The Papers of Charles Hamlin (mss24661)

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PAPERS
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Miscellany

WRITINGS --
"MEMORANDA CONCERNING THE FEDERAL RESERVE BOARD...," DIARY
VOL. 14, 6 JULY 1927 - 18 JULY 1928
(PP. 833-913) (18 OF 19)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date March 18, 1968.

To Governor Brimmer

From Merritt Sherman

Here is an excerpt from former Board member Hamlin's personal diary containing his comments relevant to the 1927 rate reduction that was determined by the Board for the Chicago Reserve Bank. I shall appreciate your returning these pages when they have served your purpose. The Board members present when the rate reduction was voted were Crissinger, Cunningham, James, McIntosh (Comptroller of the Currency), Hamlin, Miller, and Platt. (Secretary Mellon, Chairman of the Board, was not present at the meeting). The latter three voted against determining the rate for Chicago, at least partly for procedural reasons.

VOLUME XIV

July 1 - 1927

July 6, Wednesday

Miller put in a motion that purchases of foreign bills were subject to regulations and approval of Federal Reserve Board. As he framed it, it practically said only subject to approval, which might imply that every such transaction must be approved by the Board before making it. C.S.H. finally got Miller to refer to Section 14 as well as 13, as he, C.S.H., said was in doubt as to whether Section 13 was not limited to domestic purchases. C.S.H. also had "regulations" inserted before approval, and stated that he voted for the motion only upon understanding that "approval" referred only to future regulations, if any, which might specifically require approval, and that, pending such regulations, no approval was necessary.

July 7, Thursday

Governor Norman, Mr. Schacht of Reichsbank and Deputy Governor Rist of Bank of France called and at 1 P.M. the Board gave them a lunch at New Willards Hotel. Governor Norman called and was with me nearly an hour. He believes present falling prices are due to an appreciation of gold. C.S.H. said that in U.S. at least falling prices were not caused by any lack of credit which was cheap and abundant.

He seemed to feel we ought not to have kept our rates up to 4%.

At the lunch Norman, Schacht and Rist spoke but only in very general terms.

Miller said he hated inflation when it could be prevented, but having occurred, he hated deflation more. He felt the Board should regard present prices as a minimum and do what it can to prevent further recession or even help to bring about some increase.

Governor Strong said Governor Norman believed falling prices were caused by appreciation of gold and not by depreciation of commodities. Governor Strong said both causes might be at work.

July 6, Wednesday

James and C.S.H. had conference with Under Secretary Mills on Cuban Agency. C.S.H. loaned him Taylor's brief, National City Bank's reply, and C.S.H.'s analysis of Taylor's brief. He said he would study the matter.

July 7, Thursday

Governor Norman and the others had no meeting with the Board. Governor Norman and Governor Rist both called but our conversation was on general topics. I suspect they did not want to take the Board into their confidence. At the lunch Governor Crissinger had Under Secretary Mills, the new Assistant Secretary of Treasury, and a number of others. The Washington Star spoke of the meeting here as a "Treasury" conference, and in giving the list of guests omitted all members of the Board.

Mills, has met them in New York and the papers said Governor Crissinger returned to New York with them. I heard the Comptroller tell Strong he would be in New York tomorrow.

Evidently there have been a series of conferences, carefully kept from the Board.

The papers have made no mention of McGarrah in connection with the New York meetings.

On James' motion, Board voted to rescind its earlier votes and not to change existing clause.

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

No - Miller and Cunningham.

Dr. Miller said he had a talk with Governor Norman, Rist and Schacht after the lunch, but found them very aloof and evasive evidently not wanting to discuss matters with him. Miller said if the reason for the Federal Reserve Bank of New York selling 69 million of gold to France and accepting a Bank of England sterling credit was to help the gold standard in Great Britain we should get into an awful mess.

C.S.H. said helping Great Britain and any other country to stablilze its currency, whether or not it was on gold standard, was of great benefit to U.S. exports, and foreign purchasing power of our products. (See article of Burgess on American Academy of Political Science Vol. 12, No. 3, July 1927, taking position that Federal Reserve System has a responsibility for keeping the world back to the gold standard and that Governor Strong conceived this great idea.)

Miller leaves today for two months' trip to California via Chicago and Minneapolis.

He said he wished to record his feeling that in any desire to make conditions easier it should be done by lowering discount rates and not by purchasing Government securities; that he felt agriculture would have a greatly increased purchasing power as it would have a billion dollars more for its products and he saw no reason for easing up.

I met Schacht only at the lunch--merely an introduction.

July 5, Tuesday

Had conference with Curtiss in Federal Reserve Bank. He told me Governor Morss died that morning.

