

The Papers of Charles Hamlin (mss24661)

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CHARLES HAMLIN
PAPERS

Miscellany

Box 357

Folder 8

WRITINGS --
"MEMORANDA CONCERNING THE
FEDERAL RESERVE BOARD...", "DIARY
Vol. 2, 7 JAN. - 17 JUNE 1924
(PP. 580-656) (12 OF 19)

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VOLUME VIII1924January 7

Board voted that petitions for blanket authority to establish plans for branches would not be granted but that it would entertain prior to February 1, 1924, applications filed naming the towns or the location in uncontiguous territory. This was based on Mr. James' motion slightly changed so as not to require approval of State Superintendent or of the Federal Reserve bank prior to such date.

C.S.H. moved that the Federal Reserve agents at once notify each member bank of this decision. Passed.

C.S.H. then moved that effective date of the main resolution be changed from February 1 to April 1. Lost--Aye: C.S.H., Governor Crissinger, Platt. No: Dr. Miller, Cunningham, James and Dawes.

January 9

The Board votes that any member may move reconsideration, however he may have voted on the original question.

January 14

Cunningham introduced a resolution that Salary & Expenditures Committee report on number of officers and salaries of Federal Reserve banks and branches with a view to finding whether or not any economies can be adopted, with

C.S.H. moved that the resolution be amended so that no expenditure be authorized without the direct vote of the Board. Passed.

On the resolution as amended, Dr. Miller said he was in sympathy with it and then proceeded bitterly to assail it. He said he favored it when moved by C.S.H. some years ago. C.S.H. strongly favored the resolu-

tion as amended. On vote it was lost. Aye: C.S.H. and Cunningham.
No: Governor Crissinger, Platt. James not voting. Miller not voting.

January 17

C.S.H. moved to discharge the economy and efficiency committee from the duty henceforth of making recommendations based on its examinations and transferring this function to Salary and Expense Committee.

Long debate, Miller bitterly opposed. C.S.H. said economy and efficiency committee positively refused to make recommendation and that he wanted action. Cited vote of Board months ago directing economy and efficiency committee and Stuart to report on Federal Reserve agents monthly reports--which lay sleeping in the committee. Miller said committee could not and would not report. C.S.H. said that was why he made this motion.

Finally after long debate C.S.H. moved--suspending his first motion--to reconsider the adverse report on Cunningham's resolution. Miller said he thoroughly approved this resolution if the committee should be directed instead of authorized. The Board then voted to reconsider it. Miller alone voted No. (!) Motion finally went over to tomorrow.

February 14

C.S.H. presented a memorandum to the Board as to suggestions for the annual report presented by Dr. Miller. The suggested article dwelt at great length on the responsibility of the Board for Federal Reserve Note issues and plainly, though veiledly, expressed the conclusion that we should limit future issues of Federal Reserve Notes which had been the cause of part inflation. It also directly stated that member banks discounted paper with Federal Reserve banks for the purpose of securing currency and that the Federal Reserve banks were originally created primarily as note issuing banks. My article combatted this and said that every Federal Reserve note issued, except those issued dollar

for dollar in exchange for gold, grew out of an antecedent rediscount of commercial paper, and that by controlling these antecedent rediscounts through the discount rate we could effectually regulate the amount of Federal Reserve notes placed in circulation. (See scrap book.)

Miller was very ugly and said my article was "muddle-headed" as he was prepared to show. I said, very well, put it in the report to Congress and I will file a minority report!

February 15, Friday

In the afternoon session, C.S.H. rose to a question of personal privilege and said one of his reasons for preparing the memorandum was that Dr. Miller, one day in May, 1923 attacked Federal Reserve note issues as the cause of inflation, past and present, bitterly attacking the other members of the Board for having used gross negligence and for surrendering their power over Federal Reserve note issues, throwing down the reins and leaving it to the uncontrolled power of the ignorant directors of the Federal Reserve banks to flood the country with paper issues thus causing the speculation and inflation that followed. I said this was an unjust and untrue attack upon men not now on the Board; that the policy of non-interference was given more care and study than any other question I remember and was the unanimous conclusion of the Board, and I quoted Miller himself as favoring it. (See Mem.) Miller then said I did not favor it and C.S.H. replied that he had quoted his exact words in the mem. and that unless Yes meant No, he did favor it.

I said I did not question his right to change his mind, as he had frequently done before.

I reminded him that he was the original "deflation" champion and quoted his article in Annals of Political and Social Science for 19 (See Scrap Book.)

Miller made no reply to this. I said Miller had called my article muddle-headed, at which Miller began to apologize, but I said "No apology is necessary; the word implies no opprobrium; it is merely the word usually used by economists to indicate that they do not agree with the opinion of other economists, and I feel flattered that by the use of this word Dr. Miller has elevated me to the grade of an economist, which I am conscious, however, I do not deserve."

At this the whole Board screamed with laughter.

Finally Miller agreed to strike out all reference to the necessity of regulating Federal Reserve notes and all generalizations including the reference to Federal Reserve banks as being created primarily as note issuing banks, etc. and the episode ended.

February 15

Herson, Chief Examiner has said to me several times during the past fortnight that it is perfectly practicable to devise a plan for our examining State banks with 75 branches simultaneously and without inordinate expense as we could arrange to have the examinations made just after we examine the Federal Reserve bank, which requires a detail of examiners from other parts of the country.

In the teapot dome investigation, it appeared that Theodore Roosevelt, Assistant Secretary of the Navy, had had much to do in connection with the teapot dome lease: the evidence he gave to the

committee showed this; it also appeared that, either by his testimony, or by his brother, Archie (this was in 1919 before he was Assistant Secretary of the Navy) he had gone with his brother to Sinclair the oil man and asked him to employ Archie, and that Sinclair gave Archie the position of Vice President of one of his oil companies at a salary of \$25,000 per year! Inasmuch as Archie was known as the - - -

February 18, Monday

Meeting Federal Advisory Council.

At lunch at Washington Hotel Mr. Herson, Chief Federal Reserve Examiner, told me he had prepared a plan for simultaneous examinations of large State banks and branches; that it was practicable and the cost would not exceed \$20,000 for the largest bank; that it would take say 175 examiners, of which 100 could be supplied by the Federal Reserve bank of San Francisco. He said that to make a simultaneous examination skilled examiners were not necessary, as the assets, ledgers, etc., only had to be copied, and that this could be done within two days as the maximum; that after that the rest of the examination could proceed just as if each branch were a separate unit bank. Mr. Herson added that James had directed him to hold back this report until he could ascertain whether these branches had sufficient capital, i.e., whether the capital of the parent bank was sufficient.

He said one examination would be ample each year, and that any other information wanted could be secured by credit inquiries. He said the National Banking Act should be amended so as to require only one examination each year and as many more as the Comptroller deemed necessary; that the present requirement for two examinations forced the Comptroller

to spend much of his time to examine banks known to be sound at the expense of those suspected not to be sound.

I asked Herson what his opinion was as to the condition of the Bank of Italy. He said it was absolutely sound; that he had carefully studied the last report of the State examination, and that in his opinion, the Bank was in fine condition.

The Federal Advisory Council qualifiedly indorsed the McFadden Bill (H.R. 6855, Feb. 11, 1924), Section 6(B) of which provides for branches of national banks in the city of location in States which permit branches, and Section 7 of which amends Sec. 9 of the Federal Reserve Act so as to provide that after the passage of the Act no State bank can enter the Federal Reserve System except on condition that it shall relinquish any branches it may have established after the passage of this Act beyond the limits of the city of its location, and further that after the passage of this Act no member bank shall be permitted to establish a branch outside of the city, etc. of its location.

From what Mr. Warburg said the Council was unanimous as to city branches, divided as to county branches, and really scarcely considered State wide banking. He said that the Council were willing to swallow Section 7 to get Section 6 (B). (See scrap book for notes as to the debate.)

February 21, Thursday

The California Superintendent of Banking wires the Board bitterly protesting against the branch bank provision of the McFadden bill, and says it is absolutely inconsistent with an agreement entered into between himself and a committee of the Board--Miller, James and Dawes--on the occasion of his recent visit here, perhaps a month ago. The telegram asked the Board to define its attitude as to said Bill.

Governor Crissinger brought the telegram in and we both agreed that it was true.

Governor Crissinger said it made him feel all the stronger that, as he said a short time ago, that our Board should recommend to Congress that National banks should be given all branch privileges now accorded to State banks, under reasonable restrictions to be determined by Congress.

He said he would try to induce Miller to agree to this, and if he would, he, Platt, Miller and C.S.H. should put it through leaving to the minority to file a dissenting report if they saw fit.

February 23,

Wyatt asked me to put in writing what the Board asked me to say to him about his opinions--that they continually mixed up questions of policy with questions of law, that they were too long, and that in the future he should confine himself, as far as possible, to the purely legal questions involved. This grew out of the Park Bank acceptances involving export and import trade.

Wyatt ruled, or his predecessor, some years ago that a bank could not draw a banker's acceptance (i.e. a Bill) against another bank secured by a trade bill drawn on the foreign purchaser, bought by said drawer bank, in connection with an import or export transaction.

Comptroller Dawes, Governor Strong and C.S.H. thought such acceptances were at least technically legal, but should be strictly limited or perhaps forbidden by sound banking policy.

The Federal Advisory Council, at C.S.H.'s request, asked Wyatt to confer with them and later gave us advice as to the best banking practice, on the assumption that such acceptances were technically legal.

Later Wyatt told C.S.H. he had changed his opinion and had reached the conclusion that such acceptances were technically legal. C.S.H. then asked him to write out his opinion.

A day or two later he gave us an opinion of 17 pages in length, the gist of which was that the Board could rule either that they were technically legal, or that they were not.

Most of the 17 pages were devoted to a discussion of good banking practice, and he seemed to favor our ruling that they were not legal, in spite of his statement to C.S.H. that he had changed his mind and now thought they were legal.

It was the most extraordinary opinion I ever read.

It seemed almost as if he had said: "I am such a brilliant lawyer, I can reach either conclusion the Board wishes!"

I directed him to prepare another opinion stating categorically and succinctly just what his opinion as ^{to} the law was, reaching whatever conclusion he believed right.

He then asked me to put the opinion of the Board as to his legal opinion in writing, evidently thinking that the Board would hesitate to do this.

February 23, Saturday

Early this week Governor Strong telephoned that Mr. Young of the Economic (Dawes) Commission wished to consult him in Europe and he asked if the Board would object to his taking a leave. Most of the Board, especially Platt, favored this.

I strongly opposed it, as it would violate the reservations Congress made to the German Treaty, and said we had refused to allow a member of the Federal Reserve Bank of San Francisco to go over with Robinson (also in the commission) and consistently demanded the same course with Strong.

We finally determined to ask Secretary Mellon who told us the next day that in his opinion it would be most inadvisable for Strong to go and we so advised him. I think Secretary Mellon must have consulted the President and Cabinet, as he did in the case of Robinson's request. Miller told us that at the time of Robinson's request a friend of Robinson saw Secretary Hughes who said it would be most inadvisable for Robinson to take a Federal Reserve bank officer with him. Miller said he did not tell the Board at the time, for the Board had already decided the question adversely.

Early this week Governor Harding wrote me that his doctor had ordered him to take six weeks' rest and that he was to sail for Europe March 1, and he asked me to get passport applications from the State Department. I told the Board and it authorized Platt--who was going to Boston the next day--to tell him that if the Federal Reserve Bank of Boston asked for 6 weeks' leave, the Board would grant it. The papers say that the League of Nations is to ask Harding to take financial charge of Hungary. I do not see how he can do this and retain his position as Governor of the Bank.

