

The Papers of Charles Hamlin (mss24661)

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CHARLES HAMLIN
PAPERS

Miscellany

Box 357 Folder 7

WRITINGS--
"MEMORANDA CONCERNING THE
FEDERAL RESERVE BOARD..." DIARY
Vol. 7, 13 OCT. 1922 - 21 DEC. 1923
(PP. 530 - 579) (11 OF 19)

said he saw President Harding yesterday, I think, and after a few minutes talk Mitchell said that he felt he had done some things while on the Board which he, President Harding, had not approved of; that President Harding said he had been greatly disturbed because the Board had declined to carry out his recommendations, evidently thinking or appearing to think that he was the appointing power for the Federal Reserve System; that he had promised the Class C directorship at Cleveland to Mullens while the Board appointed Knight and full knowledge of President Harding's wish; he also spoke of our not appointing Leffingwell in New York: he admitted that our appointment of Hord at Kansas City was a good one.

Mitchell explained to him that the Board had not reappointed Wolfe of Cleveland because of alleged unfair attacks on President Harding (circulating the Negro rumor, I think) and President Harding said he would have been very sore had we appointed Wolfe. As to Leffingwell, Secretary Mellon and the whole Board wanted to appoint him and C.S.H. especially as an offset vs. Governor Strong, but Leffingwell was counsel for a number of banks and, as C.S.H. remembers, finally Leffingwell himself decided he could not accept and still act for banks.

Mitchell said Christian, President Harding's secretary, had filled up President Harding with idea that he had power to make all Federal Reserve appointments, and that in his opinion Christian was a "stinker"!

April 30, Monday

Hearing on establishment of an agency of the Federal Reserve Bank of Boston at Havana, Cuba. Present, Governor Harding, Norris, Welbur and Federal Reserve Agent McCord and Deputy Governor Case of New York.

Governor Harding opened the discussion saying that General Crowder felt it vitally important to have such an Agency established; that the State Department offered no objection; that the Cuban Government had invited his bank to establish such an agency; that the United States through the Platt amendment was deeply interested in Cuba; that almost the entire circulation of money in Cuba was America currency, there being no Cuban bank notes, no central bank, and a few Cuban silver dollars of some weight and fineness as ours; that the paper U.S. money then consisted largely of National bank notes and probably from 40 to 50 millions of Federal Reserve Notes, largely of the Atlanta bank; that the establishment of a Federal Reserve Bank agency would be of great help to American banks in Cuba in that they could buy and sell cable transfers through the agency, thus obtaining spot cash and that the agency would be of great help in keeping up the quality of the paper currency, especially Federal Reserve notes, now in filthy condition; that 70% of Cuba's foreign trade was with the United States but that the Royal Bank of Canada did 50% of the banking business; that Cuba did not allow its banks to issue notes and that the central banking system arranged for by General Crowder and himself had fallen through; that following the establishment of such an Agency he believed many more American banks would establish branches in Cuba and aid American commerce; that Boston was greatly interested in developing its trade with Cuba and had regular S.S. service there; that Boston was a lending district and, therefore, better situated to buy and sell cable transfers--which he estimated would amount to between 2 and 300 millions yearly, than the Atlanta bank; that Boston's future lay in developing its sea commerce;

that its directors were unanimously and enthusiastically in favor of such an agency; that Curtis, Bullock and Washburn had studied the situation in Havana; that the Federal Reserve Bank of Atlanta's district had the largest population except Chicago; that it needed all its resources for its own development.

Governor Norris said his bank did not desire an agency for itself but he favored some agency of the Federal Reserve System in Cuba.

Governor Wellborn opposed a Boston agency, saying that there were probably 40 millions of its Federal Reserve Notes in circulation in Havana but that if Boston were given the agency these notes would gradually be displaced by Boston notes and his bank would lose the gold against which the Federal Reserve notes were originally put into circulation in Cuba; that his district had an enormous business with Cuba,--vastly greater than Boston; that his directors had applied for an Agency in Cuba in 1921 which was declined by the Federal Reserve Board.

Governor Harding replied that the bulk of the export traffic was from other parts of the United States through the Atlanta district and not from it; that the size of the ship entries was caused by fact that there was in effect a ferry service between Havana and United States; that tobacco was the principal import; that so far as putting out Federal Reserve notes was concerned his bank would be willing to put out only Atlanta Federal Reserve Notes or notes of other Federal Reserve banks which wished to participate. Governor Case deprecated permission to a Federal Reserve Bank to establish an agency in com-

petition with our member banks, and spoke of risk in buying bills because of exchange fluctuations; he said that the Federal Reserve Bank of New York had always utilized the Atlanta bank in shipping notes to Cuba. He finally admitted that the two member banks in Cuba, the National City and the First National of Boston- just permitted - wanted their agency as a distinct benefit to themselves as it would give them spot cash for cable transfers and acceptances. It was also pointed out to him that there would be no exchange fluctuations as all bills would be payable in dollars.

The Board then took up the matter. Platt said the Treasury wanted this done as also General Crowder and the State Department - although latter merely said it had no objection.

C.S.H. made a rough draft of permission based on statements of Governor Harding and read it to Board. It gave power to deal in cable transfers and eligible bills of exchange.

Dr. Miller said should be restricted to eligible prime banker's acceptances and they should be secured by shipping document. The Board finally agreed on this and Miller was asked to call up Case in the morning and read draft to him.

May 1, Tuesday

Miller read draft over telephone to Case who said that, without waiving his general objections to an Agency he thought this limitation of its powers very satisfactory but wished to consult Warburg.

Platt called up Warburg who said he thought the limitation of powers was all right but did not want to give any general expression of opinion because of his relations with Wing. Counsel was asked to put the ruling into shape.

All agreed that all Notes must be issued notes and not unissued.

Crissinger and Dawes took oath of office, and Crissinger was designated as Governor.

May 2, Wednesday

C.S.H. presented revised draft drawn by counsel which put in cable transfers as an implied power from right to buy and sell bankers acceptances.

Miller read this to Case in New York who said the form was satisfactory but that some bankers, e.g., Mr. Garrah wanted it changed so that the agency could buy secured bills drawn on banks but not yet accepted, as otherwise it would be to prefer banks having branches in Cuba which his did not have. Finally Case asked that the matter be postponed until New York bankers could be heard by the Board. Warburg also called up Platt and said he had been under the impression that it was a member bank agency and not a Federal Reserve bank agency the Board had in mind,--when he talked with Platt, and that he seriously doubted advisability of designating a Federal Reserve Bank agency.

The Board finally voted to assign next Monday for a hearing at which Case and the New York bankers and Governor Harding and Boston bankers should be heard.

May 3, Thursday

Governor Crissinger brought up matter of 3% reserve vs special savings deposits in California banks. He said the matter had been decided by vote on October 10, 1922, no notice of which was sent to Perrin, and again on December 6, 1922 of which Perrin was notified. These votes C.S.H. & Mitchell voted against, Crissinger, Platt and Miller voted for.

The last vote read: "That the Board make no change in its present regulation defining savings deposits and that the so-called special or demand deposits against which must be carried the reserve required by the Federal Reserve Act to be carried against demand deposits."

The banks asked us to hold up our final decision until arguments on the law and facts were held. Briefs were filed and oral arguments at meeting of Governors.

C.S.H. moved to reconsider the vote and after discussion reconsideration failed by a tie vote, Crissinger and Platt, No; C.S.H. and Miller, yes. Miller explained his vote to reconsider and said he favored the decision and vote rendered on December 6, 1922, and voted to reconsider merely to give Platt the opportunity to offer a motion as to the form in which final notice should be sent to Perrin. Governor Crissinger and C.S.H. explained to Miller that no reconsideration was necessary for Platt to offer this motion, but he would not change his vote. Finally Platt offered a motion to effect that Board held that these accounts were not savings accounts under Section 19, Federal Reserve Act.

C.S.H. said this was in proper form, but Governor Crissinger thought it better merely to say in effect that the Board declined to reverse its decision of December 6 or to that effect.

Platt's motion failed 3 to 1, C.S.H. voting against it on the merits, and C.S.H. was inclined to think that Governor Crissinger's motion was simpler, and C.S.H. felt that the vote of December 6, 1922 could be construed as an exercise of judgment on part of Board and not as a ruling of law.