July 13, Wednesday

Board approved letter to State Department explaining attempt of Cuban Treasury to tax Federal Reserve Bank of Atlanta about $65,000 because of an excess of exports over imports of money at Cuban agency under a Cuban statute. The Federal Reserve Bank of Atlanta also prepared a brief to be filed with Cuban Treasury. Eddy had told White of State Department of this and he through diplomatic channels secured a stay of the decision temporarily. He asked Board to send him a general letter, and said Federal Reserve Bank should not file its brief with Cuba Treasury until we heard from State Department again.

Board took up again matter of reporting all transactions in foreign bills in greater detail as Board had already voted to do, not later than July 13.

The Federal Reserve Bank of New York did not think any change was necessary in weekly statement but Miller and Cunningham insisted--"foreign bills". James said present clause "Bills bought in open market" covered the matter as the open market is mentioned in Act as "at home or abroad". Cunningham and Miller said a "detailed statement" required by Act required us to distinguish between domestic and foreign purchases. C.S.H. disagreed with Cunningham and Miller who predicted dire things--charge of deception, etc. C.S.H. pointed out that Governor Strong said that to publish these in such detail would be simply an aid to clever speculations in foreign exchange and might even imperil Great Britain's hold on gold standard.

July 25

Governor Crissinger tells me that there was a formal conference in New York between Norman, Rist and Schacht and Governors of Federal Reserve Banks, etc., the day after they left Washington.

Governor Crissinger said all the Governors representing Open Market Committee were there and others; that it was in every sense a formal conference although Governor Crissinger did not know this until he got there; that Governor Norman unbosomed himself and told us what a critical position the Bank of England was as regards gold; that it must put up its discount rate--to the injury of business, commerce, etc., unless the Federal Reserve Bank of New York should reduce its rate.

July 27, Wednesday

Board meets with Open Market Committee, Governor Beggs, Governor Young of Federal Reserve Bank of Minneapolis, Federal Reserve Agent of Bank of St. Louis, Harrison, and Burgess, Assistant Federal Reserve Agent, New York, were also there by invitation. The committee filed a very interesting report (See Scrap Book). Governor Strong spoke briefly--showed condition in Europe, Great Britain cannot keep her gold unless (1) she raises her rate, or (2) we lower our rate. If she has to increase her rate it will be hard on her manufacturers and merchants and will interfere with her power to buy liberally on cotton, wheat, etc.; also other European countries will increase their rates with same result. He said that by lowering our rates we could do the financing for Great Britain of our exports which would be a great things for United States.

He pointed out that discounts had fallen off materially at Federal Reserve Banks and that he believed that from the domestic point of view it would certainly be advisable to lower the New York rate and he believed it should be made a system matter and that all rates should be reduced and that it should be done now before the crop movement is financed. If we do not do it now the European Central banks must put up rates to protect their reserves, with consequent injury to American exports.

Governor Harding said we had been attacked by farmers because in the past we had put down rates after the crops had left the farmers hands and gone to the speculators, where we put up rates in the autumn after the crops had moved when the farmers were buying; that this was a splendid chance to reverse the process. Most of those present said that while there was no apparent demand for lower rates in their districts, they felt their directors would join in making it a System matter and they would advise this.

Governor McDougal said his directors saw no need of rate reduction and intimated they would not be willing to join.

C.S.H. then had read the recommendation of Federal Advisory Counsel in May 1927, that if business recession should continue, rates should <u>not</u> be reduced, the purpose of the declaration (drawn by Taylor) being to keep existing rates as an irreducible minimum; the Council even went so far as to say that open market investments should be sold to bring this about. C.S.H. asked McDougal if above resolution represented the views of Chicago bankers and after some hesitation he admitted it did.

Governor Strong said this was a purely selfish banker's view--that none of the large banks ever wanted rates reduced.

C.S.H. then said he concurred in recommendation of Open Market Committee: - 1. Reduction to 3-1/2%; 2. continued buying of securities up to, say, 50 millions to make the rate effective. He said he was very much puzzled at decline in prices in last five years, now below the lowest point reached after crisis of 1920; that he saw a faint parallel between 1872-1893 and now. Then prices fell although wages slowly increased; at last came the crisis of 1893; he did not look for this now for there were other causes at work; he felt one reason for the decline nowwas improved industrial processes just as it was in 1872-1893; in that period appreciation of gold also was a cause; is that a cause now?; many in Europe claim it is; while there is no appreciation of gold in this country, can it be that the 4% rate is somewhat constricting credits and that this, coupled with scarcity of gold in Europe, may account in part for reduced prices? C.S.H. said that while there is some ground to believe that existing recession of business in United States is only temporary, yet no one can predict with confidence what future may disclose, and if a recession should come, he would prefer to have it come when our rates were very low so that it could not be claimed, as in 1920, that the recession was caused by too high rates. C.S.H. added that Federal Reserve discounts were fully off that the Federal Reserve System was practically out of touch with the market; that he believed the Federal Reserve Banks should always be in the market; that he favored a 3-1/2% rate and a continuous buying of securities to make it effective.