February 25, Monday

Governor Harding called and said he was not at all well, that the Doctor had found that his blood pressure was excessive and had ordered him to take a rest of at least six weeks. He said he had received no formal notice of tender in the matter of Hungarian finances and felt that, involving as it must, an absence of 5 years, he should almost

certainly decline it when offered.

At a special meeting this P.M. Governor Crissinger read a telegram from Johnson, California Superintendent of Banks, strongly urging favorable action of the Board in the application of the Bank of Italy and the Pacific Southwest Savings and Trust Co. to take over and operate as a branch the Valley Bank of Fresno California.

This was a State bank with some eight branches and the agreement was that the branches should be divided between the two banks, which would close some of them.

The Superintendent said if this relief were not given the bank would close and would carry down with it a number of other banks and might imperil the whole banking situation in the San Joaspin Valley.

Both of these two banks now have branches in Fresno which is midway between San Francisco and Los Angeles,--about 200 miles from either.

Miller thought we might grant it but James and Dawes objected. Finally, inasmuch as Governor of Federal Reserve Bank wired us that it was vitally urgent and that the Executive committee of the Federal Reserve bank approved it, we voted to give the bank authority to approve, provided it was satisfied this was the only practicable way of meeting the situation.

All voted Aye except James and Dawes who voted No.

Governor Crissinger then brought the application of the East Banking and Trust Company at Newbern, North Carolina, to take over a small bank as a branch. James and Platt both favored this, as the condition of the parent bank and the branch was sound. Governor Crissinger bitterly opposed it on the ground that the State did not have a good

system of examination and added that our Board had determined to permit no more branches in any State not having a satisfactory examination simultaneously of banks and branches.

C.S.H. said that whatever the Board might do in the future, it had not yet done this and that such a policy would directly violate the express terms of the Federal Reserve Act, which enables the Federal Reserve banks and Board to accept the examinations of the State authorities but prescribes that the Federal Reserve bank must examine itself if the State examination is not satisfactory. Governor Crissinger said the Federal Reserve bank could not make a satisfactory examination. C.S.H. pointed out that clearly in this case it could.

James, to C.S.H.'s surprise, backed up C.S.H. and said Herson would shortly report that a simultaneous examination of the largest bank and branches, e.g. the Bank of Italy was perfectly practicable; that it might require perhaps 140 examiners which could easily be procured from the Federal Reserve bank and from other sources which his report would reveal; that the cost to the Bank of Italy would not be over \$20,000, which was not excessive or unreasonable.

C.S.H. pointed out that the Federal Reserve Bank of Boston charged one Rhode Island Bank,--I think the Industrial Trust Company and that the Banks was delighted to pay it as it was so valuable for it.

Miller then offered a motion to effect that the Federal Reserve bank could admit the branch provided that the State was giving a satisfactory simultaneous examination of all its banks and branches, and the condition of the parent bank and branches was sound.

Platt offered an amendment--providing that the parent bank and branch were found sound, etc. upon examination of the State authorities or if that were not accepted, of the Federal Reserve Bank itself. C.S.H. then informed the Board that if it laid down the policy of non-examination of State banks by the Federal Reserve bank and of exclusion of all branches, unless the State bank examination provided for satisfactory simultaneous examinations, he might feel it his duty to apply to the courts for a mandatory injunction against such a plainly illegal Act!

Miller's motion died, for Platt's motion of substitution carried, Miller and Governor Crissinger alone voting for it.

Miller said if this policy were not adopted, we might as well throw up the sponge in California.

C.S.H. said, of course, Congress could act, but prior to that, the Board had clearly no such power.

C.S.H. said Senator Glass had told him the Board should adopt a System of examination of State member banks and branches, no matter how many by the Federal Reserve banks.

C.S.H. said he would make such a motion as soon as Herson report was filed.

February 28

Report dated February 15 from Herson, Chief Examiner, presented to Board. It showed that a simultaneous examination of the State banks with the largest number of branches was practicable and the method was set out in detail, also the cost which did not exceed \$20,000 for the largest bank--the Bank of Italy.

C.S.H. moved that the report be accepted and that the Board direct such examinations to be immediately made in the manner outlined in the report, of all member State banks with branches.

Dr. Miller bitterly objected and Mr. James moved to lay it on the table. Vote: Aye, Miller and James. No: C.S.H. and Platt-- a tie vote--Governor Crissinger then voted aye and the motion was tabled.

Dr. Miller had a regulation he intended to offer which provided that the Board hereafter admit no branches from States, in which there is not a satisfactory State simultaneous examination of State banks and branches.

C.S.H. when this was discovered the other day, pointed out that this would be in direct violation of law. Section 9 provides that as a condition of membership State banks shall be subject to examinations made by direction of the Federal Reserve Board^{or} of the Federal Reserve bank by examiners selected or approved by the Federal Reserve Board.

This is imperative unless the directors of the Federal Reserve bank shall approve the examinations of the State authorities. Dr. Miller was furious and said we were all cowards; that President Coolidge ought to be informed as to conditions in the Board so he could "clean it out", et., etc.

C.S.H. told him that we have plain duty under the law to examine State member banks with branches, unless the Federal Reserve bank accepts the examination of the State authorities; that the Board has notified the Federal Reserve Bank of San Francisco that we will henceforth not approve examination of the State of California because of its having given up simultaneous examinations; that Governor Crissinger has always

contended we could not make simultaneous examinations; that Herson says we can practicably and without unreasonable cost; that, therefore, it is now our duty to do it.

Miller is trying to devise some way of keeping out all future branches and this seems to him a specious way of doing it.

February 29, Friday

Board held a bitter session over proposed branch bank regulations. Miller offered a draft which, among other things, provided that the Board would refuse to receive any application for a branch from any bank in a State which did not provide for adequate simultaneous examinations of its State banks and Trust Companies, including their branches, whether or not member banks.

C.S.H. and Platt pointed out the illegality of such action, but to no avail and the regulation was tentatively passed.

Aye: Governor Crissinger, Miller, Dawes, James.

No: C.S.H. and Platt.

In P.M. finally agreed on a tentative draft of regulations on State banks. C.S.H. and Platt voted for some of them tentatively, although they stated they would vote against them on the final draft. Miller offered this draft for formal adoption.

C.S.H. moved to refer it to a special committee for a report which was passed. C.S.H. said he did not wish to serve so Governor Crissinger appointed Platt, James and Miller. Later the question arose of putting in the annual report some reference to branch banking. Platt offered a resolution to effect that national banks should be given same power as State banks under regulations, etc., of Comptroller.

Miller then offered a draft for annual report stating that either State banks should be limited to powers now given national banks or that national banks should be given powers now exercised by member banks of the Federal Reserve System, the latter being recommended. This retained part of Platt's draft.

Miller offered this as a motion and it was agreed that the Secretary and Cunningham should have right to record their vote.

Dawes then moved to substitute a general endorsement of the McFadden bill.

Vote: Aye--James and Dawes.

No--C.S.H., Governor Crissinger, Platt and Miller.

(If Secretary and Comptroller voted Aye it would make a tie so that the resolution was lost in any event.)

On the main motion of Dr. Miller: Aye. Governor Crissinger, C.S.H., Platt and Miller. No: Dawes, James.

If the Secretary and Cunningham vote Not it will tie the vote, and it will be lost.

March 4

Secretary Mellon asked the Board to record him as voting Aye on Dawes' motion to approve the McFadden bill, and as No on motion of Dr. Miller, voted on February 29.

February 29

Secretary Mellon never conferred with any members who favored this inclusion in the report of the letter nor heard our agreements: his decision was doubtless influenced by Dawes who told me he had seen him and that he was against the Branch Banking System.

In my opinion the law should be changed to take away from ex-officio members the right to vote.

It is an extraordinary situation: Mr. Dawes as Comptroller tells McFadden that branch banking will injure the Federal Reserve System; four out of the six appointive members wish to put in annual report that this is not their opinion. Assuming that Cunningham elects as did the Secretary to vote no, we have the vote of four of the six appointive members Aye, but, by adding the vote of the ex-officio members, the vote becomes a tie and fails. Each of the ex-officio members can express their opinions in their own reports to Congress, and at the same time by their votes in the Board, they prevent a majority of the appointive members, (4 to 2) from expressing to Congress opposite views!

March 5

Board took up question of split reserves in Annual Report. C.S.H. moved (straw vote) to strike out all reference to Board's intention to spit up the reserves.

Miller accepted this but moved to put in its place a short sentence to effect that the statement of joint reserves does not accurately show reserve conditions.

C.S.H. accepted this as part of his motion. Platt moved to add a statement to effect that Board felt the reserves ought to be split.

These were finally put in form of separate motions after hours of weary discussion. C.S.H.'s motion was lost, Cunningham and C.S.H. alone voting for it.

Then Cunningham changed his mind and said he wanted to split the reserves.

Then he changed again and favored Platt's motion.

Miller was very ugly and finally moved that the minority report, C.S.H. and Cunningham be adopted, and we think this was adopted.

Miller said it was the last time he should vote on split reserves and perhaps the last time he should vote on any question!

Miller assaulted the Board--said that it was dominated by the Minority, that the minority have turned Government of the Board into a Soviet Government, etc., etc.

Governor Crissinger ruled that henceforth the vote of no member acutally in town should henceforth be recordd unless he came to the meeting--a slap at Mellon and Dawes, but, I am inclined to believe, a good parliamentary ruling.

Miller said yesterday the fact that all the Governors were opposed to splitting the reserves was an absolutely conclusive reason to him why he should insist on splitting them.

March 6

Cunningham records his vote in favor of Dawes' motion and against Miller's motion--just as did Secretary Mellon, and it, therefore, failed as a tie vote.

March 7

Question arose again in annual report. Minutes of yesterday's meeting agreed upon by simply stating that C.S.H.'s motion as amended by Dr. Miller and agreed to by C.S.H. prevailed.

Motion formally made to order report printed and signed by Governor and filed. At this point Cunnningham began to talk in a rambling manner saying he supposed the report was all right but that it did not give a rull report of our operations. It was pointed out to him that the

appendices contained the full report and that the reading matter was merely, in a way, a kind of editorial.

Miller also said in a reproving way to Cunningham--you were asked by the Board six weeks ago to present a draft of what you wanted in the report on Agriculture and yet you have done nothing about it! If you are not satisfied with it why don't you file a minority report! This seemed to please Cunningham who admitted he had forgotten all about it.

C.S.H. then asked Cunningham if he would not renew the motion he made the other day to strike out certain parts of the report previously indicated by him and we would vote on it, but Cunningham refused to do this.

A motion was then made to accept and print the report.

Aye: Governor Crissinger, Platt and C.S.H. No: Cunningham and James.

Not voting: Miller.

C.S.H. told Miller he certainly ought to vote one way or the other as by refusing to vote, he really aligned himself with the negative and he, C.S.H., felt we ought not to send any report based on a 3 to 2 vote and possibly on a 3 to 3 vote. Miller accordingly voted Aye.

C.S.H. then asked if the minority were to file a dissenting report and they both said No.

CUNNINGHAM is in a precarious state bordering on imbecility mixed up with politics. During the debate a reference was made to the letter on the McFadden bill, defeated by a tie vote. Cunningham said he knew nothing of any such letter although yesterday he recorded his vote against it.

He evidently is afraid to sign any report and wants to carry favor from the political farmers!

Putting him on the Board was a terrible mistake! He is good for nothing. James also should be severely censured. The splitting of the reserves was struck out on the understanding that this was all he objected to and it is extraordinary that he should thus have voted against it.

We then took up the new State bank regulations presented by Miller, James and Platt, the special committee.

C.S.H. pointed out that the clause refusing to entertain applications from any State not examining simultaneously its banks would prevent the Board from giving even a teller's window to a State bank even in the city of location, especially in California, which does not examine simultaneously.

