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CHARLES HAMLIN PAPERS
Box 357 Folder 11

Miscellany

WRITINGS --
"MEMORANDA CONCERNING THE FEDERAL RESERVE BOARD...," DIARY VOL. 11, 12 OCT. 1925 - 20 MAY 1926 (PP. 689-740) (15 OF 10)

VOLUME XI

1925

October 12, Monday

Met Federal Reserve Agent Curtiss in Boston 5 P.M. He said Boston had applied for an increase in its discount rate from 3-1/2 to 4% but that the Board had held it up; that such increase was plainly necessary; that the banks were using this low rate to get money for stock exchange loans. I then drove to Governor Harding's house and he repeated the above. He said New York said Boston's increase would not embarrass it but that if Cleveland and Philadelphia advanced it might throw a heavy burden on New York.

October 13, Tuesday

In Washington Crissinger said the Federal Advisory Council unanimously deprecated any increase in rates; that he was to have a conference with Governor Strong in New York tomorrow, which information should be kept private; that the New York directors opposed any rate increase in New York.

I am satisfied that Governor Crissinger is dominated by Governor Strong and believe Strong is thinking more of the effect of rate increases on Great Britian than on United States. Platt and Miller believe rates should be increased and I am inclined to the same view, especially in view of the stock speculative movement in New York.

Curtiss in Boston said they were working hard for my reappointment: that their only fear was that Secretary Weeks would want the place; that Butler would go into the cabinet and perhaps Cox would run for the Senate; that Cox knew nothing about banking but was receiving $25,000 per year from Wing's bank for no known services except making speeches at dinners.

October 16, Friday

At Board meeting Governor Crissinger spoke of his meeting with the New York Directors yesterday. He said all were opposed to increasing the New York rate at the present time; that they were bringing direct action on the New York banks to cut down stock exchange loans; that as far as the New York banks were concerned their action was successful, but that the trouble was that the greater part of the money loaned on the stock exchange came from the interior, either loans against New York balances or direct loans; that many of the directors thought it might be well to have Boston go up just before the next New York meeting and then a week later Cleveland and Philadelphia; that this would cause uncertainty in the market and might tend to depress the great wave of speculative activity; that it would throw a heavy increased burden in New York but that New York could take care of this more effectively than the other banks.

Mr. James said if Boston increased, Atlanta also would want to go up and the movement might spread over the whole country depressing the price of cotton, wheat and the other staples; that these staples were too high and must soon break of themselves, but if such break followed a rate increase, all would say that the Federal Reserve banks had ruined the farmers again as they said in 1920.

Platt said we would surely be attacked for keeping a 3-1/2% rate for the benefit of speculators while farm paper carried 4%.

Dr. Stewart addressed the meeting. He said production was slowly increasing with prices practically stationary; that he saw evidence that stock speculation was being fed by Federal Reserve rediscounts; that

there was absolutely no reason for increasing the rates on commercial rediscounts, although the Federal Reserve rate was one per cent below the commercial open market rate; that direct action, as in New York, would meet the situation if it could be obtained; that he was inclined to think that a 1/2 per cent increase in Federal Reserve rates would not push up open market rates.

C.S.H. said usually an increase under conditions as at present would result in an increase of open market commercial rates, which all agreed was not necessary or desirable at present.

C.S.H. thinks the question might resolve itself into whether it was wise or necessary to increase rates on commercial paper rediscounts in order to check land and stock market speculation.

Undoubtedly commercial paper rediscounts are to some extent feeding the stock market, but, in the first instance at least, direct action should be taken on the banks to cause them to obtain needed funds by callingin speculative loans rather than by rediscounts and to cease further loans on the stock market.

October 19, Monday

Called up Governor Harding. He said the situation was unchanged and that at the meeting Wednesday the Board would again urge an increase; that the rate at which they were buying bills in open market was higher than the discount rate. I told him of our meeting last Friday and the feeling--except as to Platt, that rate changes should be deferred for a while; that James said if Boston increased Atlanta would demand an increase. Governor Harding said they would be fools for it would or might injure the

movement or price of cotton. I said James said an increase at Boston might have the psychological effect of stirring up the country and cause a break in cotton and wheat, or if they broke as he thought they were bound to anyway the farmers would say the Federal Reserve was responsible.

I told him the New York banks held the matter well in hand by direct action and we thought he could do the same. He asked me to come to the stockholders meeting Wednesday A.M. and to the directors' meeting at 2 P.M. and I said I would. I then called up Governor Crissinger. He said Philadelphia by direct action held the matter well in hand, and did not want to increase rates now; also that Secretary Mellon believed rates should not now be increased.

I asked him to call up Governor Harding and he said he would immediately after calling up Governor Strong, which he was about to do.

Wednesday, October 21

Went to Boston. Attended stockholders meeting of Federal Reserve Bank of Boston and made an address. Lunched. Attended directors' meeting at 2 P.M. Talked over rate situation. The directors still feel rates should be increased but were not inclined to press matters in view of attitude of Board and Secretary Mellon. Finally the Board passed a resolution favoring an increase but merely to keep their record straight, said resolution not to be sent to the Board.

Thesday, October 27

Board met open market committee of governors. Governor Harding explained Boston rate situation--should be increased as out of line with customers rates,--3-1/2 to 4-1/2 for customers. Offered inducement to

to rediscount for profit by putting proceeds in call loan market; that large sums were being loaned on call in New York by Boston banks; that the Reserve bank had no control over these borrowings as the lending banks were not habitual borrowers from the Federal Reserve bank; that putting up rates would not increase custom rates as the large manufacturers, etc. could borrow from New York banks at lower rates.

Governor Strong finally said he thought it would be wise for Boston to increase, followed in successive weeks by Philadelphia and Cleveland; that these increases should be made just before the New York directors meeting and it would have a sobering effect for the market would fear an increase by New York and this effect would be continuous until Philadelphia and Cleveland had increased.

A discussion arose over direct action which Miller said was a term invented by Secretary Leffingwell. Governor Strong said it could not succeed unless the Reserve Bank should refuse to rediscount for any banks having loans on Wall Street and that it should be applied to all speculative loans, real estate, etc.; that it would mean rationing credit which would be disastrous. Governor Strong said that something must be done as speculation in commodities was beginning.

James agreed as to Boston, Philadelphia and Cleveland and all did except Cunningham. It was voted that Governor Crissinger and Governor Strong tell Secretary of Treasury the feeling of the Board.

November 6

Meeting called to consider Boston increase in rates following our understanding at meeting with Open Market Committee last week.

James moved to take Boston petition from the table where it was voted sometime ago.

Suddenly Cunningham read a resolution to effect that the Board would approve a rate of 4% for New York to take effect immediately. On inquiry he stated he meant to have the Board put in this rate at once and at his suggestion his resolution was slightly changed to make this clear.

He tried to explain why he wanted this but seemed very confused saying New York was the place to begin increases but he did not seem very clear as to whether there should be any increases.

Miller said as between increases at Boston, Philadelphia and Cleveland and increases at New York he decidedly favored the latter and would vote for Cunningham's resolution. He said there was too much credit in the country and that New York should be forced to increase. C.S.H. asked if such an increase would put up customers rates and he said No. He also admitted to C.S.H. that customers' rates were high enough. James reminded Miller that the whole Board at the Open Market Conference was in favor of the Boston, Philadelphia, Cleveland increase. Miller denied this although he admitted he had said nothing to indicate his opposition. Miller said if the New York rate were voted down then he would vote for the Boston, Philadelphia, Cleveland increase.

Evidently Miller thinks the New York motion will be lost and is making a gesture!

On vote the New York resolution was defeated; Cunningham and Miller alone voting Aye and Governor Crissinger, James and C.S.H. No.

On motion of James the Boston rate was taken off the table and approved. Cunningham alone voting against it. Discussion followed as to when the increase should become effective. James and C.S.H. said we should follow the practice of the Board and should be effective at close of business today. Governor Crissinger said should take effect at close of business Monday and threatened to change his vote if this was not done.

