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CHARLES HAMLIN PAPERS
Box 357 Folder 5

Miscellany

WRITINGS --
"MEMORANDA CONCERNING THE FEDERAL RESERVE BOARD...," DIARY
VOL. 6, 29 MAR. 1920 - 12 OCT. 1922
(PP. 412-483) (9 OF 19)

VOLUME VI

March 29, Monday

Secretary of Treasury said he wanted to obtain advice and assistance of Board, as he was authorized to do, under Railroad Act, to pass upon adequacy of securities offered by railroads for advances under the guaranty and loans from Revolving fund, we decided it was necessary to appoint a committee to assist Board: we sent for Comptroller of Treasury who said that the Board could pay and assess vs any Reserve Banks any expenses necessitated by anything Congress ordered Board to do.

We voted to appoint Warburg, Delano and Bradley Palmer a committee of three to assist us. Dr. Miller proposed Delano's name.

November

The Board is being beseiged by farmers--cotton and wheat growing--to give instructions to Federal Reserve banks to advise member banks to increase loans to farmers, that our alleged policy of deflation had nearly ruined them. Governor Harding and Houston gave out figures to show that loans to farmers since Armistice had increased enormously.

A strong effort is being made to revive War Finance Corporation Act. Harding and Houston opposed this before Harding and Senate Committee. While it would doubtless cause an increase of inflation yet I am not at all sure it might not relieve the situation although from the Treasury point of view it would increase the many exciting perplexities.

Anderson pointed out that probably a material part of the 3 or 4 billions of credit granted to foreign purchasers by our exporters were carried out by rediscounts of war obligations and commercial paper and that the Federal Reserve System was really carrying the load. I feel that the revival of War Finance Corporation Act might reduce this burden at least in the future Inflation is an almost inevitable result of War and I am not sure but that to some degree it is essential to restore peace conditions.

The Senate passed a resolution recommending that the Federal Reserve Board pursue a more liberal policy in granting rediscounts to farmers. Also amendment offered fixing 5% as maximum discount rates of Federal Reserve banks.

Harding told some Senators that if this 5% amendment became law, he and a number of members of the Board would resign. This may be his own view but I doubt whether any other member would resign.

The H.R. struck out this resolution and yesterday, December 20, the War Finance Bill passed both Houses but with the Resolution eliminated, it now goes to the President.

A few weeks ago a Bill was introduced making cotton factors paper eligible for rediscount. All the Board agreed if passed, the paper should be secured by warehouse receipts covering readily marketable staples and that the word cotton should be stricken out making Bill apply to all Factors and commission merchants paper. Williams and I voted for it and the rest of the Board voted against it. I insisted that Harding should say a majority of the Board opposed it. Platt said he thought the bill would do no harm but he joined the majority against it. I pointed out that in New York certain commission merchants paper was being taken for rediscount which was same in principle as Factors paper.

At my request I was appointed a committee of one to look into this.

December

On December 18 Board voted to annul all restrictions on Exchange dealings with Bolshevik Russia. We had, a few days before, a conference with Under Secretary Davis at which a number of State Department officials, including Mr. Morris, the Ambassador to Japan, were present, also Davis, the Director of the Mint.

Under Secretary Davis said the State Department last July had announced that trade with Bolshevik Russia could be carried on, but at risk of all traders, that this could not be done while our restrictions continued and he said his Department would take all responsibility.. He said we must act as President had delegated all power over the matter to the Secretary of Treasury and Federal Reserve Board--that the President wished us to act in the matter.

Apparently the matter came to a head through the application of a Jewish Relief Society to send money to Russia through the Bank of North America (I think that was the name) of New York.

We had turned down this application--Wills said the bank had an unsavory record.

At the conference Wells and I pointed out that to abolish all restrictions would permit Russian Rubles to be imported and sold speculately to our people and also Russian gold to be used in United States to overthrow Government.

Under Secretary Davis said no one would buy Roubles and specifically said his Department wanted these restrictions removed. He also said anyone could now gamble in Roubles by getting a bank to buy them through some foreign bank to hold them.

He also said Bolshevik gold was now being brought in indirectly. I pointed out that that was hardly an argument for releasing all restrictions.

Discussion was also had as to the Mint receiving gold of doubtful origin. We all agreed that releasing restrictions would not affect power of Mint to refuse it.

At the discussion in Board I expressed opinion that the Board had no discussion as by proclamation the President delegated all power to Secretary of Treasury with power to appoint Agents and that he had appointed the Federal Reserve Board to act simply as his Agent and subject to his approval. I reminded the Board that originally we did not want to accept this work as Agent of the Secretary of Treasury but that he had insisted. It was pointed out that the President by proclamation in doing away with restrictions had empowered the Secretary of Treasury and Board to keep up restrictions in Bolshevik Russia as they might deem advisable, and, therefore, the Board must now affirmatively vote whether or not the restrictions should be removed.

I stated that this reference was to the Board as Agent of the Secretary of Treasury and that if he deemed it advisable the Board must concur.

A large majority of the Board thought it most inadvisable.

Finally, a resolution was agreed to making it clear that our action and that of Secretary of Treasury rested solely on recommendation and request of State Department.

I voted for this, explaining that in my opinion it was the plain duty of the Board to carry out the policy of the State Department in reopening trade with Bolshevik Russia, as requested by the President through the State Department and that the vote was not to be in any way considered as an expression of opinion as to its advisability by the Board.

I said it was exactly like the question of rates on Liberty Bonds. The Secretary of Treasury fixed those rates wholly apart from Board and that then it became duty of the Board to protect these rates through proper discount rates on paper secured by the bonds.

I said further that, from the evidence before me, I was not at all sure of the advisability of throwing all restrictions aside and cited to some of the Board the decision of the Department of Labor to deport Martins, in which it was stated that the Bolshevik Government was trying to overthrow our Government and was sending men and gold here for that purpose.

I said I voted for the throwing off of restrictions on ground that it was purely an administrative duty in which we had no discretion but were boundto carry out the policy of the President as declared to us by the State Department.

I am amazed at action of State Department and believe it will be severely criticized.

February 11

Sometime ago the Comptroller sent Harding a long letter to effect that the Federal Reserve Bank of New York was loaning enormous sums to its member banks which were using the money for call loans, stock speculation, immediate loans to the bank officer's families, etc; the the New York bank was continuously rediscounting with other Federal

Reserve banks and selling them its acceptances to obtain money for their purchase; that the rest of the country was drained of necessary funds for this purpose; that the discounts of the New York bank were greater than many other Federal Reserve banks added together; that all rates should be reduced to 6%; that the Atlanta plan of lowering rates to 4-1/2% on loans secured by U.S. bonds owned by banks and acquired since April 1, 1917 should be put into force; that all progressive rates be abolished.

There were in all three or four letters which bitterly attacked the Federal Reserve Bank of New York and by necessary implication the Federal Reserve Board. The letters were evidently written for publication: in fact, a newspaper reporter told Harding the Comptroller told him he was preparing such a letter before even Harding had received it, although the Comptroller substantially denied he had said this.

I begged the Comptroller to withdraw this letter and go into the Board and make any motions based on it which he might desire to make. I said the letter would be construed as a bitter, partisan attack on the New York bank and the Board and seemed to imply that the Board deliberately favored the New York bank; that the Comptroller had never offered any motions in the Board along the lines of his letters. He was obstinate, however, and said he would not withdraw the letter (this was the 1st letter). A few days later, Ball, a North Dakota Congressman, moved to investigate the Board in a resolution setting forth the substantial facts of the Comptroller's letter.

The Board questioned the Comptroller and he finally admitted he had sent the letter marked confidential to a number of people. He gave the names of some but refused to give us a complete list.

Governor Harding replied to his first two letters showing up various inaccuracies in his figures and conclusions. We then moved that his first letter be adopted as the sentiment(?) of the Board. I moved that the whole matter be tabled until the Comptroller presented in writing any motions he cared to make based on the letters. This was passed much to his indignation.

See p. 30 last word on page

Later he made several motions which the Board voted down as to the 4-1/2% bond rate, it appeared that he did not even know what the Atlanta resolution was. In fact Atlanta wanted to put in a 4-1/2% rate for the benefit of banks who had acquired bonds after April 1, 1917, even though they had bought them below par as a price speculation, and this rate was not to be applied to such bonds taken as collateral for customers' loans,--in other words the banks alone were to be given this benefit and the individuals who had originally subscribed got no relief.

This appeared to confound him and he modified his motion so that it would include these latter bonds. Governor Harding pointed out that he originally favored a plan something like this but our counsel said it could not lawfully be done. This, of course, did not please Williams an iota and we finally voted him down. Williams then wrote another bitter letter and moved that all progressive rates be abolished and that all rates be reduced to 6% i.e. 90 day paper and member bank call notes.

We pointed out that he originally voted for progressive rates, that all districts had abolished them except St. Louis and Kansas City; that the Board hoped ultimately to wipe them out but wished to give St. Louis and Kansas City time to do this in an orderly way; that no progressive rate had made the general rates as high as 7%. He was, of course, obdurate and we voted not to abolish these rates at present.

On his motion to reduce rates to 6% we pointed out that only Boston, New York and Dallas had a 7% rate and that New York said that lowering the rate would encourage wild speculation while Dallas had just put up its rate to 7% to save its reserve situation. Finally we voted not to reduce these rates at present.

Saturday, February 26

Williams wrote another bitter letter attacking the Federal Reserve Bank of New York and inferentially the Board. The Board remained in session all day up to 6:45 P.M. Governor Strong was present.

Governor Strong pointed out that, as regards the Chase bank, which was the principal point of attack of the Comptroller, the examination of October 1919 was sent to the Reserve bank some months later but not the yellow sheet which was never sent: that the examiner stated generally in the report that the bank was in good condition the criticisms being only minor ones; that there was nothing in the report to put the bank on notice that there was anything wrong as to its credit standing; that the Comptroller if he found any practices as to internal management open to criticism should have placed the bank on the special list; that he did not even make two examinations during 1920 and made no examination between October 19 and August 1920, although his yellow sheet which he never gave to the bank put him on notice; that he had examined only a portion of the New York banks twice during 1919, and that he was not advised of any examination of any New York bank made twice during 1920. The Executive Committee then made a tentative report placing the responsibility on the Comptroller for the serious condition of the Chase bank, because of his violation of law as to a 2nd examination. This was finally referred back to the Committee to consider whether they desired to change their report in view of his letter.

The Comptroller refused to state whether he would reveal the names of those to whom he had sent his letter, but said he would answer in writing later.

Monday, February 28

Hearing continued. Comptroller was asked if he desired to present charges vs New York Bank but gave equivocal answer.

I asked him if he considered the Board or the New York Bank responsible for the Durant loan of 200%, which had long ago been paid off and which Comptroller himself said he did not know of until 5 months after examiner's report filed. He gave an equivocal answer.

Governor Strong asked him if an examination early in 1920 would not have resulted in a correction of the serious conditions in the Chase bank and he gave an equivocal answer.

At the meeting of Saturday Wills begged the Comptroller to admit he was mistaken in his criticisms and to withdraw his letter and I joined in this request but he would not do it.

