. Strauss said he had no confidence in Peabody--he was too old, etc.

I then moved that in view of Leffingwell's statement, we call upon each director to inform us whether they had sold Government bonds in faith of their intended increase of rates. Leffingwell deprecated this and all other members also.

The motion was not put but I shall press it later.

Leffingwell said Secretary Glass contemplated calling on Stock Exchange to report just who had sold bonds--he said however we could only get a list of brokers who had sold and this would not disclose the principals. I said this made it even more necessary to interrogate the directors.

I then said to Leffingwell--Governor Strong has in my opinion staged this for a dramatic resignation--will his resignation cause any trouble in New York? He said No, it would be a great relief to bankers generally. Governor Harding concurred in this.

Strauss said all of the bankers he and Governor Harding saw in New York were against increasing rates except Hepburn and that Governor Strong brought Hepburn to the directors meeting and that he told them he did not concur in vote of Federal Reserve Advisory Council that in view of Treasury conditions there should be no increase in rates at present. I wrote Forgan as to this.

Secretary Leffingwell said he thought Treasury would be safe about January 15. I said--if anything disastrous should occur--e.g. as to our reserves in a few weeks would we not feel at liberty to reopen the matter? Leffingwell said certainly, he had to reserve that right also as to his own predictions.

Dr. Miller then said he would support the Treasury even though reserves went to smash--surprising us all in view of his statement that rates should, in theory, be increased.

Dr. Miller objected strenuously to my motion that the directors be interrogated as to bond sales--said he had recently made large sale as he did not want to carry them further! I was amazed at this for Dr. Miller knew perfectly well that in all probability, after our talk with the Governors and especially Governor Strong, that the New York Bank, at least would try to put up rates and thus that bond values would be depressed.

Leffingwell said that if we sustained the Treasury Liberty bonds would all reach par in a comparatively short time.

I then said I was ready to vote and on motion of Strauss we voted to disapprove action of New York bank and by another motion, that of the Boston Bank also. This was done by Wire and Executive Committee authorized to amplify our views in writing if it deemed it necessary.

November 29, Saturday

Governor Strong here. Governor Harding said Strong was in a panic--feared industrial panic--said it would not do to increase rates now---should have been done long ago--to do it now would be to bring on a crisis.

December 2, Tuesday

At the meeting after the photograph--we remained only a minute--Glass said he would work for the Board in the Senate and that he should try to bring back the Federal Reserve Act to its original functions.

I think he must have had in mind the issue of Federal Reserve Notes directly against Gold and counting gold with Federal Reserve Agent as part of the 40% gold reserve. I do not see how we could have financed the war as we did without this power.

If it is safe to issue Federal Reserve Notes wholly against pledged paper it would seem safe to issue them against Gold or gold and paper.

December 4, Thursday

Went with Strauss to Federal Reserve Bank of Philadelphia to examine into dispute between Federal Reserve Agent Austin and the Bank. Met directors, then the Governor and then Austin. Am afraid charge that Austin's temperament is incompatible has truth in it. Both Governors Pasmore and Sutin said they would try to forget difficulties and work in harmony.

December 9, Tuesday

Leffingwell sent Harding a draft of letter to him which he said he would send formally as soon as he got Secretary Glass' consent,

who is away, In this letter Leffingwell said that the coal strike and other disturbances would probably soon be over and that he feared there might be a revival of the speculative mania; he therefore felt that in view of the improved Treasury position, he would no longer object to the Federal Reserve banks increasing rates on war paper to same level as commercial paper--wiping out the preference. On Treasury certificates however he wanted the rate kept at $4-1/2\%$, but he said he would not object to a rate of $4-1/2\%$ even on the $4-1/4$ certificates, because these could be re-funded into $4-1/2$'s if any one wanted, but as they were Tax and not loan certificates, people would probably hold them to pay taxes with.

We then discussed a circular to the banks stating that if they offered such rates we would approve them.

Leffingwell evidently has been impressed with the fact--pointed out by Governor Strong et als that we must do something in the way of rate increase, even while rationing credit.

December 17, Wednesday

Decided Oklahoma cases, Glass present. Strauss and Miller favored denying any branch to State of Oklahoma, but we finally agreed that as we had formally decided to give a Branch, there was no sufficient reason for change, in view of our general policy as to Branches. Molhenpah gave a resume of his visit to Oklahoma: the gist of his report was that if it could be arranged so that Tulsa and cities in that general district would not have to send back to Oklahoma City checks on eastern points, he saw no objection to making Oklahoma City the site of the Branch. There was a long drawn out discussion and finally I moved that Oklahoma

City be designated on the Buffalo, Cincinnati, Pittsburg plan by which any bank could elect to send checks either to Oklahoma City or to Kansas City. This was finally adopted.

In campaign to fill vacancy in Congress in Oklahoma City District Glass wrote letter to Democratic Candidate saying Board would decide vs Tulsa and for Oklahoma City. Letter published and read before Board.

Secretary Glass seemed greatly relieved by this decision as he had already publicly committed himself to Oklahoma City. I had always favored Oklahoma City.

Secretary Glass ought to feel grateful to me for, entirely unintentionally, relieved him from an awkward predicament. The Board seemed so mixed up, that had it not been for my taking the lead, the Board might have designated Tulsa or have refused a Branch altogether. The poll of the banks showed a heavy majority for Oklahoma City both as to capital and surplus and total resources. In this vote the banks in Tulsa and Oklahoma City were excluded.

Dr. Miller said this was a political decision but this is untrue. On the merits I was satisfied Oklahoma City was entitled to it. At hearing Glass told bankers he would not need to sit with Board and hear them as he had already made up his mind.