Finally we tried to get Governor Harding but he was in New York. We thought he should be present when new rate took effect and finally voted it effective at close of business Monday.

Miller at first objected and made a rather savage intimation that the Board might leak as it had before which stirred up James.

Governor Crissinger said nothing as to attitude of the Treasury. As Governor Crissinger had beendirected to inform Miller, C.S.H. assumed this had been done.

Saturday, November 7

Governor Strong told me this A.M. he went over Boston, etc. rate with Secretary Mellon who approved.

Wednesday, November 11

Approved application for 4 per cent discount rate at Cleveland to take effect at close of business next Monday. C.S.H. & Miller voted against holding it up until Monday, as too long a time.

Thursday, November 19

Mr. Sproule, Class C Director of the Federal Reserve Bank of San Francisco came into Board meeting. Spoke of resignation of Perrin to take effect March 1, 1926. Said the real reason was the issue of Chairman vs. Governor; that the directors considered Perrin's job limited

to presiding at meetings of the Board and that Chairman meant nothing more. Mr. Sproule did not agree with this view and thought the Chairman should be the preponderant influence in the bank and should be consulted on all questions of policy. He said Perrin's resignation clearly raised an issue which the Board must settle at time it appointed a new man. C.S.H. asked Mr. Sproule to prepare a memorandum to show his ideas as to the functioning of the two offices and he said he would.

We then asked him and Mr. Moore, the other Class C Director, to look around and give us names from which to appoint a Chairman.

November 20

Philadelphia increased its discount rate to 4% under prior approval of Board.

Monday, November 23

Board took up report of Open Market Committee dated November 2.

C.S.H. moved to approve it.

The report stated that conditions pointed to an increase in discount rates rather than sale of securities in open market. Dr. Miller said securities should be sold in at least 100 millions, and offered a motion that 50 millions be sold at once, including 38 millions of Government securities maturing December 15 by anticipation.

Lost: Miller, Platt and Cunningham - Aye.

C.S.H., Governor Crissinger and James - No.

Platt moved that it was sense of Board that the 38 millions of Government securities be allowed to run off.

C.S.H. offered as a substitute a motion that the Board approved in general the report as of November 2, but desires an immediate meeting

of the Open Market Committee to consider whether changed conditions do now now call for a change in Open Market policies.

This was carried, all voting in favor except Platt.

Then Platt moved that question of running off the 38 millions be one of the questions considered at meeting with the Committee. Voted unanimously.

November 25, Wednesday, 3 P.M.

Governor Strong and Harrison appeared before Board. Every member, including Secretary Mellon, was present.

Governor Strong told of financial history of Belgians and relation of the Government to the National Bank. He said there was grave danger that the Belgian franc would collapse with the French franc; that Belgium contemplated an issue of 100 millions in bonds but the bankers could not put it through until the Budget would balance. He said Bank of Belgium needed about 150 millions and that Banksof England, Switzerland and Holland agreed to buy trade bills and bankers' acceptances - all for commercial purposes, guaranteed by Bank of Belgium that they would be paid in currencies of loaning bank; that U. S. bankers were expected to buy 100 millions which would be guaranteed by Bank of Belgium for payment in dollars or their equivalent; that the Belgium finance Minister would write a letter that the Government would not prevent exportation of gold, if necessary; that renewals would be permitted but whole transaction to be wound up within one year.

Governor Strong asked authority, in behalf of the Federal Reserve System to buy 5 millions of these, with an additional right, not to be made public to take 5 millions more, if necessary, as a maximum;

he said the directors of New York Federal Reserve Bank were unanimous in favoring this.

C.S.H. moved the Board will interpose no objection to this.

Cunningham begged to put it over until the next meeting, although he saw no objection to it.

Governor Strong said quick action must be had as he might have to take action Friday morning.

Finally Cunningham reluctantly agreed to a vote.

The vote was unanimous, except that Dr. Miller said the form of guaranty must be submitted to Board for approval.

Secretary Mellon pointed out that this was a negative vote, and that Governor Strong could be trusted to secure a proper guaranty. Finally Miller withdrew his objection and the vote was unanimous on C.S.H.'s motion, seconded by McIntosh.

Winston, who was present, said that if the present Ministry were overthrown the Belgium debt agreement would fall with it.

Governor Strong said the present Ministry would undoubtedly be in power for a long time.

Monday, November 30

Meeting Federal Advisory Council.

Tuesday, December 1

Meeting with Open Market Committee. Record of Board's meeting calling for a meeting read. After vote read C.S.H. was called upon by Governor Crissinger to speak on the Resolution as Dr. Miller said C.S.H. introduced it. C.S.H. said it was a compromise between Dr. Miller and

Platt's views, Dr. Miller having said at the meeting that there should be a sale of Government securities of at least 100 millions, as credit was most redundant and he feared an era of inflation. Mr. Platt had moved that the 38 millions Government securities maturing December 15 be allowed to run off.

Dr. Miller questioned my statement as to 100 millions and said his motion called for only 50.

James insisted on reading whole record which showed Miller's view as to 100 but his motion as to 50.

It was, C.S.H. pointed out, absurd to express the Board's opinion without hearing the evidence, and C.S.H.'s motion was accepted.

Governor Strong then said it was wiser to hold these 38 millions and replace them December 15, for the sale of 50 millions would have little effect now but might have great effect if sold after 1st of the year when large liquidation is expected.

Governor Strong said we must face the issue squarely,--the desire of Dr. Miller is deflation pure and simple. He then went over the picture of the country, showed that the stock speculation was under control, that stocks were not far from the 1913 pre-War level; that production was increasing and prices fairly stabilized. He pointed out that customers' rates were not low but really were high; that an increase in discount rates would be the only way to bring about the deflation Dr. Miller wanted, and that such an increase would be followed by an increase in customers' rates; that it might result in bringing more gold into the country and further unstabilize Great Britain, and in creating uncertainties

in domestic business. Governor Strong said his directors were against advancing rates now, although of course in time they might have to put them up; that Bank of England must soon go up to 5%, but that our rates and open market policy should not now be changed. The other members of the Open Market Committee all agreed with Governor Strong.

Governor Strong also pointed out that the Board had allowed a month to elapse before taking up the Open Market Committee report and that meantime the Secretary of Treasury had perfected his financial plans on theory that the 38 millions Government would be replaced.

Wednesday, December 3

In A.M. Governor Strong told us that Belgium would probably be able to issue her 100 millions within a month, as the difficulties about the budget were being cleared up. He emphasized.

Board voted to approve plan of Governor Strong to replace and not let run off the 38 million Governments.

Governor Crissinger, C.S.H. and James Aye.

Miller and Platt, No.

At the Federal Advisory Council meeting it was voted unanimously that no increase in rates was desirable.

Mr. Westmore said the speculation on the call loan market had increased. Customers' rates 1%; Governor Strong said this was nonsense.

A motion was made to accept Perrin's resignation from the Federal Reserve Bank of San Francisco.

C.S.H. moved to postpone this until Perrin replied to his letter asking if his resignation was final.

Dr. Miller then said that he had told Perrin the opposition in the Board to him was so great that he ought to resign, and further that James had taken Perrin with him to lunch and expressed the same views.

C.S.H. said this was the first time he had heard of this and asked if Miller and James spoke for the Board; they both said they spoke only personally, but I have my doubts.

Governor Crissinger spoke of the bitter opposition of Comptroller McIntosh to Perrin.

I told the Board that we should have to give the man put in Perrin's place instructions which would in substance endorse Perrin's views as to duties of Chairman.

Dr. Miller expressed his deep regret at Perrin's resignation: said he considered him one of the ablest Chairmen in the System; that his controversies with Governor Calkins had practically subsided.

This statement of Miller and James, calling in effect for a resignation without any authority from the Board, is to my mind extraordinary, and I shall put in the record my protest.