Wednesday

Meeting at 10:30. The Comptroller presented a new letter on subject of Guaranty Trust Company which he said he would not read but asked to be put in record. He then produced the yellow sheet of examination of October, 1919, of Chase National Bank and read part of it. He said this was a fresh copy obtained from the examiner by telephone as one of the sheets of the original, in his possession, had been torn. He read part of it and it disclosed that the examiner reported that the management was safe and its condition sound. He explained that this was merely the opinion of the examiner under the conditions then existing and it was difficult to know what part of the answers was the examiners and what part the Comptroller's explanation.

Yet he had the effrontery to claim that the abstract sent to the bank put it on notice of conditions concerning which the examiner stated were sound!

He then offered a letter from Senator Owen explaining why he had not been confirmed together with some report submitted by Owen. I objected on the ground that the issue before us was not the confirmation of the Comptroller. It was finally decided that as a matter of personal privilege he could introduce it.

He then read a letter in which he refused to give the names of those to whom he had sent his letters, as he did not wish to put them in the hands of a partisan body which might say things in criticism of him which he could not know about. It was a gratuitously insulting letter. He had not hesitated to send out his letter attacking us and the New York Federal Reserve Bank behind our backs! The report of the Executive Committee was then read severely attacking the Comptroller for not having examined the Chase bank during the early part of 1920 as he was required by law to do, pointing out that if he had examined it the conditions complained of would have been at once corrected, and putting upon him the entire responsibility for these conditions. It also pointed out that he had examined twice in 1919 only a part of the 28 national banks in New York City and that the Federal Reserve bank stated that it had received no report of a 2nd examination of any New York bank in 1920.

The Comptroller was evidently much disturbed by the report; he called it a bitter attack on himself and squirmed and wriggled with evident embarassment.

Finally Governor Harding asked what disposition should be made of the report. Dr. Miller said he wanted to confer with me before making a motion and suggested adjournment. Governor Harding suggested that such conference be open in presence of the Board, and asked me to presentmy views.

The Comptroller started to leave the room but I said I wished him to hear what I should say, so he, evidently reluctantly, remained.

I said that my cordial and even close relationship with the Comptroller was well known; that I had many times defended him, publicly and privately; but that on this issue he was wrong. I said that this was not an attack on the Comptroller, on the contrary, it was an answer to his attack on the Board and the Federal Reserve Bank of New York.

I pointed out that the Comptroller had never made any formal charges against either the Board or the Federal Reserve Bank, although repeatedly during the hearing he had been asked to do so if he had any charges to make; that his letters were really merely motions to reduce rates and abolish progressive rates but that he incidentally attacked the Board and the Federal Reserve Bank of New York for giving excessive discounts to New York banks and especially to the Chase Bank, which had been loaning high sums to its officers and directors and affiliated interests; that he charged the Federal Reserve Bank with responsibility for not putting an end to these practices. I added that in view of these charges it was incumbent on the Board to examine into the matter; that I was satisfied that the serious conditions in the Chase Bank would have been at once corrected if the Comptroller had made an examination in early part of 1920 as the law commanded him to do; that, whether or not he had an excuse for not doing this it was his omission which caused the serious conditions and that he was not justified in shifting the responsibility from his shoulders to the Federal Reserve Bank.

I added that if a motion were made to accept the Report I should feel bound to vote for it.

Dr. Miller then moved to accept the report and it was passed unanimously except that the Comptroller did not vote and the Secretary of the Treasury was not present.

I kept the Secretary as did also Governor Harding informed every day as to what transpired and he fully concurred in our action, although he said some times he thought we were dignifying him too much in making any answer to him at all.

February 28

Comptroller Williams' resignation took effect at close of business today.

March 4, 1921 - Inauguration day

Secretary Houston, who came to stay with us after Mrs. Houston left Washington, went early to the Department.

Bertie and I went up at 12:30 to the Wilson home to welcome him back but when we got there we found he had already returned so we left our cards.

Houston came back to lunch after the inaugural. He said Harding's speech was almost menacing with its platitudinous meaningless; that he received scanty applause; that he met Mellon there, who seemed very shy and frightened; that he was almost in a perspiration; that he said that a number of Pennsylvanians had come down with him and that he should like to be sworn in this P.M. and that he reminded him that he had not yet been confirmed and that probably he would not be before late in the afternoon at least. Later he went to Senator Knox's office with Houston and was sworn in by Chief Justice White.

I told Houston the Chief Justice had no authority to administer oaths in the District of Columbia and that Mellon should be sworn in again.

March 5, Saturday

Mellon was privately sworn in again. The Board was introduced to him and he made a very favorable impression, said he should consult the Board as to pending appointment of a Comptroller and a Board member, etc.

Houston said Mellon made a very good impression on him; he modestly disavowed knowing anything about the Treasury, wanted old officials to remain, etc. He seemed almost aghast when Harding told him that the terms of Assistant Secretary Kelly and Gilbert expired by limitation on March 4 as their appointments were only necessary ones; he asked Harding to induce them to remain even if only for a short time and said he would ask the President to send in their names at once.

March 7, Monday

Governor Harding said he had had a talk with Mellon as to sending Houston abroad to examine into foreign operations of State banks and trust companies working abroad under Sec. 25 and 25A of Federal Reserve Act, they being under general supervision of Federal Reserve Board; that he, Mellon, strongly approved of this and said it ought to be done and that Houston was the best man to send; that he asked if matter must be settled at once and Governor Harding said No; he then said he knew that Houston was going South for a few days and he thought he ought to speak to the President about it, although he personally strongly favored it, so it was left that way. The compensation suggested by Governor Harding was

$2,000 per month to include all expenses and Mellon said this was perfectly satisfactory.

The Federal Reserve Bank of New York sometime ago passed a unanimous vote asking permission to send Houston abroad to examine for it into conditions in foreign countries. Dr. Miller objected on ground that if any one were sent they should be sent by the Board.

The Federal Advisory Council at its meeting two weeks ago urged the necessity of sending someone abroad for this purpose but mentioned no names. Warburg I think put this through having Houston in mind.

The salary suggested for Houston was a little less than that voted by the Board for Sherrill Smith, the Chief National Bank Examiner at New York,,when he was sent last June to South America to examine into operation of branch banks there.

Houston said today that he thought Hoover would object to his being sent abroad and would claim that he, Hoover, knew all about conditions abroad.

March 10, Thursday

Governor Harding said he had just had a talk with Mellon; that he said he was satisfied that Houston was the best man to send abroad but that he should prefer to have the matter postponed for a day or two in order to speak to the President about it. Dr. Miller was very mad and said it was scandalous to refer a business matter of the Board to the President for approval. I pointed out that the Secretary was a member of the Board and before voting on any matter he had a clear right to consult the President or anyone else; that Secretary McAdoo certainly freely exercised this right.

I fear we are going to have trouble in this matter and pointed out to the Board that we should carefully limit Houston's work abroad to banking, credit, and economic matters.

Governor Harding said, relating to the nomination of Crissinger for Comptroller of Currency,-- that Mellon said he had never even heard of him until the President sent him a note asking that his commission be made out.

This action of the President is a hard blow at Mellon. Governor Platt said that if Secretary, he would instantly resign on such an affront. I fear it means that the Treasury will be run from the White House and that Mellon is to be merely a figure head. If he, with all his financial power, had quietly offered his resignation to the President he would have "come down" quickly. The President's action has humiliated Mellon before the Board as he told us he would consult us before making any recommendation and that the office would not be filled for the present.

Governor Harding told me he had talked with McFadden, Chairman of the Banking and Currency Committee in a guarded way about the Williams' letters and that he had given him a copy of his first letter and of his reply to Senator Fletcher. He also admitted that he had said something about our report, but said it should not be made public as it would cause great uneasiness on the part of the public and perhaps worse. Governor Harding should not have done this.

March 12, Saturday

Called up Brookings--he said Houston's matter looked well but would not be settled before next Wednesday, March 16: I understood him to say that he had written Mellon and, I think, the President about it. This puts the Board in a very queer position and I am sorry he did it.

March 17, Thursday

The new Comptroller of the Currency was sworn in this A.M. Governor Harding remained in the room to talk with Secretary Mellon. Later at lunch he told me that Mellon said that while he thought Houston was the best man to send abroad we should be very careful not to encroach on the jurisdiction of Hoover who was very jealous of his perogatives; that he thought that Houston could not go abroad without being put in the position of representing the Administration which might cause confusion. He ended by making the naive suggestion that we send someone abroad to be picked out by the President,--someone whom he wished to reward!!

Before speaking to me, Governor Harding went over to Brookings and when he came back he said he had told Brookings all of the above, which I think he ought not to have done, as what Mellon said to him was part of the official business of the Board.

Later Brookings joined us. He said at Dr. Miller's request he had written Houston some days before about the matter,--Dr. Miller dictating the letter. Governor Harding finally said it was best to drop the whole matter to which we all agreed. I suggested that he--Brookings at once write Houston saying that the matter was in such shape that it could not be worked out satisfactorily and suggesting that perhaps he had better come down. I said I would telegraph him and tell him that if he came down, to come to my house. The more I think of it, the more I am coming to feel that Houston could not go over there without its being believed that he represented the Administration which might cause confusion. Of course, this could be avoided by sending him over merely to examine the foreign branches of American banks which were not national banks (the national bank branches being under jurisdiction of the Comptroller), but Governor Harding said Houston would not care to be limited in this way.

Governor Harding said the action of the Federal Advisory Council in advising the Board that someone should be sent abroad was brought about by himself and Dr. Miller.

March 21, Monday

Governor Harding said Crissinger, Comptroller of the Currency, had just told him that the President had sent word to him that he desired to have all insurance taken out by Federal Reserve banks on money shipments taken away from the present agents and given to a man whom he sent over to the Comptroller, whose name I don't remember. Governor Harding said he told the Comptroller this could not be done as the matter was in the hands of the Federal Reserve banks, and he advised him to drop it. This insurance is in hands of Delanoy who was in Treasury during war.

Governor Harding showed me a copy of the amendments to Federal Reserve Act which were to be made an administrative measure. It redrafts Section 10 striking out entirely the 2 year limitation and provides for 6 appointive members and one of officio member to consist of an Assistant Secretary of Treasury. The terms except as to present incumbents, are made 12 years. The office of Comptroller of Currency is abolished and its duties are to be performed by Federal Reserve Board through the Governor or such other member as the Board may select, subject to its supervision and control. Another provision states that the Board is to be absolutely independent of the Secretary of Treasury. The accounts of the Board are to be audited by a public auditor and not by the Government auditors and provision is made for the purchase of a building for use of Board.

March 22, Tuesday

Governor Harding explained further about the President's request to Crissinger referred to on preceding page. He said that Crissinger told him that the President of United States telephoned him that the man in question was his cousin and that he wished Crissinger to arrange to have all insurance taken out by Federal Reserve banks on currency shipments, etc. turned over to him, but that, of course, he should expect to give as good or better terms than the present insurance agents! Evidently public office is a "private" trust to the President!

March 26, Saturday

Wing of 1st National, Boston, wrote Governor Harding asking permission to buy 15,000 shares at par--100 per share--in Warburg's foreign acceptance corporation under Section 25 (not 25A). His capital and surplus was 33 millions; 10% of this is 3.3 millions which is all he can subscribe under Section 25 (10%).