All agreed, practically, that the only reason for not doing this would be that it might encourage stock speculation, but it was felt that this should not be allowed to prevent doing what was best for business and agriculture and that direct action should be used to discourage speculation.

C.S.H. moved that the banks be informed that it was the desire of the Board that the banks put in a 3-1/2% rate.

Governor Strong and Norris thought it advisable to send out what would be construed to be an order. (Governor Strong denies that we have such power.) After lunch, Governor Strong reported a draft of minutes, declaring above as sentiment of Board, but not putting it as an Order, and moved each member report these minutes to his directors. Passed unanimously.

C.S.H. moved that committee be authorized to continue purchase of securities up to 50 millions. Passed unanimously.

C.S.H. in speaking said he rested his opinion primarily on domestic grounds but he agreed with Governor Strong as to what he said on foreign situation.

Governor Fancher tells C.S.H. his counsel is working on letter to Board asking opinion of Attorney General on payment of salary to Willis' widow.

Platt returns from Europe.

July 28, Thursday

Board approves reduction of rate--Kansas City--to 3-1/2%.

July 29, Friday

St. Louis reduces to 3-1/2%.

August 1 - 4

Cleveland, Boston and New York reduce to 3-1/2%.

August 4, Thursday

Governor Crissinger calls me up. Wall Street Journal prints statement that Federal Reserve Bank of Chicago will defy Board and will not lower rate. Governor Crissinger sent telegram to Heath demanding explanation. Heath denied it came from bank.

Governor Crissinger says he, Comptroller and James want to initiate a 3-1/2% rate and says he has wired Cunningham; asks C.S.H. if he will join. C.S.H. says wait until Monday. C.S.H. calls up Platt who says he objected to putting in a rate. Said that Executive Committee did not lower the rate but directors have not met.

August 5, Friday

Platt writes as above. See Scrap Book.

August 12, Friday

Governor Crissinger wished to put in a rate of 3-1/2 for Chicago of our own initiative. C.S.H., Platt and Comptroller objected and matter went over. We felt that this would not be advisable as the Board has not asked any Bank to reduce--it merely sent each bank the minutes of the meeting of Board and Open Market Committee in which the feeling was expressed that rates ought to go down.

Philadelphia had a meeting before New York reduced and decided not to reduce, at least for the present. Governor Norris told C.S.H. Wayne objected, for the reason Governor Norris believes that a reduction would force lower rates to customers.

Richmond also voted not to lower but agreed to wire directors of two more banks should reduce rates.

Atlanta reduced today and Dallas yesterday.

August 15

Richmond reduced to 3-1/2%.

August 16

All banks have now reduced except Chicago, Philadelphia, Minneapolis and San Francisco.

September 6, Tuesday

Meeting specially called to take action on Chicago rate question. Last week Heath wrote that the Executive Committee of which three members were present did not feel like reducing rates, although personally inclined to, because of the absence of three others known to be opposed.

To this, Governor Crissinger, James, Cunningham and Comptroller, acting as executive committee, answered that the Executive Committee did not approve the Chicago Bank's decision to keep in the 4% rate.

Heath wrote back that in September 9 the directors would meet and that he felt confident that they would vote to reduce as the executive committee's statement was the first official intimation that the Federal Reserve Board wished rates reduced. I think also his letter contained the statement that Simpson had said he would vote to reduce if the Federal Reserve Board wished it. The question arose as to ratifying the minutes of the above executive committee meeting.

Platt objected, pointing out that the executive committee had no authority to reject any rate; that its authority was strictly limited to approving any proposed reduction of any Federal Reserve Bank to 3-1/2% if at the time no quorum of the Board was present. C.S.H. agreed with Platt.

On motion to ratify, however, the Board voted:

Aye--Governor Crissinger, Comptroller, James and Cunningham.

No---C.S.H., Miller and Platt. Carried.

Cunningham then moved to put in at Chicago a rate of 3-1/2%.

C.S.H. moved as a substitute that the existing 4% rate (disapproved by executive committee) be determined as the lawful rate until close of business on Friday, September 9 (the date of the directors' meeting).

Miller objected on ground that this might be construed by Chicago as a willingness to keep in the 4% rate if Chicago so voted, although he said he sympathized fully with C.S.H.'s motion.

C.S.H. said he did this for the reason that if the executive committee of the Board's disapproval were legal (he believed with Platt it was not legal) there was now no lawful rate. C.S.H.'s motion was defeated.

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

No---Governor Crissinger, Comptroller, James and Cunningham.
Not voting--Miller.

C.S.H. then moved as a substitute for Cunningham's motion that consideration be postponed until after directors' meeting on Friday, September 9.

C.S.H. pointed out that from Heath's letter it was fairly evident that Chicago directors would reduce on Friday and that it would be ~~xx~~ extraordinary to take precipitate action now. James strongly objected to any further delay. He said the reason for acting now was that he knew that one of the Chicago directors (Mitchell) had asked a St. Louis director (Bothme) not to reduce St. Louis rates as it would cut down the profits of the member banks.