Monday, December 7

C.S.H. and Cunningham go to Philadelphia to meet the conference groups which take the place of stockholders meetings.

Tuesday, December 8

Last week Mr. John Drum, of Merchants Trust Co., San Francisco, asked us to reconsider our refusal a year or so ago to permit Merchants Trust Co. to operate banks its subsidiary had bought as branches, at

at Burlingame and Palo Alto. When originally before us Perrin gave an adverse recommendation solely on the ground that they were beyond the area defined as contiguous territory by the Board.

The Committee on examinations, Platt and James agreed to suggest to the Board, that the committee examine into the advisability of extending the contiguous territory as previously defined, consulting with the Federal Reserve bankand the State Superintendent of Banks. Miller objected to changing this area but said that Drum should be given this privilege, because he had originally filed a blanket application, before the expiration of the time limit for petitions outside of the defined area, it being stipulated that petitions filed within this period, could be granted although outside the proposed defined area; that Drum's blanket petition did mention Palo Alto and Burlingame, also a large number of other places; that the Board wired Drum that the Board would not entertain blanket petitions as within the time limit; that at that time Drum had in fact practically bought these two banks; that in equity Drum had complied with the time limit by filing the blanket application which was not a "blanket" as to these two banks; that later, after the time limit had expired, Drum filed a new petition specifically limited to these two banks; that in equity and good conscience Drums'first application complied with the time limit.

C.S.H. said this was absolutely correct; that at the time some of the Board said to grant Drums petition would also admit the Bank of Italy but it turned out that all the banks named by the Bank of Italy were proposed de novo branches, while Drums' were banks already acquired and not de novo.

Comptroller McIntosh said to grant Drums' petition would give him a monopoly and cut out other banks which now would like to establish branches, but had filed no application within the time limit, as Drum and the Bank of Italy had done.

C.S.H. said he agreed with this and would much prefer extending the area of contiguous territory by amending the Regulations so as to permit other banks to avail themselves of the privilege; that the evidence clearly showed that Burlingame and Palo Alto were in fact a part of the greater municipality of San Francisco.

Comptroller McIntosh favored this extension as did James.

Miller, at first at least, would not agree to this.

Miller finally moved that the Board reconsider its previous refusal and permit Drum to operate these banks as branches, as Drum had substantially complied with the Board's regulations. Governor Crissinger said Drum had come before us with clean hands and his petition should be granted.

Miller's motion was carried.

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

No: McIntosh, Cunningham and James.

A motion was then made that the examinations committee consider and report on advisability of extending the definition of contiguous territory to cover this new area, said committee to consult with the Federal Reserve Bank and State Superintendent of banking. Carried. All voted Aye except Cunningham who voted No.

Tuesday, December 15

Board took up reports of Committee on Salaries. Among other things we approved the proposed increases of New York - e.g. Jay to $40,000, Harrison to $30,000, etc.

The New York Bank had brought about a tremendous decrease in expenditures. It costs now less than the last year in old building although we all thought there would be a great increase.

Dr. Miller and Cunningham voted No on many of the increases.

When it came to the Buffalo branch, the Board rejected the proposed salary for the manager - $18,000 - and substituted $15,000. C.S.H. alone voted No and James did not vote.

C.S.H. begged the Board to ask Strong to come down and explain this $18,000, saying that we should hear the evidence before voting. Platt said,--I hope in jest - "lets vote first and hear the evidence afterwards" - which the Board did.

C.S.H. explained that $18,000 seemed to him excessive, but he wished to hear the evidence before deciding the matter and he voted, therefore, No.

December 21, Monday

In P.M. Governor Crissinger called a special meeting of Board. Governor Strong had called up saying large amounts of money were being withdrawn from New York by interior banks much of which had been loaned on call; that rates had gone up to 6% on stock exchange; that the New York banks had to handle the situation; that they had already rediscounted heavily and did not want to rediscount more because

of the comptroller's call as they did not want to appear as such heavy borrowers, especially as after ten days or so liquidation would set in; that the Open Market Committee had voted unanimously to buy 15 or 20 millions of Government securities to tide the matter over; that he asked approval of Board.

Miller was very ugly and said this would be directly feeding the stock market and that we should refuse.

C.S.H. said it made no difference whether this money was procured by rediscounts or by Open Market purchases so far as the stock market was concerned--that it would be benefitted in any event. C.S.H. asked Dr. Miller if he objected to the banks rediscounting for this purpose and he said No.

C.S.H. said that he was in Governor Crissinger's office before the meeting and talked with Governor Strong--who was talking with Crissinger; that Strong said he made the request purely on business and industrial conditions; that bulging interest rates were bad for business as they might affect commercial loans ultimately.

C.S.H. pointed out that Mr. Wetmore of Chicago, a member of the Federal Advisory Council said at the joint meeting that business rates had been increased 1% by the stock market speculation.

After long talk we adjourned until tomorrow, Governor Crissinger to talk again with Strong meantime.

December 22, Tuesday

Board met at 3 P.M.

C.S.H. talked with Strong over telephone. He reiterated that request of open market committee was based on commerical and industrial

conditions and not primarily on stock market. He was very indignant with Miller and said he was trying to put the committee and the Board in a false position; that he should take up this matter with Secretary Mellon and the President.

At the meeting Governor Crissinger stated Strong's position again and asked the pleasure of the Board. For a moment there was no response. Finally Governor Crissinger said to Miller--"Have you any motion to make?" Miller said No, he felt the Board would vote approval and he should make no motion but would merely vote against approval.

There was some further discussion in which Miller took no part.

Finally C.S.H. moved approval, saying that too much had been said by Miller as to the stock market; that this was a condition and not a theory; that vast sums were being drawn out of New York by banks in interior; that all agreed that additional funds must be provided, either by rediscounts or Open Market purchases, even Miller agreeing to this; that the banks did not want to add to their heavy rediscounts ~~as they~~ as they did not want to show such heavy indebtedness at time of Comptroller's call; that Governor Strong said that the bulging interest rates (now 6%) might react on business and commercial interests; that the Open Market Committee were unanimous and that he (C.S.H.) moved to approve as a means of conserving business and commercial interests.

On vote it was carried:

Aye--Governor Crissinger, C.S.H., James and Comptroller McIntosh.

No--Miller and Cunningham.

Governor Crissinger before the vote said the New York directors had voted unanimously directing Governor Strong to buy 15 to 18 millions of Government securities for account of New York Bank.

Miller made no comment on this.

Prior to the meeting Wyatt told me that the regulations provided for in Section 14 were not a condition precedent to right of a Federal Reserve Bank to buy Government securities; that the Board had made no regulations and, therefore, the banks had a right tobuy.

After the meeting Governor Crissinger said Miller was acting with Hoover and was trying to embarrass the Board; that Secretary Mellon said the same and was very indignant at Hoover, who, he said, had talked to him about open market matters criticising the Board; that Mellon was very indignant at Miller also and asked Governor Crissinger when his term expired, and Governor Crissinger said it had only begun.

James also thinks Miller is not loyal to the Board.

I am satisfied Miller is intriguing with Hoover. (See p. 65, Volume 10).

December 31, Thursday

At 3 P.M. Governor Strong and Governor Norman came before the Board and Governor Norman answered questions and talked for 1-1/2 hours.

Governor Norman said that unemployment was still bad in England though a little improved; that there were 1,200,000 out of work; that normally, however, there always had been 500,000 unemployed; that emigration was the only hope; that most of those who were out of work were not fit to emigrate; that it cost about $1,200 per man. He said there was a faint sign of industrial revival, and that other good signs were:

1. The successful maintenance of the gold standard at rates not over 5% when everyone predicted 7 or 8%.

2. The Loramo treaty.

3. The settlement of the Northern and Southern Ireland boundary line.

On the other hand, the coal situation was bad. He said prices had fallen only a little since the gold standard was adopted, but that they must fall later. He said our high call loan rates seriously affected Great Britain as to holding her gold as they made the bank rate negligible. He explained fully the Belgium situation, caused entirely by Belgium taking over the Francs issued by Germany during the occupation of Belgium.