Limit - $3,300,000. Has already subscribed to 1 million (1st National Corporation) and 625,000 (French American Corporation)--total of $1,625,000 which deducted from 3.3 millions leaves $1,675,000 still available.

15,000 shares of Warburg's corporation at par--100 = $1,500,000, so on the face of his letter he was entitled to subscribe. What Wing's letter did not show, however, was that although the par was $100 each subscriber was bound to pay when and if called, an extra $50 to be carried as surplus, so that the real subscription was 15,000 shares at $150.00 or $2,250,000 being $575,000 more than the limit of investment, or $1,675,000.

Logan, General Counsel, in memorandum took ground that was illegal as "investment" under Section 25 meant really "subscription". I agreed with Logan and so reported to Board. I put it on ground that case was same as if stock had no par value but was sold for 150 per share, a certain amount down and balance on call.

Governor Harding took position that all the Bank had to pay down was $100 per share and that balance of $50 might never be called; that payment of 100 was within limit of banks right and that if in future $50 more was called the Bank would have to sell some of its holdings of this or its other shares, or add to its capital or surplus, to keep within its limit. He treated it as if the liability to pay the extra $50 were contingent, like double liability of member banks on Federal Reserve stock or double liability of National bank stockholders; or like a corporation giving acceptances in excess of 10% which are permitted when issued vs actual existing value, and subsequent buying them, hence being an excess loan.

I could not agree to this as the liability to pay the $150 was absolute, the only contingency being the call for payment and this was not contingent in ordinary use of term.

The Board voted to grant the application--I, only, voting against it.

The Comptroller Krissinger agreed with me that the liability was absolute to pay 150 per share and yet he voted with the majority to approve the purchase!

March 29, Tuesday

Governor Harding said he had an hour's talk with Secretary Mellon yesterday. The Secretary said the Administration was to take up the McFadden gold subsidy bill and make it an Administration measure; that he believed the time had nearly come for a reduction in Federal Reserve rates from 7 to 6%. Governor Harding said he told him he feared it might revive speculative activity in the stock market and the secretary replied that a little speculation activity in stocks would not be harmful. Governor Harding then asked him whether a differential should be mentioned in favor of loans on Government securities bonds, etc. He said no, these rates should be uniform with the rates for commercial paper. If the Administration comes out for the McFadden gold subsidy bill it will cause bitter criticism from economists as it will amount to a gift to mine operators just as much as was the sugar bounty which was repealed by the Democrats in the Tariff of 1894, and will stamp the Administration as a soft money party. Gold subsidy was condemned by the British Commission during the war, by the Treasury commission under Strauss and by the Interior Department Commission.

The question of Federal Reserve rates is slightly different. The Federal Reserve reserves are piling up, so that Governor Strong wants to earmark gold in the Bank of England to keep it out of our reserves. Dr. Miller wants to deposit new gold with the Federal Reserve Agents to reduce liability on Federal Reserve Notes. I think this latter is the best plan but Secretary Mellon said he was against it.

Governor Harding and I talked the matter over. Mellon suggestion was not a new one as we had talked the matter over before. Governor Harding pointed out that there was to be a farmers convention in Washington on or about April 14, just before Congress comes together; the farmers of West and Southwest will control Congress and Governor Harding said if anything was to be done inway of reduced rates it would be better to announce some plan before this convention so that our hand would not appear to be forced.

The matter of approving the plans of Federal Reserve Bank of New York for its building came up to day. It involved the foundation and some steel work; also architects commissions which amounted to over one million dollars out of which engineering commissions were to be deducted, leaving a net fee of about $850,000. This was based on a 6% commission; the rate on the Chicago Federal Reserve Bank building was only 5%. Our consulting architect reported that this fee was all right and in strict accordance with the rules of the New York Architects Association. The Board of directors of New York bank, including our three Government directors were unanimous in approving this fee. We thought it very high and Dr. Miller raised the point whether we were bound to pass on the matter. He said if we were, he would never agree to approve them. We consulted with our counsel and he said we were not bound to approve the fees affirmatively as the directors had the right under the Federal Reserve Act to make contracts and nothing was said as to approval by the Board; that our only power was that of general supervision and control and the power of removal of directors for malfeasance in office; that while undoubtedly we could investigate into any transaction the mere fact that we differed from the New York

Bank directors gave us no right to disapprove. He thought the best course would be merely to say we interposed no objection.

Governor Harding said Secretary Mellon told him he knew perfectly well the fees of New York architects and thought these fees were not extortionate and that if he could be at the meeting he should vote to approve them.

March 30

Ex-Comptroller Williams has written another savage letter to Board. I believe the man is insane.

Dined with George Kustis Corcoran and met Secretary Mellon there. He was very bitter against Williams.

March 31

At Board meeting Crissinger said he had told President Harding about Williams' attacks and the President said: Why don't you tell him to go to hell!

April 4

Comptroller of Currency Crissinger reported that Williams before leaving ordered Miss Piper, his clerk, to cut out of his letter book, marked "official" all letters relating to his dispute with the Board as to rates, Chase National Bank, etc. Yet in his letter to Governor Harding dated March 26, he stated that all these letters were written by him in his official capacity as Comptroller of Currency; that he also cut out all correspondence with Board as to amendment of Federal Reserve Act providing for discount of paper secured by stock and bond collateral. Harrison pointed out that mutilation of official records was punishable by fine or imprisonment or both!

Harrison completed a draft of reply to Williams. I softened it somewhat and the Board adopted most of my suggestions.

Secretary Mellon at 9:30 had his first meeting with Board. He favored an immediate slight reduction of rates--he thought the banks charging 7% should go down to 6%; he did not advocate any reduction from the 6% rate where banks were now charging 6%.

Governor Harding pointed out that this might result in a great expansion of loans, but he replied that this would in all probability not follow and that loans were now at a maximum; that he thought commercial rates were sagging and would fail in any event and that a slight decrease in all rates would have a good psychological effect.

Dr. Miller took ground that such a recession would accomplish more if we waited until conditions improved more than now.

We finally agreed that we should do nothing before the Governors Conference of next week, unless, e.g. the Federal Reserve Bank of New York should ask for lower rates. Governor Harding advised Secretary Mellon to telephone Alexander in New York and ask his opinion and he said he would.

I suggested advisability of letting Boston reduce to 6% if it wished to, but Governor Harding said Boston did not want to go down until New York did, except that Governor Morse alone did favor this. Platt said after the meeting that Governor Harding did not fairly state position of the Boston bank and I think he is right as to this.

Secretary Mellon made a good impression and seemed to know the situation fairly well.

Governor Harding said if we did anything we should do it before Congress convened so it would not appear that we acted under pressure.

April 5

On March 31 I sent a letter to Secretary Mellon on subject of customs duties. I suggested that a joint resolution be passed providing that the customs duties finally enacted should be made to relate back to all imports after April 15; that this would prevent a long debate over the preliminary tariff and enable Congress promptly to take up question of internal tax reforms. Have received no acknowledgment from him. (See scrap book for letter.)

We sent the letter to Williams today. The other day Governor Harding said Harrison had met Cotten, Attorney (with McAdoo) for Chase bank and that Cotten said we will kill all future correspondence regarding Williams' quarrel with Federal Reserve Board.

April 9

Boston asked leave to put in a 6% rate. I favored it but it was decided to await Governors Conference next week. I called up Federal Reserve Agent Curtiss and he said every director was present and the vote was unanimous; that the conditions in the District had so improved that this move was deemed absolutely necessary and they did not want to delay it a day; that 6-1/2% would not be satisfactory that Beal was strongly in favor of 6% while Ripley was opposed; that they had not consulted with Aiken and Wing as they assumed they would oppose it being very heavy borrowers from the Reserve bank, and I presume (Curtiss did not say this) they feared it would necessitate lowering these rates to their customers. Curtis also said a 6% rate with New York at 7% would drive many customers to the Boston banks and thence to the Reserve bank, but they could take care of this.

I feel it is a serious responsibility to deny this, especially as wages have been materially reduced in New England.

We spent all day, practically, in reading the stenographic minutes of the two days during the row with Williams and formally approved them. Wills came on from Cleveland and was present.

Governor Strong said the Guaranty Trust Co. was perfectly solvent; it had charged off about ten millions for bad debts; it had concealed profits of nearly that much and its capital and surplus would be intact; that his credit examiner thought from extra precaution, it would be advisable to establish a new fund of 7 or 8 millions and to increase the capital but he did not think the Federal Reserve Bank directors would think it necessary to advise this.

Governor Strong violently opposed lowering Boston rates; he said that if they were lowered public opinion would force the New York Reserve Bank to do the same and this would cause a violent speculation boom in stocks; that the stock market was swept clean and only a little encouragement was needed to start a violent speculative move.

He said the curve of wages was practically a straight line; that deposits had fallen off considerably; that retail prices had fallen moderately; that wholesale prices had fallen percipitously; that lower rates would force up wholesale prices and prices and wages would be stabulized at too high a level; that we should wait until wages were lower and the curve of wages, deposits, wholesale and retail prices were more nearly together at a much lower basis.

Governor Harding said if we lowered rates now and a speculative boom set in we could never raise them again as public opinion would be so strongly against such a move.

Miller rather favored some recession but feared this was not the psychological time to do it.

I felt and said that if conditions in Boston were ready for lower rates I did not see how we could forbid Boston taking such action because of conditions in other districts; that Boston was an independent bank and nothing but strongest reasons of public policy would justify our refusal.

April 12, Tuesday

I moved approval of Boston application to reduce rates on commercial paper from 7 to 6%. Platt moved to amend by substituting 6-1/2%. Amendment lost, Platt and Miller voting for it and Governor Harding, Crissinger and C.S.H. against. Dr. Miller then moved to raise rates on Treasury certificates at Boston from 5-1/2 to 6%. This was carried all voting aye except Crissinger and myself who voted No. I pointed out that while we had the power to do this it had never been exercised except where Bank refused to put in rate desired and that it would be better for us to approve the 6% rate and express earnest desire for bank to increase certificate rate and if it did not we could then act. This increase affected only 8% of the total paper held by the Boston bank so it did not amount to much.

Conference of Governors began today. Secretary Mellon came over and heard reports as to rate situation. Every Governor opposed any decrease except Boston and Atlanta; the latter earnestly desired lower rates.

Governor Harding reported that Governor Seay said Ex-Comptroller Williams had called on him at Richmond and had shown him his letters attacking Board; also that Governors Norris, VanZandt and Miller had received letters from him stating what he had done, the letter to Van Zandt stating that the Board wished to abolish the Dallas Bank.

The Board voted that on receipt of a letter from them to this effect the Governors could give them copies of the entire correspondence, reports, etc.

April 14

Two days ago the Washington Times had an editorial stating that Governor Harding would be retained as Governor by Republicans and that so far as was compatible with his office he had done everything in his power to help secure election of President Harding! (See Scrap Book)

Governor Harding said Secretary Mellon had just told him that as regards Administration bill--he had made up his mind that Comptroller of Currency should be abolished but that he had made up his mind also that the Secretary of Treasury should remain as Chairman of Federal Reserve Board.

Originally Mellon was positive that the Secretary should be taken off Board and Comptroller abolished. McFadden drew a bill to accomplish this and Secretary Mellon said it would be pressed as an Administration Bill. This shows how hard it is for a cabinet officer to give up any power. I think the Secretary is right and that he should remain Chairman, but his sudden change is amusing.