Friday, May 4

Met Under Secretary Philipps at dinner at Mrs. Hennen Jennings and spoke to him about designating a Federal Reserve Bank Branch at Havana. I told him that Platt said he had talked with him and had shown us a copy of the cable General Crowder sent him (Philipps) and added that the State Department had no objection to such a designation. I then said that the first phase of the matter was an international one, because of the relations of United States to Cuba and the fact that we were supplying Cuba with practically all of her circulating medium; that I thought the State Department should do more than say it had no objection to the designation and should tell the Board whether it wished such a designation to be made and that I had asked Governor Crissinger to speak with him about this. He at once said that the State Department wished to back up General Crowder absolutely and that if Crissinger would talk with him, he as representative of the State Department would say that it favored such a designation. I told this to Crissinger who said he would see Philipps.

May 7, Monday

At instance of Governor Case in behalf of certain New York Banks another hearing was held today on Boston petition to establish an agency in Cuba. A largely attended hearing, New York bankers: Governor Case, Mitchell (National City Co.), McGarrah and a representative of Inter-America Foreign Banking Corporation; many Atlanta district bankers, Ex-Senator Hope Smith for Fulton National, Atlanta, Addeleston for Federal Reserve Bank of Atlanta. Governor Harding for Federal Reserve Bank of Boston, Federal Reserve Agent Curtiss, and a committee of Boston Clearing House--Wing, Aiken and Bancroft. Governor Crissinger called on Harding who presented case of Boston with brief of Weld, his counsel. Governor Case said his bank did not want an Agency and read a letter from Warburg stating that Section 14 (e) was taken from Aldrich Act which he drew, and that he meant and the Federal Reserve Board meant by "Agency" some bank other than the Federal Reserve Bank. The report of the Federal Reserve Board Committee on Foreign Agencies as per press statement of Federal Reserve Board dated October 12, 1915 (1 F. R. Bulletin, 348), however, shows conclusively that the committee had in mind agencies of Federal Reserve banks. The committee said "in trade centers where American banks are not established it might be proper for Federal Reserve banks to appoint joint correspondents or Agents in order to facilitate the development of American acceptances in such places." It seems to me this could not refer to foreign banks but to Federal Reservebank agencies. This is clear by fact that this was a concession to McAdoo who wanted Federal Reserve Agencies in South American countries even though American banks were already there.

Mitchell, of the National City Bank, favored keeping Cuba supplied with our currency but opposed giving an Agency any power to buy or sell cable transfers or bills or acceptances, on account of the competition between Federal Reserve banks and other banks. It was explained to him that the Board if it granted an agency would restrict it to dealings with banks and he was asked what competition with banks was involved when every transaction with banks was on the initiative of the banks themselves. He could not answer this but vaguely hinted that if all transactions were limited to member banks or at least American banks he might favor it. Later, after Mr. Durrell's (his Cuban manager) testimony he practically withdrew all objections, admitting that such an agency would enable him to reduce his reserves from 25 to 10% and he even said he might contribute to the expense of such agency if asked.

Governor Harding pointed out that if we gave any monopoly to American banks it would cause a bitter feeling in Cuba as it would mean a fight against Canadian banks and also the Cuban banks. Mr. McGarrāh also opposed generally an Agency.

Mr. Ottley and Hope Smith questioned somewhat whether we had power to create an Agency but if we had, they wanted it for the Atlanta Bank.

Wing, Aiken and Bancroft spoke for Boston and said there would be no competition between Federal Reserve Agency and the local banks or branches.

In the afternoon Mr. White, representing the State Department, read letters and cables from General Crowder, stating it to be absolutely necessary to establish such an Agency and favoring even rediscounting by the Agency. He represented that the banks there were in combination and were charging from 10 to 12% for 1st class commercial paper. White said that the State Department felt that from the point of view of the political situation (i.e. internationally) such an agency was most desirable. Later we heard a Tampa cigar manufacturer who said the banks in Cuba were in a combination and charged for collections 3% and 1/8 per cent for commission!

May 8

Curtiss called me from Boston and said he saw Mitchell (National City Co.) on train and that he said he considered an agency absolutely necessary, but he did not care whether Boston or Atlanta had it; that he had favored Atlanta as to note issue because it had agreed to furnish him notes in Cuba, if it were designated, absolutely free of charge. Curtiss said 1/8% should be charged.

At meeting this A.M. Governor Crissinger said the President had received many telegrams about the designation and knew nothing about the facts; that he had talked with him last night and President Harding said he would take the matter up with Hughes and the cabinet this A.M. and asked us to take no action until we heard from him; that he had also talked with Mellon. Platt, therefore, withdrew his motion to redesignate Boston.

On Saturday May 5, Ned and I were walking across the Park to the Metropolitan Club and met Secretary Mellon and walked along with him. I told him the White House had just announced the appointment of

Cunningham to the Federal Reserve Board. Mellon seemed perfectly amazed, and it was the first he had heard of it. He asked me who he was and said he knew nothing about him although he had a vague idea he may have heard or read of his name as a candidate. This is politics on the part of President Harding with a vengeance.

In the afternoon of Saturday Mr. Cappelle of Kansas, an unsuccessful candidate told me Cunningham introduced and put through a resolution, at a meeting of the Iowa Farm Ben. Federation, condemning the subsidy bill, President Harding's pet hobby! He also said Cunningham was Senator Brookhart's right-hand man.

May 9, Wednesday

Governor Crissinger read Board a letter from President Harding to him stating that he had brought up the matter of the designation of an agency in Cuba by some Federal Reserve Bank in its bearing on the political (i.e. International) aspect and that they were unanimous in the belief that such an agency was most desirable, and he requested the Board to create one. He said he had no suggestion to offer as to which Bank should be designated, but he hoped the Board could arrange it so as to create as little friction as possible.

Crissinger added that President Harding told him the Cabinet all felt Boston should be designated and that Secretary Mellon told him he was strongly in favor of Boston.

C.S.H. then moved that, in view of the communication from the President, and after due consideration of the banking considerations involved, the Federal Reserve Board designate an agency of one of the Federal Reserve banks in Havana, Cuba. This was voted unanimously,

after C.S.H. had explained that he was satisfied that Warburg's letter did not sustain his point that the Federal Reserve Act Section 14 (e) in referring to Agencies meant agencies other than Federal Reserve banks, and pointed out that the Federal Reserve committee of which Warburg was chairman expressly reported that under certain circumstances therein enumerated the Federal Reserve Board had the power to establish a Federal Reserve bank agency in a foreign country. The Board then took up the question as to which bank to designate. Platt moved that Boston be designated. After discussion it developed that every member favored the designation of Boston. It was finally decided to call the Governor and other officers of Boston and Atlanta to Washington next Tuesday but not to vote formally until they came and then to tell them the decision and have them consult together to work out the details so as to keep Atlanta note issue in Cuba unchanged.

Curtiss called me up in the afternoon to ask what our telegram, which he had just received, meant. I said I could not say anything until Tuesday. He then asked if I remembered that Boston had not asked for a joint agency and I said I understood this fully.

Later I saw Crissinger and said I feared Governor Harding would believe we were going to give an agency to both banks and would get his directors to withdraw their application.

Crissinger advised me to call up Governor Harding and tell him metaphorically to "keep his shirt on" and come down Tuesday.

I then told Platt about Curtiss and Mitchell came in. Finally, Mitchell telephoned Curtiss and said that without committing the Board he felt that matters were going along all right and to tell Governor Harding to bring with him Tuesday Bullens or some practical man to work out all necessary details with Atlanta.

May 10, Thursday

Dr. Miller delivered a lecture to the Board. He said the real reason for rediscounting was to obtain Federal Reserve notes; that the Board had virtually surrendered its control over issue of Federal Reserve notes to the Federal Reserve banks and had never exercised the faintest restraint; he said the Board had acted all these years in a shamefully negligent manner; that inflation was caused primarily by unrestrained issue of Federal Reserve notes.

C.S.H. said he would reply to this attack on former members of the Board later. Dr. Miller must be crazy!