December 29, Monday

Glass came into my office and talked about vote of directors of New York Bank giving Governor Strong a year's leave of absence at half pay. He said if it were not for Strong's illness he sometime ago would have urged that his resignation be called for and if refused, that he be removed. He said Strong had not been loyal to the Federal Reserve System--that he tried to organize the Governors against the Board, that he tried to smash the

Treasury policies by putting up votes in order to force the Treasury to pay higher rates, in accordance with his argument with Bank of England; that his feeling of domination as Governor was absolutely disloyal to System; that he claimed at one interview that the New York Bank had the right to put in any rates it chose, in spite of the Federal Reserve Board.

He said however that Governor Strong was a desperately ill man and that he did not want to do anything to retard his recovery and he added that he had undoubtedly done most brilliant work in connection with the Liberty Loans. He said Governor Strong's condition distressed him and he intimated that he might consent to the vote of the Bank directors for this reason alone. I asked him whether he could legally approve a vote of the Directors giving Governor Strong a gratuity of \$25,000 per year. He did not attach much of any importance to this--said we had already done it as to Governor Seay of Richmond, although he had several times protested to Governor Harding but not as to the legality.

At previous meetings of the Board all the members, except Strauss, felt that it was not right, at this critical time, to keep the Governorship in abeyance, and we were not sure that Deputy Governor Case could fill the bill as acting Governor.

Last week, however, Harding, who had strenuously opposed the idea, suddenly shifted and vigorously favored it. He said he should vote for it whether the Secretary did nor not; that the Secretary had only one vote and that he was soon going out and that the real responsibility was on the Board; that to overrule the New York directors would cause very bitter feeling and prejudice the work of the System. We did not reach a decision and decided to take the matter up at full meeting next week.

I told Glass this A.M. that Miller had said our Oklahoma branch decision was a rank political decision. This made Glass very indignant. He said that Oklahoma City district was a democratic district but that it had recently elected a Republican Congressman on the death of the Democratic incumbent; that after this Republican victory our Board had designated Oklahoma City for the Branch bank; that Congressman Howard, the Democratic Congressman from the Tulsa district, had had the effrontery to write him urging him and the Democrats on the Board to designate Tulsa to help the Party; that the Board in designating Oklahoma City had absolutely ignored political considerations.

Secretary Glass, however, in the Oklahoma City Congressional election wrote an ill advised letter to the Democratic candidate stating that he and the whole Board favored Oklahoma City.

December 30, Tuesday

Governor Harding said Leffingwell told him of new issue of Tax certificates dated January 2 and due in December 1900; that Leffingwell said that if the Board would make no change in discount rates (i.e. leave certificate rate of discount-- $4-1/2\%$) for a week or 10 days the Treasury would consider itself divorced from Federal Reserve Banks and henceforth would have no suggestions as to such rates; that the divorce would be more apparent if we made no change for a week or ten days.

We discussed this fully. I raised the point that to leave the rate at $4-1/2\%$ with the certainty in minds of banks that it would soon be raised would result in an avalanche of these certificates on the Federal Reserve banks to take advantage of the lower rates.

Strauss said nothing on this as they were Tax certificates.

Governor Harding said Governor Strong felt same way and was perfectly content to keep rate at 4-1/2 for a week or ten days.

Miller wanted an announcement made that after a week or 10 days the rate would be raised. We all agreed that such an announcement would certainly precipitate an avalanche. Just at this time Miller was starting for lunch and while at door Williams asked him some question. He replied, "I know you men--you will do as you damned pleased!" and went out slamming the door. This left us without a quorum as Harding had been called to the telephone.

We then--Strauss, Williams and I, went over the matter and in view of Governor Strong's statement, decided it was best to approve the request of Leffingwell and Williams made a motion to that effect. We could not vote, however, for lack of a quorum, although Governor Harding before leaving, said he favored this. We then adjourned to P.M.

3 P.M.--Came together.

Governor Harding said Jay had called him up and said the New York directors were unanimous in favor of at once increasing all certificate rates to 4-3/4% and that Mr. Alexander who was consulted favored this.

We then decided to call on Leffingwell. He said he thought the directors were wrong but that if he were a member of the Board he would vote to sustain them, and he felt it would not injure the sale of the new certificates. We accordingly voted to do so, Williams, for some unaccountable reason, voting No.

December 31, Wednesday

Meeting to decide on Governor Strong's salary. Glass presided. Harding and Strauss strongly favored adopting vote of Board of Federal Reserve Bank of New York. Leave of absence for 1 year at 1/2 salary,

Case to act as Acting Governor. Miller and Williams opposed it.

C.S.H. said he was utterly opposed to certain actions and views of Governor Strong, that Leffingwell told the Board he made an agreement with Bank of England directors to put up New York rates in order to force U.S. Treasury to pay more for its money, but that he dismissed all these considerations from his mind, as he regarded Governor Strong as practically a dying man and that he was prepared to vote to approve action of Board; that in the interim Deputy Governor Case could show whether he was up to the office of Acting Governor; that he would so vote on understanding that if any emergency arose the Board could at once call for Governor Strong's resignation or remove him, if it were refused.

Glass said we might agree to give Governor Strong an indefinite leave, and I said this would be equally agreeable to me if not more so.

Williams raised question whether we could legally vote a gratuity-- I pointed out that we had in Governor Seay's case and that Harrison, our counsel, said we could; I pointed out that an officer of the Government could draw full salary whether he did any work or not under Supreme Court decision, and while Governor Strong was not a public officer the analogy held.

Glass then spoke and said that if Governor Strong were a well man he would favor calling for his resignation and removing him if he did not resign; that his views and actions were not consistent with the underlying principles of the Federal Reserve Act. Governor Harding here said Governor Strong had written him a personal, confidential letter recanting all past views criticized by Glass and that this letter would satisfy anyone and that he would try to get authority from him to show it to Board.

