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Miscellany

WRITINGS --
"MEMORANDA CONCERNING THE FEDERAL RESERVE BOARD...," DIARY VOL. 9, 25 JUNE - 3 DEC. 1924
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Volume IX - June 1924

June 25

Board voted to decline request of Federal Reserve Bank of Philadelphia to invest in Liberty bonds as a means of securing earning assets to meet expenses and dividends. C.S.H. alone voted in favor, and explained vote on (a) the merits (b) doubt as to whether Board had power to refuse permission.

Platt explained negative vote saying time might come when it would be advisable to permit this.

Board sent letter to Open Market Committee asking its consideration of question whether as to future open market operations an apportionment should not be made in accordance with earning necessities (this we long ago agreed to) and also whether Federal Reserve banks having more open market purchases than necessary for earnings should not now assign the excess to New York and other banks needing more earning assets.

James vigorously objected to whole idea of putting open market operations under control of a committee of banks. He said it was against spirit of Sherman Anti-Trust Act, according to his theory Federal Reserve banks should compete in the market, but it was pointed out that New York was the great national market, and that this would mean that each Federal Reserve bank should have an office or agency in New York for this purpose; that such helter-skelter competition would demoralize instead of stabilizing rates, and that if Federal Reserve banks should sell at any time it would flood the market with money; that open market purchases were primarily made for the good of the System and that operating through a committee of all banks was a reasonable regulation.

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James also said he believed the charges often made were true that the Federal Reserve Board had been dominated by New York.

Governor Crissinger was very angry and asked James to name a single vote of his so dominated.

The whole Board demanded that James should give specifications. The only ones he could give were:

1. The open market committee alluded to above.
2. The high charges on collections by clearing house banks. (The most comspicuous instances of this, in fact, the only instances were cited by James were Chicago and Atlanta.)
3. Action of Board approving the reduction of New York rate to 3-1/2%, as this lowered (under clearing house rules at New York) the rate of interest payable by New York banks on bank balances.

Miller pointed out that the Class A (banker) directors of the New York bank bitterly fought this reduction, which was forced by the Class B directors, chiefly Young and Woolley.

James thinks rates should be uniform at all Federal Reserve banks, in fact, he, without perhaps knowing it, is a believer in a central bank. He said that if the System is not a central bank, then each Federal Reserve bank should be allowed to compete freely in New York for open market purchases.

It was pointed out to him that Federal Reserve banks as to rediscounts, are limited to paper offered by these member banks, and their competition is negatived; also that under Sec. 14 a Federal Reserve

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bank establishing a foreign agency <u>must</u> allow other Federal Reserve banks to operate through it, thus showing that competition as to these transactions was regulated.

The Board then voted to approve New York's request to pay a semi annual dividend, although not earned, on ground that it could be charged to surplus at and of the year if not finally earned, as ruled by attorney general.

C.S.H. then introduced a resolution which was laid over for a future meeting.

Resolved: That in the opinion of the Federal Reserve Board the Federal Reserve banks should, as far as possible, without unduly disturbing market conditions, use their open market powers for the purpose of making earnings sufficient to pay their expenses and dividends; that the availability of the surplus for making up deficits in earnings, as ruled by the Attorney General, should not deter the Federal Reserve banks from making every reasonable effort to secure their necessary earnings, nor from making strenuous efforts along the lines of retrenchment in expenditures.

<u>August 18, Monday</u>

Had talk with J. R. Mitchell; took down all the facts and made up my mind that there was no reason for not appointing him Federal Reserve Agent. (See scrap book.)

<u>August 21</u>

Had final conference with Wyatt and Agnew on Par Clearance suit of Pascagonda National Bank vs. Atlanta.

Yesterday we authorized Governor Crissinger to retain Mr. Leman of New Orleans. He at first declined because he was counsel of the Whitney

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National Bank of which Clarbourn, the leader of the attack vs Par Clearing System, is Vice President. Later he wired he could accept and Governor Crissinger arranged an interview in New York next week to talk it over.

Agnew said if the Board were beaten, the banks and credit association might criticize us severely, though unjustly, for retaining the counsel of the Whitney National Bank.

Agnew suggested that this bank might be contributing to some bankers association fighting the Par Clearance Plan, and all agreed if this were so, he ought not to be retained.