C.S.H.'s substitute motion was lost.

Aye--C.S.H., Miller and Platt.

No---Governor Crissinger, James, Comptroller and Cunningham.

Cunningham's motion was then discussed; C.S.H. said he firmly believed the Board had the power, but that this was a very poor case in which to exercise it; that he also believed rates should be reduced, and that he had in mind offering a resolution that the Board would favorably entertain a commodity rate of 3% in paper secured by warehouse receipts covering readily marketable agricultural staples where the rate charged on the original discount did not exceed 6% or some other rate to be fixed by Board; that he felt that the underlying reason in minds of Board and Open Market Committee at their meeting, when they favored a reduction of rates, was an international one--the desire of New York to reduce its rates to 3-1/2% to protect Bank of England in maintaining the gold standard which might be imperiled if the Bank of England were forced to increase its rate as it would have to do, if New York did not reduce its rate, as the spread between 4% and 4-1/2% (Bank of England rate) was not enough to keep gold from going from England to United States; that he believed this was a good reason for reduction as a stabilized gold standard in England, helped England's purchasing power and our exports thus benefitting agriculture.

C.S.H. also said that the Board should not <u>put in</u> a rate solely for international reasons such as this, and he somewhat doubted its power to put in a uniform rate in unless to help New York help the English situation.

C.S.H. also said that at the Open Market conference he stated this and said he believed rates should be reduced for local reasons--a decision to help farmers move their crops; that while they might receive no benefit from such lower rates yet it made it possible for the banks to give them lower rates following such reduction.

James fully agreed to this, but most of those at the conference took the view that the farmers would get no lower rates.

C.S.H. also said the power to put in a rate should be exercised most cautiously and only under extraordinary conditions; that it would seem the height of absurdity to use this power now when we had every reason to believe the Chicago directors would reduce of their own accord on Friday, September 9--only three days distant. Miller and Platt agreed with C.S.H.

Platt claimed that the Board had no power to put in a rate unless in connection with a request for establishment of a rate by a Federal Reserve Bank and that a mere statement from a bank--no change of rates--was not such a request and that Board had never so considered it as it merely "noted" such communications.

C.S.H. did not agree to this, pointing out the circulars of 1915 and 1918, still apparently in force. He also showed that the record in this case referred to the communication - "no change" as a request for establishing the 4% rate.

Cunningham's motion was then passed: Aye - Governor Crissinger, Comptroller, James and Cunningham. No. C.S.H., Miller and Platt.

Miller asked that the decision state that it was done by a <u>majority</u> vote of Board.

C.S.H. objected as it was a decision of the Board, but said he should feel at liberty to state exactly how the vote was cast to anyone who talked with him about it--especially to Senator Glass. All agreed that this would be proper. After the vote, Platt said that Secretary Mellon would be back tomorrow and we should give him an opportunity to be heard. The objection was raised that the vote had been taken and must be answered to Chicago today. Nothing further was said as to this.

C.S.H. did not know Secretary Mellon would be back tomorrow, if he had he would have insisted on waiting.

We adjourned till afternoon, when a telegram was read conveying Board's decision to Chicago. Governor Crissinger had talked with Chicago and McDougal suggested that instead of saying the Board had put in a rate <u>at</u> Chicago, we should say, <u>for</u> Chicago, which was agreed to.

At the discussion C.S.H. said Governor Crissinger in his letters to McDougal had made the issue an international and not a <u>local</u> question. Governor Crissinger denied this and his letter was read in which he said the issue was purely international and national, meaning by that in interest of the Treasury. It clearly excluded all local questions as to rates.

<u>September 7, Wednesday</u>

Glass Called up; had just heard of Chicago rate matter and was furious. He said he was preparing a letter of protest to Governor Crissinger stating there was absolutely no ground for the claim that Board had a right to put in a rate on its own volition. I asked him to see me before he wrote such a letter and spoke of Attorney General's opinion and his - Glass' letter to him. He asked me to mark as a copy of his letter anything indicating approval of such power in Board.

He soon came in and I read him the opinion of Elliott, acting as Special Counsel, in which he stated that the question asked him was whether the Board of its own initiative would put in a rate, and which he answered squarely in affirmative. I then called his attention to his letter to Attorney General enclosing Elliott's opinion and saying he agreed with every word in it and that it could have been expressed much stronger.

This staggered Glass. He said the reason for the opinion was that Governor Strong wanted to put up rates in New York while he and Leffingwell felt this would injure Treasury policies and that direct action should be used instead. C.S.H. pointed out that this needed no opinion for Attorney General as it was clear and undisputed that New York could not put up its rates without consent of Board, nor change them in any way.