He did not favor a controlled gold standard, said it was good only for poor countries, i.e. a controlled currency, and hoped that Austria and Hungary could soon adopt a real gold standard.

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January 4, Monday

Governor Crissinger told C.S.H. that in the morning of December 31 Miller came into his room while Governor Norman was there and had long talk with him, talking very severely about the rubber export duties of Great Britain and that Governor Norman told him he was very much disturbed and annoyed at what he said. Miller evidently got this from Hoover. Governor Crissinger also said Senator Lenroot had written him another letter stating almost exactly the talk of the Board over New York - loans, when we considered the reply to Senator Lenroot's first letter. Governor Crissinger said it was evident to him that someone on the Board

had supplied this information to Senator Lenroot and he believes Miller "leaked" to Hoover and that Hoover prompted Lenroot's second letter. If this is so it is disloyalty indeed!

January 5, Tuesday

Board voted to dissolve Open Market Committee and to consider all open market matters in committee of the whole. This had in fact been done since Feb. 5, 1925. (See Vol. 10, p. 77)

January 6, Wednesday

I called up Senator Glass and told him of the proposed amendment to the Federal Reserve Act allowing 90 day direct notes of member banks to Federal Reserve banks, secured by eligible paper, (not by Government securities) to be rediscounted, under limitations and restrictions of the Federal Reserve Board. Glass said he saw no reason to object to this. He also expressed the earnest hope that I would be renominated.

January 7, Thursday

The Board agrees on a letter to McFadden on his bill, H.R.2. We confined ourselves to National bank clauses principally Sec. 5200, making no mention of branches. All the appointive members were present and it was unanimous. Professor Sprague was present.

Board approved increase from 3-1/2 to 4% of Federal Reserve Bank of New York, effective January 8.

January 8

C.S.H. and Platt reported on amendment to Federal Reserve Act allowing member banks to give their notes to Federal Reserve banks for advancements up to 90 days when secured by eligible paper (but not by Government bonds).

This had been recommended by McFadden and approved by the Federal Reserve agents and governors. Also Mr. Warburg approved it with certain suggestions, and Senator Glass saw no objection to it. We put in a clause - subject to conditions, restrictions and limitations of the Federal Reserve Board so as to keep control in our hands. This privilege, it was stated was not needed by the large banks, but only by small banks. The small banks still borrow from their correspondents pledging,say, 12% of collateral. At the present time these small banks don't rediscount with Federal Reserve banks, for they could only rediscount the particular paper they offer, and if a note had some technical fault it would take some time to correct it and mean time they could not get the rediscount. We felt if they could give direct note pledging, say, 120% of eligible paper as collateral the technical defect of any one note would be probably cured by the other collateral thus expediting the matter.

C.S.H. moved approval of the amendment. Dr. Miller then offered a motion to abolish the 15 day note. This was at once voted on and failed by a tie vote:

Aye - Governor Crissinger, Miller and Cunningham.

No - C.S.H., Platt and James.

Finally it was agreed to reconsider this vote and take it up when the Secretary of Treasury could be present, as also C.S.H.'s motion.

Governor Crissinger said the 1st National of New York was borrowing 115 millions on these 15 day notes and loaning it on the stock exchange at from 6 to 7%.

C.S.H. said this could be corrected by Governor Strong or, if necessary, by a special rate higher than the discount rate as done by Bank of England on seven-day advances.

C.S.H. said this had never been discussed in the Board or at any conference, and we should take evidence before acting. This did not impress Miller.

January 9, Saturday

C.S.H. goes to Winston's office. He and the Secretary are very much disturbed at Miller's motion and said it would seriously interfere with Treasury operations, etc. He and said also Secretary Mellon was very angry with Miller. He said he was satisfied that Miller and Hoover were working together and had egged on Senator Lenroot to write his two letters, as they contained arguments he could not have written without help.

January 13, Wednesday

Miller's motion to abolish 15 day collateral for member banks by an amendment to Federal Reserve Act was defeated 5 to 2.

Aye, Miller and Cunningham.

No, Governor Crissinger, C.S.H., Platt, James, Comptroller of Currency.

Governor Crissinger reversed the vote previously given by him. Miller tried to persuade him how illogical he was, without avail, and much to our amusement, Governor Crissinger said he thought the provision was absolutely bad, but yet voted against repealing it. Secretary Mellon sent word he was absolutely opposed to Miller's amendment.

The report of C.S.H. and Platt permitting direct notes, collateralled by eligible paper up to 90 days was passed, 6 to 1. Aye, Governor Crissinger, C.S.H., Platt, Cunningham, James, and Comptroller of Currency. No.- Miller.

A reply was also read to a new letter from Senator Lenroot - referred to previously - and it was voted to send.

All voted for it except Miller who asked to be recorded as not voting.

Miller said Governor Norman told him when here that the call loan rates made the discount rate of the Federal Reserve Bank of New York negligible and that he could not understand why the discount rate had not long ago beenincreased.

January 17, Sunday

Charles Warren called and said he met Dr. Miller a few days ago at a dinner; that he thought Adolph had taken an extra cocktail he was so loquacious; that Adolph began talking of the fight in the Board in 1915 to cut down Federal Reserve Districts; said that he was the savior of the situation as he defeated the attempt by his vote; that Secretary Lane came to him and said President Wilson was sorry he favored cutting down; that he told Lane he was very much mistaken as he was on the President's side in this dispute and always had been.

February 6, Saturday

Federal Reserve Agent Jay came before the Board and begged us to reconsider our action of yesterday refusing him permission to give out the figures of loans on the stock exchange tomorrow instead of waiting until next week for the Board announcement which would be a week late.

The Board voted, however, just as yesterday, to refuse permission, C.S.H. and Platt voting Aye and Miller, James, Cunningham and Comptroller, No. This is a serious error. The Stock Exchange gave out their figures tomorrow and the Federal Reserve Bank of New York announced - through some misunderstanding of the Board's attitude - that it would do the same. There is no reason why the Public should not know just what the Board knows and it will subject us to criticism.

February 9, Tuesday

The Board considered question raised by Federal Reserve Bank of St. Louis - whether, in case alocal attorney was given a claim for collection in an isolated case, his final compensation must be reported to the Board for approval under Section 4 giving Board the duty of approving any compensation provided by boards of directors of Federal Reserve banks for directors, officers, or employees. Our counsel advised that it was not necessary to report such expenditure to the Board, as such attorneys were not necessary to report such expenditure to the Board, as such were not officers or employees of the Federal Reserve bank, citing decisions of the Supreme Court of the United States squarely to this effect.

Nevertheless, on motion of Dr. Miller it was voted that all such payments must be reported to the Federal Reserve Board for approval! C.S.H. and Platt voted No. Miller, James and Cunningham voted Aye. C.S.H. suggested that we notify the Supreme Court that we had overruled it!

Later Miller moved that a circular be drawn up fixing a limit within which no such report need be made and this was passed;

March 2, Tuesday

Dr. Stuart came down from New York to discuss the draft of our Annual Report which he had finished --since his resignation. Dr. Miller bitterly objected to many statements in it and said he might file a minority report. He believes and said that rates at New York should have been increased long before they were, and, naturally he does not like the reasons of the Board for not sooner advancing them. He particularly objected to our statement that higher rates might induce gold imports, evidently not wanting such a good reason to appear in our Report. He denied such would be the effect. C.S.H. reminded him that Governor Norman said that even the high call loan rates threatened his gold and had made our discount rate inoperative. Dr. Stuart said going up to 4% would in effect put a higher base under the call loan rate and that to keep it up, and that it would tend to increase customers rates. Miller said a higher discount rate would reduce call loans and the released credit would lower commercial rates. Dr. Stuart and the Board did not agree with him. Miller kept saying - if you will only change this and that it will enable you to "get by" -- he evidently has a supreme contempt for the rest of the Board. He also practically accused Dr. Stuart of taking a particular date so that his conclusions would tally with his figures - which made Dr. Stuart very indignant. He said he took the dates which were under discussion in the report.