He thoroughly approved the letter of Governor Harding to Chairman of Banking and Currency Committee, August 8, 1919, stating that increased volume of Federal Reserve notes in circulation is the effect of advancing wages and prices and not their cause (5. F.R. Bulletin 702.)

So also the Federal Reserve Bulletin for October, 1919, which was edited by Dr. Miller, stated that an attempt to regulate prices by refusing to furnish Federal Reserve notes, might impede an upward movement in retail prices (although probably it would only cause recourse to adopt devices such as due bills or bearer checks, etc.), but if successful it would be so at cost of business disaster; that wholesale prices are not appreciably effected by the volume of pocket money; that it is the volume of circulating bank credit that influences the trend of wholesale prices; that such note restriction would break down organization of trade by making it difficult for retail prices to adjust themselves to changes; that the pocket money of the country is a function of the general money volume of the country's business;

that to attempt to turn it into an instrument of credit control would be a perversion of the currency function of the banking system.

(5 F.R. Bulletin at 913) So also Dr. Miller said in his address at Chicago on September 25, 1919 before the American Association of the Baking ^(sic) industry that credit expansion in U.S. has taken the form of Banking credit in shape of Bank deposits; that expansion of the currency has played a very subordinate role; that it is no exaggeration to say that expansion of the currency has been a consequence rather than the cause of our high prices; that so far as expansion of the purchasing medium of the country is responsible for our great rise in prices, it has been and is purchasing medium in the form of Bank deposits and not in the form of the Federal Reserve note.

May 14, Monday

Mr. James and Mr. Cunningham took the oath of office as members of Federal Reserve Board.

May 15, Tuesday

Hearing on petition of Federal Reserve Bank of Boston for Cuban Agency. Governor Wellborn and Addleston, Governor Harding and Bullens were present. Crissinger told them that the President and State Department felt that the establishment of an agency was most important from the point of view of Internation^{al}/policy, and that the Board, after careful consideration of all the evidence had tentatively reached the conclusion that Boston and not Atlanta should be designated but that such designation should not be allowed to interfere with the circulation of Federal Reserve notes of the Atlanta bank and he asked the two banks to confer and agree upon some method to work this out. Governor Harding

said that Atlanta had only about 40 millions in circulation there and that probably 100 millions would be required as the Federal Reserve note would probably displace other American money there. He suggested that Dallas be allowed to put out notes to a maximum of say 25 millions, the balance to be furnished by Atlanta.

Crissinger asked the members to say a word and Miller said if it were only a matter of currency he would vote for Atlanta, but if only a matter of banking, i.e. purchase of bills, etc., Boston should clearly be designated; that he looked upon the banking functions as the principal functions and that Boston clearly should be designated, presuming, however, Atlanta's status as to Federal Reserve note.

Crissinger then called on C.S.H. who said, coming from the Boston, he had purposely refrained from taking any part in the discussion feeling that it would be better to have his associates form an independent judgment upon the evidence before them; that the conclusion that Boston should be designated was reached unanimously and that he fully concurred in the decision; that Atlanta was nearest to Cuba in propinquity but that 75% of the exports from Cuba to United States and about 60% of the imports from U.S. to Cuba went to and came from Philadelphia, New York and Boston; that bills naturally were financed where the goods went; that the only American banks now in Cuba were New York banks and the First National Bank of Boston; that, in his opinion, the principal question was assistance to the trade between Cuba and United States and the question of Federal Reserve notes was only incidental; that if this were a contest between

Philadelphia, New York and Boston, he would be very much puzzled as to both Philadelphia and New York did a much larger foreign business in Cuba than did Boston; that Philadelphia and New York stated they did not want such an agency and that, therefore, he felt Boston's petition should be granted. Mr. James told C.S.H. that although he had always been a Democrat, he had voted for President Harding in the last National election.

May 18, Friday

Ex-Secretary McAdoo appeared before Board and talked with us from about 10:30 to 1:30 as to the Bank of Italy's applications for branch banks. He complained bitterly of Board's decision as to (1) the Sacramento case and (2) the Yuba City case. In (1) the Board declined application to permit an agency in Sacramento on ground that it was beyond the territory of the municipality of San Francisco, (it had granted an application for Pasadena, however, to a Los Angeles bank); in (2) the Board declined application on ground (a) Perrin's disapproval; (b) Statement of Comptroller Crissinger that Bank of Italy had tried to buy an existing National bank there but failed and now was trying to establish a branch there to crush it out of existence.

He argued that the Federal Reserve Board was bound to accept decision of State as to necessity for further banking facilities, and that in passing on a Branch application, the Board could only consider whether the Branch would impair the condition of the parent bank. He denied that Board had lawful power to divide State into spheres of influence as to establishment of Branches. He said Board had discriminated vs Bank of Italy in giving so many local agencies to Los Angeles banks-- that these agencies were to all intents and purposes branches.

7 P.M.

McAdoo calls on C.S.H. at Cosmos Club; was very indignant at alleged discrimination of Board vs Bank of Italy. Among other things he said to C.S.H. that, very likely he was coming back to Washington; that many were opposing him but, By God! he had made up his mind to come back, and when he did he would remove some of the Board for their discrimination!

C.S.H. assured him that no member of the Board intended to discriminate against Bank of Italy and finally he admitted this but said it was discrimination in law, if not in intent.

He had previously referred to Crissinger's discrimination vs State Banks, but C.S.H. pointed out that Crissinger acted as Comptroller of Currency but now that he was Governor he represented both national and State banks, and that he hoped and believed he would try fairly to represent both.

C.S.H. said at the hearing he agreed generally with McAdoo's construction of the law, except that C.S.H. believed that if in any case it were proved that a State bank wanted a Branch merely to destroy (as opposed to competing with) a national bank, the Board had power to prevent such destruction by refusing to allow the branch.

McAdoo pointed out with some force that wherever a national bank had a monopoly it naturally put a very high price on its stock and often refused to sell at any price, to perpetuate its monopoly, and that clearly the Board had no power to prevent fair competition by refusal to grant a branch. This seems sound to C.S.H.

May 21, Monday

Federal Advisory Council meeting.

Some days ago Rue wired Board that the Council wished to be heard on the question of appointment of a Federal Reserve Agency in Cuba.

At the meeting, Rue as Chairman of the Council, evidently very much stirred up, said the Board should not have voted for such an agency without first getting the opinion of the Council and this led to an extended discussion, brought out by fact that Crissinger had told the Council that the Board had voted and settled the matter prior to this meeting of the Council. Dr. Miller at first took the view that the Council had no right to call on the Board for a report but C.S.H. cleared the air and said clearly the Council had such a right, but that he felt sure Mr. Rue would not claim that the Council was an appellate body, or that the Board was in any way bound to secure its consent prior to rendering any decision. Mr. Rue said he did not claim this--thus backing down from his original statement. C.S.H. then explained that the Board never thought of consulting the council but that if such a suggestion had been made he would have been only too glad to have consulted them. Finally it was brought out that Mr. Rue and Warburg ^{been} had/invited to attend one of the Hearings held by the Board, and nothing more was said of the failure to ask the advice or consent of the Council. The question of the advisability or legality of appointing an agency in Cuba was then discussed at some length, but little was said as to whether Boston or Atlanta should be given the designation, except that Mr. Lane stated that if Atlanta were not designated there would be violent attack on the Board from Republicans and Senators in Congress as soon as it assembled.

Dr. Miller said that this statement was blackmail. Lane said he had done nothing along propaganda lines, but Governor Crissinger replied that propaganda had been used in the interest of the Atlanta bank and that it was most reprehensible.

May 22, Tuesday

Warburg read a report of the council strongly objecting to any Federal Reserve agency in Cuba and stating that the council believed that by Agency the Federal Reserve Act meant the designation of some local bank as correspondent or Agent. He dwelt on the danger of revolution in Cuba and said the Federal Reserve System should never be established in a foreign country. It was replied to him that Cuba occupies a peculiar relation to the U.S. because of the Platt amendment and because it had made all American money--the bulk of its circulation,--legal tender.