I predict the next step will be to decide that the office of Comptroller shall not be abolished! Considering the Republican demands that this be done during last Administration, such a result would be amusing to say the least.

April 16

Governor Harding said Mellon had again changed his mind and wanted an Under Secretary appointed to sit on Reserve Board. President appoints Aldridge, Collector of Port of New York. Newton told me sometime ago that Senator Calder told him President wanted his resignation although his four year term did not expire until October 1921; that he had at once called on Mellon who said he knew nothing about it. Evidently President Harding is working behind back of Mellon.

Aldridge appointment is scandalous; in 1910 he was defeated for Congress by Havens in one of strongest Republican districts in New York. He, however, voted in National Convention solidly for Harding!

April 25,

President Harding called Governor Harding to White House; asked if John Mitchell of St. Paul would be good man for Federal Reserve Board; Governor Harding said yes and President said would send his name to Senate tomorrow. This is first time Board has ever been consulted about an appointment by President!

President Harding said Mellon is a fine man but doesn't know a damn about politics; you Democrats run evertything and Mellon praises each of you by name every day and wants me to retain you all. (Not sure whether he alluded to Board or to Treasury.)

Also said would be glad if possible to have slight reduction of rates but he hoped Board would do nothing which would cause any more inflation; reminded Governor Harding of his talk with him at Marion and said his views had not changed.

April 26, Tuesday

Governor Harding reported talk with President subject of New York rates was taken up. Governor Harding, Crissinger and I said if New York tomorrow at its directors' meeting voted to lower rates even to 6%, we would vote to approve it. Miller and Platt said might approve 6-1/2% but Platt thought that ought to wait until at least next week. Governor Harding will be in New York tomorrow and will see directors.

Afternoon Eddy, Secretary of Governor Harding, came in and said newspaper representatives were then saying that the President had just told them the Federal Reserve Board was to lower rates generally and help the farmers. Governor Harding had gone to New York and I said I could not be interviewed.

April 27

Morning papers, especially Washington Post and New York Times announced that by direction of President Harding, the Federal Reserve Board was to make a special inquiry into problem of deflating industrial values without serious injury to agricultural interests and that it is "understood" some steps to aid agriculture may be taken by the Board in the near future. (See Scrap Book)

Evidentaly the President is playing politics. I fear his action will be resented by the Board.

April 28, Thursday

Dr. Miller threw a bomb shell into the meeting by moving that we fix the New York rate at 6-1/2%; as he had always opposed lowering of rates it was a complete surprise to us. He was evidently "acting" before Crissinger. He never mentioned the statement in papers that Board, by direction of President, was to reduce rates, although under Wilson Administration any suggestion of influence from McAdoo made him fairly howl with rage. He evidently wants to be reappointed! Governor Harding reported that at meeting of New York directors, all were opposed to any reduction except Palmers and Peabody. Peabody wanted to go down to 6% but said in view of statement in papers of Presidential influence he should oppose any decrease. They all seemed to feel it might be wise to reduce rates at other 7% banks. Mr. Mellon after a talk over telephone with Governor Strong said that while he believed New York rates should go down, and such decrease would not cause speculative activity, yet he was inclined to defer to feeling of directors to wait a few weeks.

I moved to amend Miller's motion so as to consider rates at all banks when we took up New York. This seemed to trouble Dr. Miller, as he evidently hoped the Chicago rate would not be reduced. He admitted, however, that reduction in New York would necessitate a reduction in Chicago, but did not want it done simultaneously.

The Board was informed the Bank of England has reduced to 6-1/2%. This may influence Governor Strong.

May 1, 5

Board voted to approve Atlanta application to reduce rates to 6%. Miller voted for it and answered Platt's objections!

May 6,

Board voted to approve Chicago application to reduce to 6-1/2%. Platt said it was result of political pressure brought by Cabinet following alleged interview of President; said he would like to tell Mellon that he bitterly resented this.

May 25, Wednesday

At Board meeting we considered two bills providing that the amounts paid Treasury for franchise taxes should be used to advance money to cattle raisers. We had already suggested to Platt to talk with Gilbert of the Treasury as to drawing a bill providing that a certain percentage of the funds now held by Federal Reserve Banks as "reserved for franchise tax" should be paid at once into Treasury and that Secretary would utilize it in loaning to cattle raiser through the Federal Reserve banks, Federal land banks or War Finance Corporation.

Suddenly Dr. Miller moved that the Board prepare and send to Congress an amendment to Section 11 M to effect that by a vote of 5, affirmatively, the Board could permit Federal Reserve banks to rediscount agricultural or cattle paper having maturity of not more than two years!

We were all amazed and riddled Dr. Miller with questions. He said he knew such legislation would be bad, from point of view of liquidity, but if we did not do something to help he feared the administration might act and act quickly. He did not say what the Administration would do but he admitted having discussed the matter with Secretary Hoover several times.

Finally he agreed that it might be better to wait for the result of Platt's talks with Gilbert as to the other bill above mentioned.

Hoover does not like the Federal Reserve Board according to Dr. Miller; he thinks no bankers should be on it, citing the Bank of England.

The Bank of England directorate, however, contains many "merchant bankers", i.e. Acceptance houses. Miller evidently made this motion so he could tell Hoover he was working hard for the cattle raisers. He evidently wants very much to be reappointed, and has changed his views radically--he is now a rate reducer with a vengeance although recently when Boston wanted to reduce from 7 to 6% he vigorously fought it and voted against it, saying that we should pattern by Bank of England and never go down or up more than 1/2% at a time. Yet a year or more ago he voted to increase the New York rate from 4-3/4 to 6%!

June 1

Some two weeks ago an advertisement of bonds of North Dakota appeared in papers and in it a certificate signed by White, Treasurer of United States, that the bonds were all right and would be paid at maturity! Instead of removing White the Treasury issued a short statement that White's signature had not been authorized by the Treasury Department. This is scandalous--and attempt to win the support of the crazy populists of North Dakota.

Mr. Mitchell read to Board yesterday a protest of a prominent Republican demanding White's removal.

June 6

Board and Secretary of Treasury announced approval of plan to permit secretary to loan 50 millions to War Finance Corporation to assist cattle raisers.

June 7

Conference, Board, Secretary Mellon and Senators Meyer and Governor Strong said better to form a bank pool which he thought he could do. Suggested a committee of western bankers to get up plan in conference with New York bankers. Whole meeting switched over to this. Meantime Governor Harding has gone west to boom first plan!

July 8

Harding says Mitchell's appointment to Board was held up by Upham, Treasurer of National Republican Committee because Mitchell was called in for a $2,000 subscription and would not pay that amount as he says Republicans would use it in Minnesota solely to defeat Non-Partisan League. Harding said he believes Mitchell is a red hot Republican politican, as shown by his feeling towards Ramsey in Texas and Miller in Kansas City, and that we are going to have trouble from him.

Harding and I went over matter and found that 7 Federal Reserve Agents and 8 Governors were now Republicans.

Harding said the Cabinet is knocking him hard and that Weeks is his only supporter. Said he told Mellon that he was getting tired of criticism and would be glad to resign at any time. He was rather bitter towards Hoover--said he knew of conditions abroad but very little of conditions in United States.

July 13

Met Secretary McAdoo in corridor and asked him to drop in and see me; later he came in. I told him about Williams row with the Board and his various letters and our report. Mentioned causally that Williams had said he, McAdoo, was counsel of Chase Bank.

McAdoo said he had only read one printed speech of Williams--I cannot believe this. He was very evasive and appeared not to want to discuss the matter. He said, however, that Williams lacked tact and was too impulsive but he was a man of high character and standards.

July 22

Lunched with Mitchell, Crissinger and Dr. Wilmot of Texas, formerly of Federal Advisory Council. Dr. Wilmot was asked by Mitchell to talk over the Texas Federal Reserve Bank situation.

Dr. Wilmot said VanZandt the Governor was a good man but had not received loyal cooperation of his subordinates; that he thought he should be backed up and his force strengthened; that Ramsey dominated the entire bank; that Ramsay was a fine man of keen mentality and that he would dominate any situation unless faced by very strong men. We asked him if he knew any good men in case Ramsey should not be appointed and he gave us some names. He said none of these men would accept Governorship as the Federal Reserve Agent was the dominating position in Texas, differing, as I pointed out, from the other Districts. He said he thought

see p. 102 might be induced to come back and said it would be the best appointment which could possibly be made. He said Ramsey's reputation was that of a very able politican but he was a man of high standing and character and an eminent citizen.

He seemed very well informed and sincere and made a good impression.

At the outset, however, he said that as he understood it, the Administration having changed it was fair, other things being equal, to put Republicans into these bank positions.

I at once said we never had considered politics in Reserve bank appointments and that, while personally I was glad if both Parties happened to be represented, we never even considered politics in our appointments. I told him that as a fact 7 out of the 12 Federal Reserve Agents and Governors happened to be Republicans but were not elected as such. I also spoke of our appointment of Provost Harrison at Philadelphia and our appointments at Boston. I told him the Board's action in abolishing exchange charges had angered the Democratic Party of the whole South and Southwest.

He said a number of bankers had said they wanted him as Federal Reserve Agent in place of Ramsey. I finally asked him if he would consider the Federal Reserve Agency if Board were to offer it to him and he said No, but I fancied there was a possibility he might accept.

Walking home, he said he firmly believed the Board should be absolutely kept out of politics or the banking system would be ruined.

He said he had never observed that Ramsey played politics in Federal Reserve bank matters.

I believe him to be a fine, sincere man, but that he came here somewhat with the impression, perhaps given by Mitchell, that a change for political reasons was the proper thing.

He said Ramsey had had some banking experience as President of a small bank years ago, but that he had not sufficient banking experience to dominate the affairs of a Federal Reserve Bank and he emphasized that the Federal Reserve Agent should exercise this domination.

October 6

Governor Harding told the Board that Secretary Mellon had asked him for a list of Class C directors whose terms expired at the end of the year, and also asked as to the political affiliations of each one! Governor Harding fears trouble may come.

October 21

Governor Harding said while in New York yesterday he called on McAdoo. He spoke about the attacks on the Federal Reserve Board by Democratic Senators and Williams; said that the quartet was Heflin, Watson, Senator Simmons and Williams; that they all claimed to be his friends; that they took the position that the Federal Reserve Board were all criminals and crooks; that the Republican Administration was responsible for their continuance in office; that the Republicans were restive and that the danger was that might be goaded into removing all Democrats from the Board and capture it and use it as a political machine; that at the beginning they inquired into the personnel but found there were 70 Republican directors and only 38 Democratic directors; that 7 out of the 12 Governors were Republicans and about the same ratio in the Federal Reserve Agents; that thereupon they dropped the matter but that there was grave danger of its being revived; that if the System were run as a political machine it would be all powerful and could absolutely prevent McAdoo's nomination in the future; that his strong card was that he had practically created the System and had kept it as a non-partisan

System, etc., etc.

He said McAdoo was terribly stirred up and said he would send for Williams and tell him his attacks were injuring him and must be stopped. He said he was able to control Williams when he was a subordinate but doubted whether he could now. He said Williams attacks were most extreme and he implied, unfair,--that Williams never could stop when he had got started, etc, etc. Governor Harding explained about Strong's salary and said Board was obliged to make public the fact that he had urged it and voted for it, as did also Williams.