Miller and James said the State Bank Superintendent of California said to the committee at his last conference that he does examine simultaneously all but the four banks with the largest number of branches.

C.S.H. did not so understand it but perhaps it is true.

Miller pointed out that the new regulation said the Board would not entertain an application unless such bank was being examined simultaneously, i.e. that in California it would apply only to these four large banks.

C.S.H. said this was an illegal condition; that it was the duty of the Board to examine every member bank if the State examination was not accepted and that the Board could not legally impose such a condition.

Wyatt said the Board could do this.

Miller and James got in a row as to the condition that Board would grant applications only in place of location and contiguous territory as defined by Board.

Miller wanted a clause--as to territory tributary in a banking sense to the parent bank.

C.S.H. said this definition was vague and would have to be defined by the Board; that it might be construed much more narrowly than the area defined in the November 7 resolution or, on the other hand, it might be construed to embrace State wide branches.

C.S.H. said although he was against the area defined in the Resolution of November 7, it was at least specific while Miller was hopelessly vague.

Platt said we ought to repeal the Nov. 7 resolution. C.S.H. said he would vote for the repeal, but failing that, he thought the area defined was in better shape than Miller's blind zone of banking influence.

James said frankly he favored, as to branches, cutting down the power of State banks to that exercised by national banks.

C.S.H. asked James to move this as the policy of the Board as he would like a vote on it: that the motion to expand power of national banks had been voted down and he would like a vote on this, but James would not make the motion.

Miller finally gave notice he would move to amend the draft by putting in his enonomical and banking zone draft.

March 12, Wednesday

Giannini of the Bank of Italy appreared before the Board advocating certain branches.

Dawes raised the question whether Governor could rule that an absent member could not be recorded on a vote unless he came to the Board meeting and voted. Platt had raised a point of order that no member could record his vote unless present.

After a long acrimonious discussion, C.S.H. said:

In my opinion the Federal Reserve Board is not a parliament or a Congress: it is simply a Board; inspite of counsel's opinion to the contrary, there is no such thing as a quorum, except in those cases where the Federal Reserve Act requires an affirmative vote of five members: the Act prescribes a quorum for the Organization committee and for the Federal Advisory Council but is silent as to the Board: if a meeting is duly called, any member present can act; every member has a right to ask in advance that his vote be recorded on any question which comes up during his absence; each member ought to be given the right to demand that the votes of all the members be taken or recorded on any question, so as to fix responsibility; if any member asks postponement of a vote in order that each member be recorded this ought to be granted so that the member can be present or record his vote; to claim that the Secretary can not vote unless he comes to a meeting is to deprive him of a privilege which this Act gives him; the fact that the Secretary and Comptroller with the votes of two of the appointive members can tie a vote and defeat is simply the result of the Act as enacted by Congress.

C.S.H. is inclined to believe that Congress should take away from the ex-officio members the right to vote, but that is not the law. The other day there was a motion made by Dr. Miller,--on an application

of a southern bank in Elizabeth City, South Carolina to take over a bank forty miles away and run it, etc., as a branch--that the Federal Reserve Agent report whether the acquisition was desirable on banking grounds, wholly apart from the resolution of November 7, 1923, which would prohibit the establishment of the branch; James moved that the matter be postponed for a meeting of the full Board; the vote was Aye, James, C.S.H. and Cunningham. No: Governor Crissinger, Miller and Platt. The motion was lost in a tie.

The main motion was then put and it was passed, C.S.H. voting for it. It was pointed out that this was merely an inquiry and did not necessarily mean a change of policy but James insisted on his motion.

In my opinion, James should not have insisted on this, it being merely an inquiry, but as James insisted, C.S.H. felt bound to support the motion. The motion having been defeated, C.S.H. felt free to vote for the inquiry.

The Board is in a hopeless impasse, but this is the fault of the Act and C.S.H. believes it is better to be tied up because of the Act than to control the Board by refusing to permit an absent member to record his vote.

Something must be done, however, for the Board is losing its position in the community.

Governor Crissinger has been a failure as a presiding officer; the new members certainly have lost confidence in him because primarily of his change of opinions, which certainly is not to his discredit. He cannot, however, hold the meetings in hand and a change should be made.

I do not see who can be designated in his place. Platt certainly would not be acceptable to the new members, although I think he would make a fair, impartial Governor. He, however, when he presides allows the meetings to drag out at great length, and cannot turn off business expeditiously.

Evening

Dined with Secretary Mellon and told him I should like to have a talk with him some time when he had a few leisurely minutes, about the Federal Reserve Board; that there was much friction there. He seemed very much surprised to learn this and acted as if he had never heard of it before. He explained how busy he had been and said he would be glad to talk with me.

In my opinion, although the Secretary has a clear right to have his vote recorded on any matter, the members can properly ask him to hear them either in the Board or at his office before he records his vote, in order that he may know both sides of any question on which he is to vote.

If this is not done, it would be a shocking case of invisible government. I believe if Secretary Mellon realized that his vote was being used to legislate against State banks, under the guise of imposing conditions, he would hesitate to record it without, at least, going over the evidence and listening to the arguments.

I feel also certain that if Secretary Mellon had realized that his vote prevented four of the six appointive members of the Board from being able to write McFadden denying the arguments and statements of

Comptroller Dawes in his letter to McFadden as to the effect of branch banks on the Federal Reserve System, he would have hesitated about recording it. His vote left Dawes in the position of speaking authoritatively for the Board, and took away from the Board, or at least a majority of the appointive members, the right to set McFadden right on the matter.

During the meeting this morning James said it was absolutely necessary to have a full vote on all branches, as otherwise the country would think the appointive members had been "fixed". This was bitterly resented by us, as it was a thinly disguised charge of corruption against the minority.

March 14, Friday

Governor Crissinger says he has written down the above charge.

March 18, Tuesday

Perrin sent in application of Pacific Southwest to merge a national bank at Torrance, 15 miles from Los Angeles and within the territory made tributary to Los Angeles by Board's amendment to Resolution of November 7, 1923. Perrin and the Executive Committee of the Federal Reserve bank reported that the bank to be merged was in good condition, and the State Bank Superintendent gave a certificate of public necessity, etc. The Committee reported--Dawes Aye, James No.

Dr. Miller said the Pacific Southwest had reached the limit of safety as to branches and had in fact gone beyond the limit. James said he should vote against it on ground that State Superintendent did not examine simultaneously and that he expected the proposed regulations would soon be adopted to effect that Board would not consider any application unless State examined simultaneously. Dawes then changed his recommendation from Aye to No.

Miller moved to reject on ground that State Superintendent was not examining simultaneously.

C.S.H. moved as a substitute that the application be postponed until a simultaneous examination be made of the Pacific Southwest and its branches, which the Board herewith orders. C.S.H. argued Secretary Mellon and Governor Crissinger could record their vote.

Vote on C.S.H. subst.

Aye: C.S.H., Platt, Cunningham.

No: Miller, Dawes and James.

Left for record of Secretary Mellon and Governor Crissinger vote.

C.S.H. then moved that the Federal Reserve Board proceed to examine simultaneously the State member banks of California having branches or such of them as are not now being examined simultaneously by the State Superintendent, said examination to be made by Herson in the manner indicated by his recent report to Board.

Argued Secretary Mellon and Governor Crissinger could record vote. Dr. Miller moved to table--defeated. Vote on main motion: Aye: C.S.H., Platt, Cunningham, Dawes. No: Miller, James.

Afternoon session

Governor Crissinger said would not have voted on C.S.H. substitute so it passed, no matter how Secretary Mellon might vote.

Debate followed on Miller's main motion. C.S.H. said Miller said this A.M. Pacific Southwest had gone beyond limit of safety. Miller denied this and said he was referring only to the banking situation; he added he had not the slightest doubt but that the simultaneous examination would show that the Pacific Southwest was in fine condition.

C.S.H. asked that this statement be put into record. Miller objected.

C.S.H. insisted and said Miller's remark showed he was merely seeking an excuse for rejecting the application, for he was moving to reject it on ground that State was not examining satisfactorily while he affirmed that Federal Reserve bank simultaneous examination would show that the bank was in fine condition.

Vote on Miller's motion: Aye: Miller, Cunningham, Governor Crissinger, James, Dawes. No: C.S.H., Platt.

James moved to adopt the proposed regulations as to branch banks. Miller moved to strike out the sentence relating to contiguous territory and to substitute "banking area tributary to parent bank" or words to that effect.

Miller admitted this would repeal resolution of November 7, 1923.

Finally matter was set down for a special hearing next Friday. March 20, Thursday

Hearing Interlocking directors, Old Colony Trust Company and National Union Bank.

C.S.H. wired Perrin as to California Bank examinations. Perrin replied Bank Superintendent said he was examining smaller banks with branches simultaneously but not practicable to so examine the two largest banks (Pacific Southwest and Bank of Italy) but that he might so examine the the Security Trust (Sarton) and Merchants Trust (Drum). See scrap book. After C.S.H.'s motion for simultaneous examination of all banks with branches which were not being examined simultaneously by State Superintendent, was passed, Miller said it would precipitate a banking crisis in California!

That is to say--the State examination is not satisfactory, the Federal Reserve Board will not accept it, and if the Board complies with Section 9 and examines these systems itself, it will cause a banking crisis!

Miller is evidently merely seeking an excuse for not permitting any further branches.

March 25, Tuesday

Urgent telegram from Pacific Southwest saying delay of Board as to Torrance branch application was seriously embarrassing it.

It appeared that no notice of Board's adverse decision had been sent either to Perrin or the Pacific Southwest.

The records showed that the Board disapproved the application as ground that the Pacific Southwest was not being examined simultaneously by the State Banking Department.

James did not want it to go out in this way but preferred merely the statement that the Board had disapproved it.

C.S.H. pointed out that the Bank was in the territory named as contiguous by the Board in its amendment to the Nov. 7, 1923 resolution, and that the Federal Reserve Bank and Agent said the bank was in good condition; that, therefore, it was prima facie entitled to Board's approval, and that if the Board disapproved the real reason, as stated in the vote should be given to the bank.

It was finally voted to inform the bank in exact accordance with the vote. The Board, therefore, has turned down this application on ground of not being simultaneously examined, a reason never before given or thought of by the Board. The real reason behind this was that the majority expect shortly to pass a new regulation refusing to entertain applications from banks not simultaneously examined by State authorities, and, therefore, it refused this application!

The Pacific Southwest will probably reply and say there is no such regulation, but the Board ought to reply--No, there is none, but we expect shortly to pass one. A more puerile, imbecile, vote was never passed by any body outside of an insane asylum!

The Committee has been talking all the afternoon up to 4:30 with Secretary Mellon on the proposed new regulations but said they were not quite ready to report.

March 26, Wednesday

Board took up proposed regulations. The Committee could not agree as to just what draft Secretary Mellon favored, if any, to be inserted in lieu of the first clause--contiguous territory. Finally, Miller went in to see him and came back saying that Secretary Mellon favored and desired to record in favor of the following:

"The Federal Reserve Board will restrict the establishment of branches, agencies or additional offices by such banks or trust companies in the city of location of the parent bank and the territorial area within the State tributary to and connected with the city of location of the parent bank in usual banking relations, excepting in instances where the situation is such that peculiar and substantial conditions exist making departure from the rule necessary or desirable."

James had moved to adopt the draft of regulations reported by the Committee and Miller now moved to strike out 1 and to substitute Secretary Mellon's draft.

Governor Crissinger was about to put the vote on Miller's substitute motion, when Dawes insisted that Secretary Mellon come in

and vote. Governor Crissinger and Platt objected to this and demanded a vote as Secretary Mellon had asked to be recorded in favor of draft,-- his own draft, which was the subject of Miller's motion.