Wyatt and Agnew favored filing merely a special appearance--that Atlanta court had no jurisdiction and asking dismissal of the Bill as against the Board. Governor Crissinger, Miller and C.S.H. felt we ought not to do anything which savored of technicality and should submit to the jurisdiction unless this would prejudice a decision on the merits. Finally, C.S.H. insisted on consulting Solicitor General Beck and said he would abide by his judgment. Beck told Wyatt and Agnew that we should file a special appearance, claiming that the Board is not in Atlanta District and not subject to the jurisdiction of the court; that the Board is a Government Board and, therefore, cannot be sued without consent of the Government.

Beck advised us not to raise the point that service on the Federal Reserve Agent at Atlanta is not service on the Board. Of course, if the Board members had been sued individually, suit could have been brought against them in the proper tribunal, but in the Bill the Board was made a party simply as a Board. The Board then authorized a special appearance to be filed, unless Leman, if retained advised against it.

Agnew said Randolph was againt filing a special appearance.

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C.S.H. and Platt said Governor Crissinger should look into the matter most carefully before retaining Leman, as they feared criticism of such action.

Agnew suggested Ex-Governor Miller of New York--a leader of the Bar and a skilled trial lawyer. Governor Crissinger said better to take some Southern lawyer, if not Leman.

August 29, Friday

Governor Case calls me up from New York for Governor's stenographer says Owen Young has cabled asking if Federal Reserve Agent Jay, now in England, can remain there a few weeks as he wants to consult with him. To C.S.H.'s questions Case said Jay would act absolutely unofficially and could not and would not bind the Federal Reserve bank in the System in the slightest degree. Case said Governor Crissinger was willing. C.S.H. told Case that if the directors authorized Jay to remain over unofficially he, C.S.H., would offer no objection.

October 31, Friday

Board voted to accept report of Miller and Cunningham, prepared by Stuart:

1. Limiting scope of monthly Bulletin of Federal Reserve Agents;
2. Putting all such work under supervision and direction of Division of Rexearch and Statistics;
3. Banks must get approval of Federal Reserve Board for any research studies before increasing any expense;
4. Chief of Bureau may make assignments of such work among the banks;
5. Monthly publication not to exceed 8 pages.

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6. Monthly publications to be under general editorial supervision of Director of Research & Statistics of Federal Reserve Board, he to be responsible to the Board for the proper conduct thereof.

The Federal Reserve Agents are to submit a budget of expenditures not later than December 15, based on this ruling. At first Cunningham would not sign the report, but finally he did, although he said he did not fully comprehend it.

Miller moved to adopt the Report. C.S.H. moved as a substitute that the report be submitted to the Agents for discussion before its adoption. Defeated, C.S.H. alone voting Aye.

On main motion, carried, C.S.H. alone voting No.

C.S.H. said this would centralize the Federal Reserve System and crush out the autonomy of the 12 banks; that we had no power to do so; that our only control over expenditures was over salaries.

Miller said the motion was based on the assumption that the Board had power, and one member said the motion could be justified from the power of removal. C.S.H. said we might as well furnish plate matter and order each Agent to sign it.

C.S.H. begged the Board to hear the evidence first before deciding the question. Stuart said he thought the Banks expected this, but C.S.H. said he would prefer to hear what the banks had to say on this. It was all to no avail.

Conference with Pension Committee of Governors in proposed Pension Bill. They asked us to approve their bill, which left all final power in Federal Reserve Board.

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The Board some time ago refused to approve the Bill unless the pensions were limited to employers receiving not over $5,000 salary and unless the provision allowing member banks to participate was stricken out.

The Committee brought down leading experts, among others, Mr. Sayre, expert for the Episcopal Church pension fund.

He begged the Board to allow all salaried employees to participate, as in the long run it would be cheaper as superannuated men are usually kept on for a long time; that the fact of a pension would enable the Board to insist on removal at once of all superannuated men. He said it would be far better to limit the pension to $5,000, rather than the salary.

Miller said the great danger of dry rot was in the higher paid than in the lower paid men. Sayre said if under pension these men could be at once removed.

Sayre also said that allowing member banks to participate would cost nothing as they would have to carry themselves and pay in addition their share of the overhead.