March 11, Thursday

Board took up proposed letter drafted by Dr. Miller to Federal Advisory Council, asking for its advice and report on its efforts to curb security loans on call market.

The Secretary, Mr. Mellon, presided. He noticed that Sec. 2 referred to action previously taken by the Board - a week or so ago - requiring Federal ReserveAgents to report all borrowings from this Federal Reserve Bank of New York of any banks where such borrowings exceed 2 millions, such report to be made weekly.

Mr. Mellon objected to this, but it was pointed out that it called for no information from member banks; that the Federal Reserve Agent merely reported the gross amounts borrowed by all the banks and this order merely directed him to segregate the total and report on to any bank exceeding two millions; that this was merely for the information of the Board, and the member banks would not even know of it, unless it leaked out.

Mr. Mellon then considered the proposed letter and said that Senator Glass had just told him that he and Senator Pepper were to try for an amendment to Federal Reserve Act to be inserted in the McFadden bill providing for a perpetual charter for Federal Reserve banks; that he feared it might imperil the chance of obtaining charter renewal if it should leak out from the proposed letter that the Board was contemplating radical control over the Stock Exchange operations. The letter was then further discussed. C.S.H. said he saw no objection to a letter to the Council, asking its advice as to what control the Board could exercise in respect to excessive use of Federal Reserve credit ultimately used for the call loan market, but that in its present form the letter was objectionable as in Section 6 it is stated that the Board is giving much thought to the development of a procedure which will check or altogether eliminate the misuse of Federal Reserve credit facilities;

that this seemed to imply that the Board had determined that it could lawfully refuse to rediscount for a member bank, which had funds invested in the call loan market and perhaps even that it would.

C.S.H. said this was a very serious question of law; that member banks were not solely commercial banks, but could loan on stock exchange collateral; that wherever a deposit was created against any such loan the bank must keep reserves in the Federal Reserve bank against any such loan; that it might be held that a Federal Reserve bank should rediscount for any member bank to provide reserves for any lawful loan creating a deposit; that if it refused the reserve would become deficient subjecting the bank to heavy penalties; that the question should be carefully considered what power the Board had by way of direct action or otherwise to exercise control over such call loan operations, but that put in this form it might be construed as a determination of the Board, in advance of the Council's consideration, to utterly destroy the call loan market through the power of refusing discounts.

C.S.H. read suggested changes in Section 6 and Cunningham suggested striking out other paragraphs.

C.S.H. finally said that he saw no objection to a properly phrased letter to the Council but deplored this letter.

Miller moved to approve the letter as originally sent. C.S.H. moved to lay it on the table for the present - at least until the charter question was settled and it was so voted: All Aye except Cunningham who voted No and Miller not voting. The Comptroller was present and voted Aye. (See Vol. 156 Scrap Book for copy of letter.)

After the meeting I went into Mr. Mellon's office and explained further about the danger of sending the letter in the form Miller drafted it and pointed out that Miller in his Boston speech took the position that discounts should be refused to banks loaning for speculative purposes and said the danger is that the letter to the Council might leak out and added "for a long time I have believed, but cannot prove, that there is a pipe line running from our Board". The Secretary grimly said,--"I know it also and feel sure we have the same person in mind at each end of the line" - referring to Miller and Hoover.

The following is quoted from Miller's own statement of his Boston speech sent to each member of the Board. It was delivered November 17, 1925 before the Commercial Club of Boston:

> "The use of Federal Reserve credit for speculative or investment purposes is precluded by specific provisions of the Federal Reserve Act. It is clear, therefore, that no bank has a proper status as an applicant for Reserve bank accommodation, which is supplying credit for speculative uses. It is the duty of the Federal Reserve banks to hold true to the course planned for them in the fundamental provisions of the Federal Reserve Act."

March 20, Saturday

Meeting Open Market Committee: Governor Strong, Harding, Norris, McDougal.

Governor Strong protested against a notice sent by Board that Washington is designated for all meetings unless otherwise ordered. Governor Strong said Committee was a voluntary one, and

Board had no authority to issue such an order, couched in peremptory terms. C.S.H. explained reason: the old Open Market Committee of Board, Miller and Cunningham, was abolished and Board decided to take up all Open Market matters in Committee of whole. It was felt it would be easier for committee to come to full Board than for full Board to go to Committee; no intention to issue an arbitrary order.

Long discussion followed as to power of Board to issue such order.

C.S.H. finally said he would offer at next meeting the following substitute:

> "Meetings of the Open Market Committee Investment Committee shall be arranged by the Governor and the Chairman of the Committee at such times and at such places as may be necessitated by the business involved and as may serve the convenience of the Board and of the Committee."

The Governors all said this would be perfectly satisfactory.

The Committee Governor Strong then read their report which called for no changes in investments.

Governor Strong said a business recession had started in all over the country; that it was impossible to tell now whether it would continue; that one company in New York estimated and placed orders for a 20% increase, but real increase was only 3%; that we must be prepared to cope with this recession if it continued; that we ought to be ready to make further investments to ease any such situation if it arose. Miller doubted expediency of the latter.

Dr. Sprague then made suggestions as to subject of failed banks and their treatment by Federal Reserve banks.

March 22, Monday

Governors Conference.

March 23, Tuesday

Governors Conference.

March 24, Wednesday - Conference Concluded

Governor Strong spoke of New York conditions; said the member banks were heavily borrowing from Federal Reserve bank - 142 millions; that there was a recession of business over the country; that with such heavy borrowings there would be a tendency to force liquidation of customers loans; that conditions in Europe looked bad; that he felt danger of a sudden increase in business recession; that we ought to begin and buy securities to ease money market; that this money would come back by member banks reducing borrowings from Federal Reserve bank, and thus give greater opportunity of enlarging credit to customers; that reducing interest rates would merely help member banks carry their loans with Federal Reserve bank and would not make them pay them off; that it was the unanimous opinion of Board of Governors that permission should be given in case of emergency to call the money market by buying between now and April 15 not to exceed 90 millions of securities in addition to replacement of the March 15 maturities of 60 millions--all but 15 of which had been replaced; that the Board at last meeting had merely authorized replacement of March 15 maturities but had not acted on above recommendation which also in general terms was in the Open Market report.

The matter was discussed at length and Miller violently objected.

Finally the Governors put later suggestions in concrete form:

"If developments in the money market indicate any need for doing so, the amount of securities in the System account be increased to 300 millions, but no purchases shall be made after April 15, without further consideration."

The Board withdrew into Platt's room to consider this.

C.S.H. moved approval, in the words of the above, with the addition of the following:

"On the express understanding that the Board, at any time, in its discretion, may terminate the authority to make such purchases."

James begged C.S.H. to withdraw his addition as it seemed to imply Board would have no such authority without an express reservation, as also did Governor Crissinger. C.S.H. refused, as otherwise it might be claimed Board had made a moral commitment. On vote, C.S.H. motion was defeated. Aye C.S.H. No Miller, James, Gov. Crissinger, Cunningham and Platt.

Motion then made by James to approve without C.S.H. addition. Lost by tie vote. Aye Governor Crissinger, C.S.H. and James No - Platt, Miller, Cunningham.

Before this a discussion ensued. Miller said if we approved this, within a week we could be hauled before a Congressional Committee and severely

catechized. (I don't know what he meant.)

Platt said he did not believe any necessity for more purchases.

Miller said talk of business recession was all rot, and that real motive was to help stock market.

C.S.H. said he feared an increase in business depression coming on very suddenly - that European conditions might at any moment cause an acute business collapse and accentuate the present tendency into a real business reaction; that the Open Market Committee were our Generals in the field and if we could not trust them to handle an emergency for three weeks until April 15, we should disband the Committee.

Miller said we should never permit any increase without authority from the Board at the time.