Dawes got very angry and rushed out of the room saying that he should see Secretary Mellon and that he would not ask the consent of the Board either.

Governor Crissinger again started to put the vote but C.S.H. raised the point of order that the Board must wait at least until Dawes returned. While we were discussing the point of order Dawes returned, said he could only see Secretary Mellon for a minute but that the Secretary intimated he might possibly agree to an insertion after the word "relations", of the following:

"Said territory having been defined in the Resolution of November 7, 1923 and the amendment passed on January 1924."

Dawes moved as an amendment to Miller's motion the insertion of the above words.

Vote : Aye--Dawes, James, Cunningham

No--Governor Crissinger, C.S.H., Platt, Miller.

Lost, Secretary Mellon to have right to record himself on Miller's motion.

Aye: Governor Crissinger, C.S.H., Platt, Miller.

No: Dawes, James, Cunningham.

Secretary Mellon to have right to record himself.

C.S.H. then moved to substitute for the clause that Board ~~went~~ entertain applications from any bank not being simultaneously examined by the State Banking Department, the following:

"The Federal Reserve Board will, except under extraordinary emergencies, grant no further applications of State member banks for branches, unless there has been made, within one year before the date of application, a satisfactory simultaneous examination of the parent bank and its branches by the Federal Reserve or by the State authorities, nor unless the condition of the proposed branch is found to be satisfactory upon examination by the Federal Reserve authorities."

Vote: Aye--C.S.H. and Platt.

No. Governor Crissinger, Dawes, Miller, James, and Cunningham.

On final motion to adopt the resolutions as amended:

Aye: Governor Crissinger, C.S.H., Miller, Platt.

No. Dawes, James, Cunningham.

Secretary Mellon to have right to record his vote.

C.S.H. stated he should put in the record an explanation of his affirmative vote and Platt and Dawes reserved same right.

C.S.H. was in a quandary how to vote. He felt that Secretary Mellon's was on the whole not objectionable as, according to C.S.H.'s interpretation of it, it gave the Board the power to grant State wide branches if the Board saw fit; it also put in the form of regulations many other provisions to which C.S.H. had no objections; as to the simultaneous examination, C.S.H. believes it to be absolutely illegal unless extended to embrace Federal Reserve as well as State simultaneous examinations. Having been defeated as to this preliminarily, C.S.H. felt it was better to vote for the regulations as a whole, being 9/10ths good, rather than to defeat the whole regulations by voting against this

which would have made a tie, which Secretary Mellon very probably would refuse to break by his vote, and the whole matter would be in chaos again.

As it stands now, a vote by Secretary Mellon against the regulations would defeat them by creating a tie, and C.S.H. does not see how Secretary Mellon could now vote against a draft of regulation (as to contiguous territory) which he himself drew and for which he asked that his vote be recorded.

The spectacle of Dawes, an ex-officio member, rushing out of the room to induce Secretary Mellon, another ex-officio member, to change the vote he (Secretary Mellon) had just asked to be recorded, is enough to satisfy anyone that the Federal Reserve Board is today dominated by the ex-officio members, both political appointments!

Unless the right to vote is taken from the Secretary and Comptroller of the Currency, the Federal Reserve System is doomed. Our Board is looked upon with amused contempt by the country at large. It has been changed, by President Harding's appointments into a purely political system!

4:45 P.M.

Governor Crissinger told me that Dawes, with Pole, his Chief Examiner, had had a long conference with Secretary Mellon taking with him the minutes of today's meeting. Governor Crissinger said he had no right to do this and was bitterly incensed.

Dawes came in and said Secretary Mellon will vote so as to cause a tie on all the above propositions and begged me to accept his amendment which was voted down. I said I would consider the matter again but did not see how I could accept it.

March 27, Thursday.

Dawes, Governor Crissinger and Platt came in. I said I could not accept Dawes amendment but would try to draft something I could accept. I thereupon drafted the following, which is only a slight change in Dawes' draft, which in itself was an amendment to Secretary Mellon's draft (See P. 608)

"The Federal Reserve Board will as a general principle restrict the establishment of branches, agencies, or additional offices by such banks or trust companies to the city of location of the parent bank and the territorial area within the State tributary to and connected with the city of location of the parent bank in usual banking relations, as said territory has been defined in the Board's resolution of November 7, 1923, excepting in instances where the State banking authorities have certified and the Board finds that public necessity and advantage renders a departure from the principle necessary or desirable."

At the meeting C.S.H. read this to the Board, not agreeing in advance to accepting it, but saying he would be glad to discuss it and that he would be inclined to accept it as a compromise. C.S.H. pointed out that the proposed regulation omitted any reference to the amendment of the November 7 Resolution passed in January 1924 (as to additional territory around San Francisco and Los Angeles) for this amendment would remain as an exception to the general principle under the last part of the proposed regulation.

While we were discussing it James left the room and shortly after returned with Secretary Mellon. Evidently he had told Secretary Mellon of my new draft.

Secretary Mellon took the chair and said it was very desirable to settle this disputed question, and then said he felt strongly that C.S.H.'s new draft was a fair compromise and should be adopted. Dr. Miller attacked it saying it left matters wide open.

Secretary Mellon said this was true as a matter of voting but that the principle and exceptions laid down were fair. Dr. Miller then suggested striking out the words "tributary to and connected with the city of location of the parent bank in usual banking relations" and substituting the words "contiguous thereto".

C.S.H. accepted this and moved to substitute his draft as amended for Section one of the proposed regulations.

Although Miller suggested the above change, he said he would vote against the motion.

Vote: Aye, Secretary Mellon, C.S.H., James, Cunningham
and Dawes.

No--Governor Crissinger, Platt, Miller

Carried.

To complete the Parliamentary record of yesterday's meeting, Secretary Mellon recorded his vote against Miller's motion and the motion to adopt the regulations made by James, thus defeating each by making a tie.

The vote was then taken on a new motion by James to approve the regulations as amended, and it was the same as in C.S.H.'s motion.

Later Dr. Miller vigorously attacked Comptroller Dawes for his letter to Congressman McFadden to effect that the Federal Reserve System was in danger unless the McFadden bill was enacted charging that he spoke as if it was the opinion of the Board, whereas four out of the six appointive members were of a contrary opinion. He implied that Dawes should have first submitted this to the Board, and C.S.H. feels this criticism was justified. Dawes, in a measure, justified his action by saying that he said the views expressed were merely his personal views.

Cunningham complained of leaks in the Board on the subject of branch banks, evidently referring to Platt's talks with the reporter of the New York Journal of Commerce and Com. Bulletin. Miller said he had traced one of these back to a letter sent by Platt to Lull of the Banking and Currency Committee of the House. Platt said he had written several such letters and would continue to do so as he saw fit. No conclusion was reached, but it was pointed out that an existing by-law of the Board gave to the Governor the sole right to give out statements as to the Board's action.

To sum up the regulation's matter:

- (a) Dawes told C.S.H. the Secretary of the Treasury had decided to vote against his own draft of clause 1.
- (b) This would have defeated Miller's motion and would have left the resolution of November 7, 1923 in full force as an acting policy of the Board.

(c) By C.S.H.'s draft the principle of contiguous territory is merely, as it were, prima facie, subject to the full power of the Board to grant permits in any part of the State, if it so desires.

March 28, Friday

C.S.H. had inserted in record an explanation of his vote (see p. 38) as follows:

"Mr. Hamlin explained his affirmative vote for the regulations as a whole as finally amended by stating that he accepted all but two of the regulations; that he was opposed to the zoning regulation as originally drawn but was willing to accept the draft offered by the Chairman of the Board as a fair, workable compromise which did not violate Section 9 of the Federal Reserve Act as he construed the draft; that he was opposed to the regulations as to refusal to entertain applications for branches from State banks not being simultaneously examined by the State banking authorities and voted against it when it was offered; but that taking the regulations as a whole, he regarded so many of them as good that he was willing to vote for them as a whole, reserving the right to move in the future to amend them by striking out the part he believed objectionable."

April 4

Perrin sends C.S.H. a letter dated March 28, enclosing letters from California Bank Superintendent stating that since his agreement with Federal Reserve Board he had granted no permits

either for member or nonmember banks outside of area defined as contiguous territory around San Francisco and Los Angeles, except in one case of great emergency--the Valley Bank which the Board ratified.

(See Scrap book)

April 5

Ex-Senator Thomas called by appointment. He said he was counsel for certain silver mine producers and was also acting as the personal representative of Senator Pittman, who was a sub-committee of the Senate Committee which was investigating sales and purchases of silver bullion under the Pittman Act.

Apparently, he claims that the Treasury has failed to purchase the amount of bullion required under the Pittman represented by:

- (a) Allocation to Director of Mint of about 14 million silver dollars for subsidiary coinage purposes, four millions of which was not used but was transferred back to Treasury with concurrence of Director of the Budget, by Secretary Mellon, as he claims illegally.
- (b) Transfer by Treasury in 1919 and 1920 to Federal Reserve Bank of New York of about 13 million silver dollars, under an agreement between Federal Reserve Bank of New York and three New York banks having branches in China, with approval of Federal Reserve Board for melting and export, all profits, however, to be paid to Federal Reserve Bank of New York.
- (c) Transfer in 1920 to Federal Reserve Bank of New York of 50 million silver dollars, which presumably was also exported.
- (d) Export of 13 million silver dollars "from other sources".

This would make a total of 90 millions which he claims should now be bought in the market by the Treasury under requirements of Pittman Act, at \$1.00 per oz.

He said (a) had nothing to do with the Federal Reserve Board. He asked C.S.H. generally as to (b).

C.S.H. said he had a general recollection of the matter; that Mr. Strauss was a sub-committee of Board who had general charge of this matter, but that all he did was passed on by the Board and voted on; that the Board did approve a contract between Mr. Crane, its foreign exchange manager, or the Federal Reserve bank of New York and three New York banks having branches in China for export of silver dollars when melted for purpose of protecting the price of silver bullion which was then so high that there was a profit in melting the dollars, the bullion being more valuable than the coined dollar; that this was true or very nearly true even as to subsidiary silver (the melting point of the silver dollar was just above 1.29 per oz. and of fractional silver, 1.38 per oz.); that the three banks wished to use this silver to keep its price from rising further, thus protecting subsidiary coinage and to enable these banks to remove the discrimination in China vs. dollar exchange.

Senator Thomas claimed only power to regulate Foreign Exchange come from Pittman Act.

C.S.H. said as a general recollection he though Board acted under the Trading with the Enemy Act which was extended by Section 9 of the Pittman Act. ✓

All the Board did under the agreement was to permit the export of the melted bullion under an agreement that all profits from

purchase of dollar exchange in China should be paid to the Federal Reserve Bank of New York.

The Treasury, C.S.H. believes, claims that it simply gave the 13 million silver dollars to the Federal Reserve Bank of New York and that it had nothing to do with any use this Bank might make of them, and that it did not act under the Pittman Act at all.

Senator Thomas as C.S.H. understands it, claims that the Board had no power, except by delegation from the Treasury under the Pittman Act, to protect dollar exchange or subsidiary silver.

(c) Transfer of 50 million silver dollars to Federal Reserve Bank of New York in 1920.

C.S.H. told Senator Thomas that he had a faint recollection that this transfer was made solely to build up the deposit reserve of the Federal Reserve Bank.

On looking this up in Volume 5, Diaries, I find:

Nov. 7, 1919 (5 Diary - 48) -- Board voted to authorize Governor Harding to go to New York with Strauss, to confer with the directors, and, if conditions seemed to warrant such course, to suspend the deposit reserve requirements.