Governor Harding urged me to call on McAdoo and point out the danger of political control of Federal Reserve System by the Republicans.

October 25

Conference of Governors and Federal Reserve Agents with Federal Reserve Board. Lasted through week. Governor Harding suggested a rate reduction--New York, Philadelphia, and Boston 4-1/2%--Cleveland, Chicago, etc. 5%--and the borrowing districts 5-1/2%.

Was told they were almost unanimous against this at meeting among themselves but at conference Friday, October 28, they all seemed to favor it or at least to agree that it would do no harm, except Governor Morss and Governor of Chicago, who were bitterly opposed.

C.S.H. spoke favoring Harding's suggestion. Miller spoke in favor--said in view of what had occurred as to prices, he now was ashamed he had voted to increase rates to 7% in 1920.

On Saturday, Governor Harding told Miller that his vacillation was such that he had about made up his mind to resign. Miller finally said he would strike out of his address all allusion to the 7% rate.

December 3, Saturday

Special Board meeting to act on redesignation for year 1923 of Federal Reserve Agents. The matter was referred last week to a special committee--Platt, Mitchell and Crissinger to report as to appointment of Class C directors. We appointed this committee because we wanted fresh blood and not because they were all Republicans; in any event they were fairly divided as Platt was appointed by Wilson. We had absolute confidence in their judgment. The only controversial question arose from the desire of a man named Comstock to be appointed Class C director at Kansas City. Although it was said his real aim was to be designated Federal Reserve Agent in place of Ramsay. He had had but limited banking experience having been Secretary of Mr. Flower in his bank in Kansas City, but when this bank was consolidated he was dropped,--not a favorable recommendation as to his ability. Mr. Flower wrote a very eulogistic letter saying that he and Comstock had run his bank for, I think, some 20 years. This letter was disingenuous as he was only private secretary.

Comstock, until very recently, never came near the Board but went direct to President Harding asking for the office as an original Harding man. In fact, Governor Harding said Comstock told Mr. Swing of Kansas City that he did not give a damn for the Board, but would get the office from the President! While he had a few good letters from bank presidents he was plainly not fitted for Federal Reserve Agent or even for a Class C director.

President Harding, however, wrote two letters (C.S.H. personally saw these letters, and for some time they were in the official files. C.S.H. tried to see them again on April 10, 1922, but they were not to be found,) to Crissinger asking him to see that Comstock was appointed Federal Reserve Agent. The President acted as if the appointment was part of the spoils which he could distribute as he wished. Governor Harding wrote a very courageous and able letter to Secretary Mellon, asking him to show it to the President, pointing out the importance of the position and that it was entirely in the hands of the Board. This availed nothing, however, and the President insisted on appointment of Comstock, although this involved dropping Ramsay, who altho not a great Federal Reserve Agent yet was well up to the average.

To avoid further controversy the special committee had a special meeting called, and, at the meeting said they were not yet ready to report a list of Class C directors, but Mr. Mitchell moved that all of the present Federal Reserve Agents be redesignated. Ramsay's term as Class C director had not expired so only his designation was an issue. After a long discussion the Board voted to redesignate all of the Federal Reserve Agent, Crissinger alone voting No, although he said he had no other candidates to suggest. He took the ground that many of the Federal Reserve agents were mediocre men and should not be reappointed and that all salaries should be fixed before notice sent of any redesignations. Dr. Miller attacked all of the Federal Reserve agents saying they were good enough to take care of Federal Reserve Note issues but were utterly unfit as chairmen of the boards, and said he should move radically to reduce their salaries, in which Crissinger backed him up. Miller said he should advocate an amendment to the law separating the functions of chairman and Federal Reserve Agent. We all said we should be glad to consider this without committing ourselves, and we voted that the special committee should consider and report what, if any, changes in salaries should now be made, irrespective of the amendment. Miller moved that the action of the Board in redesignating the Federal Reserve agent be laid on the table. It was a tie vote, C.S.H. voting in negative and Governor Harding finally voted against it. Mitchell voted Aye, apparently being confused as to the issue as he strongly advocated redesignating all of the Federal Reserve Agents, including Ramsay. Dr. Miller bitterly attacked Jay saying his remarks at meeting of agents and governors that Federal Reserve banks should lead up on discount rates but should follow down after changes in market rates was puerile, childish and sophomoric, and that such a man was not fit for Federal Reserve Agent.

It was also agreed not to notify any Federal Reserve Agent until salaries were fixed. There were several names before the committee for Class C director of Kansas City, other than Comstock. The most prominent was a Mr. Hood of Nebraska who had large cattle interests in Wyoming and was splendidly endorsed. The whole Nebraska delegation was for him, although he was their original choice; also the editor and owner of the Omaha Bee, the leading Republican paper and Senator Hitchcock. It was a truly non-partisan recommendation although Hood was a Republican.

Undoubtedly the committee would report in favor of Hood.

The Board has thus thrown down the gauntlet to President Harding and I fear he will be furious. To have given in, however, would have been to drag the Federal Reserve System into the mire of cheap gutter politics. I think the President may well hesitate, however, when he realizes the Board will appoint a man Class C director who will greatly please the whole District, and especially the Farmers bloc, while if the President has his way the appointee will be a politician, whose chief distinction is that he was an original Harding man!

Governor Harding said it was rumored that Christian, President Harding's secretary, told him that he--President Harding--made this appointment. He was disabused of this idea, however, by Governor Harding's letter to Secretary Mellon, but he still persisted that Comstock must be appointed.

December 6, Tuesday

Committee reported at Board meeting unanimously against changing the salaries of any Federal Reserve Agents at present time and Board accepted it and voted to send to each Federal Reserve Agent notice of his designation. Crissinger was not present but joined in committee report. Dr. Miller, who had threatened dire things as to salaries meekly voted with the rest of us. Governor Harding said Mondell of H.R. had said he would at once see the Attorney General and tell him to advise the President to keep his hands off in the future as the Board should not be interfered with politically.

Governor Harding told me Platt saw Secretary Weeks who said the Board was absolutely right in turning down Comstock, that the President had been deceived and that he would, if necessary, back up the Board.

December 21, Tuesday

Mitchell told the Board that, notwithstanding his letter, President Harding was very angry with the Board for not appointing Comstock.

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January 11

Governor Harding told me this A.M. he went to Crissinger and told him to tell President Harding that he was sorry he could not vote for Comstock, but that if the President wished his resignation he would give it at once; he asked Crissinger also to tell the President that the statement made in the Senate that he (Governor Harding) had voted for Harding as President was not true.

He said Crissinger said he thought it would relieve the President if he should resign now. He added that Crissinger saw the President who said that Governor Harding should stick to his job.

February 28

Governor Harding called a special conference to consider a letter from the Carborundum Company, Niagara Falls, N.Y. (Mr. Wine, President) and the American Abrasive Metals Co., Mr. Mowery, President, complaining that Trowbridge, an architect, was advising banks in United States and Canada to take his specifications for vault walls as the result of the Sandy Hook tests; that their companies processes were tested at these tests but that the tests had not been fairly conducted. The companies asked for a hearing. We advised Governor Harding to write Trowbridge we should give a hearing next week and asked him to fix a date when he could come down.

The letter of protest was given to Governor Harding by Secretary Mellon who said he was interested in the companies.

I am surprised that Secretary Mellon sent in this letter to the Board; the companies should have sent it direct; by sending it through Secretary Mellon, they are evidently trying to use his influence with the Board and he should have refused to send it to us, but should have made the companies do it themselves.

May 29

During the week prior to March 20, a committee of New York bankers came before Board and asked to have the Bankers Acceptance regulations liberalized as to import and export trade. Mr. Kenzel of the Federal Reserve Bank of New York came down with them. They pointed out that customers were gradually turning to sterling bills because of the harshness of our Regulations. They said foreign bankers looked askance at our bankers bills because they never could tell whether they were eligible under our Regulations. Mr. Kenzel agreed entirely with their statements. The committee consisted of Messrs. Warburg, Broderick and Kent.

After the hearing, The Board considered the whole matter, especially a proposed draft of new regulations prepared by our counsel, Mr. Logan. The chief change was as to Bankers Acceptances not in excess of the 10% limitation. Under the law no security is required for such import and export acceptances while under our Regulations security is required.

The Board were unanimous in feeling that the question of security--up to the 10% limitation, should be left to the judgment and experience of the member bank and Federal Reserve bank (as to rediscounting).

C.S.H. agreed fully but said that the tentative draft should be sent to all Federal Reserve banks for examination and criticism, which was ordered done.

C.S.H. also insisted that the Federal Advisory Council or its Executive Committee should be consulted, which was done.

The Governor also asked opinion of Wing of Boston which was very favorable. Everyone consulted approved except Governor of Federal Reserve Bank of Chicago, who was in doubt and said the leading bank in Chicago doubted its advisability.

April 2, Sunday

Eliot Wadsworth, Assistant Secretary of the Treasury, calls at apartment--1155 - 16th of C.S.H. and H.P.H. After some general conversation he began to speak of Mr. Wilmeth, the Chief of the Bureau of Engraving and Printing, who a day or two ago had been summarily removed, with 30 others, from the Bureau, without any charges, as required by the Civil Service law.

April 5

Governor Harding and Crissinger conferred all the morning with the Texas District Attorney and the Chairman of the Grand Jury (State) which has been investigation the failure of the Clayborn Bank. Board met at 3:15 P.M. and Governor Harding said these men told him that the Federal Reserve Bank had held Notes discounted by the Clayborn bank sometimes for 2 or 3 months after maturity without forwarding them for collection; that in some of these the makers had given Norwood, the defaulting President, checks in payment of these Notes which he had held and were found in his desk after his departure for Mexico. Governor Harding said if these and other statements were found to be true, he had lost all confidence in Federal Reserve Agent Ramsay.

The Board decided to have our Chief Examiner, Herson, go to Dallas and carefully investigate all relations between the Federal Reserve Bank and the Clayborn bank. We called Herson in and he said he would finish at Kansas City in time to be in Dallas on Saturday, April 15, and we said this would do.

Governor Harding was directed to write Ramsay and tell him the Board wished to see him here next Thursday April 13.

We thought it advisable to have him here away from the Bank while Herson was examining it.

Herson said the Notes in question might have been excess collateral but still should have been presented.

Ramsay's relations with Norwood have always been very intimate and the night Norwood decamped his auto was found abandoned near Ramsay's house, giving rise to the suspicion that he had been at Ramsay's house, ~~giving rise to the suspicion that he had been at Ramsay's house.~~ The Board had also received or seen an anonymous letter attacking Ramsay.

Sometime ago the Board appointed a committee to investigate Ramsay,--of Governor Harding, Crissinger and, I think, Mitchell. The Committee has been waiting to hear from the men whom Governor Harding and Crissinger saw this morning.

Sometime in the winter one of the directors of the Federal Reserve Bank of Texas, Mr   , came before Board and said that it was Ramsay who induced the Texas Board to displace Van Zandt and elect McKinney as Governor.

When the Board redesignated Ramsay, it assumed that no change would be made in the Governor; if they had known such a change was to be made they never would have redesignated Ramsay.