C.S.H. pointed out that if the emergency came instant action might be necessary and Board might not have a quorum present.

C.S.H. also pointed out to Miller that he had voted to give committee authority to replace March 15 maturities which in all amounted to some 60 millions.

C.S.H. asked to be recorded that he voted for the general approval only after his first motion was rejected.

Governor Crissinger then went to ask Secretary Mellon to come in. Miller refused to stay for this and left the meeting.

Secretary Mellon was in Philadelphia. Meeting then adjourned.

March 25, Thursday

Secretary Mellon came in to meeting. The Secretary read minutes of yesterday's meeting as to Open Market Committee vote. The Secretary then asked someone to explain present status. C.S.H. then briefly outlined position of Governor Strong and the 11 other Governors. Incidentally, C.S.H. said, it had been stated at yesterday's meeting by one member (meaning Miller) that he never would consent to delegating authority to the committee to increase or diminish amount of money in the market. Miller did not reply to this.

C.S.H. said the Board is asked to give discretion to committee for only three weeks -- that the Board could not properly insist that it must decide every emergency itself, as there might be difficulty in obtaining a quorum--that we must give some discretion to the committee--our Generals in the field.

C.S.H. said he thought any Federal Reserve bank could go into the open market as a matter of right, subject only to general regulations of the Board and that the Board had never undertaken to issue any such regulations. C.S.H. added that the Board in the past has frequently given such discretion to the committee, that only two months ago we gave it discretion to replace the March 15 maturity of Government securities - 67 millions of dollars, in which every member acquiesced; that to require the Board to pass on every emergency would make us an operating body - which we were plainly not.

Cunningham said he did not object to delegating authority to the committee generally but that he thought no present emergency existed warranting it.

Platt took the same view.

Miller finally said he entirely disagreed with Governor Strong and the Governors, and believed no emergency existed or would exist. He did not answer C.S.H.'s statements of his view stated yesterday that he would never agree to any delegation of authority to increase or diminish the amount of money in the market, as he knew C.S.H. would point out that he had so agreed many times, especially two months ago.

Miller said he had information that the whole trouble in New York arose from fact that certain banks were loaded up with new issues of securities which could not be placed.

Governor Crissinger asked who his informant was (meaning Hoover) but Miller declined to give the source of his information. Governor Crissinger said that he would not be influenced by information from a source which Miller declined to reveal.

Then Secretary Mellon said there was undoubtedly recession in business, that no one could say now whether it would not suddenly increase; that he felt the policy of liberality looking towards more credit would be of great advantage at the present time.

James then renewed his motion of yesterday which was passed. Aye, Secretary Mellon, Governor Crissinger, James and C.S.H. No, Platt, Miller, Cunningham.

March 26, Friday

Governor Crissinger said he had talked with Winston who said it was perfectly well understood that Hoover was dominating Miller and that they had proved that Hoover got information from Miller as to Board action, etc.; that Secretary Mellon was very much disturbed at this.

March 29, Monday

C.S.H. brought up a proposed resolution on subject of meetings of Open Market Committee. The resolution he proposed before the Committee on March 20 was a day or two later objected to by Cunningham who said the original resolution of March 9 must not be repealed at the demand of the Open Market Committee, but that he would not object to amplifying it somewhat. C.S.H. accordingly introduced the following:

"Whereas on March 9, 1925 the Federal Reserve Board passed the following Resolution:

That Washington be designated as the future meeting place of the Open Market Investment Committee, except when the committee is authorized by the Board to meet elsewhere;

Now, therefore, the Governor is authorized and directed to arrange, from time to time, with the chairman of said Committee meetings at other places than Washington, at such times and at such places as may be desirable from the nature of the business to be transacted, and as may serve the convenience of the Board and said Committee."

To C.S.H.'s amazement much opposition developed as to this. Dr. Miller said that if originally offered at the outset, he would have accepted it, but he would not vote for it as a means of placating the Committee. James also opposed it. Then a long discussion took place as to the power of the Board to control Open Market purchases. Dr. Miller had read the Resolution of the Board in April 7, 1923 which did purport to regulate these transactions, and C.S.H. is inclined to believe he was in error when he said (see p. 131) that the Board had never passed a Regulation in Open Market purchases.

Miller and James said if there was any doubt of Board's power we should go to Congress which would quickly give it to us.

Dr. Miller said he would welcome this issue now and would say so to the Committee. (It seems Governor Crissinger said Harrison had told him the Committee denied our power, and Governor Crissinger said he had no doubt if we refused it in any specific case the Federal Reserve Bank of New York would go ahead in spite of us.)

Finally Miller suggested some changes in my resolution, which I accepted as it was all I could get, and it was unanimously adopted, as follows:

"Whereas, etc. (same as my resolution):

Now, therefore, the Governor is directed to advise from time to time, after consultation with the Chairman of said Committee, when in his opinion it is desirable from the nature of the business to be transacted that meetings of the committee be held at other places than Washington."

Dr. Miller also said that if he had read a report containing what Governor Strong said, without any discussion, he would probably have voted to grant the authority, but that the discussion developed that Governor Strong was absolutely wrong; that Production was not receding; that our load distribution was at its peak. (He did not mention, however, that all of the Governors spoke of the falling off of retail purchases."

Dr. Miller also said that one member of the Committee told him afterwards that he did not agree with Governor Strong although he had voted with him. Dr. Miller said Governor Strong had a way of suppressing dissent within the Committee.

March 30, Tuesday

Have gone over carefully the Open Market Committee resolutions of April 7, 1923. These regulations laid down two principles:

1. Primary regard to accommodiation of commerce and business and to effect of purchase or sales on general credit situation.
2. Careful regard to bearing of purchase of U.S. Government securities upon the market for such securities; open market purchases to be primarily commercial investments, except that Treasury certificates may be dealt in, as at present, under so-called Repurchase Agreements.

Board discontinued old committee and appointed Open Market Investment Committee--to be under general supervision of Federal Reserve Board--the duty of this Committee to devise and recommend plans for the purchase, sale, and distribution of the Open Market purchases of the Federal Reserve banks, in accordance with the above principles and such regulations as may, from time to time, be laid down by the Federal Reserve Board.

The above regulation simply lays down principles and is a proper, lawful regulation. It also, to be sure, points to other future regulations but none such have been yet enacted by the Board.

The Federal Reserve banks, therefore, if they certified that the purchases were in accordance with the above principles, could at any time buy Government securities in the open market, until at least, some future regulation of the Board prevented.

Washington Star this evening had a long interview with Governor Crissinger speaking of business depression. Very ill advised--given as Governor of Federal Reserve Board. (See Scrap Book)

April 1, 1926,

Mr. Goldenweiser says Governor Crissinger said he did not know he was being interviewed, and that McFadden quoted his interview yesterday in a hearing before Banking and Currency Committee.

Mr. A. C. Bowman, Class B director of Federal Reserve Bank of Boston called. He said he came down to see Attorney General Sargent, a very old friend, at the unanimous request of Governor Harding and the directors to request the Attorney General to ask President Coolidge to renominate me. He also said Governor Harding told him to tell the Attorney General that at the conference of Governors held here last week it was the unanimous opinion that I should be reappointed.

I told him to tell the Attorney General that H.P.H. and I had been active members of the Grange for thirty years, that I had a farm and had devoted myself to the interests of agriculture while on the Board.

I also suggested that the Attorney General had better speak to Secretary Mellon before he formally presented my name.

April 6, Tuesday

Board voted to allow Valley Bank of Fresno, California, to take a bank 50 miles away in Prescott as a branch. We had imposed no branch bank condition on the Valley bank when it entered the System and, therefore, the only question was whether there was any injurious change of assets which clearly was not the case. Even Cunningham

agreed to this although he had left room before vote taken. James, however, voted No. He agreed there was no injurious change of assets but stubbornly voted No. Governor Crissinger, Platt, Miller and I voted Aye.