Warburg said that our draft of power to purchase bills in open market was well drawn but was so stringent (and rightly so) that the Bank Agency could do little business and could not even earn its expenses, as sugar, the principal export, moved only for 4 or 5 months in the year. Mr. Lane, of the Council, objected to discriminating against Atlanta in favor of Boston and said that if we did it, we should be attacked by all the southern Congressmen and Senators. Dr. Miller said this was purely blackmail.

Walking over to lunch with Lane I tried to get him to state Atlanta's position: he said Atlanta wanted the Agency both for Federal Reserve note purposes and banking purposes,--in short she wanted everything and was against Boston having anything. I asked him if he thought this a fair position, and, speaking personally, without any authority from any member of the Board, asked him whether--if the Board were to

designate both banks, they to operate together under the agreement already agreed upon on the assumption that Boston was solely to be designated, it would not be a fair proposition which Atlanta should accept, and after reflection he said he thought it was fair and he would gladly urge it on the Atlanta directors. He was going to New York and he asked me to talk this over with our Board and advise him, and that he believed it a most happy solution.

In the meeting this A.M. the subject of the Cuban agency was again taken up. James said he thought we ought to consider the matter of designating any Agency very carefully in view of the opposition of the Federal Advisory Council, and that we ought to have Cunningham and Secretary Mellon present. Governor Crissinger reminded him that it had already been unanimously voted and could not be further considered except upon motion to reconsider. Nothing further was done.

At the Council hearing Warburg said the Board should deposit Federal Reserve notes with the Cuban banks taking out credits in which Cuban exchange could be sold, that the notes would be cash in the local banks vaults, and that any Federal Reserve bank which desired could do this. (This, of course, would incidentally break up Atlanta's monopoly.)

May 22, Tuesday

McAdoo and Elliott came before the Board to ask permission for Bank of Italy or its auxiliary committee to purchase a bank at Ontario which was in a precarious condition and a telegram from Federal Reserve Agent Perrin and the Bank Superintendent of California was read favoring this. He also asked reconsideration of our adverse decision as to Yuba City and Sacramento.

After long discussion Dr. Miller moved that permission to acquire the insolvent bank be given with notification that a branch would not be permitted. C.S.H. moved to amend so as to grant permission but with statement that such decision was based in an emergency and must not stand as a precedent against any future policy laid down by Board. Both motions were defeated. Finally another motion was offered by C.S.H. like his above amendment which was defeated by a tie vote, Platt & James voting with C.S.H. and the Governor, Miller and Dawes voting contra.

The real reason for the adverse vote was that the three believed that this bank was beyond the proper sphere of influence of the Bank of Italy. C.S.H. begged the Board not to found its policy on such a case as this but to treat it as an emergency, saying he could not move to reconsider as he had voted to grant the application. Finally, Dawes said he was convinced by C.S.H. and moved to reconsider which was passed and then it was voted to permit the purchase on condition that the State superintendent and Bank of Italy agreed that this should not interfere with any future policy the Board might later lay down. C.S.H. advised granting the application as one for a branch, but Miller objected, but Board agreed that if later a Branch were asked for it would grant it on above conditions.

May 24, Thursday

Perrin wired Bank of Italy had applied for a branch at above place and Board voted to grant it on above conditions.

Board also voted to ask Perrin to review his finding as to bank at Yuba.

Hearing that Federal Reserve Agent McChord was in Washington, C.S.H. sent for him and talked over matter just as he did with Lane.

McChord said he felt sure that C.S.H.'s idea would be accepted with enthusiasm by the Atlanta Bank and by whole south; that he would talk it over and write C.S.H. Monday. He said clearly Boston should be allowed to do the banking business under its own designation and added that one of his directors told him he should be opposed to Atlanta buying bills in Cuba even if authorized so to do.

Last night, May 23, I vaguely suggested a compromise to Governor Harding such as I had talked over with Lane. He flew off the handle and said Boston would never consent and would prefer to withdraw its application. C.S.H. advised him to think it over confidentially.

C.S.H. then asked Governor Harding to write him after consulting with Wing just what business he thought the Federal Reserve bank could do in Cuba along banking lines. Again he flew off the handle and said we should take his word for it, and that he had already explained this to the Board.

C.S.H. said he had but the Board might want it in writing to answer Warburg's denial; that in fact Dr. Miller wanted more information as to the scope of the Agency. He was very bitter against Miller but C.S.H. said he should give us this information in writing. He finally half said he would do this.

Governor Harding said he had seen Senator Lodge who said he would back him up to the finish and would see President Harding tomorrow. Two or three days ago Dawes said he wanted to congratulate me on my remarks at the Federal Advisory Council meeting; he said he had never before heard such a tactful, able and convincing address.

May 24, 5 P.M.

Lane just called me up from New York. I told him McChord had left for New York, would see him there and he need not stop over here as he could talk with McChord.

May 24

McChord told C.S.H. that the Atlanta papers were all praising C.S.H. And that although he came from Boston they were saying they would agree in advance that he should settle the dispute between Atlanta and Boston over the Cuban Agency.

May 25, Friday

Federal Reserve Agent Curtiss telephoned that T. P. Beal, director had just died. Crissinger and Platt thought I ought to attend so I took evening train for Boston.

Before leaving I saw Crissinger, Dawes and Platt and talked as to possibility of designating both Atlanta and Boston, but Boston to do the operating under an agreement to be worked out.

Platt opposed but Crissinger and Dawes favored it and Crissinger suggested I talk it over with Harding and Wing.

May 26, Saturday

At Federal Reserve Bank Boston, talked over above matter with Harding, Curtiss and Wing. They said they were irrevocably opposed to having Atlanta also designated. They did say, however, that if ordered by the Board, they would doubtless comply but that, personally, they would prefer to have the whole agency plan fall through than have Atlanta also designated. C.S.H. pointed out that everything which Boston could do alone, it could do with both banks designated, under

an operating agreement under which Atlanta could have one representative to hold and pay out Federal Reserve notes as directed by Boston and to sell to Boston on the spot all bills, cable transfers, etc., bought by Boston and paid for by Federal Reserve notes of Atlanta. They said it could not be done in that way, although under their own plan it would be done in the same way except that one of their employees would act as Agent of Atlanta.

Governor Harding read to me and then mailed to me to Washington a letter from General Crowder dated March 26, 1923 stating that Dr. Tarreinte, President of Cuba, and Mr. Perry, Secretary of the Cuban Banking legislative committee announced to him their agreement with the suggestion that the Federal Reserve Bank of Boston should at once establish an Agency at Havana, and suggesting that the Federal Reserve Bank of Boston establish an agency with consent of Federal Reserve Board.

Governor Harding also showed me and mailed me a copy of a letter dated May 25, 1923 which he had sent General Crowder, stating that he had applied for an agency, that the Federal Reserve Bank of New York opposed any Agency, but took position that if any were established it should be Atlanta; that the Federal Reserve Board informally agreed unanimously that Boston should be designated and that a plan had been worked out for operating with Atlanta (under protest); that the Board instead of voting formally to designate Boston decided to lay the matter before the Federal Advisory Council; that at meeting of Council Warburg opposed any Agency but favored Atlanta, if any should be established, etc., etc.

Governor Harding also mailed me a memorandum stating:

1. Federal Reserve Bank of New York wants no Agency for itself and opposes any Agency, but if any is designated, it favors Atlanta.
2. Atlanta insists on being designated alone if any Agency is established.
3. (a) National City Bank of New York was given an agency some time ago, on understanding it was not to do anything under it; that it is advertising extensively that it is the agent of the Federal Reserve Bank of New York and has thus created the impression in Cuba that it has facilities and advantages not now enjoyed by other banks doing business in Cuba.
(b) That the National City Bank after its designation asked the Federal Reserve Bank of New York to deposit with it a large volume of Federal Reserve notes so that it could exchange them for unfit currency, but Federal Reserve Bank of New York declined.
(c) The National City Bank made same proposition to Atlanta, which agreed to do it, but the Federal Reserve Board disapproved on representation from General Crowder that such an arrangement would be a discrimination against other banks in business in Cuba.
(d) Atlanta then filed with Board a statement that if an agency for exchanging new notes for old were ever established in Havana, it would claim the privilege.

4. Mitchell of National City Co. does not want his agency disturbed; told Board an agency of Federal Reserve banks would be advantageous to American business, but if one established, it should be Atlanta.