April 13

Federal Reserve Agent Ramsey of Dallas came before the Board to answer charges against him in matter of the Clayburn National bank.

A stenographer was present.

The hearing left me in a very mixed up condition. The Board, it seems to me, has no evidence warranting the summary removal of Ramsey for improper action in the Bank matter and yet I cannot avoid the feeling that Ramsay went farther than he ought, through friendship or whatnot for the defaulting President Norwood. It was also clear that Ramsay did not carry out his duties with regard to collateral for Federal Reserve Notes,--he should have known that Notes delivered up to the bank for collection were never paid but held as overdue paper.

Nor were his answers as to complicity in the dropping of Van Zandt the Governor, satisfactory. There is no doubt in my mind that he engineered this.

Governor Harding said this P.M. that Ramsay had just told him he had received an offer of $20,000 per year for some bank or other institution, and that he though he might resign as Federal Reserve Agent. Governor Harding said he advised Ramsay that it might be well for them to do this.

April 24

Van Zandt called. After consultation with Governor Harding, I read him from Ramsay's testimoney every reference to him made by Ramsay but did not let him see the testimoney.

April 25

Van Zandt came before Board. Only Governor Harding, Platt, and C.S.H. present. He made a long statement; claimed that Ramsay tried to dominate the whole Bank: cited an instance of increase of pay of a woman clerk, working in operative department, done without his knowledge or consent by Ramsay going to one of his under officers.

Said that Ramsay was too much of a politician; admitted that the bank never inquired of the maker of a note pledged for Federal Reserve Notes and given to bank for collection even though the member bank did not pay it; admitted that in case of the Clayborn bank, an inquiry of the maker would have shown that in several cases the makers had given Norwood, the President, their checks in payment, which Norwood had not entered because he did not want to have the banks deposits drawn down. VanZandt said he had told Ramsay that Norwood was a crook long before he decamped; that Ramsay had a report of the national bank examiner made long before which showed that Norwood had issued a fictitious draft to make it appear that a certain peanut draft had been paid; that Ramsay never showed this report to him.

On the whole, I feel that it would be for the best interest of the bank to have an injection of new blood. VanZandt has gone, and Governor Harding says Ramsay is to resign, which is most desirable.

While I do not feel that specific charges against Ramsay have been proved, yet I cannot resist the conclusion that he has dominated the bank not only on his own but on the operating Department; that his mind is so "political" that he is always manuvering and trying to dominate in one way or another,--not in partisan politics but in banking politics; that he has been too lenient with Norwood's bank, perhaps unconsciously-- VanZandt also said Ramsay had had the salary of Gregory, a Federal Reserve Bank examiner increased. Gregory is son of Ex-Attorney General Gregory, but this Van Zandt said was after his father had left office.

April 27

Governor Harding in addressing the Federal Advisory Council referred to opinion of Logan, our Counsel, that Federal Reserve banks could pay dividends out of surplus and to fact that Secretary Mellon had asked opinion of Attorney General. Governor Harding said the Attorney General had said that he wished to "cooperate" in every way, and, therefore, wanted to know just what opinion Mellon and the Federal Reserve Board wanted, and that he would endeavor to furnish a "satisfactory" one. An extraordinary thing for the Attorney General to say!

April 28

Returning from the lunch with Mr. SWeng of Kansas City, a member of the Federal Advisory Council, I asked him as to qualifications of Mr. Comstock whom President Harding asked the Board to appoint as Class C director of the Federal Reserve Bank of Kansas City. He replied that he had absolutely no qualifications for such a position: that he was utterly unfitted and that it would have been monstrous to appoint him a Class C director, much more as Chairman of the Board and Federal Reserve Agent. He said he had been Secretary of the board of directors of the Prudential Trust Company--Flower's bank,--that that he got the place solely through his brother-in-law, Mr. Hayerman, one of the directors; that after the consolidation Heyerman wnet off the Board and Comstock was immediately dropped from his position, and had no job when Harding (President) asked the Board to appoint him; that he did not believe a single bank or banker in Kansas City would or could conscientiously indorse him for such a position; that it was incomprehensible to him how President Harding could have pressed him upon our Board for any appointment.

May 1

Attorney General writes Mellon that Federal Reserve banks can pay dividends out of surplus.

May 2

Cables between Bank of England and Federal Reserve Bank of New York read, as to invitation to send representative to conference of central banks to be called by Bank of England on suggestion of the Genoa conference. The cables showed that originally the invitation was to Governor Strong personally, but later (at Governor Harding's suggestion to Strong) it was changed to the Federal Reserve Board.

Governor Harding said the Administration felt that no member of the Board should go as they were officers of the United States and he intimated that the Administration would like to have a committee of 380. It was suggested by Governor Harding or Mitchell that the committee should be Strong, Warburg, and Watts of St. Louis; later the name of Wing of Boston was suggested. C.S.H. said a committee consisting of Strong, Warburg and Watts might be criticized as being composed of bankers of the extreme, so-called, reactionary group, and that Festus Wade might make a good member, as being a broader, more democratic banker. Mitchell said Watts and Wade were both democrats. C.S.H. said he did not refer to politics in using the word "democratic".

May 3

In afternoon, Board had conference with Governor Strong as to invitation of Bank of England to attend a conference of central banks in London. Governor Strong, after listening to a reading of Governor Harding's address to be delivered in New York Friday, before American

Acceptance Council dinner, said that the Governor's reference to the meeting in London ought to be omitted. Governor Harding did not specifically mention the meeting but pointed out the limitations of the Federal Reserve Act and specially stressed the fact that nothing could be done by any bank without the approval of the Board. Strong said it would be strange to put this out just before Governor Norman arrived and that we should at least hear what he had to say, if anything, on the subject. Strong also said that the President had told the Press he was interested in the matter and that, presumably, he had some plan in his mind and that Governor Harding's reference would be construed as a slap at the President. Strong said he had good authority for stating that President Harding was very angry with the Federal Reserve Board for "voting him down" on the matter of Comstock for Class C director at Kansas City, and he added that theyhad authority for saying that a statement such as that proposed by Governor Harding would be resented by the President.

I am inclined to think that Governor Harding made this reference more as a hit vs Strong than anyone else, and that Strong was using the President's name for his own purposes.

Strong spoke rather contemptuously of the President. He said Mellon told the President that he approved of accepting the invitation but thought that three ought to go, but forgot to enjoin secrecy, with the result that President Harding at once told the Reporters about it.

Strong intimated that the President knew nothing about banking matters and even if--as suggested by C.S.H.--Governor Harding read it to him and obtained his consent to use it--the President would be made if the critics should say that Governor Harding was hitting at him.

I took the position that Governor Harding should not allude to this, at least until hearing what Norman had to say, and unless President Harding consented. I pointed out that a hostile critic might say this was an attack both on Strong and the President, and that it savored of our warning to banks as to over-investment in British Exchange Notes in 1916, and of the round robin in the Senate when President Wilson went abroad to Versailles.

Finally, Governor Harding rewrote the paragraph to the satisfaction of Strong, as he told me later, but he did not show it to me.

Strong said he thought Norman was coming over merely to talk to Mellon about payment of interest on the British debt.

Strong said the only way to stabilize was (a) to establish a free gold market in Great Britain; (b) to establish a gold exchange standard, i.e., the lumping standard; (c) to pay exchange.

Strong said (b) would never be adopted in Great Britain; that (c) was not a good method.

Strong added that Great Britain had been buying dollars which had depressed British Exchange, and that it was a bad thing for a foreign government to manipulate exchange.

C.S.H. asked Strong if Great Britain would not at once have a free gold market providing she could be released from paying her interest on our debt for, say, a year or two.

Strong gave an evasive answer. C.S.H. believes this is Norman's purpose.

C.S.H. believes Strong has some plan which he has worked out with Norman but which he is unwilling to state to the Board. All he said to us was that we must adhere to the gold standard, to which, of course, we all agree.

May 8, Monday

Board discussed question of accepting the invitation of Bank of England all day. C.S.H. not present. Finally voted to accept but later voted to exchange whole matter from Record.

May 9

Board meets with Governor Norman. Governor Strong said whole question of gold stabilization depends on some adjustment of the debt question. Gov. Norman said the Bankers of Europe would probably agree that the cental banks should protect the weaker central banks continuously; that probably they would advise central banks for all countries; that also they would favor low rate policies for banks having high reserves.

C.S.H. raised point that this might involve a vote by Governor Strong of want of confidence in the Federal Reserve System which is not strictly a central bank; and in the rate policy of the Federal Reserve System which might keep in relatively high rates or even increase them, even while holding high reserves.

Governor Strong said he could avoid this.

Governor Strong and Governor Norman both said that if the central banks' suggestion of another monetary conference were adopted it would necessarily involve the question of debt adjustment. They both seemed to favor a general holiday for some period of time during which interest should not accrue.

The Board felt that this was clearly a matter for the Administration to settle, as it was not strictly a banking question.

Governor Strong suggested that the United States should call a Monetary Conference and that the suggestion of a general holiday should be boldly made then just as Hughes did in the 5 Power Treaty.

Finally we all agreed to C.S.H.'s motion that the Secretary be asked to set with the Board and thrash out the matter.

C.S.H. asked Governor Norman if Great Britain could declare a free gold market in the near future, if interest payments were postponed. He said he thought not.

Crissinger said the Cabinet had been discussing the matter and they seemed not to know just what to do. Platt said he had just asked Mellon to meet with the Board and he said he would decide after he had seen Governor Norman. Platt said Mellon thought that Governor Strong was to go the the conference merely representing the Federal Reserve Bank of New York. We all agreed he should represent the 12 Federal Reserve banks--otherwise the charge would be made that the Board had abdicated to Wall Street.

C.S.H. stated that he favored Governor Strong going to the conference but that there would be undoubtedly many matters that would come outside of the jurisdiction of the Board and that on these the Administration should tell the Board how to instruct Strong.

C.S.H. is perfectly satisfied that the real purpose of Governor Norman, out of the conference, is to secure a postponement of interest payments for a considerable period of time.

May 10 - Wednesday

Secretary Mellon told Board through Crissinger that he would not come to the Board meeting until he had consulted with Hughes and Hoover. Governor Norman and Strong kicked their heels together all day waiting to hear from Secretary Mellon.

Strong said he was sure the President would not approve of his going, and in any event he would not go unless and until the Administration told him its attitude as to possible postponement of interest payments and as to calling an International Monetary Conference to be held in United States.

C.S.H. told Strong he feared that if such a conference were called the whole subject of International Bimetallism would be brought up, and pointed out that in 1896 the Republican National platform declared for the gold standard only until a Bimetallic Conference could be arranged for and that Lodge insisted on adding the words "which we pledge ourselves to bring about."

May 11

Mitchell told me that Hoover told Norman that Great Britain should certainly pay her interest when due, and then they could both decide as to the other countries.

MAY 12

Governor Norman and Governor Strong have been having conferences with Miller and Mitchell for the past two days. Some I have been asked to and others not.

This P.M. I tried to find Governor Norris to tell him where we lived as he is to dine with us tonight. I found him in Miller's room and Miller had Mitchell with him. They asked me to stay. They were going over a memorandum presented by Governor Norman outlining a plan for calling a conference by Bank of England, stipulating certain things each particular member was to be asked to agree to along lines of cooperation, etc. of central banks, restoration of gold standard, etc. I had never seen this before. Several changes were suggested.