Board took up letter from Federal Reserve Bank of Chicago informing us it had elected a Mr. Olsen as Assistant Secretary of Board. Cunningham said a long time ago the Board had put on record its belief that the Secretary of the Board should be taken from the Agent's side of the Bank and Comptroller McIntosh joined him in a verbal report that appointment should be disapproved and the policy of the Board, above referred to, be reaffirmed. It was pointed out to Cunningham that six of the banks had secretaries from the operative side, and he then changed his report so as merely to disapprove this particular abstract. A long debate followed in which it appeared that over a year ago, both Governor McDougal and Heath the increase in Olsen's salary to $4,000. He was then and is now confidential secretary of Governor McDougal, and they both said he was a very able man who helped various offices and committees of the Bank, and that ultimately they wished to make him Assistant Secretary to help the Secretary--White, and Federal Reserve Agent; that the Board knowing all these facts, approved the increase in salary, thus ratifying in advance the action now taken.

This made no impression on Miller, James or Cunningham, although the latter admitted the Board was in a hole. Platt pointed out, and C.S.H. agrees, that a Board has the right to appoint any one it sees fit to be Secretary or Assistant Secretary.

Miller, however, seemed shocked at the thought of a confidential secretary of the Governor being assistant secretary of the Board. Miller then moved a resolution that it appeared (as if the Board had just discovered it) that the proposed Assistant Secretary was confidential Secretary of Governor McDougal; that such was against the policy of the Board (in spite of our vote above referred to) and that the appointment was suspended pending final action of the Board.

This was passed; No, Platt and C.S.H.

Aye, James, Miller and Governor Crissinger.

An extraordinary vote which makes the Board ridiculous.

April 4, Sunday

Senator and Mrs. Glass called. Glass was very bitter about Colonal House. I told him of the footnote on p. 50 stating that Wilson ultimately accepted House's arguments for centralized control of banking which materialized in the Federal Reserve Board. He said the first draft of the Federal Reserve Act contained no provision for a Federal Reserve Board, but that he visited Wilson at Princeton December 26, 1912, the day after Christmas and that then they agreed to have a Federal Reserve Board; that at this time House scarcely knew Wilson or at least intimately, and could not have made such a suggestion to him at that time.

The first entry in House's book showing any talk with Wilson in the Federal Reserve Act was on January 8, 1913 at which Wilson agreed to put him in touch with Glass, Chairman of the Banking and Currency Committee, and "I am to work out a measure which is to be submitted to them". At this date, the tentative draft had been shown to Wilson and

the Federal Reserve Board had been arranged for (Dec. 26, 1912); the draft in final form was approved by Wilson in February, 1913 at Princeton. (See Willis' book)

House records (p. 161) that he talked with Glass in March 24, 1913 and I urged him not to allow the Senate Committee to change what we had agreed upon in any of its essential features.

House must have referred to the second draft (which was a revision of the first draft which Willis says was finally completed about Jan. 15, 1913) made as the result of hearings before Glass's Committee, or to the 3rd draft, prepared during March, April and May, 1913, on suggestions of McAdoo which were finally practically all abandoned. Later, in June, a fourth draft was made containing Bryan's suggestions (Willis p. 148). In all of time the Federal Reserve Board was provided for. If House persuaded Wilson to have a centralized Federal Reserve Board it must have been prior to December 26, 1912 and there is no entry in his book as early as this.

Glass said House was given an abstract of the Act which he talked over with New York bankers and later a copy of the completed draft which he took abroad with him and showed it to Warburg who violently criticised it from abroad.

April 8, Thursday

The Secretary read a letter to Federal Reserve Bank of Chicago carrying out the vote of the Board Tuesday, April 26, disapproving appointment of Olsen as Assistant Secretary.

After long debate Platt moved to strike out last part disapproving appointment, leaving in only the statement that the Board still adheres to its declatation. Miller objected vigorously.

Passed: C.S.H. and Miller voted No.

C.S.H. so voted because he believed the directors have the right to appoint any one whom they wished as Secretary or Assistant Secretary--and we have no authority to tell the directors they must choose someone on the Federal Reserve agents side.

Miller voted no because he believed we should definitely disapprove the appointment. The Board has no power to disapprove any appointment--we can merely approve or disapprove salaries or remove for cause. Miller and James thought it was most improper for confidential secretary of Governor to be Assistant Secretary of Board.

I can see no such impropriety.

Miller brought up a Resolution introduced a few days ago, that the Board establish a credit Bureau in Washington, and directing three of our Statistical Division to report as to scope and expense.

C.S.H., when originally introduced, asked Miller if he meant to create a Bureau to establish an independent system of credits as to all borrowers from Federal Reserve banks, pointing out that in 1915 the Board made Walter Hackney, one of the best credit men in the United States, Assistant Federal Reserve Agent at Boston to do this very thing but it was abandoned as impracticable. Miller said he only meant that all the credit files of the Federal Reserve banks, or copies, be sent to Washington.

This morning he said it had to do with the treatment of Federal Reserve banks with member banks who are long continued borrowers or in an extended condition.

I asked him to confine his resolution to such conditions but he said how can we know what banks are long continued borrowers or in an extended condition unless we have data as to all banks.

C.S.H. suggested we ask Sprague for suggestions as he said Sprague had advised such a Bureau, but he would not consent to this. I asked him if he wished to have credit statements of every borrower on file in Washington, but he gave an evasive answer.

Finally he split his resolution into two parts:

1. That aBureau be established;
2. That the Statistical Division report as to its scope and expense.

He agreed to allow 1 to lay on table until 2 was presented to Board.

We finally agreed to this.

I do not know what is in his mind but I suspect he wants a centralized detective force to examine all loans made by member banks and admonish them, etc.

This would be the worse kind of autocratic authority ever presented to the Board.

April 6, Tuesday

Board approved absorption of one-third of cafeteria expenses by Federal Reserve banks.

Miller alone voted No. He said the employees did not like to eat in cafeterias of Federal Reserve banks as it was a kind of charity!

April 19, Monday

Governor Crissinger said Federal Reserve Bank of New York had offered Warren of our Statistical Division $6,000 per year to go into their employment to study questions relating to European Central banks; that Harrison this A.M. asked him if he could speak to Warren about it and he said yes; that Stewart, now in New York, said he would give Warren $8,000.

Miller was very indignant. He said we could do much better research work then the Federal Reserve Bank of New York, but that as we had already practically been absorbed by that bank, we might as wll let it do all the research work instead of ourselves. When the proposed central bank work comes before the Board there will evidently be a row. C.S.H. said it would not be fair to accept Warren's resignation now, in case anyone objected to the proposed new Division of the New York Bank, and moved to lay it on the table until on inquiry we learned about the new division.

All agreed but James said he knew how he should vote on any proposition to increase Warren's salary over $4,000 - what he was getting now!

Harrison came to the hotel and explained that they wanted Warren for the foreign division having charge of all relations with foreign central banks, loans, investments, etc.

April 20, Tuesday

Harrison drew up a formal application for authority to employe Warren in the foreign division at $6,000 per year.

He told me Warren would resign from the Board's service any way and go to Stewart in New York at $8,000 if the Federal Reserve Bank

of New York could not get him.

The Board voted to authorize Federal Reserve Bank of New York to employ Warren at $6,000 per year, and to accept his resignation from statistical division of Board. Aye, Governor Crissinger, Platt, C.S.H. No, Miller and James.

Miller said he wanted a copy of Harrison's letter to put in at the hearings of Banking and Currency Committee; that it was a scandalous giving up by the Board of its functions to the Federal Reserve Bank of New York.

C.S.H. said clearly the Federal Reserve Bank of New York had a right to have a foreign division properly equipped - that this had nothing to do with our research work and that of the Federal Reserve banks. Governor Crissinger asked C.S.H. for a copy of the Board's letter to Jay stating that the proper way to bring up a matter before the Board was through the Governor and said Harrison had strictly complied with this.