The whole committee agreed that it should be left in the power of the Board to determine absolutely as to limit of insurance and as to member banks. All they asked was for Congress to pass the legislation authorizing the Board finally to determine all details.

Governor Crissinger demanded to know whether or not the Federal Reserve Board or Banks were to make simultaneous examinations of State member banks as ordered by the Board some time ago.

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James said the California Superintendent was now examining the the Bank of Italy simultaneously and our examiners were helping and watching to see if the State did it properly; that this would not be finished for some months, but that, as regards California, at least he was content to await their report.

Same question was raised as to Michigan and all agreed that the Federal Reserve Agent should try to reach some agreement with the State for a better examination, before we took action.

November 10, Monday

Joint conference Governors and Agents.

4 P.M. Board meets with Open Market Committee of Governors. Board wanted to talk with Committee about their feeling, expressed in minutes of Chicago meeting, that in addition to the 500 million Government securities whose purchase has been authorized, the committee should authorize the Chairman, Governor Strong, after cooperation with the committee, to buy or sell 100 millions more in case of any emergency requiring quick action. The Board was to approve this, of course, but apparently no consent of Board had to be procured before acting. Governor Strong said the committee intended to report to the Board along above lines, but Miller had indicated there might be objections; that someone must be ready in an emergency and if Board would take the responsibility of declining this authorization he would be content.

Governor Strong pointed out that in the near future there would be a contraction of reserves of member banks of over 200 millions,--25 millions already set apart for Canada, 100 millions loaned Germany and exported 5 millions per week in February, 1925, payment of bonds securing circulation requiring deposit in Treasury of some 87 millions (amount of these

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bonds securing national bank notes). Governor Strong said this would tighten the market and would mean a necessity for putting up discount rates; that it would cause bitter opposition and uncertainty in United States and would seriously affect our relations with Europe, starting up gold imports again.

Evidently Governor Strong wants to purchase more Government securities in order to keep money conditions easy and keep down discount rates. I believe there is politics is this as putting up rates would embarass the Administration; also that he hopes for some inflation to put us on a parity with Great Britain.

Customer rates are now as low as 2-1/4% as against a discount rate of 3%.

To make our rate effective we should really sell some Government securities.

Governor Harding and Norris thought our discount rate abnormally low and that they ought to go up. Norris said he favored giving power to Strong over 100 millions more Government Securities, but he would be adverse to using it to buy more now.

Miller objected strenuously to giving such power and Governor Strong read from Chicago meeting minutes to show that Miller then vigorously favored it, which rather pleased Miller.

Cunningham objected to using open market power to stabilize rates, although he was opposed to any increase in discount rates.

C.S.H. pointed out that in 1923 we reduced our holdings of Government securities to 90 millions to avoid necessity of putting up discount rates.

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Governor Strong got angry and suggested that the Board disband the committee and take responsibility on itself for operating.

I fully agree that Open Market power was intended to be used for purposes of making discount rates effective, but have grave doubts whether we should now use it to keep down a reasonable advance in discount rates.

I do not like use of Open Market power to regulate the stock exchange, but Governor Strong pointed out that a rise in call loan rates may necessitate an increase in commercial rates.

Governor Harding told Cunningham that if rates are not in a normal condition, in future we may have to make a sharp increase which will be bad for business.

Governor Strong's idea seems to be to in effect revive the old Money Committee (after the Armistice) which I do not like.

Norris and Strong seemed to feel that while a moderate increase might help U. S. domestically, it would injure Europe and thus in the long run injure us.

November 12

Meeting of ope market committee. List of 5 or 6 propositions discussed. The question of power over another 100 millions of Government securities was dropped by the committee. Discussion turned largely on whether committee should be given power to replace 65 millions of securities which would shortly mature; also as to power to buy Government securities to offset effect of exports of gold, payment of bonds, etc.

Miller violently objected to any such power being given to the - Governor Strong who said so eone must be responsible--the Board or the Governors.

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C.S.H. pointed out that the committee report asked that such power be given to the committee and not to Governor Strong, and Governor Stong said, as Chairman that he never had nor would do anything except in conference with the committee and that in every meeting of the committee the Federal Reserve Board had been and would be notified.

Miller then said he thought the proposition was to give the Federal Reserve Bank of New York this power but the Board would not agree.