Governor Strong also had a form for his instructions, at the end of which it was recognized that the conference might declare that the gold standard could not be attained unless a final arrangement covering all International debts was made as a condition precedent. Governor Strong said the President, Mellon, Hoover all agreed the invitation when given should be accepted, but they favored it at a later date,--say September. They had not, however, definitely agreed as to his instructions.

I shall have to know much more about the whole matter than I know now before I can vote intelligently on it.

7:30 P.M.

Governor Norman dined with us, and we had a very pleasant talk. He reiterated his view that nothing can be done to get Europe back to the gold standard until the debt question is settled. He said that if Great Britain began paying interest it would create a very bitter feeling among the Allies, and while he did not say so directly, I have no doubt of his conviction that Great Britain is in no position to begin interest payments next fall. He said the payment of interest was a greater crisis than payment of the debt for the latter, of course, would be funded.

He asked me whether I thought it for the best interest of Great Britain to have the interest question decided now or to wait. I told him I was not familiar with the details and could not advise him.

May 19

Platt read to Board a letter from Governor Seay as to issue of national bank charter in April to the Commercial National Bank of Wilmington, North Carolina, Seay said:

This bank was originally the American Bank & Trust Company and applied for admission to Federal Reserve System. The Federal Reserve bank examined it and declined to admit it as its condition was so bad; it then applied to Crissinger; the national bank examiner reported against it on account of its condition; Crissinger gave it a charter on understanding that $100,000 be put up; only a small part put up in cash and balance in doubtful paper; the condition, therefore, was not complied with; that the bank's capital was wiped out and it was insolvent.

Voted to call this letter immediately to attention of Crissinger.

The President is W. B. Cooper, a brother of Wade Cooper of Washington who opposed William's confirmation. Another brother is Robert A. Cooper, formerly Lt. Governor of North Carolina and recently appointed on Farm Loan Board. Seay inclosed copy of letter from another brother, T. E. Cooper to Bethea, Vice President of Commercial National Bank , telling him to rush discounts into the Federal Reserve Bank and not to be too particular; that no credit inquiry was necessary if a note did not exceed $4,999; that if a note was that of a cashier of a bank, and the cashier owned a farm, he should be put down as a farmer, etc., etc.

It is astounding that Crissinger should have given a charter to such a bank. I fear it will turn out that politics are involved, and that it will be like the Max Mitchell case.

We asked Hoxton to find whether Crissinger ever asked Federal reserve bank for an opinion.

<u>May 21</u>

Hoxton says he called up Seay who says Crissinger never consulted Federal Reserve Bank of Richmond as to charter to Commercial National Bank of Wilmington, North Carolina.

<u>May 22</u>

Herson, Chief Examiner, made a report by letter to effect that the Federal Reserve Bank of Dallas had acted, as to collection of Notes, in the same way towards all banks as it did to the Clayborn National Bank,--so this absolves Ramsay and the Bank as to this particular charge.

<u>May 23</u>

Miller moved that it was of Board that discount rates of Federal Reserve Bank of New York could with advantage be reduced. His reasons were the high reserves and the psychological effect of reduction on market rates.

C.S.H. said he was not prepared to vote on this without hearing from the Federal Reserve bank as to conditions affecting rates.

C.S.H. moves to amend by requesting the Federal Reserve Bank of New York to report at once upon rate conditions and whether or not changes were advisable, giving reasons in full.

C.S.H. said if we adopted Miller's motion the Board would seem to be found to make good its Resolution and initiate lower rates; that while the Board had this power, it ought not to exercise it except under extraordinary or at least unusual conditions, and that he (C.S.H.) wished to learn, before voting, just what the New York conditions were.

Miller admitted, in answer to C.S.H.'s question that business was not being hampered by the existing 4-1/2% rate.

C.S.H. said he thought this 1/2% margin over 4-% could better be met later.

Platt said that later we might have to raise rates and that it would be easier to raise from 4 than from 4-1/2%.

C.S.H. believes that if that time comes there will be a demand to lower rates under 4%.

C.S.H. met Secretary Mellon last evening at dinner of Mimes Patten and he told C.S.H. he saw no reason for lowering rates at the present time. The Board then voted down C.S.H.'s motion.

On Miller's motion the Board voted in favor by 4 to 1, Governor Harding not voting. C.S.H. voted No.

Yesterday Governor Harding and Mitchell were strongly opposed to Miller's motion, and I do not understand their vote.

Although Governor Harding did not vote, he intimated that if voting it would be Aye.

May 24

H.R. passed Bill yesterday adding 1 member to Federal Reserve Board. Governor Harding told me that Mellon told McFadden to let it go through as President Harding said he could not appoint Governor Harding unless it did but if it passed he would reappoint him. Governor Harding said he told Mellon he should prefer not to be reappointed. I told Governor Harding he would be free to decline if he wished but he feared this would not be fair to the bankers who were working for his reappointment.

May 25

Federal Reserve Bank of New York asked Governor Harding to ask Board to give its reasons for favoring lower rates. Point well taken, as Board should give reasons for the opinion expressed to Federal Reserve Bank over C.S.H.'s adverse vote.

Miller talked at great length and became quite excited--said rates were out of line but did not say how; said merchants were entitled to lower rates; said it was wrong to keep up rates for fear of speculation in call loan market.

C.S.H. replied that was not his reason for keeping rates at present level; that business seemed to be moving satisfactorily towards better conditions and frozen credits were being liquidated, and there was no demand for lower rates.

Governor Harding said Case of New York Federal Reserve Bank said he would agree to lower rates if the Federal Reserve Banks would throw 500 millions of Government bonds into the market to keep money off the stock exchange.

June 29

The private Secretary of Senator Watson of Indiana telephoned the Board's office, stating that the Senator desired to know the politics of each member of the Board. Mitchell at once moved ironically that he be told it was none of his business. Finally it was agreed that the operator who took the message reply that he did not know. On inquiry we found this was just what he had said. The whole Board took it as an insult.

August 7

Governor Harding's term expires Tuesday night, August 9, at midnight. Some months ago, Secretary Mellon told Harding it was settled that he was to be reappointed. This was just after the passage of the Act adding a new member to the Federal Reserve Board. From time to time Secretary Mellon told Harding he was trying to have the President send in the name of the new man and Harding's together. Senator McLane told Harding that this ought to be done and that he would see that the two names were acted on together and would hold up the new name until both were considered. Senator Heflin, inspired, as we believe, by John Skelton Williams, has been attacking Harding almost every day. About two weeks ago Secretary Mellon told Harding the new name had been agreed upon and that both would go in soon. Last week Secretary Mellon gave out an interview or rather an impersonal dispatch saying Harding would be reappointed. Meantime nothing had happened. Secretary Mellon told Harding it would surely be made last week. On Saturday Under Secretary Gilbert told Harding that Secretary Mellon spoke to the President but that he threw up his hands and said he was too busy with the railroad and coal strike to think of anything else. Secretary Mellon's daughter told Margaret Harding her father was very angry with the President. Secretary Mellon said about the same to Governor Harding and added that it would make the public believe he had little influence with the President. It is evident to me that President Harding wants to appoint some good Republican, treating our Board as part of the Spoils System, but that he does not quite dare to do it. Meantime he is allowing Harding's term to lapse and watching Senator Heflin's attack in the hope something may turn up to relieve him of the necessity of reappointing Governor Harding.

It is a shocking case of weakness--the Press is almost unanimous for Governor Harding.

August 7

Ten days ago Senator Ramsdell wrote me and, I believe, the other Board members asking for lower rates on Farmers paper, i.e. rates as low as were in effect at New York (4-1/2), the rates being 4-1/2 at some banks and 5 at others. He also thought that even 3-1/2% would be just.

At the Board meeting Tuesday August 1, I moved that a commodation rate of 3-1/2% be established on loans secured by wharehose receipts covering staple agricultural products where the member bank has not charged its customer over 6% on such paper. Finally, on Governor Harding's earnest suggestion it was decided to frame such a regulation but in first instance to send the draft to the Federal Reserve banks for comment and suggestions. This was sent out August 2. (See Scrap books)

On Saturday Senator Heflin in a speech in Senate stated that he believed Governor Harding speculated in cotton during the period of deflation. This A.M. Governor Harding sent Senator McLean a letter denying this.

Secretary Mellon this P.M. went to White House to ask for appointment of Governor Harding.

August 8

Governor Harding says Mitchell saw Mellon yesterday P.M. and he said had seen President who said he would not commit himself, but added, "I think Governor Harding will be reappointed."

Governor Harding just told me that Adams and Upham, Chairman and Treasurer of Republican National Committee all to meet President today and Strongly urge Governor Harding's reappointment.

Mitchell has just come in; he read to me President Harding's letter to him of December 9, thanking him for keeping politics out of the Federal Reserve Board (alluding to the Comstock appointment) and then said he knows that President Harding wrote it in a sarcastic sense and that he is satisfied that the President is still very ugly about Comstock and that this is the reason he does not want to reappoint Governor Harding. He added that Republican pressure was so strong that he thought Harding would yield and he believed he would send in his name today. He said Harding was surrounded by very poor political advisors.

Governor Harding said this P.M. he was satisfied that President Harding wants to put in Crissinger as Governor and Welliver or Comstock as Comptroller and then turn the Federal Reserve Board into a political machine using all offices as spoils.

5.P.M. Governor Harding says Mellon just told him the President has surrendered and said his only doubt was whether the fight over his confirmation might last two or three months and block business in the Senate; that he wished Senator Underwood would see him about this; that he told Mellon he had an appointment with Underwood this evening and he would have Underwood see the President early tomorrow morning. Governor Harding said Mellon said his name would be sent to senate tomorrow if Underwood's interview with President was satisfactory.

Crissinger then spoke of Governor Harding and said it was pathetic to see him, evidently measuring to see him want reappointment so badly. I asked when the new appointment would go in. He said he had no idea, that he had not seen the President for three weeks. He seemed to think it strange that Governor Harding so wanted it, for he said sometime ago Governor Harding asked him to tell the President he would be glad to resign; that he did so but the President told him to tell Governor Harding to stick; that later, Governor Harding said he did not want to resign under fire.

I rather gathered that Crissinger felt the President would not reappoint Governor Harding and that he was trying to sound me on it.

I told him that, even from the basis of practical politics, it in my opinion would be a fatal mistake not to reappoint Governor Harding; that it would be interpreted throughout the country as a blow at the Federal Reserve System and as any expression of confidence in Senator Heflin and John Skelton Williams and of condemnation of the Board; that Governor Harding had made a splendid record; that not to reappoint him would injure Senator Lodge in his campaign as he was originally bitterly opposed to the Federal Reserve System and had attacked the bill in the Senate; that I feared there would be a determined effort to induce the Democratic Party to come out for an "easy credit" policy, condemning the Federal Reserve Board and that President Harding's failure to reappoint Governor Harding would be cited as an approval of "easy credits" by President Harding which would be difficult to answer.

I am convinced Crissinger was sounding me for the President.

Governor Harding told me he saw Senator Underwood last nite; that he was pessimistic about his confirmation; that if Heflin could get 15 democrats, he could stave off confirmation until March 4 next; that he felt that senatorial courtesy was involved, although he had told Heflin he should vote for him; that he said he must realize that he had to live with Heflin which made it hard to fight him, etc., etc.