This P.M. we approved lowering of the discount rates of Federal Reserve Bank of New York from 4 to 3-1/2%. Secretary Mellon was present.

April 21, Wednesday

Federal Reserve Agent Newton of the Federal Reserve Bank of Atlanta came before the Board and said the collapse of the Florida real estate boom would probably involve 50 banks in failure; that Governor Wellborn and others of the Directors favored a policy of assisting these banks to the limit without too careful scrutiny of the paper they offered for rediscount. He said he and a number of the other Directors absolutely apposed such a policy; that these

banks were in an insolvent condition; that further rediscounts would be needed by them for paying off these public deposits (counties building roads, etc.) at the expense of the general depositors; that these public deposits were guaranteed by surety companies who, however, had a right to withdraw from their contract by giving thirty days' notice; that if any trouble appeared they would withdraw and thus save their liability; that rediscounts would be used not for the small depositors, as above stated, but to pay off these public deposits; that if these banks were insolvent, they should be closed at once, thus fixing the liability of the surety companies and enabling the small depositors to get at least something; that in his opinion if the Federal Reserve bank went into this along the lines favored by Wellborn and seven other directors, it might conceivably have its capital and surplus wiped out. In response to a question from C.S.H. he said it was perfectly conceivable that the issue might be - the solvency of the Federal Reserve Bank and that of these 50 banks.

We all agreed to his view of the situation. He then asked if we would authorize him to say that the Federal Reserve Board instructed the Federal Reserve bank in accordance with his views. C.S.H. pointed out that we were having a confidential talk with him as our representative; that it was one thing to give him our opinion as to his conduct as a director, but an entirely different thing for us to lay down a rule to be imposed upon the bank; that whatever our power might be, it clearly should not be exercised prior to a full discussion with the directors, which they, up to the present time, had not asked.

The Board all agreed to this and Newton also. I think we may hear from the Board later.

April 23, Friday

Senator McLean asked the Board to express its opinion on the McFadden bill as reported to the Senate. Platt said he had talked with McLean and Glass and that they both hoped the Board would express a favorable opinion as then the bill would quickly pass the Senate.

The Board met at 3 P.M. Present: Secretary Mellon, Governor Crissinger, Platt, James and C.S.H. C.S.H. expressed the opinion that looked at as a compromise it was a fine compromise and read a memorandum prepared by him and O.K'd by Wyatt.

Mr. Collins, representing the Comptroller, was present at a preliminary meeting held in the A.M. and expressed his and the Comptroller's approval. Miller and Cunningham were away.

Finally it was unanimously voted to advise McLean that the Board approved the bill as reported.

(See Scrap Book for Resolution and C.S.H.'s memorandum.)

C.S.H. called up Glass before the meeting to be sure he wanted us to approve but he was in Richmond, not to return until Monday. C.S.H. then wrote him that the Board would undoubtedly approve the bill in the afternoon, and sent him a copy of his memorandum.

May 20, Thursday

Special meeting to take up James' report on Cuba. First took up first recommendation that Deputy Governor Campbell be "eliminated" from Federal Reserve System.

C.S.H. said that Campbell should be given a chance to be heard before passing sentence on him and that Federal Reserve Bank of

Atlanta should be called in for an investigation. James bitterly objected to this.

C.S.H. moved to lay on table temporarily pending other motions he should offer.

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

Comptroller of Currency moved to the recommendation.

Passed C.S.H. alone voting No.

Comptroller of the Currency moved that the conduct of Director McCrary be investigated by the Special Committee to ascertain whether he also should be eliminated from the Federal Reserve System. Passed unanimously.

C.S.H. moved that complete report be called for from Federal Reserve Bank of Atlanta covering the whole transaction of that bank in connection with the movement of currency to its Havana agency on April 10, including all instructions given to the Party which accompanied the currency shipment, including the personal conduct of the members of the Party.

Passed unanimously.

C.S.H. moved that Mr. James personally communicate the foregoing action of the Board to the Bank and the individuals concerned.

Passed unanimously.

Question then arose as to James' recommendation to abolish the Cuban agency of Boston and turn it over to Atlanta.

C.S.H. said he should like time to consider this; that he felt Boston should help Atlanta by issuing its own notes to a limited amount

and that it should not be abolished; that he would like a reasonable time to prepare such a plan. Most of the Board felt there was no reason for speedy action.

James said there was as there was a rumor that the Board was to wipe out both agencies which was greatly worrying the Banks in Cuba.

C.S.H. said he would agree to have the banks told at once the Board had no such intention and had under consideration plans--without stating them--for making the agency more efficient.

James insisted that we should first tentatively approve his plan and then have a hearing at which the National City officers should be asked to give an opinion.

In reply to Comptroller of Currency he said he would agree that all the banks should be heard, including the Federal Reserve Bank of Boston. C.S.H. said the Secretary of the Treasury should be consulted before any such action as did also the Comptroller and James got very mad and said if we did not know tentatively approve his plan, he was through and would not even go to Atlanta on the subject o the first motion. He was like a spoiled child. He did agree, however, that the Secretary of the Treasury should be consulted.

The Board adjourned for lunch.

At 2:30, the Board reconvened and James was more quiet--Cunningham told me he would quiet him and Comptroller of the Currency said Mellon knew the whole situation and would quiet James.

Miller moved that the Board ask the State Department whether it still favored the agency and whether the United States was under any obligation under the Platt amendment to Cuba to keep it supplied with U. S. currency.

C.S.H. objected to going over the head of the Secretary of the Treasury but Miller persisted.

Finally C.S.H. moved that Governor Crissinger, Miller and James see the Secretary and ask him to ascertain as to above.

This was passed unanimously.

Governor Crissinger insisted that the precise form of the question be fixed by Board before the conference with the Secretary and the Committee well instructed to prepare the questions and report later to Board.

C.S.H. offered a motion that the Federal Reserve bank of Boston be advised that a committee had recommended the abolishment of its agency, and that it be given an opportunity to be heard.

All favored this but no vote was taken as the matter went off as above shown. A motion was then made by Cunningham that the Atlanta committee and not James alone, take up with the Federal Reserve Bank of Atlanta the matter of the above charges vs Campbell, etc.

C.S.H. said he preferred not to act as this matter was inevitably connected with the question of the abolishing of the Boston agency, and coming from Massachusetts, he preferred not to be drawn into any preliminary discussion,--that the Committee should have no connection with either Boston or Atlanta, and that as James alone had served on the preliminary Committee he should remain alone on this committee.

All, including James, agreed that there was a fair position.

James bitterly attacked McCrary; said some years ago he used his posiion as Federal Reserve bank director to coerce member banks into

buying bonds from him; that a representative of Attorney General looked into it and was satisfied it was true but could not get enough evidence to convict him. C.S.H. vaguely remembers about this.

May 20, Thursday

Miller gave a supper to Federal Advisory Council at his house.

After supper Mr. Alexander spoke at some length defending the call loan market; he referred to Glass and C.S.H. prediction in 1914 that Federal Reserve money was divorced from Wall Street, but pointed out how the call loan market had grown notwithstanding. He riddled the Miller suggestion of changing Federal Reserve Act so Reserve bank could refuse to discount for a bank making speculative loans.

He said cooperation between banks and member banks could correct any loan abuses.

Afterwards C.S.H. told him he agreed absolutely with him and pointed out that his remarks in 1914 were simply to effect that under the old law, stock secured loans were in effect made by the New York banks using the reserve money of the country banks while under the Federal Reserve Act only surplus funds of the country banks could so be used, the required reserves being corraled in gold in the Federal Reserve banks; that while the Federal Reserve banks could loan 65% of these reserves, they could do it only by discounting eligible paper,--whatever use of these funds might later be made by the banks securing the loans.

Alexander said he agreed with this entirely.

Mr. Goebel of Kansas City said the last 3 or 4 members of the Board were not big enough men for the job. He said they all liked Governor Crissinger personally but that he knew little about banking and was not fit for the job.