What was his motive?

Curtiss says Mitchell told him after the conference at Washington that Atlanta had agreed that if designated as Agent it would furnish the branch of the National City at Havana with currency free of all expense to it; that Mitchell hopes ultimately to be designated as an active agency by Federal Reserve Bank of New York--after this agitation has died down,--to do all that the Federal Reserve Bank of Boston wants to do in Cuba,--to buy and sell cable transfers, bankers acceptances and bills and to pay therefor from funds to be furnished it by Federal Reserve Bank of New York; that this would be highly advantageous to National City branch but a discrimination against Canadian banks, Cuban banks, the Federal Reserve Bank of Boston and any other banks doing business in Cuba.

5. Asks Board to cancel at once the nominal agency of Federal Reserve Bank of New York now held by National City branch bank in Cuba.

We went over the above at the meeting. I told them that consideration might show that, although largely a matter of pride of opinion, Atlanta might have as equitable claim for at least the use of its name as an Agent although the operating would necessarily be and should be done

by Boston, especially that part relating to purchase and sale of cable transfers, acceptances and bills.

Governor Harding said that to designate Atlanta as well as Boston would be to yield to a political attack.

C.S.H. said he certainly did not fear any attack, political or otherwise, because of any vote he might cast; that there certainly would be an attack on the shape of a charge that the Board had unjustly discriminated vs Atlanta in not at least designating it as well as Boston under an operating agreement; that the only question in his mind was whether it would not be Board's duty to recognize both banks; that if only one agency is to be established unquestionably Boston should have it, as to his mind the Agency was primarily to help the Banks of U.S. in Cuba, to assist them to increase their number, and to stabilize banking in Cuba, as three-fourths of Cuba's foreign trade was American and three-fourths of Cuba's exports and a majority of its imports went to or came from Philadelphia, New York and Boston; that just as trade follows the flag, so bills follow merchandise; that the question to his mind was--could not all this be accomplished equally by designating both banks; that if any charge of discrimination were made, Governor Harding in his memorandum (see above) had expressly stated that the Federal Reserve Bank of New York, Warburg and Mitchell had all stated that if any Agency were established, it should be Atlanta and not Boston; that such a charge of discrimination, backed up by above authorities, might not be easy to disprove.

Governor Harding and Wing both said they did not care a rap about any charge of discrimination in favor Boston; that if there was to be a fight Atlanta would soon find out that Boston could fight.

C.S.H. pointed out that the charge would be against the Board and not against the Boston bank, and that it was the duty of the Board so to decide the case as to do absolute justice between the two banks.

Wing said if the Administration turned down Boston it would suffer politically but C.S.H. replied that had nothing to do with Federal Reserve Board; that it would decide the matter absolutely without regard to politics or its effect on political questions.

Wing said he took Warburg's view that Federal Reserve banks should not have agencies in foreign countries. C.S.H. then asked him, "do you or do you not, favor a Federal Reserve agency in Cuba?" and he said Yes, because the status of Cuba is different from that of a purely foreign country.

Wing also said the National City Bank agency should be at once discontinued,--that his branch would be operating in Cuba within a month and that it would be gross discrimination against his Branch to have the National City designation continue.

McChord wires C.S.H. that Lane will wire C.S.H. from Jacksonville Monday and that the matter is working satisfactorily.

Lane wires:

"Satisfied can be arranged. Would you advise special meeting or would regular meeting in Atlanta about June 10 be satisfactory.

Answer quick."

C.S.H. at once wired Lane to hold matters in abeyance until he heard from him as he had not as yet mentioned it to Board.

C.S.H. tells Crissinger details as to conference at Boston. Crissinger agrees fully with C.S.H. that it is most desirable to designate both banks if we can lawfully do so.

Crissinger said Miller is weakening on question of having any Agency!

C.S.H. has talk with Platt and Wyatt together. Platt is more inclined to designate both banks.

Wyatt says the best way is to designate both with power to buy bills, etc., but to arrange by regulations that Atlanta is to appoint an Agent to hold its Federal Reserve Notes (perhaps in joint custody); and Boston is to manage the agency, buy bills, etc., and the Atlanta Agent is to pay over notes to Boston agency, releasing the bills bought immediately, selling the bills, etc., to Boston which will pay for them through the gold settlement fund.

Wyatt says that if Boston alone had the agency, while it might be possible to work the matter out, there would always be the danger of a legal attack; that to appoint an employee of Boston agent also for Atlanta might be construed by the court to be analogous to a Federal Reserve Bank appointing another Federal Reserve Bank its agent to receive and pay out its Federal Reserve notes which would be a plain violation of the clause in Federal Reserve Act requiring a Federal Reserve Bank receiving notes of another Federal Reserve bank to return them at once for redemption or credit. We asked Wyatt to prepare form of letter to be signed by C.S.H. or Crissinger informally expressing these views to Governor Harding.

Crissinger agreed with C.S.H. that, in view of Governor Harding's talk with Senator Lodge, it might be well to see Lodge, and Platt, at C.S.H.'s request; said he would go with C.S.H. to see him.

May 29, Tuesday

At Board meeting this P.M. the various letters of Governor Harding as to Cuban bank situation were considered by the Board. C.S.H. in great detail told Board of his talks with Lane, McChord, and of his conference in Boston. The whole matter was gone into in great detail and Mr. James moved that a committee of three be appointed (later fixed as Crissinger, James and C.S.H.) to prepare a resolution designating both Boston and Atlanta for Federal Reserve agencies in Cuba and providing in as great detail as possible regulations for operations as far as possible along the lines of the contract already entered into or agreed upon by the two banks, (on assumption that Boston alone be designated), except that Atlanta is to have an representative to hold and pay out Federal Reserve notes for bills, etc., bought by Boston. This was voted unanimously and it was agreed that when the Board had passed upon the report of the committee, then C.S.H. would be authorized to take it up with Atlanta and Boston.

4:30 P.M.

Called up Federal Reserve Agent McChord at Atlanta. Told him that if I had good grounds for believing that the designation of both banks with a kind of joint operating agreement would be accepted by Atlanta as a just and equitable solution, I was ready to take the matter up with the Board; that I had spoken of it to the Board this afternoon and was engaged in drafting a new resolution in the above lines but would

proceed only if satisfied that Atlanta would be absolutely satisfied. McChord said he, and I think he said Wellborn, thought it would be looked on as a happy solution of the whole question but did not want to assume the responsibility of saying so until they could consult their directors. I told him the difficulty would arise from the Boston end. I said I might call him up again on Thursday.

5:45 P.M.

Called up Senator Lodge and told him about the situation. (I called up his secretary at capital and he asked me to call up Lodge at his house, giving me his telephone number.)

Lodge told me Harding had told him the whole matter was settled.

I explained the question of establishing an agency was settled by unanimous vote but that it was merely the sense of the Board that Boston should have the agency and that a hearing had been held based on this general understanding, and an operating agreement had been made between Boston and Atlanta, based on their understanding; that much opposition developed at the hearing to the designation of Boston alone as a discrimination against Atlanta; that at the Counsel conference, the counsel objected to any agency, and while it did not in its report say so specifically, there was little doubt but that its members, as between Boston and Atlanta favored Atlanta rather than Boston, as did also Warburg and Mitchell of the National City Company; that Governor Harding so stated in his memorandum to C.S.H.; that C.S.H. felt it would be a fair solution to designate both banks under an operating agreement; that C.S.H. THought Atlanta would be absolutely satisfied but that

Governor Harding absolutely refused to agree, and said if Atlanta wanted a fight she would find that Boston could fight also, and that Senator Lodge had promised Governor Harding to fight for Boston to a finish.

C.S.H. told Lodge that the fight would not be vs Boston but that the charge would be one of discrimination by the Board against Atlanta and that Lodge would have to defend the Board, if it designated Boston alone, knowing that the Federal Advisory Council felt that Atlanta should have been designated. Lodge at once said this would be an impossible situation.

C.S.H. pointed out that his suggestion would be a happy solution and would give Boston 99% of what it wanted, merely giving Atlanta the nominal right to have agency and use its name, although the operation would be practically all done by Boston.