Nov. 10, 1919 (5 Diary -- 51-52) -- Members file statements explaining above vote. C.S.H. signed a memorandum with Governor Harding and Strauss, but added a postscript to the effect that suspending the deposit reserve requirements was a public notice of the condition, perhaps unavoidable, of the Federal Reserve Bank of New York, of which the public was entitled to be informed, and that if the reserve were kept intact (by rediscounts) the public might be deceived, so that a few, knowing the real underlying condition, might profit at the expense of the ^{many} who did not know. ✓

Nov. 12, 1919 (5 Diaries - 52) -- Critical condition in New York call loan rate 25%. Business failures feared.

November 13, 1919 (5 Diaries - 55) -- Conditions Bitter.

February 28, 1920 (5 Diaries - 184) -- While discussing reserve conditions, Miller asked Governor Harding whether, in fact, he suspended the required deposit reserve at Federal Reserve Bank? Governor Harding replied that he did. He never had reported this to Board.

February 26, 1920 (5 Diaries - 181) -- New York deposit reserve down to about 33%, below the required minimum of 35%. Harrison advised us that New York must pay a tax, but it was agreed that this need not be added to the discount rate, as that provision applied merely to deficient reserves against Federal Reserve Notes in actual circulation.

Leffingwell told us he had 50 millions in silver at the New York Sub Treasury which could be deposited in the Federal Reserve Bank of New York, thus taking care of the situation, and the Board decided that the deposit should be made.

Case said he would like only 25 million this week and the balance next week, so that the reserves should not too suddenly be increased.

(d) C.S.H. said he had never heard of this. Senator Thomas then spoke of talk with Crane in New York and said the Committee should take his testimony.

C.S.H. said, in addition to Crane's testimony, the Committee should call for all records of the Federal Reserve Board--that they would be gladly furnished if asked for the Committee.

Senator Thomas said he had been considering asking the committee to send an expert accountant to examine our records!

C.S.H. said no need for such action-- the Board would send copies or originals if Committee asked for them.

Senator Thomas then suggested that committee should subpoena the Board. C.S.H. repeated above statement.

Senator Thomas asked if it would be advisable to speak to Governor Crissinger about the matter--C.S.H. said, yes, as he is Governor.

Senator Thomas said he would see Governor Crissinger and later see the Secretary of Treasury.

Senator Thomas said there was also a political side--that the Republicans would probably be glad to show the mine owners that their administration was just to them but that he hoped that by speedy action Senator Pittman might get the credit for it.

Federal Reserve Agent Jay came before Board and said that Warburg had told him that a number of member banks were to be asked to buy trade acceptances drawn by Germans or foreigners against Germans (not bankers acceptances), the trade bills being payable in dollars in the United States, and indorsed by the new German bank in Germany; that he Warburg wished to know whether these bills were eligible for purchase by the Federal Reserve Bank of New York and, if so, whether the Federal Reserve bank would look favorably upon them as a purchase; that the directors were advised by Harrison that they were eligible and had told Warburg they would look favorably upon them as a purchase unless the Federal Reserve Board interposed some objection.

Platt thought the Board should not object, Miller blew hot and cold.

C.S.H. asked Jay who said the Bank had never before bought bills of foreign trade acceptances payable in U.S. in dollars. Jay said Warburg (as usual) wanted an immediate answer as he was going away Tuesday.

C.S.H. pointed out that these were not bankers acceptances and were in effect a direct financing of e.g. foreign merchants; that if they were bankers acceptances it would not trouble him so much, but that in this case we were dealing with the new gold bank simply as an indorser, and that while we so dealt with the central European banks, this was confined to United States and not foreign paper; that while we may have bought some foreign bills on indorsement of foreign central banks, it was merely to establish an account with them. C.S.H. raised doubt as to whether under Section 14, we were not limited in buying bills to bills originating in this country as the section says "bills of exchange of the kinds and maturities by this Act made eligible for rediscount, i.e. we could purchase such bills at home or abroad, etc. C.S.H. doubted whether a foreign trade bills, although payable in United States in dollars could be discounted by Federal Reserve banks, and if not, he wondered whether such bills could be purchased.

Jay pointed out and C.S.H. agreed that the purchasing power under Section 14 was broader than the discounting power under Section 13; e.g. Federal Reserve banks could purchase State nonmember bank acceptances.

C.S.H. admitted that, perhaps, this might be done under Section 14(c).

C.S.H. said, that admitting for the argument that the Federal Reserve bank had the power, the Board was asked to express an opinion as to the desirability of exercising this Power, and he felt on this question the Secretary of the Treasury as Chairman should be consulted; further that this plan was in effect a loan to German citizens; that if the member banks were to agree to give credits here for this purpose, the old rule of the State Department was still in force requiring notice to it, and that there was all the more reason why our Board should consult with the State Department.

Jay was finally told that the Board was not prepared to express any opinion on this at the present time and without a more formal presentation of the matter.

I am getting tired of these applications which have to be decided immediately if not sooner by the Board!

April 7

Jay and Warburg came before Board. After careful consideration we decided, counsel, Wyatt, so advising, that these trade bills were technically eligible for purchase, and that, properly protected, such purchases would be to advantage of United States.

The domestic acceptor in Germany has to provide dollar exchange; if he does not the Gold Bank must; dollar exchange, apart from purely finance transactions, must come from exportation of goods, not necessary to United States but as well to other countries, where the dollar exchange is stipulated for; and the United States will get its share of these exports, which will encourage exports from the United States. On the other hand, if these trade bills are made in sterling, ultimately Great

Britain would get the benefit.

Warburg said that the gold brick would not take any of these bills unless the parties were engaged in business which would tend to give it dollar exchange credits from which these bills could ultimately be paid.

That the Gold Bank was a first class institution was seen by fact that the Bank of England had arranged for credits to the Reichsbank to permit it to buy one half of the stock plus one share in sterling.

In considering the policy as to buying the Board voted to write Jay that, on the assumption that these bills were negotiable under German law (on which the Federal Reserve Bank of New York must satisfy itself) and were technically eligible, but that some arrangement should be made for their payment at maturity in the city of United States in which they were in terms payable.

C.S.H. insisted on this because the Board on previous occasions had deprecated the acquirement of domicile bills by Federal Reserve banks unless there was some office and assets in place where payable out of which they could be paid. See 6 Fed. Res. Bulletin--386.

Mr. Warburg said Secretary Mellon told him he saw no reason why such bills should not be purchased by Federal Reserve banks, assuming, of course, that they are negotiable commercial bills, and that there was no international reason for deprecating them, on which he would confer with Secretary of State.

Board voted not to announce decisions until Secretary should confer with Secretary of State.

The vote of the Board was unanimous somewhat to the surprise of C.S.H. who feared Cunningham and James might vote against it. Cunningham said he was satisfied that the purchase of these bills would be ultimately for the advantage of the export trade from the United States for the reasons given.

April 8

Eddy in reading minutes of last meeting stated that the vote on the German trade bills was unanimous.

James objected and said he voted against it. The other members told James he voted for it, but James vigorously denied this.

C.S.H. remembers perfectly looking at James when he voted, as he was curious about it, and James undoubtedly voted Aye!

Secretary Mellon told Board he did not deem it necessary to consult the Secretary of State as to the German trade acceptances, as the matter was purely a banking question.

April 12, Saturday

Senator Reed of Missouri wired me to come to Senate to meet Senator Simmons on matters connected with the bonus bill and to bring one of our experts with me.

I went there at 3 P.M. with Smead. We had a talk with Senators Reed, Walsh (Mass.) Andrews, Jones and Simmons.

In brief they wanted me to consider the following Bonus plans, which they evidently wanted to put into a minority report:

1. Payment in full in cash, by issuing legal tender notes.
2. Payment in cash by bond issue.
3. Same, but to be bought by Federal Reserve banks at a very low rate of interest.

They wanted particularly to know as to the danger of inflation and price increase.

We told them our objections and said we would prepare a memorandum and send it to them.

April 14, Monday

C.S.H. told Board of above and said Reed, et als had no objection to my mentioning it to Board in strict confidence. C.S.H. said he would send a confidential reply, to which Board raised no objection.

April 16

Governor Seay asked what reply to make to a member bank at Charlotte, North Carolina stating it wanted to buy a State bank having three branches and convert them into branches. Governor Seay said they were all in first class condition.

James and Dawes reported a letter for Governor Crissinger to sign telling Governor Seay to tell the bank that in view of the new regulations it would be useless to reply.

Platt offered a proposed letter, drawn by C.S.H., stating that the only condition imposed on this bank on its admission was the one as to changing the character of its assets, and, therefore, the bank should notify the Board merely that it might ascertain this fact.

James violently objected saying the consent of the Board to branches applied to all banks whether they had had this condition imposed or not.

C.S.H. read the regulations stating--Section 6--that consent of Board to new branches in express terms was applicable only to banks upon whom this condition was originally applied, and asked if James

seriously wanted the Board in its first decision under the new regulations, to deliberately violate them?

On vote, all voted to send C.S.H.'s letter except James who voted No. Even Cunningham voted with us. Platt said Wyatt advised him C.S.H.'s letter was absolutely correct.

Last week Platt sent Secretary Mellon a strong letter on subject of branch banks and the action of the Comptroller, Dawes, in recommending in his Report amendments to Federal Reserve Act and later voting in Board meeting against the Board sending in its annual report statements denying Comptroller's statement as to necessity of such amendments. (See Scrap Book)

Today Platt told me Secretary Mellon had sent the Under Secretary to him saying Mellon agreed to much of what Platt said and that Board should make recommendations to save for country banks, at least, the right to have branches.

C.S.H. received from Smead a criticism of Senator Reed's bonus suggestions and wrote Reed a letter sending them as personal and confidential. Platt approved it but C.S.H. asked Moore to show the letter to Miller, and if he objected to sending it to hold it up.

April 17

Showed Smead's memorandum to Dr. Miller who said that it was good but might be condensed. I then said I would get Stuart, Chief of Division, to look it over. We both agreed that I could send any memorandum O.K.'d by Stuart to Senator Reed.

Stuart came over and later sent me a somewhat shorter memorandum which I mailed Senator Reed (5:30 P.M.) for his confidential information.

April 22

Johnson, Superintendent of California banks, and Oliver his counsel, had conference with Board. Johnson stated that he was prepared to examine all State member banks with branches simultaneously as he now had 30 examiners as compared with only 8 in Dodge's time. Board asked them to confer with Herson who as to report tomorrow whether proposed system of simultaneous examinations was satisfactory to him. Johnson said he could do this without assistance of Federal Reserve examiners, but he would prefer to have them and would pay entire expense. He finally said he thought the banks would agree to have one simultaneous examination by the State and another by the Federal Reserve authorities, and said he would ascertain and report this to our Board.

C.S.H. said he did not think 2 simultaneous examinations were necessary, and that he understood the Comptroller's second examination of National banks of high standing was more or less perfunctory.

Governor Crissinger denied this.

C.S.H. said he had heard that the Comptroller was to recommend a change in the law so as to require only one examination, but more if necessary.

Governor Crissinger denied this.

April 23

Mr. Wills called and said that he had had a talk with Secretary Mellon in behalf of the reappointment of Dr. Miller on the Federal Reserve Board; that he told Mellon he hoped he would not be prejudiced by Miller's voting against C.S.H.'s compromise resolution on branch banks, in Regulation

H; that Mellon said Miller had explained this to him, and that he was favorable to his appointment.

Secretary Mellon said he agreed with Platt that it was not right that the appointive members of the Board should be prevented from addressing the Committee on subject of amendments to Federal Reserve Act, because of a tie caused by votes of ex-officio members.

April 26

Board had rate discussion. Governor Crissinger, just returned from New York, reported that directors all wanted to reduce rates to 4%.

Dr. Miller and C.S.H. favored this; Platt at first rather doubted the advisability. Voted to call special meeting on Monday and to ask Secretary Mellon to be present.