Governor Strong pointed out that the gold earmarked for Canada, and that ordered by our banks for Germany, and the bond redemptions would seriously draw down the reserves of member banks, and this must result in calling commercial loans or restricting credits thus disturbing the commercial money market.

Governor Strong said Committee would at once increase the bill rates to help control the situation.

Miller said the open market powers should not be used to stabilize rates abnormally low and all agreed to this.

November 24, Monday

Federal Advisory Council meeting. Discussion over course as to discount rates. Miller repeated his talk given before the Joint Conference. Secretary Mellon asked him if he believed the 3% New York should be increased. After some hesitation he said Yes. He also said we should at once sell some Government securities to tighten up the market.

Secretary Mellon said he thought much of the business improvement was normal, merely taking up the slack.

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Mr. Mitchell of Chicago said the 3% rate at New York was too low and should be increased at once, and Government securities should be sold. Warburg was against raising the 3% rate at present.

C.S.H. agreed with Warburg and said that an increase at New York would in all probability be followed by an increase to 4% by Boston, Philadelphia and Chicago; that the 3% rate was merely a nominal rate and discounts had dwindled almost to nothing; that it would be looked on by the public as a red flag, an indication that the Board looked for trouble, and would be pre-judging a condition which might settle itself and turn out not to be abnormal; that we should hold the reins, through open market operations, so as to feel the mouth of the horse and be ready to tighten them by selling Government securities at any time.

The consensus of opinion was that some Government security should at once be sold,--that perhaps even 5 million might suffice.

The Council was unanimous in opposing the scheme--favored by Governor Crissinger--for changing the law so that national bank notes could be issued against Liberty bonds.

December 3, Wednesday

Long debate in Board as to Miller resolution he introduced yesterday: "The Federal Reserve Board holds it to be necessary in the present situation of the money market that the open market rate of the Federal Reserve System should be sufficiently above the level of market rates to be effective.

The Board is of the opinion that Federal Reserve bank rates in all classes of open market investments admissible to purchase by

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Federal Reserve banks should in present circumstances be not less than 1/4 of 1% above the actual current (sales) rates on such classes of investments.

The Federal Reserve Board would like an expression of views and a recommendation of the Federal Reserve Bank of New York on the subject of a revision of its open market rates in order to bring about a better adjustement of such rates to the trend of rates in the money market and in order to make its rates effective."

Mr. Stewart was present, said he attended the meeting of the New York Executive Committee yesterday; that it increased its busying rate yesterday so that it was slightly above market rates in acceptances; that the directors would meet tomorrow and might even go higher; that the only market now was the Federal Reserve bank; that the policy of the directors was to meet the market rates; that after any advance by Federal Reserve bank the market rates always instantly rose; that Governor Strong said he had the situation well in hand. C.S.H. said the directors were proceeding with due diligence and had matters in hand and that it was a serious matter for the Board to declare in favor of 1/4 of 1% differential as a rule; that it would be an attempt to operate, which the Board was not fitted to do. Miller said conditions were not <u>now</u> critical but might become so; that he feared the New York directors were letting the situation get out of hand; that under his resolution, if adopted, no more acceptances could or should be bought by the Federal Reserve bank.

Miller said present rates were out of line with the trend of money rates. He even said the discount rate should be increased.

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C.S.H. asked Stewart if he saw any indication that the directors were so failing in their duty that this action of the Board was necessary, but he declined to answer, on a statement from Miller that he should consider carefully what this question involved.

As a matter of fact, Crissinger said Stewart told or telephoned him yesterday that he was decidedly against any such action of the Board.

C.S.H. said the directors were increasing the rates and moved postponement until tomorrow when we knew what, if any, action the directors took.

Vote: Aye--C.S.H., Cunningham, James.

No--Crissinger, Miller, Platt -- Failed.

On main motion:

Aye: Miller, Platt

No: C.S.H., James, Cunningham. -- Failed.

Governor Crissinger told C.S.H. his motion for postponement was right, but there was much friction between Miller and Governor Strong and he did not want to increase it, therefore, he voted not to postpone.

C.S.H. asked Miller if he believed our discount rate also should be kept alive market rates and he said No--that this archaic theory had long been exploded.

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