Lodge thought this a good solution, although, of course, he could not, in this short talk, know all the facts.

June 1, Friday

Crissinger, James and C.S.H. reported a draft resolution for designating agencies for both Boston and Atlanta. It was voted unanimously that this draft be tentatively accepted as a basis of conference between said committee and the Boston and Atlanta banks to see if they will accept same.

Platt moved to reconsider the vote of the Board declining the application of the Bank of Italy to establish a branch at Sacramento, Platt and C.S.H. voting for reconsideration and Crissinger, James, Miller and Dawes contra.

C.S.H. reported form of a letter for Board to send to McAdoo giving its reasons for the original rejection of Bank of Italy branches

at Yuba City and Sacramento. The Board had asked Perrin for another report on Yuba City, but this letter was in response to McAdoo's request for the reasons for our original refusal.

C.S.H. as to Sacramento referred to fact that the Superintendent of Banks gave his certificate before the new policy be adopted as to banks de novo. Miller insisted that this be stricken out and the statement made that the Board has no information that the Bank Superintendent give a certificate after his new policy was laid down. C.S.H. said this was a mistake as the Bank of Italy would probably get the superintendent to give a new certificate, and it would put Board in apparent position of relying upon the presence or absence of such a certificate, to which Platt and C.S.H. would not object but to which the other members decidedly objected to.

C.S.H. and Platt said they felt on a matter of law the Board was bound to accept the certificate of the State Banking Superintendent, except in some extreme case where it was clearly erroneous.

C.S.H. telephoned McChord at Atlanta and asked them to come to Washington and consult with him on the Cuban situation.

June 4, Monday

McChord wired earnestly asking C.S.H. to attend meeting of Atlanta Board of Directors on Friday June 8 and C.S.H., after consulting Crissinger, wired that he would be there.

The California Superintendent of Banks had conference with Board. Present Governor Crissinger, Platt and C.S.H. The Superintendent said that he had brought about a change in the State policy as to branch banks; that there was a feeling in California that prior superintendents had gone too far and had been very easy in granting permits; that his

policy, reached after an agreement with the various banking interests, was now to permit branches in the town or city of parent bank when necessary but not to permit vranches de novo outside except where for special reasons he should grant a certificate; that he gave a certificate in case of the petition of Bank of Italy for a branch at Sacramento before this change of policy; that he had given no certificate to Bank of Italy as to Sacramento since this change of policy, and if one were asked for now he would decline to give it.

The above clearly justifies the Board's decision turning down Sacramento. C.S.H. and Platt voted to grant the petition because of the certificate given by the committee; if they had known his present attitude they would have voted differently.

The Superintendent was asked as to Yuba City branch and said if asked he would go over it carefully again.

He said he felt that the examination question could be worked out satisfactorily and that he could examine the Bank of Italy and branches simultaneously with his force augmented by clerks from auditing and other departments and with such assistance as Federal Reserve bank would give him.

He said our decision as to 10% reserve against special savings deposits was looked on as very extreme and that it would cause great hardship on certain banks.

June 5, Tuesday

Had talk with Ex-Senator Hope Smith as to my proposed compromise as to the Cuban Agency. He said it was most satisfactory and that Atlanta ought to accept it gladly.

June 6, Wednesday

Left for Atlanta 9:35 P.M.

June 7, Thursday

Arrived Atlanta 4 P.M. McChord and Wellborn met met at station.

Attended dinner at 7:30 given by Atlanta bankers; sat beside Mr. Ottley a director and one of the bitterest objectors to designation of Boston.

June 8, Friday

Attended presentation of oil paintings of Federal Reserve Agent McChord and Governor Wellborn to Federal Reserve Bank by employees. Then sat with directors all day. Finally it was agreed that my compromise would be acceptable. (See my memorandum in Scrap book)

Ottley said to me--before you came down I said publically that I would be damned if I would agree to any compromise, but your reasoning was so strong and convinceing, your address at the dinner was so charming and we directors all have such an affection for you, that you twisted us around your finger and we rather liked to be so twisted.

June 11, Tuesday

At Board meeting on reading minutes of last meeting (C.S.H. absent) it appeared that Wyatt's memorandum, that Elliott desired to file a brief with Attorney General--on construction of Section 9, State banks was noted and Miller said it was the intent of the Board to reject it. CSE when minutes were read moved to send word to the Attorney General that Elliott desired to be permitted to file a brief, the Board neither to approve or diapprove but merely to transmit it. On vote, Crissinger

being absent, all voted for C.S.H.'s motion except Miller who voted No, and it was passed. Miller was very ugly and said no one should be permitted to file a brief. C.S.H. asked if he was afraid Elliott's arguments would convince Attorney General that his, Miller's Opinion, or Wyatt's, was wrong. Then Miller intimated that someone had improperly told Elliott such an opinion had been or was to be asked. C.S.H. told Miller that at the hearing at which McAdoo and Elliott were present,--May 22,--the fact was stated that the Board had or would ask opinion of Attorney General and Elliott then asked to be allowed to file a brief. As a matter of fact Dr. Miller, even suggested to McAdoo to file a friendly suit to test the case.

Wednesday, June 12

C.S.H. called up Elliott and asked him how he came to know of request for opinion of Attorney General. He said it was referred to in above mentioned hearing, also that Governor Crissinger had mentioned it to him.

As a fact the Board agreed to ask for an opinion before May 22 but Hoxton told C.S.H. he could find no mention of it in his minutes. C.S.H. told this to Board and Governor Crissinger and Platt agreed with C.S.H. that Board had so voted; later, on May 29 the Board formally voted, although as shown above it was so agreed 10 days before.

Dr. Miller moved to reconsider vote refusing permission to Bank of Italy to establish a de novo branch at Yuba City, California. The Board had asked Federal Reserve Agent Perrin to review his report, which had been adverse, and he had just sent another report changing his recommendation. In the report he said there was need of further banking facilities in Yuba City; that the existing National bank would not be crushed out of existence by the establishment of Bank of Italy

branch; that the President of the national bank favored granting of the application, as he said it was inevitable that some new bank must be established there to take care of the growing business of Yuba City and Sutter County in which it was situated.

C.S.H. said he originally voted against the application, because of statements of Crissinger that he had received a telegram convincing him that Bank of Italy intended to crush out the National bank, not being able to buy it, but that now it appeared that there no such danger and that, on the contrary, the National bank favored the establishment of the bank. C.S.H. said he understood that the State Bank Superintendent had given his approval. Governor Crissinger doubted this but someone pointed out that it was the Sacramento bank where the Superintendent said he would not give a certificate, under his new policy, and that he did favor giving the branch at Yuba City. C.S.H. said that he felt bound to follow the state policy and that on the assumption, as stated above, that there was in accordance with the State policy, he felt bound to vote to reconsider. Dr. Miller also said he thought the motion should pass. On vote to reconsider, Miller, Platt and C.S.H. Aye, and Governor Crissinger, Cunningham, James and Dawes No, and Motion was lost.

James then moved to make the Little Rock building an exception to Board policy and to authorize its construction as an emergency at cost not to exceed \$400,000.

Long discussion. C.S.H. and James pointed out that since Board's policy was announced building operations had been materially out down and that it was right to prevent the construction. Platt said he would be willing to vote for this in two months; Miller said prices would be higher than now.

Platt moved to lay motion on table. On vote, Governor Crissinger, Miller, Cunningham and Platt voted Aye, and James, C.S.H. and Dawes, No. Motion to lay on table prevailed.

C.S.H. then offered a motion to authorize building of Salt Lake City--the same in form as that of James (which C.S.H. had written for him). Platt moved to lay on table. On vote, Governor Crissinger, Miller, Platt and Cunningham and Dawes voted Aye, and James and C.S.H. No.

Dawes explained he voted Aye, because the Little Rock motion had been laid on table.

C.S.H. read a telegram from Senator Glass as to par clearing decision and C.S.H. read a proposed telegram from him to Glass giving the facts. Board voted to allow C.S.H. to send it, but Dr. Miller said he wished C.S.H. to add that he, Miller, regarded it as a body blow against the Federal Reserve Clearing System. Governor Crissinger said he felt same way and told C.S.H. to put in his name. Platt said he would join C.S.H. in statement that he did not concur in this latter statement of Governor Crissinger and Miller. Governor Crissinger is evidently delighted at court's decision, and said it had broken up the whole plan, that the Court had decided it was illegal, etc., etc. We pointed out to him that the court had merely said the Board was not bound under the Act to establish a country wide System.