Glass finally said he had had a very bitter dispute with Governor Strong and that he probably wanted to show to him that the Board had full power; that the request and the opinion was one growing out of war exigincies and should not represent the law in peace times.

C.S.H. said he would hardly want to state this to the public and he said decidedly No. C.S.H. then said he felt this power was absolutely essential but that it should be exercized only in great emergencies and that he could not speak strongly enough in condemnation of this particular exercise of it; that he felt Congress should provide that it should only be exercised by affirmative vote of five members. Glass said the matter must be taken up by Congress and that the power, assuming it to exist should either be taken away or limited in some way, and he would give it careful consideration.

He said that to him it was an evidence of the desire of some members to centralize authority in the Board at Washington.

C.S.H. said he agreed to this as to the exercise of the power in this instance but not as to the power itself.

Glass said that under such a power the Board could put in one uniform rate over entire country which Congress never intended; that the uniform rate, as much as anything else, killed the Aldrich Bill. C.S.H. said there must be some limitation of the power even now but Glass said if the Board had it, it was unlimited; that the Board could put in rates so as to draw all of the money of the country into New York or vice versa.

C.S.H. said the power was subject to abuse and he would agree to any reasonable limitation of it.

C.S.H. put this case: suppose all the banks but one had a 3% rate, but that e.g. Chicago kept in a 5% rate, clearly too high and obstinately refused to lower it; or that all the banks kept in an absurdly high rate and refused to change. If the Board has no power to put in a proper rate then the public interest must suffer. Glass said this was an extreme case but C.S.H. said you must test the matter by extremes.

This seemed to puzzle Glass who said in any event Congress never intended to grant such a power.

C.S.H. agreed that Congress never had such a thing in mind but that this would not prevent a court from deciding that in fact such a power had been granted.

Finally Glass said that his action in approving Elliott's opinion showed the futility of doing a bad thing for good purposes. C.S.H. finally said - well, we are in a fix and you must help us get out of it! Glass replied - I agree to that, but it is I who am in the fix!

Early in the morning C.S.H. told Ogden Mills about the action of the Board. He was very indignant.

September 9, Friday

Governor Strong lunched with C.S.H. at Cosmos Club. He said he called Governor Crissinger up Tuesday A.M. and he said the Board would put in a 3-1/2% rate that morning; that he begged him not to do i; that he was to meet Secretary Mellon in the A.M. and would take with him about it; that he saw Secretary Mellon who was very much surprised and suggested to him to call up Governor Crissinger and say he would like to be heard on this/morning tomorrow when he would be in Washington; that he called up Governor Crissinger about noon and found that the vote had already been taken. Governor Crissinger never mentioned this to the Board but after the vote was taken, when Platt said Secretary Mellon would be in Washington soon, he merely said he would be in Washington the next morning. If he had told us before the vote Platt and I would have insisted on waiting for the Secretary's return.

C.S.H. is satisfied that Governor Crissinger knowing that the Secretary would be adverse, concealed from the Board the fact that the Secretary would be back the next morning, and that he was disloyal to Secretary Mellon and the Board in keeping this back.

September 10

C.S.H. reads in Boston Herald a telegram to Baltimore Sun attacking the Board's action. He first said the power was limited to extraordinary emergencies, but later denied the power at all except where a bank has filed an application for a new rate.

C.S.H. cannot conceive how Glass can take this latter position after his correspondence with the Attorney General!

C.S.H. called up Miss Laning who said there was a letter from Glass which she would forward.

September 12

Glass' letter came enclosing interview given to Baltimore Sun. In it Glass rather assumes that Board had right to follow opinion of Attorney General and that so far as this case was concerned it had the technical legal right to act, but Glass said Board should act only in grave emergencies and that this was not one, and that this action satisfied him that the Wall Street Journal artide was correct and that a majority of Board were trying to arrogate to themselves the functions of a central bank. At last Glass is on strong ground.

September 15, Thursday

Platt said Board met yesterday but not a word was said about the rate case, but that a newspaper reporter had told him there was a rumor that Governor Crissinger was to resign today.

5 P.M. Eddy came in and said Secretary Mellon had officially announced Governor Crissinger's resignation to take effect tomorrow.

Platt and I went in to Governor Crissinger's office but he was busy with newspaper men. Later Governor Crissinger came into my office and said he had resigned; that he had been contemplating this for some time as he was to enter an investment company - Smith & Co. in Washington.

C.S.H. asked him if Secretary Mellon would have voted against the putting in of the rate. He did not answer unequivocally but said Mellon said if he had been there, he could have fixed matters up.

He also referred to Governor Strong's calling him up Tuesday A.M. just as Governor Strong told C.S.H., and he said later Governor Strong reported to him his talk with Mellon but he told Governor Strong the Board had already decided it.

C.S.H. believes that Mellon must have called for his resignation and that he ought to have done so, for Governor Crissinger was clearly disloyal in concealing from the Board the fact of Governor Strong's message and then telling Governor Strong the Board had already acted. As a fact the telegram announcing Board's decision was not sent until after we adjuourned from morning session.