Glass finally said he regarded Governor Strong as a dying man; that he had done most brilliant work for the Liberty Loans and that he entertained almost affectionate feeling towards him; that while he should prefer an indefinite leave he would not vote against a year's leave on 1/2 pay.

Strauss moved to approve vote of Board; Williams moved to substitute indefinite leave.

C.S.H. then moved as an amendment to amendment that the vote of directors as to Governor Strong be approved and that the action in making Case acting governor be merely noted as this did not require our approval. Governor Harding, Strauss and I voted Aye and Williams and Miller No.

Am not sure that Secretary Glass voted but he had previously said he would vote for approval of directors' vote.

Friday, January 9

In afternoon Glass came in and stayed 20 minutes. He talked about Oklahoma City Branch bank and said one of the directors appointed by the Kansas City Bank was a most bitter partisan and most offensive enemy of President. He said he feared the Kansas Bank would be dominated by their dislike of Oklahoma City as a branch bank and we ought to be very careful as to whom we appointed.

Monday, January 12

At the meeting today Governor Harding read a letter of Secretary Glass strongly objecting to certain statements in his Boston speech to the effect that during the war the Federal Reserve Board had practically abrogated its powers in favor of the Secretary of the Treasury and that

all responsibility for success or failure of fiscal policies rested on the President, Congress and the Secretary of the Treasury, but that recently the Secretary had notified the Board to resume control.

Governor Harding was very indignant and quoted letters from Glass and Leffingwell to show that they dictated to the Board.

Strauss and I took the view that there had been no abdication but that we simply did our best to make successful the Treasury policy--fixed by it--as to rates in Government issues; that it was our duty to do all in our power to help win the war; that while the Federal Reserve Act said we should fix rates to accommodate business, it did not mean that we should take account of Government loans and that commerce and industry had to yield in a measure--as witness the work of the Capital Issues Committee; that without a preferential rate on war paper it was doubtful whether the war loans could have been raised. Governor Harding was very bitter towards Leffingwell and intimated that if he were the next Secretary of Treasury there would be trouble between him and the Reserve Board.

Wednesday, January 14

Told Secretary Glass the appointment of two Oklahoma branch bank directors would soon come up. He said Carter, one of the bank appointees, was a bitter and offensive partisan and that in our two appointees we should be careful about accepting recommendations of the Kansas Bank as it was bitterly opposed to Oklahoma City. He rather favored Jack Hughes.

Friday, January 16

Went into Secretary Glass' office but he had not arrived: left word the Board had specially assigned Oklahoma directors' election for this A.M. and I hoped he would come. A letter later he asked if

I could come in to see him which I did. He said he was besieged with letters from Democrats bitterly protesting because so few Democrats were appointed to positions in Federal Reserve System; he said he felt that we were so anxious to avoid being influenced by Democratic politics that we went to the opposite extreme. He again spoke of Hughes saying all the banks in Oklahoma City had indorsed him. I told him we had looked him up and found that he was an active politician and that he was said to be a member of the National Democratic Committee. Secretary Glass said this was false, but he did not say what we afterwards learned--that he was Sergeant at Arms of the Democratic National Committee.

He then said he could not come to the meeting as he had to go to the Cabinet but that he desired to be recorded in favor of Hughes. Later he asked me not to so record him, but to go ahead and appoint whom we pleased.

Mohlenpah told me that the two appointees agreed upon by the Board happened to be Democrats which seemed to please Glass. After this and after the Board appointed them Mohlenpah said he did not know of this positively, but he had every reason to believe, from investigation made by him, that they were Democrats. Mohlenpah also said his Secretary had looked into the matter and reported that Hughes was Sergeant at Arms of the National Democratic Committee.

If we had appointed Hughes he would have had to resign as Sergeant at Arms under our Anti Political circular. Oklahoma is billed with political strife and it is our duty to steer clear of it. The whole Congressional and Senatorial delegation indorsed Johnson, except Senator Gore. He also is an active Democratic partisan who claims to have elected the Governor and to have appointed the State Superintendent of Banking. Mohlenpah said he had seen a letter written by the Superintendent

of Banking saying that Johnson had secured his appointment and that he could do nothing not agreeable to him. This shows the calibre of the man. The Board honestly has striven to keep out of politics and appoint the best men from the banking point of view. I did not know the politics of either Barry or Moe when we elected them. We knew they were not politicians and were first class men for the positions.

I think this is the first time we have run up against politics and believe we have done right. I have no doubt the politicians will be very angry and will attack us. Let them do their demnedest!

At Board meeting telegram from Federal Reserve Agent Ramsey said Moe accepted position of director of Oklahoma branch bank but Berry declined. Senator Owen requested to be heard as to another candidate. We voted to give him opportunity and empowered Governor Harding after hearing Owen to urge Berry to accept.

We all felt it absolutely necessary to keep the bank out of politics and felt election of Moe and Berry was best way to do this. Dr. Miller denied that he had even criticized our decision as a political one, and said bombastically that if any one--meaning myself--had ever made such a statement to Secretary, he should retract it. He said he had merely criticized the extraneous political influences brought to bear on Board or its members, meaning, I suppose, Glass letter to the Oklahoma Democratic candidate for Congress.

Saturday, January 17

Moehlenpah said that Glass wrote a letter to Congressional Committee on Bill to abolish exemption from taxation of farm loan bonds, speaking in name of Farm Loan Board without ever having consulted with the Board or even letting it know that he intended to write Committee; that

Chairman Norris at once said he should resign but that McAdoo straightened out the matter.

Moehlenpah said he admired Glass but that he was a hair trigger statesman.