April 28

Board met with Secretary Mellon present. At first Secretary Mellon opposed any rate reduction. Dr. Miller pointed out decline in production and marked decline in prices; thought it wise psychologically to reduce.

C.S.H. said he thought prices would continue to fall and this would be a good object lesson to those who thought lower rates always meant higher prices.

Miller thought recession in industry was bound to continue, but that by July a pronounced upward movement would set in and that it would be easier at that time to go up from 4%, if necessary, than from 4-1/2% as a base.

Board finally voted to notify New York that if it was the judgment of the directors at next Wednesday meeting to drop down to

4% the Board would approve, and we authorized executive committee to approve (if full meeting could not be had) such reduction if proposed by New York, Boston, or Philadelphia.

April 30

The Board received word that New York proposed at directors meeting today to lower rates to 4% to take effect at 3 P.M. today. The Executive Committee ratified this.

C.S.H. calls up Governor Harding in Boston. He said he had heard this, and asked if this was the result of the policy of the Board as communicated to the New York Bank.

C.S.H. said No, we merely said that if the directors in their judgment advised and asked authority for this reduction the Board will approve it, and that this applied also to Boston and Philadelphia. Governor Harding asked if Board would object if Boston did not act for some days yet. C.S.H. said No, would not object. Governor Harding then asked if the Board approved this reduction in connection with any plan under the Dawes Committee Report. C.S.H. said No, this report was barely mentioned and not in connection with the rate question.

1:30 P.M.

Federal Reserve Agent Curtiss calls up C.S.H. and said his directors decided to take no action in the way of increasing discount rates for the present but had given the Executive Committee power to act at any time they thought it desirable.

May 3

Silver dollar exportation 1919. Told Eddy to proceed immediately and have copied for transmission to Senate Committee every scrap of paper,

memoranda, records, etc. the Board has. He has been delaying this in order to put in the records of Crane in New York. Crane has already been ordered to copy his records a large binder of papers has been found in basement, left by Strauss. I ordered these also copied immediately.

C.S.H. told Eddy the Pittman Committee were entitled to everything we have.

May 5

Conference of Governors. Governor Harding told C.S.H. he was certain that the movement for lower rates at New York was inspired by Governor Strong, now sick in Governor Norman's house in London; that Norman wanted inflation in United States to put us more nearly on a parity with Great Britain.

Governor Crissinger told C.S.H. that Case ^{opposed} ~~approved~~ the reduction.

C.S.H. told Governor Crissinger that nothing was said of this at the Board meeting; that it was there stated that Case merely wanted it postponed for a few days.

Eddy read letter from President Coolidge redesignating Crissinger as Governor for one year from May 1, 1924.

May 7

Conference with Governors. Long discussion as to discount rates. Governor Case gives reasons for New York's action; said it brought Federal Reserve rates into harmony with customer's rates; that it would not cause inflation; that a director of Bank of England told them that Great Britain was over burdened with credit demands which

it could not handle and that our rates should go down while Great Britain should go up.

Governor Harding said no need to reduce rates but ultimately Boston must follow New York; that country rates in New England were 6% and would not be affected by reduction to 4%.

Governor Fancher said also country rates could not be reduced from customary 6 to 8% even if we reduced Federal Reserve rate to 2%. Governor McDougal took same view. All admitted, however, that reduction would help large borrowers in the large cities but claimed benefit would not be diffused.

Dr. Miller said Federal Reserve System should lead--downward as well as upward and that lower discount rates would mean lower cost of manufacturing--that prices had declined 15% in six months and this interfered with carrying large inventories and made for uncertainty.

The Governors almost all seemed to take the view that our System should follow the market, at least, as to lower rates just as Jay did in 1921.

Governor Crissinger, Miller, C.S.H. and Cunningham said they believed the principal banks should reduce rates.

Platt gave a somewhat equivocal answer.

We also discussed open market operations. Governor Case said 300 millions more was needed to have System earn expenses and dividends; that such an amendment could not be secured for the money poured out would be used to take down rediscounts with Federal Reserve System; he admitted that when these were reduced to nothing then the earning assets could be increased; that to pour, say, 50 millions at

once and more later into the market would entail competition with member banks in buying acceptances and Government securities; that it would interfere with the Treasury operations.

Governor McDougal said Banks ought to buy in open market to increase earnings.

Dr. Miller said now is the time to buy in order to have weapon to use later if special demand set up; that the gold markets were not now being used for special loaning and that our purchases would not have any such effect.

Governor Norris said it would be a violation of reserve bank policy to pour money into the market now. C.S.H. said this might be true if we had, say, 600 millions of Government securities but now we can buy them little by little to put us in a position of controlling any excessive upward movement later--that such buying would not cause inflation at present time.

C.S.H. is satisfied that Case's objections are largely founded upon aversion to any competition with member banks, and to a desire not to affect Treasury placing of its securities, and also, possibly to effect on the stock market.

May 8

Governor Norris called and said that Under Secretary Winston strongly objected to recent increase of 50 millions in holdings by Federal Reserve banks of Government securities.

The Treasury should take its hands off the Federal Reserve System.

May 12

Federal Advisory Council meeting.

At the preliminary conference Warburg, the President, outlined what he believed to be the proper scope of Open Market operations saying the System should always have about a billion of earning assets or at least 900 millions as a minimum, and expressing the opinion that more Government securities should be purchased and that this could be done without causing inflation. C.S.H. pointed out the attitude of the Treasury Department in opposing purchases of Government securities and said that during the war and post war period we subordinated our discount policy in the interest of the Treasury, rightly or wrongly, and now he was opposed to having the Treasury dominate our Open Market policy, as it was apparently trying to do; that the Treasury should approach the market as it finds it--subject to all the influences which regulate it, including the influence of the Federal Reserve System which is and was intended to be a factor in the market.

Warburg said he agreed with this, but that, of course, Federal Reserve banks would cooperate with the Treasury so far as practicable in making these purchases, but that he did not see how the Treasury could object if open market operations enabled it to place its certificates at a more advantageous rate to the Government.

May 13

Council made a very ambiguous recommendation as to Open Market purchases, saying that the Federal Reserve bank should have a sufficient volume of investments in normal times to be able to stabilize the market when necessary, etc., etc.; that under present conditions the System

should preserve an aggregate investment of substantially its present volume (835 millions--i.e. Discounts 440, Open Market bills 87, Government bonds and notes 250, U. S. certificates 60.), "with a tendency somewhat to increase these investments if this can be done without unduly affecting the market".

The Council also said: "The Federal Reserve banks should not make investments for the sole purpose of increasing these earnings and earning dividends".

The council also stated: "The Council was unanimously of the opinion that dividends should be continued as long as the amount of surplus justifies this action even though the dividends may not have been earned."

Thus the Council has in effect stricken out one of the two methods (discount rates and open market operations), viz. Open Market Operations, as a source of earnings and has substituted dipping into the surplus in lieu of open market purchases.

C.S.H. pointed out to the Council that Congress intended the Open Market power to be used for earnings in case rediscounts fell off.

Warburg replied somewhat ambiguously that Open Market operations justified for other reasons, would usually take care of earnings.

C.S.H. asked Warburg if he (C.S.H.) correctly interpreted the statement of the Council to mean that Open Market powers should never be used for making earnings unless such purchases were justified upon other grounds, and Warburg said yes.

This is an absolute reversal of the intent of Congress and I shall raise this in the near future in the Board.

In its report for 1914, the Board said:

"The Reserve banks have expenses to meet, and while it would be a mistake to regard them merely as profit making concerns and to apply to them the ordinary test of business success, there is no reason why they should not earn their expenses and a fair profit besides, without failing to exercise their proper functions and exceeding the bounds of prudence in their management."

Mr. Forgan on February 15, 1916, at a meeting of the Council, said it was absolutely necessary for Federal Reserve banks to earn expenses and dividends and that the resulting competition with member banks would be negligible. Warburg also said that the Council had asked him to write Congress strongly urging that a rule be granted to take up the McFadden branch bank bill.

C.S. H. said that while the Council is the judge of its own power and he did not wish to question it, he would merely point out that if the Council took such action, some members of the Board would feel bound to try to have the Board send a communication opposing any such rule.

Warburg asked what the attitude of the Board was on the McFadden bill.

C.S.H. said probably all favored the extensions of power to National banks; that 4 out of 6 of the appointive members opposed the provisions cutting down the powers of State member banks; that the two ex-officio members joined with the minority of 21 making a tie and thus

preventing any official communication on the subject.

Warburg said the Council would reconsider this recommendation.

The Council also informally said--in response to Platt's suggestion--that a majority favored ultimately making the Federal Reserve System purely voluntary, but that no such action should be taken at the present time. The opinion was expressed that none of the large banks would leave but that probably many small banks might be glad to leave.

It was also pointed out that the old reserve requirements would ipso facto apply to national banks withdrawing (as they now apply to Alaska banks) and also Section 5202 Revised Statutes limiting liabilities to 100% of the capital.

Comptroller Dawes was very much disturbed at such a change in the law.

The Council finally voted not to recommend the rule for the McFadden bill.

May 13

Eddy tells C.S.H. that the Council voted informally in favor of the reappointment of Dr. Miller to the Federal Reserve Board.

May 16

Dawes writes expressing hope that Board will try to induce the Federal Reserve Bank of Atlanta to accept request of Shermwell, President of Citizens First National Bank of Albany, Georgia.

This bank closed some time ago and the stockholders are trying to reopen it. They have made several suggestions to Federal Reserve Bank the last of which was that the Federal Reserve Bank should

release all excess collateral (\$213,000) over the amount due from First National (\$217,000) and further should purchase some \$118,000 worthless paper held by 1st National for \$75,000 (later reduced to \$50,000), the First National to be released from all liability, and the \$50,000 notes to be indorsed by the old stockholders.

This has been pending for some time--months ago I sent Herson down to confer with the directors of the Federal Reserve Bank and he reported that it had done all it legally could to help open the bank.

The Board about one month ago called a conference at which Governor Wellborn, McChord, Shermwell and Captain Fletcher, a national bank examiner, were present.

Fletcher said the \$118,000 paper was practically worthless.

After a long talk Shermwell make the above proposition saying that if accepted the bank could reopen, as new stockholders were to put up \$150,000 of new capital.

The Federal Reserve bank directors refused to accept Shermwell's proposition.

The Federal Reserve bank agreed, however, to surrender all but \$100,000 of the excess collateral and to buy for \$50,000 the \$118,000 of worthless paper provided the new stockholders and all the directors indorsed the worthless paper.

Dawes wrote C.S.H. or Crissinger that this was a minor difference and that he hoped Board would urge the Federal Reserve Bank to accept it.

C.S.H. sent Dawes a memorandum to effect that, assuming the Federal Reserve Board had power to do what either Shermwell or it wanted,

which he did not decide, it was purely a matter of banking judgment which the Federal Reserve Bank must decide and that Board could not properly try to influence them.

It was agreed at the conference that the Federal Reserve Bank should not make any offer which its Counsel did not approve as legal.

Later Governor Crissinger come in with a proposed letter to Federal Reserve bank urging it, almost in direct terms--tantamount to an order.

C.S.H. objected to Governor Crissinger's sending it saying it involved a question of banking judgment and power, the first to be absolutely in the discretion of the directors of the Federal Reserve Bank, and the latter clearly in the first instance for them to determine, and that the Board should not interfere in any way.

Governor Crissinger said he would follow C.S.H.'s advise and not send the letter.

McFadden, Chairman of Banking and Currency Committee of House of Representatives telephone C.S.H. urging that Board persuade the Federal ReserveBank to accept Shermwell's proposition.

C.S.H. explained to him the Board had no authority to do this as it was purely a matter of banking judgment to be determined by the directors.