The Federal Advisory Council has been meeting all day by themselves at the Mayflower.

At 7:30 we dined with the council at Mayflower. Secretary Mellon was there. Governor Crissinger did not come because of his resignation. The Comptroller had accepted and a seat was kept for him, but he did not appear.

Nothing was said at the dinner publicly but Heard who sat by C.S.H. said he thought the Council, especially in view of Governor Crissinger's resignation, would soft pedal the matter for fear of injury to the System, although they were unanimous in feeling that it was an arbitrary, unjustifiable act, especially in view of Heath's letter.

After dinner I had a short talk with Mellon. He said it was incomprehensible to him how the majority could have acted so foolishly and asked me what their reason was. C.S.H. said anger and vindictiveness because of the Wall Street Journal article saying the Board had asked Chicago to reduce but that the directors would positively decline; that in a telegram sent Heath about this statement, Governor Crissinger stated that 3 of Board wished to put in a 3-1/2% rate at once.

C.S.H. said that Heath denied that the statement was inspired by the Federal Reserve Bank or any of its directors, and yet this telegram was sent in spite of Heath's denial; that the desire to punish someone was thus clearly given on the record; that it could not have been the desire to put in the rate as Heath's letter clearly showed that the directors would do this voluntarily on Friday--only three days away.

Mellon confirmed all that Governor Strong said about his talk with Governor Strong and his request that Strong tell Governor Crissinger to hold up matter until the next day when he would be in Washington. He added that while he could have come down on Tuesday he had several engagements and he felt, from his experience with the Board that one day's delay would mean nothing.

He told C.S.H. he had asked Wyatt to prepare a letter asking opinion of Attorney General as he had been requested to do by Chicago, but had not yet sent it.

C.S.H. said that if Attorney General reversed Attorney General King's opinion, it might draw the matter into politics which would injure the System; that to avoid this he thought (C.S.H.) it would help if Glass were to write him asking him to get this opinion. He said he could hardly ask Glass to do this as he was not connected with the System. C.S.H. said, unless Mellon objected, he intended to ask Glass to do this, but that of course, he acted as his own responsibility and that Mellon would have nothing to do with it and have no knowledge about it, until at least such a letter came to him.

C.S.H. suggested that he hold up his letter for a day or two and he said he would. C.S.H. told him he did not believe the Attorney General would reverse King and Mellon agreed, saying he thought the Board had the power and ought to have, but that it should be used only in extraordinary emergencies, which this case clearly was not.

C.S.H. Also said he should offer a by-law that hereafter five affirmative votes should be required to overrule a rate established by a Federal Reserve Bank and this seemed to please Mellon.

C.S.H. said Governor Harding's letter should also be sent to Attorney General and that he would send him a copy.

C.S.H. also explained Glass' position.

C.S.H. said he was satisfied that Governor Strong's statement to Glass that a Federal Reserve Bank had a right to put in a rate wholly apart from the Board meant that Governor Strong had in mind just what Governor Harding gave as the proper construction of the statute and that Glass and Leffinwell wanted to show Governor Strong that the Board had the power to do anything it pleased as to a rate.

C.S.H. also explained the fight between Leffingwell, Glass and Governor Strong and Leffingwell's charges that Governor Strong promised the Bank of England to put up rates and when he found he could not make good he insisted on putting in a higher rate on a certain issue of Treasury certificates than the certificates were to carry, intending thereby to wreck the Treasury policies out of vindictiveness and revenge.

September 16, Friday

Met with Federal Advisory Council at 10 A.M.

For nearly an hour we discussed the Chicago rate question. Cunningham and James were literally "put on the rack" by the Council. They were asked to explain just what emergency there was which would not admit of waiting from Tuesday to Friday. Their replies were very unsatisfactory and almost grotesque. Heath's letter to Governor Crissinger was read and C.S.H. said his two motions were based on this letter.

Dr. Miller said that, although he did not believe the order should have been issued at that time and so voted, if the Chicago directors at meeting of Friday, September 9 had again refused to reduce, he would have voted to put in the rate had such a motion been offered.

This amazes C.S.H. for Miller was opposed to any rate reduction and when he went West he stopped at Chicago, Minneapolis and San Francisco--all of which refused to reduce rates. From various sources word came to us that Miller strongly opposed reduction in talks with bankers.

After the discussion the Board withdrew and an hour later the Council asked us to come in. Whereupon, Mr. Wetmore read a resolution condemning the Board, but in temperate language, for putting in the rate. Wetmore said this was a resolution not to be put in general files of Board and not to be published.