Tuesday, January 20

Senator Owen called. Talked with him about director of Oklahoma Branch; told him it was a bitter political and personal row and said he was very wise to keep out of it. I said we ought to try to secure one director from in or near Tulsa to represent Eastern end of State; he said no one will serve: I said we should first demonstrate this by trying to secure a good man, and he did not oppose this. He said Glass made all Tulsa made by announcing before the hearing that he had made up his mind and later by writing a letter to Democratic candidate for Congress.

At meeting in P.M. took up a Tulsa name recommended by Moehlenpah and then another but found both banks had been on "special" list for frequent examinations.

Secretary Glass seemed irritable. We talked over directors names. Strauss said Thermund was unqualified or disqualified by reason of having by himself or through the Congressional delegation,--all of the Congressmen and Senator Owen having written in his favor.

Secretary Glass flew into a rage--said it was an affront to Congress--that the fact that a Congressman or Senator indorsed a man was no good reason for disqualifying him; that if that was the Board's attitude we should get little help from Congress, etc., etc.

Strauss explained he did not mean this, as did also I, but Glass harped upon it.

I stated that I thought we ought to choose a Tulsa man or some one in that part of the state. Glass said he never would vote for

a Tulsa man--that Tulsa gave its word it would accept our decision and had lied, etc., etc.

Governor Harding said he should vote for Thurmond. Finally CSE, Moehlenpah and Williams were made a committee to report later.

At the meeting Glass told about Congressman Howard writing him that the Democrats on the Board should see to it that Tulsa was made the branch bank. Glass said he was so indignant he never even acknowledged the letter.

January 21, Wednesday 1920

Last week Federal Reserve Bank of New York sent in a proposed rate schedule of 5-1/2% for Treasury certificates and 5-1/2% for paper secured by Liberty bonds, and 5-1/2 for commercial paper.

Leffingwell objected bitterly and Governor Harding asked some of the New York directors to come down for a conference.

Federal Reserve Agent Jay and Mr. Alexander came down Monday and were closeted with Governor Harding, Strauss and Leffingwell all day. No other member of the Board was invited in. Strauss told me it was much better to have a small conference as you could accomplish nothing with a large one.

At noon I took Strauss and Alexander in my auto to the Pan American lunch and learned that an agreement had been reached to tell the New York directors they must keep a rate of 4-3/4 in Treasury certificates for the present and if they did not the Board would force them to do it. Alexander went back with this message--with which he agreed. There was absolutely no authority from the Board for any such message.

At meeting Governor Harding told the Board that the New York directors had accepted his message (with threat) and had unanimously sent

in a schedule keeping $4\frac{3}{4}$ on certificates and $5\frac{1}{2}$ on everything else.

At this stage Governor Harding announced that Leffingwell wanted us to put up commercial rates to 6% and Liberty bond loans to $5\frac{1}{2}$ leaving certificates for a short period at $4\frac{3}{4}$. Governor Harding said he agreed to this and that Secretary Glass told him he could not be at meeting but that Leffingwell was authorized to speak for him. Leffingwell then came in and addressed us. He began by quoting a letter dated December 19 from Governor Strong saying that at last after years of effort his bank had succeeded in establishing one rate for money and that by this the New York bank had shown it was a real central bank like the Bank of England.

Leffingwell then quoted from Hartley Withers book to show that Strong was wrong and that the Bank of England did not have one rate for money. Governor Strong said in the letter that he had done in two years what the Bank of England had taken 250 years to do--one rate for money.

Withers shows that the Bank of England rate is only a minimum rate and that the Bank frequently imposes higher rates without changing the official bank rate.

Leffingwell then went on to say that under present rate of $4\frac{3}{4}$ there is a direct incentive to member banks to loan at 6% (the maximum New York rate) in order to rediscount at $4\frac{3}{4}$, thus making a considerable profits.

He pointed out our low reserve position and said nothing but a drastic increase on commercial paper to 6% will control the situation. He said we were dangerously near leaving the gold standard, that the expected January liquidation had not set in, that on the contrary, the member banks had increased their loans and investments enormously since

September 1, 1939 and that the loans and investments of the Federal Reserve banks had increased nearly 800 millions; that although currency had turned the tide and was receding, credits were enormously increasing; that soon a new Gold Embargo would have to be put in and we should likely inflate up to the European standard; that the commercial paper held by Federal Reserve banks was "bunk"; that it was absolutely unliquid and will never be paid.

I pointed out that while a 6% rate might be necessary, yet an immediate advance of 1-1/4% over night might give rise to panicky conditions. Leffingwell flouted this but said if a panic in New York should break out he would be glad of it. I suggested two bits of the cherry but he sneered at this also.

Meantime we adjourned till afternoon and I insisted Leffingwell should communicate with Glass about the 6% rate.

In the afternoon Glass and Leffingwell kept us waiting for over 1/2 hour. When Glass came in, to my amazement, he said he favored this immediate increase! I said I feared it might cause much excitement and uneasiness and even bring about conditions of panic. Glass and Leffingwell both sneered at this and asked me to explain. I pointed out that distrust might arise leading to violent contraction and presentation of Federal Reserve Notes for redemption in Gold.

I also referred to fact that just before adjourning this A.M. Strauss called up Case in New York and he later replied that the Executive Committee and Alexander were a unit in opposing such a drastic increase. Mr. Alexander said an immediate 6% rate would cause much uneasiness, that people would think the Federal Reserve Board had lost its head or that conditions must be very critical to call for such drastic increase; he also said there was danger that it might cause panicky conditions.

Governor Harding said 6% was right both to prevent profit from rediscounting and because 6% was legal limit the New York banks could charge under Usury laws.