McFadden should not have attempted to inject himself in this situation!

Some time ago Dawes told C.S.H. he believed the closing of the bank was caused by the negligence or stupidity of the Federal

Reserve Bank, and it was this statement which caused C.S.H. to send Herson down, who gave the Federal Reserve Bank a clean bill of health.

Wyatt told C.S.H. he doubted the power of the Federal Reserve Bank to do even what it had agreed to do. It was clearly agreed however at the conference, by Governor Wellborn, that no plan should be suggested which was not approved by Council of the Federal Reserve Bank and C.S.H. assumes such course was taken by Wellborn.

May 20

C.S.H. at meeting of Board points out that the Federal Reserve System is almost literally bleeding to death; that its earning assets are dwindling and that some at least of the Federal Reserve banks can not barn expenses and dividends; that the open market operations are necessary slightly but not in any ^{proportion} ~~proposition~~ to the falling off in rediscounts; that he felt that the open market committee was being deterred by the Treasury from increasing its investments in Government securities; that we needed at least 500 millions Government securities to enable the bank to regulate credit in case any future speculative activity should arise.

Dr. Miller read report of Federal Advisory Council which rather feebly favored increase in earning assets and introduced a resolution favoring their recommendation.

Governor Crissinger and Platt denied that Federal Reserve banks were under obligation to make earnings if pouring out money in investments would disturb the market--said that fact that dividends are cumulative showed this.

C.S.H. said increase in investments would not disturb the market at present time as all the Governors conceded.

C.S.H. said we yielded to Treasury domination during the War and Post War, and that the Treasury was dominating now through its influence over the Open Market Committee in keeping it out of Open market.

May 21

C.S.H. offered in Board meeting a resolution reoffering Board as to earnings of Federal Reserve banks in its annual report for 1914; concurrence in Advisory Council recommendation for increase in earning assets given May 13, 1924; that present earning assets should be considered the minimum; that should gradually be increased to approximately 1 billion; that this will enable Board to make effective future discount rates necessary to control undue speculative conditions, and would also provide necessary earnings; should be made with discretion so as to effect minimum changes in money market; that the only situation justifying abstention from Open Market operations, thus waiving necessary earnings, would be where such purchases would seriously disturb the market and encourage credit inflation; that it was consensus of opinion of Governors that increase in such investments would not cause speculative activity at present time; that reasons advanced by some of Governors at recent conference for restriction of open market operations--competition with member banks and incidental interference with Treasury. Sales of certificates were not sufficient reasons for abandoning policy of strengthening the System so it can make future discount rates effective should speculative activity threatening inflation arise.

Cunningham said it would create trouble if Board suggested control or speculative activity in future.

C.S.H. and Miller said we were criticized in 1919 for not controlling credit sooner by putting up rates.

Miller said he had a two hour talk with Under Secretary Winston yesterday to persuade him we should increase earning assets; that he thought Winston for tactical reasons would object, but that he was prepared to see us do it if we could present a carefully drawn up plan showing clearly the necessity; that he was absolutely indifferent on question of loss of earnings and thought this of absolutely no importance.

Are we dominated by the Treasury or not?

May 22

Senator Glass called. C.S.H. told him in absolute confidence about the leasing of rooms by the Cleveland Federal Reserve Bank to the Republican National Committee. He deplored this and feared it might injure the Federal Reserve System. He said that Senator Heflin would denounce it and he in reply could only deplore it; that McAdoo would be quick to seize upon it as a basis for an attack. C.S.H. asked whether he thought it desirable for the Board to insist on cancellation of the lease. He said he feared that might only increase the trouble. He thought the Board should clearly go on record as opposed to such leases and possibly send out such notice to all banks, but whether to do that now or to wait seemed to puzzle him.

C.S.H. also spoke to him as to his proposed open market regulation and he was in absolute accord with C.S.H. that open market purchases

should be made, necessary, purely for sake of earnings, unless such course would so disturb the money market as to cause inflation; that this was the clear intent of Congress; that Treasury must come to the market as it finds it and should leave the Federal Reserve banks alone and cease interfering with their operations. Never mentioned Miller's nomination. At the morning meeting Governor Strong came in and said it was imperative that the Federal Reserve System should at once increase its earning assets by purchases of Government securities; that this could be done now without affecting the market injuriously; that in his opinion the Dawes report will soon be accepted; that before long, after the conventions, the political situation will cease to be a factor of uncertainty (meaning, I suppose, that Coolidge's election will be conceded); that this will be followed by a broad uprising in business; that we must have ample earning assets to prevent it degenerating into a speculative runaway market; that in his opinion one billion of earning assets should be the minimum. He also said that he believed England had a large amount of gold, not stated in its financial statements, received from France and left over from Russia to take care of the interest payments to the United States; that we were receiving gold daily from abroad and that this would increase greatly rather than diminish for rest of year.

He said that ultimately we must modify or readjust the indebtedness of foreign nations to us; that if we fixed the German reparations on the "ability to pay" basis, we should give the same terms to our Allies.

Dr. Miller differed as to this and said payment of full debt was necessary to protect the sacredness of an International obligation. C.S.H. agrees absolutely with Strong--Board decided to call a meeting of the Open Market Investment Committee next Thursday.

Strong thought ultimately prices would rise again in United States and fall in Great Britain thus reaching a parity.

This is Correll's view--except that Correll's would force inflation in United States while Strong, apparently, thinks it will come without any forcing.

Governor Strong's plan was to get the consent of the Open Market Committee, to have New York to proceed to buy Government securities for its own account, letting the present holdings of the other Federal Reserve banks remain as they are. He also said they ought to agree that in future liquidations New York should be allowed to liquidate first.

The Board all agreed to the first proposition and the second was not considered. Governor Strong said he rather inclined to lower New York rates to 3-1/2%; that while this might have little or no effect upon domestic conditions, it might bring about much borrowing from abroad; that it was a great opportunity for the United States to become the money market of the world. He predicted, not however, until after the elections, and perhaps long after, a tremendous business boom; that this would be preceded by speculative activity in the stock market, aided by low interest rates; that we should be prepared for this by increasing our earning assets; that Gates McGarrah, a most astute banker thought the Federal Reserve System today should hold at least 500 million of Government securities.

May 26, Monday

McFadden called; said reason for not calling for a report on McFadden bill from the Board was that he knew the Board was divided; that he would send later this morning to the Board a request for a categorical answer to certain questions; that the Board was to meet this P.M. (this was news to C.S.H.).

McFadden, in answer to C.S.H.'s question, said a Bill merely giving National banks the right to establish branches in home city would have no chance of passage.

C.S.H. believes that McFadden knows Glass will attack him for not referring the Bill to the Board, and is trying to "cover".

C.S.H. also believes that some scheme is on foot to force a majority vote favoring the McFadden Bill.

James telegraphs Crissinger he understands Board is to be asked for an opinion and he wishes to be recorded as unqualifiedly in support of McFadden bill.

T. P. Beal wires C.S.H. favoring McFadden bill.

Adams, of National Shawmut Bank, calls C.S.H. on telephone to indorse McFadden bill and C.S.H. explains that Board favors the national bank part, but is divided on State bank part.

Dawes is evidently putting in some fine work!

C.S.H. explained to McFadden how Dawes reported to Congress that Federal Reserve System will be injured unless State bank privileges are cut down as to branches, and then votes in Board against sending a report to Congress, contrary to his views.

McFadden said smiling, this certainly would seem to be a reason for abolishing the Comptroller or transferring him to the Board.

C.S.H. said the Comptroller should be put under the Board or should cease, at least, to be an ex-officio member, as he represented only the national banks, and naturally voted and worked for their selfish interest as opposed to that of the State member banks.

At the meeting this P.M. a letter from McFadden to Governor Crissinger was read asking for a vote of the Board on the McFadden bill and adding that any qualification in the vote would be regarded as a vote against the Bill.

Secretary Mellon and Dawes were present.

C.S.H. called attention to the fact that the bill as reported by the Committee differed radically in one respect at least from the bill as originally amended by the Committee--in the original bill all nonmember banks with branches were allowed to come into the System with all branches established prior to the passage of the McFadden Bill, while, as reported, no bank could enter the System without relinquishing all its present branches situated outside of location of parent bank.

Dawes at first denied this but finally agreed it was true.

After long discussion Cunningham moved a resolution (evidently written by him) that the Board favored the passage of the McFadden bill.

Secretary Mellon

thought the amendments to Section 9 Federal Reserve Act contained in Section 9 of McFadden bill were not in all respects good but said that Senate could amend it.

C.S.H. and Platt said McFadden bill would change Federal Reserve System from a national system into a national bank system; that it would

probably cause an exodus of State banks from Federal Reserve System and cripple it severely. Dawes said if not passed many national banks would leave the System.

Vote on resolution: Aye--Secretary Mellon, Governor Crissinger, Cunningham and Dawes. No--C.S.H., Platt and Miller.

Governor Crissinger explained vote--did not approve Section 9 of McFadden bill but to help national banks, he voted for the resolution!

All, including Secretary Mellon, deplored the change in committee report pointed out by C.S.H. and Dawes agreed it must be changed, but no one suggested changing his vote.

Governor Crissinger is more than a weak man--he has no convictions; in his testimony before McFadden committee he agreed with Platt but now votes contra: he simply represents a resolution of forces pressing against him!

C.S.H. said Bill gave an unjustifiable monopoly to Bank of Italy for State wide banking and to Pacific Southwest for nearly as much and prevented any bank, in the System, or coming in to compete with them. Somebody said Giannini favored this bill.

C. S. H. said he might well, considering the monopoly it gave him.

May 28, Wednesday

Senator Glass' Secretary told me that the Senate Committee reported favorably the McFadden bill the other day while Senator Glass was in Philadelphia making a speech; that there was a gentlemen's agreement that the matter would not be taken up by the Committee while Glass was away; that Glass was very indignant and would fight the Bill in the Senate and could defeat it.

May 29

The Senate Committee reported McFadden Bill with Section 9 changed so that State banks are precluded from entering only as to branches established after McFadden bill becomes law.

Open Market Committee met: Governor Strong, Fancher, Norris McDougal and Harding.

After long discussion it was voted to increase purchase of Government securities up to 150 millions at once and to apportion same in rates to earning necessities of the several banks; the same apportionment to be made of acceptances purchased; also that New York could increase her holdings, apart from Committee purchases, up to a reasonable amount, say 100 millions of Government securities.

Governor Strong also asked general authority to use the bonds purchased through the Committee as also New York's own purchases, to exchange temporarily with New York banks having favorable balances at clearing house to tide over the situation which will arise June 15, when dividend distributions and other payments will have to be made by Treasury, said bonds to be ultimately returned to the Federal Reserve banks.

Governor Strong also said that any recovery in business would first appear by an activity in the stock market which might cause a violent speculation and that New York should be given power to meet this situation by selling Government Securities without first getting consent of the Open Market Committee.

Miller attacked this and said no one bank should be allowed to thus control the stock market, unless it were the concensus of opinion

of the other banks reported by the Committee and of the Federal Reserve Board.

C.S.H. was shocked at this bold assertion of control over the stock market and said he assumed that such control could or should only be exercised through action dealing with the effect on commercial business by way of speculative activity caused by stock market speculation. This clearly was not Governor Strong's view, however.

No action was taken as to this.

Governor Strong and Harding denied power in the Board to forbid purchase or sale of Government securities by a Federal Reserve bank.

The only power directly given is under Section 13 and is limited to Acceptances purchased in Open Market.

Miller said if there was any doubt we should ask Congress to give us the power.

In discussing the advisability of further purchases of Government Securities, Facher and Mc Dougal said purchases should be made only when rates are high and we wish to soften conditions; that when rates are low, as now, we should, rather sell securities to stabilize or lift up rates.