Early this morning, before council meeting, C.S.H. called up Glass at Lynchburg and said he was going to write Mellon and approve the suggestion made to him by Chicago bankers, with the Federal Reserve Bank that Attorney General be asked to review the matter. C.S.H. asked Glass if he would authorize him to say to Mellon that he would like to have this done. Glass said he saw no objection and authorized C.S.H. to say to Mellon that he approved the suggestion.

C.S.H. accordingly wrote Mellon and suggested sending to Attorney General the memorandum of Governor Harding which he attached to the letter. He also told Mellon he would get the opinion of John G. Johnson from Harrison and that that also should be attached.

C.S.H. then called up Harrison who said there was also an opinion from White and Case given to the New York directors; that he would get authority from Governor Strong to give these to Secretary Mellon to send to Attorney General.

Later Harrison called up to say Governor Strong consented to this and that Alexander of the Council had with him both the Johnson and White and Case opinions and asked C.S.H. to tell Alexander to give them to him for Secretary Mellon. Alexander said he would get them and give them to C.S.H. in the afternoon.

About 2:30 P.M. C.S.H. had talk with Secretary Mellon and told him what had happened. Alexander came in while he was with Secretary and gave him the opinions and C.S.H. gave them to Mellon. He told Mellon the usual method was to have Wyatt prepare a letter and attach the opinions. He explained to Mellon as to Glass and said that the reason was that if a Republican Attorney General should overrule a Democratic Attorney General the matter would become political, but Mellon could now say that two Democrats--Glass and C.S.H. had asked him to do it. Mellon said he saw the point and seemed much pleased.

Secretary Mellon then told C.S.H. that he had two names in mind for the vacancy--Governor Young of Minneapolis Federal Reserve Bank and Decker of Minneapolis. He also said he wanted to designate the new appointee as Governor. C.S.H. said Decker was a splendid man and fit to come in as Governor; that Young also was first class but he was not sure as to his fitness for Governor.

C.S.H. then urged Mellon to designate Platt as Governor that his term expired next anyhow and that it would be a graceful thing to do. Mellon said if we do that he would expect to be continued as Governor on reappointment. C.S.H. said no and cited his own case. Mellon said he feared he would feel it if not redesignated or reappointed. C.S.H. said if Young were appointed Platt could be designated for balance of the term and then Young could be designated.

Mellon said perhaps Young would not take it unless at once designated. C.S.H. explained that Young had ideas as to noncash items which had brought him into antagonism with the other Governors.

C.S.H. then suggested that Mellon ask Alexander about both.

C.S.H. asked if there was no Pittsburg man and Mellon said none who would take it.

Mellon agreed with C.S.H. that the new man should be a banker.

C.S.H. then went to his room and later Mellon asked him to send in Alexander which C.S.H. did.

Later Alexander came into C.S.H.'s room and we had a good talk on the rate case. C.S.H. asked Alexander to find out from Governor Strong the exact time last Tuesday when he called up Governor Crissinger after his talk with Secretary Mellon.

About 5:30 Glass called up and wanted a copy of Board's eulogistic statement as to McGarrah which C.S.H sent him. He thought it contained a direct statement that the Board wished to centralize authority but C.S.H. said No--that the Wall Street Journal and other papers simply so construed it.

Glass asked as to the Council and C.S.H. said it had passed a resolution condemning the Board but would not publish it. Glass was infuriated and said it ought to be published.

C.S.H. later--about 6 P.m.--wrote Glass that he must regard his statement as to Council as absolutely confidential.

About 10:30 P.M. Platt called up saying Glass had just called him up and was very angry because Council would not publish the resolution and said he would write Wetmore. He said of course he would regard the knowledge of what Council had said as confidential; said also he would write President urging that only a man of highest calibre should be appointed; that the men who voted to put in the rate should be at once removed, etc., etc.

Platt asked C.S.H. to send Glass Wetmore's address but C.S.H. gave it to Platt to send Glass.

C.S.H. feels Governor Crissinger was cowardly in leaving--assuming he was not kicked out--as he did leaving Cunningham and James to defend the action alone, for Governor Crissinger was the ring leader who put the thing through and the others were mere satellites.

September 17, Saturday

Glass called me up from Lynchburg and asked about Wall Street Journal article. I told him each member had denied inspiring it or knowing of it but asked him to ask Sargent of Associated Press who wrote it and might reveal source of his information. He said he would. He asked for address of Mr. Wetmore, President of Council, and said he would write him demanding that the proceedings of the council yesterday be made public. He also said he would write President Coolidge and advise removal of Comptroller, James and Cunningham.

September 19, Monday

Spent two hours with Governor Harding and Curtiss at Federal Reserve Bank. Curtiss said he had heard a rumor that Dr. Miller was responsible for the statements in the Chicago paper which caused the majority of the Board to initiate the Chicago 3-1/2% rate.

Received letter from Eddy stating that the telegram to Chicago bank putting in the 3-1/2% rate was filed with our telegraph office at 12:23 P.M. (New York time 1:23) and put in Chicago wire at 12:44 P.M. (New York time 1:44 P.M.)