Governor Harding and Leffingwell said 5-1/2% rate on loans secured by Government bonds and Victory Notes would do no harm as you could not profitably borrow on Government bonds when discount rate is 5-1/2%.

Governor Harding then moved to fix New York rates at 4-3/4 for Treasury certificates; 5-1/2 for Government bonds and Victory Notes and 6% for commercial paper.

Comptroller Williams moved to amend by making the rates 4-3/4; 5 and 5-1/2%. This was voted: Aye, C.S.H., Williams, Miller and Moehlenpah. No, Governor Harding and Strauss.

Discussion was then resumed and Governor Harding asked if I would move to reconsider so that he could put the question before Board in a better way. I did so and we reconsidered.

1. Governor Harding then moved Treasury certificate rate--~~4-3/4~~ --
Unanimously passed.
2. Differential of 1/2% between Government bonds and commercial paper. Unanimously passed.
3. 6% rate for commercial paper. -- Was a tie as Dr. Miller changed his vote. Aye: Governor Harding, Strauss; No, Miller, C.S.H., Williams and Moehlenpah.

Secretary Glass announced motion as having failed but Williams said Secretary Glass should vote. Secretary Glass thereupon voted Aye and declared Motion carried.

Before the afternoon meeting Dr. Miller told me he should never vote for a 6% rate, and he argued vehemently in the meeting against it and once voted against it. On the second vote, however, he weakened and

said harmony was necessary, that the Secretary of Treasury and Governor Harding favored a 6% rate and, therefore, he should vote for it!

The result was what Miller called "harmony". It settled the question by 4 to 3 in favor, while if he had not weakened it would have been 4 to 2 contra. A queer idea of harmony!!

Miller has time and time again accused the Board of being dominated by the Treasury and yet today he publicaly announced that he changed his vote, against his convictions, because the Secretary of the Treasury and Governor Harding wanted the 6% rate.

In the evening, went to the Pan American reception. Secretary and Mrs. Lansing and Secretary and Mrs. Glass received. Glass said he wanted to see me a minute before I left. He merely said--when you want me to vote with you, why don't you come in and talk it over with me? I said he was home ill and I could not get at him. He added that since the vote he was not so sure he had voted correctly--that it was all a matter of conjecture--did I really think it might bring about a sudden injurious contraction, etc., etc.

I told him such was my fear, but that I might be and hoped I was, mistaken. I added that Governor Harding was to take up matter with the New York, Boston and Philadelphia banks tomorrow and that if there was much opposition, the matter might be brought up again. He said--"I regard this vote as only tentative, anyway". He seemed much disturbed and worried.

Thursday, January 22

At meeting Strauss reported that he had talked with Acting Governor Case in New York who consulted his Executive Committee which had reached conclusion that they preferred to have the Federal Reserve Board fix the rates on their own initiative, and not have it appear that the Bank

had recommended these rates. Governor Harding reported that he had called up Governor Morss at Boston who at first seemed staggered at the 6% rate but finally said he approved it and later a telegram was received saying that his directors wished to recommend this schedule and not have Board fix it on own initiative. They absolutely approved the 6% rate. Governor Harding said Philadelphia had also agreed to it.

Thereupon it was voted to notify each of the three banks, the rates to go into effect tomorrow, Friday morning. This sudden jump may do no harm but I am fearful it will. I do not deny such a rate was ultimately necessary but I begged the Board to make two bites of the cherry at intervals even of only a few days.

This morning, while in Moehlenpah's room, Dr. Miller came in, and said he still felt a 5-1/2% rate was better than an immediate increase to 6%! Yet he voted for 6%!

February 11, 1920, Wednesday

We also talked of Strauss vacancy. Strauss having notified Houston that he must hand in his resignation next week; that he, Governor Harding, thought Edmund Platt, Chairman of Banking and Currency Committee, should be given the place as he was a Republican and well versed in financial and banking matters: that another Democrat could not be confirmed. I agreed with him as to confirmation of a Democrat. I told this to Houston at lunch at Cosmos Club. He said it is almost impossible to induce the President to appoint a real Republican to any office, and quoted Senator Underwood to effect that the President had never appointed real Republicans or real Democrats to any office!

In afternoon played billiards with Houston. He told me McAdoo had asked him to let him know when any vacancy occurred on the Board. Houston said he told him Strauss would shortly resign and asked what he had in mind. He asked if Mr. Endicott, the shoe manufacturer of Massachusetts, would not be a good man but made no other suggestion. Secretary Houston said he thought he wanted Tom Chadbourne for the place; that Chadbourne was once a brother-in-law of C. R. Crane but was divorced,--that Crane hated him. He also said Crane was one of the chief backers of Wilson in his campaigns in a money way and that he also believed he was financing McAdoo's campaign.

February 12, Thursday

This P.M. Harding told Strauss and myself he had talked last night with Houston; that Houston had dined with Miller and they sent over for Harding and talked over Platt; that Harding agreed the new man must be a Republican; that he told them of his talk with McAdoo; that Harding suggested another Massachusetts man, but Governor Harding reminded him no Massachusetts man could be appointed.

Governor Harding said he was sure McAdoo wanted Chadbourne. Strauss said Chadbourne could not be confirmed. I asked him if he was the Chadbourne who took a \$600,000 fee from Gould with an agreement to give him half of it; he said he was.

The rumor is that Chadbourne broke up the home of a dentist who committed suicide and Chadbourne then married his wife; he also at a meeting of Perry Grants said he would pledge his fortune to fighting for Grant. The rumor is that Grant's ideas of the marriage relation were somewhat "advanced" and I think this is what appealed to Chadbourne.

Friday, February 20

Governor Harding said today Senator McLane hoped Edmund Platt would be nominated for Federal Reserve Board when Strauss resigned; that McLane said no more bankers should be put on the Board; that Governor Harding ought to let it be known that if any more Democrats are nominated, they will not be confirmed by the Senate.