The Governor said he told Underwood that the Farm Bureau Corporation was for him and Howard and that this made Underwood seem less despondent. Governor Harding also reminded him that an extra member was put on Federal Reserve Board on a kind of gentlemen's agreement that Harding also should be appointed and this would be sufficient justification for his insisting that the two names should stand or fall together. Finally, Underwood seemed to feel better about it and said he would see the President this A.M.

Platt, Mitchell and I sat with Governor Harding between 3 and 4 hoping to hear from White House but nothing came. At about 5 Governor Harding went into Mellon's office and told him his desk was cleared and he was going to New York tonight. Governor Harding came in and told me of this; he said Mellon said he was utterly at a loss to understand why the President had not sent in Harding's name this day.

Governor Harding then told Mellon that if President Harding should send in his name and it should be held up, he certainly, after three or four weeks would ask the President to withdraw it. Mellon said that was good suggestion and he would communicate this. I think Governor Harding made a mistake in saying this for the President would send in his name and easily could arrange to have it held up.

At ten P.M. I called up Governor Harding at his house but there was no answer,--he had evidently gone to the train for New York.

August 10

Mitchell told Platt that Senator Underwood told President Harding that Governor Harding should be reappointed and that he would certainly be confirmed.

Platt just told me that Senator McLean said the failure to send in Harding's name was a damned outrage.

August 11

Washington Post says President so busy with railroad strike he will probably make no appointment for several weeks!

August 16

Asked Governor Harding to lunch at Cosmos Club. He showed me a letter from Federal Reserve Agent Wills enclosing a copy of an answer by President Harding to a prominent Ohio Representative (Carmi Thompson) strongly indorsing Governor Harding for reappointment. The letter said he (President Harding) fully appreciated the strong indorsements for Governor Harding but that there were two sides to the question and he would give the matter most careful consideration.

Governor Harding said that his nomination had been signed by President Harding, but at last minute had been held up. He said Under Secretary Gilbert told him that last Friday Secretary Mellon had sent President Harding another letter for Governor Harding--almost mandatory in its terms.

Governor Harding said the President was getting even with him for the refusal to appoint Comstock in Federal Reserve Bank of Kansas City. Also said he had several good offers under consideration but should wait until President Harding had definitely settled the question. Also said that if nomination and confirmation went through, he would not accept the office unless given the assurance that he would be redesignated as Governor.

I think Governor Harding goes too far here. An assurance of designation as Governor for ten more years--eighteen in all--is more than any President could properly give. All that Governor Harding has a right to expect is reappointment as a member for 10 years. He seems to think such a designation is necessary for his vindication. On that theory I should have accepted the redesignation of Wilson which he said he would give me. Governor Harding said he had suggested to Platt to write Kettig of Birminham and ask him to show what good reason there was for continuing the Federal Reserve Bank branch there; that this would stir things up and the bankers would bring great pressure on Senator Heflin's brother and force him to drop his opposition.

I told Governor Harding this would not do at all and, if done, would surely injure him as everyone would see through it and it would put the Board in the position of political manoevering--which it never had done and never should do; that it would give Senator Heflin a real cause for greivance--of which he had none now--and that it would be disasterous to Governor Harding.

Later, I told Platt the same. He said he rather agreed with me, but thought he might write Kettig that he had heard some Insurance Company wanted to buy the building occupied by the Branch and that he wanted to know whether it would be advisable to sell and give up the Branch.

I told him I should never agree to this and that it would be crazy to do it.

August 21

Mitchell said this A.M. that Carmi Thompson, during a dinner with President Harding, last week, strongly urged Governor Harding's appointment and said it was a great opportunity for a Republican President to demonstrate that the Federal Reserve Board was absolutely disconnected with politics, but that the President said this did not impress him at all, showing his desire to make the Board a part of the spoils system!

August 25

Boston Transcript severely criticises President Harding for not reappointing Governor Harding, says reason is anger because Governor Harding would not appoint a politician to office under Federal Reserve Board. (Evidently refers to Comstock but does not mention his name specifically.)

September 15

Governor Harding tells C.S.H. that Mellon sent for him yesterday and said he was still confident President Harding would reappoint him, and would give him a recess appointment after Congress adjourned--within a few weeks. Governor Harding told Mellon not to push him too persistently and not to hesitate to drop his name at any time, but that Mellon said he certainly would not drop his name. Mellon also said Mr. Edward McLean had told the President it would be political folly not to reappoint him and that the President seemed very much impressed.

Platt shows me a copy of a letter to Senator Smoot in reply to a letter from him asking as to certain of statements of Williams quoted by Senator Heflin in an attack on Governor Harding and the Board delivered in Senate last Tuesday, September 12. Platt's letter was personal and not official. In it, he said that Williams was guilty of deliberate falsehood in some of his statements. I suggested softening this somewhat by saying intentionally misleading or something to that effect.

September 16

Platt said he had sent his letter to Smoot but did not say whether he had adopted my suggestion.

September 20

A day or two ago, Senator Owen who was with Mr. Quick, former member of the Farm Loan Board, told me that if Governor Harding was nominated he would vote against his confirmation and would do his best to defeat him. He added, however, that if nominated he would undoubtedly be confirmed.

I told him of Senator Heflin's recent speech in the Senate claiming that the Bill, permitting Federal Reserve banks to accumulate a surplus up to the subscribed capital, had been sneaked through Congress at the last minute with the help of Republican votes, and reminded him that the House and Senate were then Democratic and that he had charge of this bill in the Senate Committee and reported it. I urged him to set the matter straight in the Senate, as Senator Heflin had really impugned his good faith, but he said few read Heflin's speeches and seemed to take no interest in the matter.

Later Platt wrote him fully about this.

On looking up the Record Platt said Heflin himself had voted for this bill, being, at the time, a member of the House of Representatives.

September 23

H.P.H. and I motored to Cohasset and lunched with Governor and Mrs. Morse.

Governor Morse said that Crissinger positively promised to give a charter to Max Mitchell and finally was so impressed with the protests that he wrote Matt Hallowell, Counsel for Mitchell that he would give no charter unless the Federal Reserve bank favored it. Hallowell told Governor Morse this really relieved him very much.

September 29

In Boston attending group conference of Federal Reserve banks of Atlanta, Richmond, Philadelphia and Boston, Sat with meeting all day.

In evening we dined at Union Club with Governor Morss and Curtiss. Governor Seay of Richmond spoke of Comptroller Crissinger and First National of Wilmington, North Carolina. He intimated very clearly that politics were at the bottom of the matter and said that Crissinger was very angry because the Federal Reserve bank had informed the Board as to its rotten condition. He said Crissinger had taken away the Chief National Bank Examiner from Richmond and had brought him to Washington, so that Richmond was now the only Federal Reserve City which did not have a chief examiner.

Governor Strong also said that it was rumored that Crissinger was to arrange to have the Federal Reserve Act amended so as to take away the power of Federal Reserve Banks to examine member banks!

Governor Morse spoke about the acquisition of the Park Trust Company of Worcester by the Merchants National Bank. This bank had acquired the assets of the Trust Company at a very extravagant figure. Federal Reserve Agent Curtiss was on a committee to look into this and reported that the Trust Company was in rotten condition. Notwithstanding this, the Comptroller allowed the purchase to stand, but later Curtiss said the directors had to put up a large sum of money to make good the condition of the national bank.

Governor Morse intimated that this also was a question of politics like the Max Mitchell case.

Governor Morse also spoke of the petition for admission of the Federal Trust Co., which had absorbed the Cosmopolitan Trust Company and the Back Bay National Bank and had arranged to have Maloney, former National Bank Examiner, and now clearing house examiner, as its President; that Maloney came to him with a plan of reorganization which provided only one million of capital against twanty millions of deposits; that he told Maloney the Federal Reserve bank would never approve this; that finally Maloney provided 1-1/2 millions of capital which left the deposits about 20:1-1/2 or about 13:to 1.

Governor Morse said this ratio was too high but all of three of these banks were in a very weak, extended condition and if something were not done they would all fail which would be a serious blow to Boston banking already injured by the other Trust Company failure; that the clearing house committee had examined the three banks and that Wing and Ripley had reported to him that the clearing house committee unanimously requested him to approve this consolidation to protect the banking situation in Boston which could not stand three more bank failures; that this recommendation put the responsibility on the clearing house to see the consolidation through and protect it, and that he should advise the Board to approve it. Federal Reserve Agent Curtiss told C.S.H. he hoped the Board would act quickly and favorably.

October 4

Governor Harding called; said President Harding sent for him last week; had a long talk with him. President Harding said: At first had no idea of appointing him. Then the pressure became very strong.

Mellon was 150% for him; also Senator Reed (Pennsylvania), etc., etc. Also much pressure against him. Felt that attacks of Heflin and Williams would put him in position of agruing with them if he failed to reappoint him. Represented to him that reappointment would take situation out of politics, but he felt to appoint him before the coming election would plunge whole matter into politics. After the election we'll take up the matter. President Harding gave no assurance, however, that he would reappoint him.

October 10

Board voted to refuse to amend regulations to admit special savings accounts in California State banks as "savings accounts" under Federal Reserve Act, but held they were demand deposits carrying necessary of reserve as such. The Board's definition of savings accounts required not only reservation of 30 days notice but also presentation of pass book and prohibited checking on such accounts.

Under California law the special accounts we segregated and were a prior lien over demand deposits, but the law did not require presentation of pass book and permitted checking. The law further provided that if the 30 days notice was put in and the bank could not pay the deposits at the end of 30 days, that it could make no more loans and discounts until paid.

Chairman Perrin strongly advised changing the regulations so as to give these special savings accounts the benefit of the 3% reserve. He said these deposits did not draw down the ordinary demand deposits of the California banks, and that they should have the benefit of the 3% reserves, especially under Section 9, as to statutory powers of State banks going into the System.

Perrin favored keeping the higher reserves,--as demand deposits against national banks as their deposits were not segregated, and, moreover, if a bank put in the 30 day rule and then could not be it would be insolvent, while under California law such a result did not mean insolvency at all.

C.S.H. said that under Federal Reserve Act where a bank gives notice of right to reserve 30 days notice, that deposit is not a demand deposit, but a savings deposit, and that while he thought the regulation was right as to national banks, it should be amended as to State bank savings accounts provided by the law of any State, where segregation was required. C.S.H. moved to amend the regulations and was defeated, or rather, Dr. Miller moved not to amend the regulations in manner suggested by Perrin. The motion not to amend was carried:

Platt, Miller and Crissinger, Aye.

C.S.H. and Mitchell, No.

Later Perrin told Platt this might mean the withdrawal of Sartore's bank, the   Trust and Savings bank of Los Angeles and other large State banks. Platt seems rather to favor reconsideration and the matter will probably come up again.

October 12

Federal Reserve Agent Rich called and spoke of three new charters to national banks in his district granted by the Comptroller, Crissinger, in spite of an adverse report of the national bank examiner and the Federal Reserve Bank.

He said there was absolutely no necessity for these banks and the charters were given by the Comptroller purely because of political influence. He said also the matter was discussed by the other Federal Reserve Agents and that every Agent spoke of similar action of Crissinger in their Districts.   (End of Vol.#6)