We are going to have trouble in near future. Governor Crissinger hates the Federal Reserve System and I believe will do all he can to discredit it in every way!

June 14, Thursday

Dr. Miller begged the Board to redonsider its action in the Yuba City case. He said we had rested our decision on Perrin's adverse

report and the telegram of the national bank protesting, but that we had asked Perrin to go over the matter again and he had done so and had changed his views, now reporting that there was need of additional banking facilities, that the national bank would not be crushed out, but that, on the contrary, the President of the national bank favored now the granting of the application.

Miller said our refusal would put the Board in a ridiculous and arbitrary position and open us to a charge of discrimination. Governor Crissinger said he did not believe there was need of any further banking facilities there, and Dr. Miller said he could not claim this in view of Perrin's finding. C.S.H. pointed out, however, that Governor Crissinger was logical, although he differed from him, as he took the position that he did not accept Perrin's conclusions, and that clearly he was not bound so to do. No action was taken, but matter was left for the new committee on examinations,--when appointed to consider.

C.S.H. told Miller that Elliott first learned of intention of Board to ask opinion of Attorney-General at Board meeting with McAdoo and Elliott, -- see supra. C.S.H. said Elliott said Governor Crissinger had also spoken of this to him.

Saturday, June 16

Senator Glass called 3 P.M. Platt and Crissinger came in. Governor Crissinger pointed out that the Supreme Court had ruled that checks payable in exchange at option of drawee were not "checks payable on presentation" under Federal Reserve Act and, therefore, Federal Reserve banks had not right to take them for collection, and after long discussion, Governor Crissinger said only way was to direct Federal Reserve banks not to take any such check, where laws of State gave such option to drawee,

but to advise them that, except in States where there was an adverse statute the Federal Reserve banks could collect over the counter, under Atlanta decision, and to advise the banks to accept exchange checks at par if offered.

Governor Crissinger said if he excluded all checks drawn in states like North Carolina he believed that the State banks would soon see that it would be to their advantage to remain on the par list and Senator Glass and we all agreed with him. We also agreed that in circularizing the Federal Reserve banks, we should say that we are bound to exclude such checks because of the Supreme Court decision. We were all pleased that Governor Crissinger took this view for up till now he seemed absolutely opposed to the continuance of the par collection system.

Glass said, to clinch Governor Crissinger he would write him a letter referring to the interview and praising his stand.

June 18, Monday

Interview with Governor Harding on Cuban agency. Governor Harding and Bullen agree to separate designation of Atlanta and Boston with a few suggestions as to change in draft agreed upon by C.S.H. and Atlanta.

June 20, Wednesday

C.S.H. met with Governor Harding. He puts his suggestions as to Cuba in new draft.

June 26, Tuesday

Governor Harding agrees to draft of Wyatt on Cuba; at his suggestion power given to big bills not drawn on banks.

June 27

Board at meeting passes Cuban resolution. Chairman McChord came this A.M. and read Wyatt's draft, which Governor Harding at 5 P.M.

initialed, and in presence of Mr. James expressed his approval and initialled same.

The Board eliminated one or two whereases of no importance, it having been carefully read to Board by C.S.H. Every member voted Aye except Miller who voted No. Miller said in absence of a preliminary operating agreement it would surely cause a row between Atlanta and Boston. C.S.H. replied that you can't make an operating agreement until you have something to operate.

Miller then vigorously objected to broadening the powers granted so as to permit purchase of bills drawn on other than banks or banks. He said ther were trade bills and we would not permit Federal Reserve banks to discount or purchase them in United States. C.S.H. pointed out that most questions of Trade Acceptances involved a preferential rate; also that the Board long ago ruled that a Federal Reserve bank could rediscount a bill of exchange before acceptance, if it were secured. Miller than read a statement prepared by Governor Case showing that on a certain date most of the acceptances held by Boston and New York on exports from Cuba were bankers acceptances.

Then Mr. Dawes asked Miller what his negative vote meant and whether he was opposed to an Agency in Cuba. Miller equivocated at great length but finally said he favored such an agency on general principles but was opposed to this draft, etc., etc. Miller evidently felt or knew the vote was sure to be favorable so he voted No to appear conservative and, as I believe, to please Warburg.

July 30

The officers of Federal Reserve banks of Atlanta came before Board and we adjusted all controversies connected with the Cuban agencies satisfactorily to all.

July 31

Governor Crissinger read letter from Elliott again asking to be shown the second report from Perrin as to the Petition of Bank of Italy to establish a branch bank at Yuba City, California. None of those who originally voted to refuse, would move to reconsider, so the matter was lost.

Board took up (a) petition from the Pacific S.W. Savings & Trust Company to establish a branch at Porterville, and (b) of Bank of Italy to establish branch at Long Beach, California. Porterville is 236 miles from Los Angeles but is South of Fresno--which is the dividing line as to freight charges between San Francisco and Los Angeles. Long Beach is 25 miles south of Los Angeles.

(a) Does not involved the doctrine of "spheres of influence" as it is in territory reasonably within Los Angeles Banking area; (b) does squarely invade it.

Governor Crissinger said he opposed both, as also Miller and James. Platt and C.S.H. favored both, as Perrin had reported favorably. C.S.H. then offered and moved a resolution originally offered on April 10, 1923, to effect that Board was bound by decision of State Banking Commission as to need of new banking facilities and that the Board could not legally divide State into spheres of influence. (See Scrap book)

This caused long discussion. Miller bitterly objected to C.S.H.'s resolution and moved reference to the committee which was finally voted .

Miller then moved that in view of the strong opposition to granting these petitions of two of the examination committee, these two petitions be referred to that committee to report back to the Board a statement of reasons for Board to give should it vote finally to turn down these Petitions, and this was passed; C.S.H. voting No.

August 2, Thursday

Committee reported against all of above applications in form of a Resolution stating that State banks with numerous branches could not be examined satisfactorily either by the State or by the Federal Reserve bank; that admission of State banks with unlimited right to establish branches was not consistent with the spirit of the Federal Reserve Act, et.c, etc. No report was made on C.S.H.'s resolution. Platt presented a minority report. Vote against permission to establish branches: Aye, Crissinger, Dawes, Cunningham, James and Miller; No., Platt and C.S.H.

Dr. Miller offered a letter to Perrin announcing Board's decision. C.S.H. objected as it did not give the real reasons for rejection, and moved that the Resolution of the Board be sent to Perrin and the Banks interested. Then motion finally prevailed.

Dr. Miller voted to reject all the applications but voted against part of the reasons given in the Resolution,--an absurd position.

6:45 P.M.

Platt called on C.S.H. at Cosmos Club. We agreed that Platt tomorrow morning should move that the Perrin letter should contain statement that the resolution and decision should show that the vote was a majority vote, and that if this were not done, he should state that he and C.S.H. should give a public statement that they voted against both and that Platt had filed a minority report to which C.S.H. assented.

August 14, Tuesday

Platt says Perrin strongly protests against giving the resolution to the banks interested.

October 31, Wednesday

In the afternoon Elliott came in with Governor Crissinger who soon left. Elliott asked how the branch matter was going along and I said no action had yet been taken nor was likely to be taken for the present. He then told me that the Committee was to report on Friday but did not disclose the source of his information (evidently Governor Crissinger). I learned later from Mr. James on the next day, Thursday, that this was true. I said I had to leave Thursday night and that Governor Crissinger told me resolution could not come up Friday as he was not yet satisfied with it. James, thereupon, rather ungraceously agreed to have it go over until next week and said that Secretary Mellon ought to be present to which I agreed. I added that I would not take up more than 5 minutes.

November 7, Wednesday

The branch bank resolution of the majority of the committee was adopted; Governor Crissinger, Dewes, Cunningham, and James voting aye and C.S.H., Platt and Miller, No. Governor Crissinger said he did not agree with the resolution, that he thought it transcended the powers of the Board, but that he feared the national banking system was doomed to ultimate extinction unless Congress should change the law and that therefore (?) he should vote for it. Secretary Mellon was asked to come in but sent word he feared he could not and asked the Board to go in without him.