Moehlenpah returned from Texas the other day. He told me today that while he was in Texas he had many interviews as to Secretary McAdoo for President; that he found Federal Reserve Agent Ramsay of Federal Reserve Bank of Dallas very responsive and friendly to McAdoo. He mentioned a number of men he had interviewed, among others, Love of the National Committee. He told me that McAdoo had assigned Wisconsin and North Dakota to him for his special care!

Governor Harding also showed me a bunch of clippings sent from Texas which showed that McAdoo was making speeches which in essence were political speeches; that he touched on many topics which were beyond the field of the Federal Reserve Board and very frequently brought in McAdoo's name.

He also said Moehlenpah was very anxious as to his reappointment for a full 10 year term--he said to Governor Harding that McAdoo had promised that he would receive this appointment and made this promise just after Moehlenpah had moved in some Farm Land Bank meeting that McAdoo be made counsel to prevent move being made to take away exemption from taxation of farm land and joint stock company bonds.

Moehlenpah said he wanted his name sent in at same time as the successor to Strauss although his term did not expire until next August. Governor Harding said he told him he doubted this could be done.

Governor Harding said he told him if a Republican name was not sent in as Strauss' successor, there would be no chance for him-- Moehlenpah--and might be no chance in any event; that he told Moehlenpah about Platt and Moehlenpah said he would impress McAdoo with the necessity of appointing Platt and that he was going to New York this evening to see McAdoo.

Governor Harding said he is evidently going on to report to McAdoo the result of his Texas political trip under guise of Federal Reserve Board speeches.

Moehlenpah also told Governor Harding that in June he expected to go abroad with a convention of bankers to be gone two months!

Governor Harding said Moehlenpah's political work might cause a scandal and that we should prevent his making any more speeches; that he had a large number of dates set all over the West ostensibly to try to bring State banks into the System; that at next meeting he should suggest that in view of the ill feeling among State banks over exchange charges, the Board, for the present, at least, should not further press its campaign for new State bank members but keep quiet, leaving the work to the Federal Reserve Banks to attend to.

I said I would cooperate in bringing this about.

Comptroller Williams came in and expressed hope that Meyer would not be put on Federal Reserve Board in Strauss' place, as he was more familiar with stock brokerage than banking.

February 26, Thursday

Discussed condition of Federal Reserve Bank of New York whose reserve vs deposits was down to about 33%. Harrison, General Counsel said that under Federal Reserve Act we must assess a tax but we felt that such a tax must be paid to the Government and that it would be only taking money from one pocket to put in another. On question whether this tax must be added to interest and discount rates, Governor Harding said this applied only to tax for deficient note reserves. Leffingwell told us he had 50 millions in silver in the Sub-Treasury at New York which could be deposited in New York Bank, thus helping the Reserve situation and we decided that this deposit should be made. Case told us he would prefer to have only 25 this week and not next week so that the reserves would not be too suddenly increased.

February 28, Saturday

Governor Harding reported as to conference in New York with directors of Federal Reserve bank and talks with bankers. Some wanted embargo placed on gold; others drastic credit rationing; the best opinion favored latter course; the withdrawals of gold from New York to Argentina all believed to be for British account, i.e. Argentina sells wheat, etc. to England and draws in sterling, sells sterling in New York getting credits there, then draws out credits in gold, or same may be done by British bankers; all agreed this should be stopped by higher rates on discounts by banks to pay for these credits; Governor Harding suggested a bluff viz: Bank to cable Bank of England that it intended to go into London market to buy South African gold and ask if it would earmark the gold thus bought; this would be a profitable transaction as we could

buy London exchange at very low rates; while no expectation that England would permit this gold to be exported, the mere suggestion of buying gold would make British bankers desist from drawing down our gold in above way; the New York Bank sent this cable.

Governor Harding said four different banks in New York had at times more rediscounts than all the clearing house certificates issued in panics of 1907 and 1914.

Governor Harding had a report made of all acceptances made in New York and amount bought by Federal Reserve Bank (about 40%). This table showed that there were more export than import acceptances, although in previous visits the Bank assured him the acceptances were practically all import acceptances; also showed some 23 millions of packers acceptances which were pure finance bills but Bank claimed that Board had repeatedly authorized them.

Miller said a prominent banker had told him that he believed the Armours were insolvent!

Mr. Morgan said we were overdoing the Acceptance business, while Warburg took the opposite view insisting that we must keep the 5% rate on rediscounts of Acceptances so that the spread will be 1%. Governor Harding said Case answered Warburg by stating that the commercial paper rate was really 6-1/2 to 7%, i.e. the rate at which banks buy paper of brokers; the banks charged their customers only 6%, the maximum (legal) in New York.

Warburg decried existing inflation but as Miller pointed out he was very willing to have inflation in his pet hobby--acceptances.

Morgan said, looking back our error was in so soon giving up War control; that it would have been better to release embargo but continue to require licenses for exports of gold; that we could not do this now for all would think it was the first step to reimposing an embargo.

Best opinion was that an embargo on gold would mean tremendous inflation and a leaving of gold standard for a paper basis.

In discussing reserve situation, Miller asked Governor Harding if he exercised the authority granted by Board some time ago to suspend deposit reserve requirement of New York Bank and Governor Harding replied yes!

I am amazed at this for Governor Harding never reported this to the Board until now.

The Board directed law committee to report on law as to taxing reserves and I at once wrote Harrison for an opinion in writing.

Governor Harding also said Governor Strong was shortly to start on a tour of the world. There was a general feeling in Board that he ought to resign before doing this.

Governor Harding said all the Bankers, Warburg as well as Morgan wanted Treman appointed to Federal Reserve Board.