All agreed that under normal conditions this was true but that at the present time rates were not of prime importance; that it was imperative to get into the market now to exercise control needed later in case of threatened inflation, which might come sooner than we expect as the result of the tremendous gold imports.

Fancher and McDougal accepted this finally, and all agreed that such purchases could be made now without unduly disturbing the market.

Governor Strong told C.S.H. the regulation of the stock market by the Federal Reserve Bank of New York after the armistice was not a system transaction but done solely by Federal Reserve Bank of New York with approval of Secretary Glass.

C.S.H. introduced a resolution at the meeting today reciting that the Board had heard indirectly that the directors of Federal Reserve Bank of Cleveland had leased part of the premises of the Federal Reserve Bank to the Republican National Committee for use during the National Convention; that in the opinion of the Board it should not have been made as it is likely to establish a precedent which may bring severe criticism upon the Federal Reserve Bank of Cleveland and upon the Federal Reserve System. The resolution concluded by directing that a copy be sent to the directors of the Federal Reserve Bank of Cleveland and that after the national elections, a circular be sent to each Federal Reserve bank to the end that leases of part of the premises of the respective Federal Reserve banks shall not be made for the use of any political committee. Then there was a vote on this and it passed unanimously although Platt recorded his vote against the part requiring notice to be sent to the Federal Reserve bank, etc., but voted for the main part of the Resolution.

May 31, Saturday

Senator Glass called and he spoke of the McFadden bill; said that the justification of the Senate committee for reporting it in his absence was that they had changed Section 9 so as to permit entrance of all nonmember banks with all branches established before the passage of the McFadden bill.

He still opposed it bitterly and said it was an attempt to legalize the illegal resolution of the Federal Reserve Board of Nov. 7, 1923.

C.S.H. explained that his compromise adopted in the Board's regulations, in effect, so modified the Resolution, as substantially to repeal it.

He said he was very uncertain what course to pursue--whether to content himself with voting and fighting against it on the floor on its merits or to arrange to have it debated at such length that it would be defeated. (See letters, C.S.H. to Glass on the Bill.)

June 5

Dined with Mr. & Mrs. Chilton. After dinner Under Secretary Winston spoke of the trouble in securing a successor to Federal Reserve Agent Rich of Minneapolis and he said that Mr. Price or Mr. Prince was coming in to see him tomorrow.

Yesterday our Board heard Mr. Prince of Federal Advisory Committee who said Mitchell did not want to be made Federal Reserve Agent; that he thought even if he would take it, he would have to give up so much time to clearing up the affairs of the Capital Trust Company that he could not act as Agent--that the Federal Reserve Bank officers and directors wanted the Deputy Governor Geery appointed; that he was a first-class man; that Price who was also strongly pushed politically was a brother of Governor Price of Minnesota and now connected with the Federal Land bank; that he was a nice fellow but absolutely unfitted for Federal Reserve Agent.

The Board all felt they would like to appoint Mitchell, if he would take it, assuming that he could give the time to the work and finally appointed the Minnesota Committee, Miller and Cunningham, to make an appointment with him to go over his affairs and to find whether if tendered the place, he would accept. Committee was not authorized to tender it, however.

Platt told C.S.H. Prince said Mitchell would have a \$195,000 assessment against his stock which he could not pay; also that the Chase National and a Chicago bank held notes of his to a large amount.

June 6

Secretary Mellon sent word asking Board to take no action to appoint Federal Reserve Agent at Minneapolis until he could see them. At our request he came in and we told him all that had been done. He asked for delay until a week from next Tuesday to which we agreed.

C.S.H. told Board as to Prince's talk with Platt and said Committee should find out exact status.

June 9, Monday

Federal Reserve Bank of Cleveland replies to our resolution says it created great excitement in Board. Vaguely expresses conviction that Federal Reserve Board has no jurisdiction.

The resolution says, among other things, that the Board has given careful consideration to the obvious difference in the points of view of the two Boards on this question--which difference this Board makes note it seriously regrets.

Also the Chairman is instructed to convey to the Federal Reserve Board the unqualified belief of this Board that its action and the actions of its officers in this case were warranted and governed by no other considerations than the obligation of community hospitality, sound business management and the Board's own belief in its authority over the administration of such affairs on behalf of this Bank.

This resolution was prepared by Williams, Stambaugh and Knight and was unanimously adopted June 6, 1924.

This was accompanied by a letter dated June 7, 1924 from Federal Reserve Agent Wills setting forth particulars of two leases:

1. Lease to Convention Committee--nonpartisan in makeup.
January 23, 1924--868 square feet from January 1 to June 30, 1924--Rental \$300 per month.
2. To Republican National Committee.
8,500 sq. ft. for 45 days from May 8, 1924 at a total rental of \$7,500, which includes cost of partitions.

Wills, in letter said, "To the best of my recollection, I have not seen our Board so stirred since the organization of the bank".

Winston notified Federal Reserve banks that because of failure of urgent deficiency appropriation, he could not ship any more new United States currency in exchange for unfit unless Federal Reserve banks would pay postage on unfit notes and take out insurance in new money shipped.

Eddy discovered this by accident. Winston did not see fit to consult the Board. Winston told the banks that if they would do this until July 1 (when permit appropriation would be available) he would try to have an appropriation made to reimburse them.

The Board consulted with Counsel who advised us that while the banks could continue to pay postage on unfit notes as they had always done, in contingency that Congress might not reimburse them, they could not lawfully insure United States currency going from the Treasury to the Federal Reserve banks as the title did not pass until they received them, and, consequently, they had no insurable interest; that such action would be as much a breach of the law forbidding deficiencies as if Winston himself paid money out of the Treasury for this insurance.

The Board, therefore, wired the banks to make no commitment as to assumption of insurance charges until they heard from it.

We sent a copy of this to Winston.

June 10

Winston writes Board that he has temporarily discontinued the fiscal agency relations of the Federal Reserve banks and the Treasury as to receiving unfit currency, forwarding it to Washington and receiving in exchange new currency, and refers to his telegram that if they desired new currency they must pay the expense of shipment. Cites old practice before Federal Reserve banks were made fiscal agents, when each bank had to pay expense of shipment to and from the Treasury and Sub Treasuries. Says that after Sub Treasury were abolished as a matter of convenience, the Treasury authorized Federal Reserve banks to receive for it unfit currency and pay out for it new currency and Treasury paid expense of shipments from and to the Federal Reserve banks.

"Since funds for this expense are no longer available and will not be until the beginning of the next fiscal year on July 1 the Treasury has been obliged to withdraw these agencies temporarily and return to its original practice.

"It is, of course, unfortunate that the deficiency bill did not pass but the Treasury is faced with a condition it cannot remedy, and unless the Federal Reserve banks are willing to assume this expense, shipments of new currency to the Federal Reserve banks will cease until July 1, 1924."

"I trust, therefore, that your Board will advise the Federal Reserve banks of the Treasury's position and your views in respect thereto."

Winston did not refer in any way to our telegram of yesterday of which we sent him a copy.

Winston evidently looks on the Federal Reserve Board as an appendage of the Treasury.

Dawes said at the meeting today that Winston had no special reputation as a lawyer; that he was merely the son of his father, with no reputation for tact.

June 9, Monday

Mr. Noyes of New York Times lunched with me; after lunch, he and Professor Kemmerer went into my room. Professor Kemmerer was one of the experts with the Dawes Committee and he said he drew the currency part of the report which originally came out; that the introductory part-- as to impossibility of redemption in gold for a short time was a compromise; that the intention was to establish new German bank on a sterling and not a gold basis; that as he originally drew it, it specified the dollar and not the sterling standard; that France bitterly objected to having Germany on a dollar standard while she was on a depreciated standard; that Germany might later offer to help France to go on dollar standard; that Governor Norman came before Committee and positively insisted that the bank must be established on the sterling and not the dollar basis, that this is clearly what will be done unless American bankers decline to help unless the dollar standard is adopted; that the American bankers were "sounded" and said they would help on the dollar basis, provided Great Britain would join with them!

He said Schacht also strong favored the sterling basis.

June 12

While away yesterday Winston told Crissinger and Platt he had not yet discontinued the fiscal agency relations of Federal Reserve banks as to redemption of unfit currency.

Matter came up as to a quorum and Winston said he represented the Secretary as Under Secretary and, therefore, he should be counted as Governor Crissinger objected to this and nothing was done.

This A.M. Wyatt brought me an opinion to effect that Under Secretary Winston was not an ex-officio member of Federal Reserve Board in Secretary Mellon's absence.

Winston came in with draft of telegram to all Federal Reserve banks saying he had temporarily, until July 1, discontinued the fiscal agency functions to exchange of unfit for fit currency; that until July 1, the Federal Reserve banks could take it in and cutting it in halves could ship it to Treasury, receiving credit when received by Treasury; that Treasury would ship new money to banks charging it to them when shipped (thus title would be in them); that they could pay cost both ways and insure, as an ordinary banking matter; that Federal Reserve Board would interpose no objection.

Miller said Treasury should agree to ask Congress to reimburse Federal Reserve banks; Winston said this could be considered later; C.S.H. said preferred this should be done without reimbursement as agreement to reimburse would make it a voluntary service forbidden by the statute.

Nothing was said as to reimbursement.

The banks were not ordered to do this but merely permitted by Board to do it if they saw fit.

C.S.H. moved to approve Winston's telegram and all so voted except Miller and Crissinger who voted No.

C.S.H. felt Winston had at last consulted the Board and recognized that it was independent of the Treasury and, therefore, we ought to cooperate as above.

James wanted Wyatt's opinion sent to Winston. C.S.H. advised Board not to do it as, although he agreed with Wyatt, he feared result would be a request for an opinion from Attorney General and that he might decide the other way, pointing out that this was a new statute and that, therefore, the original opinion of Attorney General (which was copied for all the members) might not apply in this case, and probably, had nothing to do with the case.

Miller said Governor Crissinger had overruled Winston and that we should let matter rest, until Winston raised the question again. No action was taken, and Wyatt any way said he wanted to go over matter again before finally filing opinion.

June 17

Dr. Miller took oath of office for new term of 10 years, beginning August 10.

Board considered proposed rate changes of Philadelphia:

Present rates:	90 days-- $4\frac{1}{2}$	6 mos. $4\frac{1}{2}$	9 mos---5
Proposed rates:	" " $3\frac{1}{2}$	" " $4\frac{1}{2}$	" " $4\frac{1}{2}$

Philadelphia is now the only bank having differential rates, all the others being flat rates for all maturities.

The Board unanimously agreed to new rate on 90 day paper, but C.S.H., Cunningham and James did not like the differential agreement 6 and 9 months paper.

Miller said longer maturity should carry a higher rate. C.S.H. said as a general principle this was correct as to ordinary loans but he did not believe Congress intended that agricultural paper should have higher rates than commercial paper; that a 90 day loan for commercial purposes was probably given at a lower rate than a 6 months loan for agricultural purposes to a customer; that the 90 day paper, however, could be renewed from time to time at the lower rate; that the objection that banks at same rediscount rate would offer all of their long-term paper could be met by the Federal Reserve bank.

Miller said a Federal Reserve bank might cease to be liquid if it had in its portfolio an unduly large amount of long-term paper, and might be in danger of insolvency. C.S.H. pointed out that it is the bad quality and not the term which makes banks insolvent.

Vote: To approve $3\frac{1}{3}\%$ rate and to disapprove the rest.

C.S.H. called up Austin and he said the spread of 1% between 90 days and 6 mos. paper was an error of his Board; that he would call them together again and revise it. C.S.H. expressed hope that Board would consider that all other banks have a flat rate and to raise question of a differential by a bank having little of this long term paper might raise awkward questions.

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