I regret this for I believe we could have persuaded him that the Board was transcending its lawful powers. Miller got very angry with James for using the word "filibuster" in speaking of the opposition arguments. C.S.H. reserved right to incorporate in the record his protest.

The debate centered on C.S.H.'s motion to substitute Platt's minority report for the majority report, which was lost on same vote as above.

November 22

Board granted petition of Pacific S.W. Trust Co. to buy a State bank at Porterville, California, with two other branches owned by it.

To my surprise Dawes and James favored it although the Board sometime ago rejected it. James said the Board's resolution as to branches did not take effect until February 24 and that means time each application should be decided on its merits. Inasmuch as Dawes and James are absolutely against any branches outside of the city in which the parent bank is located, I don't see how they could now vote to grant consent. I told Board I originally protested against putting date of resolution ahead as it would cause trouble, but I, of course, would vote for this branch as I thought it a clear case.

December 7, Friday

Board discussed Governors' pension plan for Federal Reserve employees which two years ago it favored in principle.

C.S.H. offered a resolution favoring the general principle of a pension plan, carefully guarded for limited classes of employees defeated: Aye, C.S.H., Platt and Miller. No, Crissinger, James, Cunningham and Dawes. Dawes then moved reconsideration. Carried. Aye, C.S.H., Platt, Crissinger, Dawes. No, James and Cunningham. Dawes then moved that without endorsing the general principle of a

pension system as applied to the Federal Reserve System, the Board interposes no objection to the submission to Congress of any bill providing for an insurance plan within the System. Defeated. Aye, Hamlin, Platt, Dawes. No, Cunningham, James and Miller. Mr. Cunningham said, By God! I won't vote for any pension plan! I need one myself more than they do!

December 13, Thursday

Pension plan. C.S.H. moved that the Board favors on principle a plan, etc. (See scrap book)

To C.S.H.'s amazement Governor Crissinger voted for this and it was carried.

AYE, Governor Crissinger, Miller, Platt and C.S.H.

No, Cunningham, James and Dawes.

C.S.H. then moved that the governors be informed that the Board interposed no objection to their having this bill introduced last.

Aye, C.S.H., Platt and, I think, Governor Crissinger.

No, Miller, Platt, Cunningham and Dawes.

C.S.H. called attention to the fact that the governors had sent us a bill and asked for our consent.

Dr. Miller moved that the bill be referred to committee on salaries for report. Defeated.

C.S.H. rose to a point of order that the Board having taken up the matter must dispose of it in some way or refer it to a committee. Governor Crissinger sustained the point of order. Finally by unanimous consent it was referred to salaries committee to report within two weeks, although Dawes and James, both on this committee, bitterly objected, as the committee would be bound by the resolution as to principle just passed by Board.

Governor Strong told me the other day that he had talked with Secretary Mellon who was 100% in favor of the plan or principle. I firmly believe he must have talked to Governor Crissinger--the only possible explanation of his sudden change in vote.

December 17, Monday

Board took up applications of Bank of Italy for branches at Watson City, Long Beach and Santa Monica. This had been sometime ago rejected and was brought up again.

James said the Bank of Italy had broken its agreement with the Board not to buy over 20% of stock in any new bank without consent of Federal Reserve Board. McAdoo had advised the bank that it could buy through the stockholders committee or Bankitaly Corporation as they had no connection with Bank of Italy. C.S.H. said he felt that whatever their technical relation, they had not acted in good faith in the matter and that what troubled him was whether to use this as a reason for rejecting the petitions, as in each case the State Banking Superintendent and Federal Reserve Agent had certified as to the public necessity. Later it appeared that the Bank had made the purchaser expressly subject to the approval of the Federal Reserve Board and C.S.H. said this put a different complexion on the matter and he was inclined to feel it removed the charge of bad faith. James said squarely he would vote for at least some of these applications had it not been for the bad faith as above.

On vote, the Watson and Long branch and Santa Maria application were not granted. Aye, Governor Crissinger, C.S.H., Platt. No, James, Cunningham and Dawes. A tie.

Dr. Miller refused to vote. Later Dr. Miller moved to reconsider and Governor Crissinger ruled he had this right although he had not voted on the question. Adjourned until tomorrow.

December 18, Tuesday

On Miller's motion to reconsider the applications for Long Branch and Watson City were approved. Miller voting Aye. The Santa Maria application failed Crissinger voting no, but Miller voting ayes.

Miller's course in not voting yesterday was extraordinary.

Miller is shirking all of his committee work., e.g., Committee on salaries made long report. Miller did not dissent, yet in the Board he objected to every increase of salary.

December 19, Wednesday

Board voted against increasing Federal Reserve Agent Curtiss' salary at Boston from \$18,000 to \$20,000. Miller led in the opposition. Platt and C.S.H. only voted Aye.

December 20, Thursday

Salary committee voted to drop Bradley of Counsel's office. Board finally referred it to law committee. Platt and I reported giving history of his appointment. Agreed that he should be reduced to \$1,800.

Board, led by Miller, voted to drop him on June 1, 1924 although Platt and I said he was perfectly competent to earn \$1,800. James, of committee, said he would agree to this but on Miller's motion the Board voted to drop him on June 1, 1924. It was stated that this was done as there was no need of this place, although Platt and I said if he were dropped, a new stenographer would have to be appointed. Platt and I gave notice we would vote against any new appointee. This was a cruel and merciless action. Dr. Miller has no feeling of either justice or mercy. He simply glories in cutting down remorselessly.

December 19

C.S.H. also moved to increase the salary of Federal Reserve Agent Austin from \$15,000 to \$17,000. Dr. Miller said the investigations of the economy and efficiency committee had already shown that Austin was utterly unfit for his position. C.S.H. said that on that assurance from Dr. Miller he would withdraw his motion.

December 20

Cunningham told me he misunderstood the vote of yesterday as to Bradley and thought it merely abolished his secretarial duties and said he would be glad to move to reconsider tomorrow. I asked him to see James and later he said he had seen him and that James said he would vote to give him \$1,800 as a stenographer.

December 21, Friday

Governor Crissinger at my request called a special meeting. I stated to Board what Cunningham said yesterday,--he was not then in the room -- and said the reading of the record this A.M. showed that all the Board did was to discontinue the secretarial duties of Bradley, i.e., to abolish the office of secretary and stenographer; that another motion was, therefore, in order and I moved in behalf of Platt and myself that Bradley be continued as stenographer at \$1,800. A bitter altercation started up. Dr. Miller was particularly offensive,--said we were trying to carry along dead timber, that the committee's report was the most carefully made of any he had ever seen and that if we did not sustain it he should move to discharge all committees--James sided with him and C.S.H. said the reason he asked for a special meeting was because Cunningham said James would vote as above. Cunningham denied he had

said this and James, as I remember, also denied it. Governor Crissinger said to James--I heard you say yesterday you would so vote. James said yes, and I am willing to now, and thereupon voted No! with Miller and Cunningham which would have made a tie even if Governor Crissinger voted Aye, although he did not vote, his motion was defeated.

Cunningham said he would vote for \$1,500 as Eddy said that was the market value of a stenographer. We pointed out that Bradley had been a stenographer on the Board for nine years and, therefore, should not now come in at the lowest rate, but all to no avail.

I then looked at Eddy rather sternly and asked if he had recommended anyone to Wyatt to fill the Bradley vacancy. He flushed and stammered and admitted that he had (Wyatt had told me this) as he had one stenographer he had to drop a good man to whom he was paying \$1,500. I am satisfied this is the nigger in the wood pile! I shall try to find whether Eddy wanted to do this for the good of the service or whether the man is some friend of his.

Wyatt also said that Eddy told him that Mr. Foulke had not done good work and was dead wood. I told Wyatt that Eddy came to me lately and said Foulke had done splendid work and that he, therefore, favored transferring him to the gold settlement fund as Assistant Fiscal Agent at a higher salary: that he had so systematized his office that it almost ran itself! Wyatt said he heard Eddy say the same to James.

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