March 2, Tuesday

Moehlenpah said McAdoo came in to see him yesterday. While he did not say so in so many words he said what practically left no doubt in my mind that McAdoo had told him his reappointment was all settled. Perhaps he may know more about McAdoo before next August when his term expires!

Governor Harding told me today Houston wants Brookings appointed in Strauss' place for the remaining 8 year term and has talked with Brookings who will take it; that he also wants Treman of New York appointed and will tell the New York bankers to keep quiet until August 10 when Moehlenpah's term expires and then Treman will be appointed in Moehlenpah's place.

I said to Harding that Moehlenpah had clearly given me to understand, had in fact sometime ago directly told me that McAdoo had promised him another full term. Governor Harding said that by August McAdoo will either have or have failed to get the Presidential nomination and in either event will have no use for Moehlenpah and will throw him aside, as he could not in any event hope to get the vote of Wisconsin! A fine tribute to McAdoo's character!

March 3, Wednesday

Mr. Ball, elected Class C director of Chicago wrote asking if it would comply with the Federal Reserve Act if he should transfer his bank stock to his wife or to a corporation of which, apparently, he was a stockholder and officer. The Board voted to tell him that regardless of the technical legality this ought not to be done and that it would be better to refuse the appointment.

Afterwards Governor Harding told me that before he qualified Moehlenpah wrote that he had stock in Federal Farm Loan banks which he proposed to transfer to his wife and that Governor Harding got an opinion from Harrison that such stock was stock of a "Bank" within meaning of Act.

Governor Harding added that the President would be informed of this.

March 5, Friday

Meeting as to New York suggestion--raise Treasury certificate rate to $5\frac{1}{4}\%$. Houston present--very bitter against increase. Said merely done to force Treasury to raise certificate rate to 5% . No final action.

March 9, Tuesday

Drove in with Houston. He was very much opposed to President's attack on France and Italy in his letter to Senator Hitchcock in the Treaty Reservations. Thought it most unwise and thought the whole letter bad politics. I told him I thought it was good politics but that I was not sure but that the Treaty with the nullifying resolutions might not be a little better than nothing; that I felt this letter might assure somewhat better reservations if Treaty were passed.

At meeting today of Board, Houston presided. Proposed New York rate of $5\frac{1}{4}\%$ in Treasury certificates; discussed for nearly two hours.

I said originally I favored this but a study of New York figures convinced me it was not necessary as comparing January 23 with March 5, the holdings of Federal Reserve Bank of New York discounts with New York City banks had increased only 4% on Treasury certificates and 96% on Liberty bonds and ^{War} V. Notes (i.e. % of total increase of war paper); that this $5\frac{1}{4}\%$ rate was evidently based on theory that new issue of certificates was to be 5% and that in my opinion New York would not want the increase if Treasury certificates were to be $4\frac{3}{4}\%$; that the increase on war paper in System was preponderately an increase in paper secured

by Liberty bonds, and that this was the rate to increase if any further check on discounts were desirable.

Finally Governor Harding moved to increase certificate rate to 5-1/2 (1/4 more than New York asked for); Strauss moved to lay them on the table. So voted; 4 to 2, Governor Harding and Miller being recorded in negative. Houston seemed much relieved. If it had not been for me it would have carried as Moehlenpah usually votes with me.

Houston told us the Chancellor of the Exchequer had officially written him favoring release of our 10 billions foreign loans Great Britain to release hers also; also favored a large international loans. Harding said he had written the Chancellor a strong letter turning down both propositions.

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Before Houston came most of the Board felt that we could not refuse New York. Harding was specially emphatic. When Houston finished speaking against granting increase, Harding smilingly said "those are my views also". I demurred at first pointing out the considerable expansion still going on, but we decided to take no action.

March 10, Wednesday

Governor Harding and Miller very bitter about yesterday's vote. Governor Harding said he had ceased to take Leffingwell as his mentor; that he would like to resign, etc., etc.; that in the future he should insist on being recorded on every vote on discount rates. Miller said those responsible for soft money rates would have to record themselves; that if a 5-1/2% rate were made he would agree that Federal Reserve banks

would take all the certificates not placed with banks; he still agreed that 4-3/4% rate on certificates was wise. He added that if the 5-1/2% rate had been adopted he would have subscribed to \$50,000 or \$100,000 but now he should buy Liberty bonds instead. Governor Harding agreed with him.

I presented a letter from Senator Thomas saying a correspondent said his Bank subscribed at Federal Reserve Bank of St. Louis to 10 millions Treasury certificates 4-1/2%, on solemn promise of Treasury that the discount rates would not be increased. I suggested that Governor Harding take this up with Treasury but he testily refused saying do it yourself. I pointed out that probably Senator Thomas referred to a statement of our Board to Governors of Federal Reserve banks in a telegram dated January 7, 1920 urging vigorous efforts to place the Treasury certificates "not only to help Treasury complete its programme but also to assist the Federal Reserve System in freeing itself from the Treasury as an important factor in the money market."

The telegram also said: "Reports of yesterday's proceedings should not be taken as indicating that a further advance in rates on paper secured by Treasury certificates is now in contemplation".

On January 23 the St. Louis rate was increased to 4-3/4% and on March 4 to 5%. I said I would take up matter with Treasury as Governor Harding suggested and would mention this telegram--Governor Harding said don't mention it--then them paddle their own canoe!

Governor Harding said Leffingwell repeatedly had said that after this the Treasury will be in position not to care what rates we put in, and that he was sick of this talk and was determined to make our rates effective regardless of Treasury.

I spoke to Leffingwell about the Thomas letter and sent the letter to Secretary Houston. Leffingwell told me that before Houston announced the rate of $4\frac{3}{4}\%$ some days ago the announcement was shown to Governor Harding who acquiesced in it, and that now to insist on a $5\frac{1}{4}\%$ rate as suggested by New York or $5\frac{1}{2}\%$ now pressed by Governor Harding not only would ruin the sale of the certificates but was bad faith on Governor Harding's part.

Later Strauss told me he suspected that Governor Harding had in some way tied himself up with New York in an effort to put certificate rate up to 5% .

Secretary Houston said Judge Clark had called suggesting Ex-Senator Burton for Federal Reserve Board and Harding asked me what his attitude was towards Federal Reserve System. I sent Harding an abstract prepared by me of Burton's speech in Senate in December 1913, attacking the Regional System of 8-12 banks, Senator Hitchcock's plan of 4 banks, and strongly indorsing 1 central bank. I added that this abstract was prepared because of a speech I was to deliver at a dinner in Cleveland at which Senator Burton was to speak; that Senator Burton at the dinner praised the Federal Reserve System and spoke pleasantly of the President; that Burton's original view was that of many sincere people; that there was only 1 sentence in his Senate speech which seemed to indicate a thorough disbelief in the Federal Reserve System which I marked in the abstract. I added that I thought Burton could safely be put on Board.

Houston said he thought Burton would be a good man.

Moehlenpah went home to sick Mother. Left word that he misunderstood Harding's motion and meant to vote with him and Miller.

Strauss and I said - not true- we had carefully explained matter to him and he voted with all facts before him.

March 11, Thursday

Houston present. Finally voted to turn down New York suggestion 5-1/4 for Treasury certificates, and Boston for 5-1/2 Acceptances and Cleveland for 5-1/4 certificates, 5-3/4 Liberty bonds.

Strauss read minutes of New York Directors,--said Governor Harding intimated 5-1/4 certificate rate would be accepted by Board. Governor Harding denied this. Minutes also said 5-1/4 certificate proposed in belief certificates would carry 5%. Miller recorded reasons for voting Aye.

March 15, Monday

Houston told Governor Harding and myself that he had sent to President names of Oscar Bannard, New York, Mr. Thomkin, Wilmington, Delaware. Senator Burton, Ohio and Edmund Platt for Federal Reserve Board. He read an extract from a speech of Burton--other than the one I gave him--denying that old banking system was defective except in minor particulars and attacking proposed Federal Reserve System. He said he thought this disqualified him.

March 17, Wednesday

Met all day going over reply of Harding to Owen resolution as to limitation of legal rate of interest in New York Stock Exchange call loans. A memorandum had been prepared at Harding's request by Jay, Case, Kenner, Alexander, Mr. Garrah and other New York banks which formed basis of Harding's letter. Governor Harding used memorandum as basis.

I criticized it as a white washing of the New York Stock Exchange; not a single criticism of methods was made and the whole question of call loan rates was put on demand and supply, without a word as to whether "supply" was ever manipulated. Nor was any mention made of the fact that interior banks, tempted by high call loan rates, sent money to New York to profit at expense of their commercial customers at home; nor was any remedy suggested except term settlements.

I proposed an amendment calling attention to action of interior banks and suggesting that if Comptroller of Currency and superintendents of State banks would at frequent intervals make public all bank loans in New York call loan market, the publicity would go far to correct the situation. Governor Harding objected.

I pointed out that the only loans we were reporting on in connection with the resolution were loans on New York Stock Exchange largely brokers loans to cover stocks sold or bought on margin, i.e. purely speculative transactions, whereas the proposed report does not bring this out and would be understood to refer to ordinary bank call loans, which was not the fact.

Governor Harding and Miller finally put in some expression of the injury to commercial loans by indiscriminate bank loans, taken from my memorandum but would not agree to the publicity suggestion. I, therefore, reserved right to send a minority report and said if I did, I should feel it my duty to refer to the figures given us some time ago by the Comptroller showing loans on Wall Street by member banks which had heavy rediscounts with Federal Reserve Bank. This was particularly true of Philadelphia banks and we had continued Governor Penmore to see to it that these banks which were heavily loaning on Wall Street should be discriminated against in rediscounts.

The memorandum of Governor Harding gave rate figures tending to show that call loan rates had little or no effect on commercial rates. I agreed to this since Federal Reserve Act but absolutely disagreed prior thereto. The figures quoted appeared to show commercial rates at 6 to 7% while call loan rates were up to 50 or higher, but as Comptroller Williams pointed out often times no loans could be had--altho' nominal rate was only 6 to 7%.

March 19, Friday

Comptroller Williams writes letter to Governor Harding disagreeing with some things in his New York Stock Market letter.

Acting Governor Case telephone that the liquidation in loans had been so great during week that their reserve position would be materially higher,--about 42% tonight. He said such a high reserve (comparatively) would have a bad effect on stock market, increasing the speculative tendency, and he said Directors wanted to anticipate certain rediscounts held by Chicago and Cleveland not due till next week and possibly pay off some Boston rediscounts; he said this, together with a 40 million increase in loans today would put reserves at about 38%, the deposit reserve being at least 35%. I consulted Board and later telephoned him this was good policy.

I told Leffingwell. He had a memorandum printed to be issued by Federal Reserve Board stating that we were determined to take every step to prevent facilities of System being used to support speculation. I demurred as to this, but said if he would show it to Secretary and if he desired it I would call a special meeting of Board this P.M.

Houston said Leffingwell showed him the memorandum but he did not approve of it and I agreed with him.

Acting Governor Case in reply to my questions said while he felt the bond and Note rate should ultimately be increased to 6% the time had not yet come; that the New York market was not yet a runaway market, but if it became so, it would be in ample time to deal with situation next week; that gold exports to Argentina were petering out.