September 20, Tuesday

Governor Strong called me up from New York and said that his telephone message to Governor Crissinger stating Secretary Mellon wanted the matter held up pending his arrival in Washington the next morning, Wednesday, was delivered by him to Governor Crissinger before 12:23 (New York 1:23) when the telegram of Board was sent.

Governor Crissinger never mentioned above conversation to Board. This seems to prove that Governor Crissinger ~~that Governor Crissinger~~ deliberately withheld this information from the Board in order to jam through the Chicago rate, and that he was disloyal both to the Secretary of Treasury and to the Board.

September 21, Wednesday

Platt called up 1 P.M. and said rumor was that Governor Young of Minneapolis had been appointed to Federal Reserve Board and had accepted. Said Comptroller also told him of this.

C.S.H. when he talked with Secretary Mellon on Friday told him Governor Young had been at odds with other Governors over noncash collections and advised him not to designate him as Governor at once but to give him the opportunity of making good and meantime to designate Platt as Governor for balance of his term.

Governor Harding in letters to Governor Crissinger, Platt and Norris has suggested a construction of word "established" which appeals to me and which I hope that Secretary Mellon will send to Attorney General when he asks for his opinion. (See Scrap Book).

September 26, Monday

Ogden Mills told me he was satisfied that Governor Crissinger had been disloyal in the Chicago rate case both to Secretary Mellon and to Board; that Governor Crissinger in first telephone message from Strong that he was going to see Secretary Mellon should have been reported to Board; that the second telephone message conveying Secretary Mellon's request for postponement should also have been reported.

Mills said he was satisfied that if his opinion were asked the Attorney General would sustain Acting Attorney General King's opinion of 1919 and this would be embarassing as it would tend to stiffen up the majority in future attempts.

Mills said Governor Strong had suggested a by-law of Board providing for five affirmative votes in cases of change in rates on Board's initiative.

C.S.H. told Mills that he--C.S.H.--originated this, stating to Federal Advisory Council he would move such a by-law in Board.

Mills said Secretary Mellon had taken this up with the Chicago Bank and that they all said that if such a by-law were adopted they would withdraw their request for our opinion from Attorney General, but would advise the Secretary definitely on Friday.

Mills and C.SH. agreed that C. S. H. should offer an amendment to Regulation as above, and Mills said Secretary Mellon would like to have Baker's opinion as to legality of such a regulation or by-law.

Platt told me today he distinctly recollected that Governor Crissinger was called out of meeting by a New York telephone call <u>before</u> the Board finally sent the Chicago telegram. This convicts Governor Crissinger of disloyalty.

<u>September 27, Tuesday</u>

Board met at 11:30. Present Secretary Mellon, Platt, C.S.H., James and Miller.

C.S.H. gave notice of a formal motion for a new by-law requiring vote of five members for the initiation of rates, and read it.

C.S.H. then said Wyatt told him the other day he felt the Board had authority to do this but that this A.M. he came in and referred to an old opimion of Council's office to effect that the Board had no power to require any certain number of affirmative votes.

C.S.H. then moved that opinion of Baker be procured.

James objected; said he felt himself bound by Wyatt's opinion until reversed by Attorney General or courts.

Miller said we might unanimously agree on such a by-law, without any further opinions.

James said there would never be such a unanimous agreement-- meaning that he would object.

James intimated he might agree to asking Baker's opinion provided it was agreed that later the opinion of Attorney General be asked for. C.S.H. said he doubted Wyatt's opinion and Secretary Mellon agreed with C.S.H.

Miller had a long discussion with Secretary Mellon. Miller did not seem to object to five affirmative votes when the Board initiated a rate when nothing was before it from a Federal Reserve Bank, but he did not agree that five votes be required when a Bank submitted a rate and Board wished to put in a different rate.

C.S.H. said his By-Law would provide:

Initiation of rate - five affirmative votes.

Rate presented by Federal Reserve Bank.

Approval or diapproval. Majority vote.

Change in suggested rate. Five affirmative votes.

James then said the members could enter into a gentlemen's agreement covering C.S.H.'s By-Law, and there was long discussion. Finally it was agreed that C.S.H. draw up a form of such agreement or understanding to be submitted at the meeting next week when Governor Young qualifies.

The action of James in refusing to permit a unanimous vote for C.S.H.'S by-law seems to C.S.H. to kill the matter. For, assuming the Board could pass such a by-law by unanimous vote, it would seem clear it could not do so lawfully by a full majority vote.

C.S.H. explained situation to Wyatt who drew up a form of a gentlmen's agreement, which C.S.H. does not like. Wyatt in submitting it wrote--September 29--that he seriously doubted the advisability of such an agreement and strongly urged a request to Congress to amend the law along lines of C.S.H.'s by-law.

September 29, Thursday

Drew copy of a "gentlemen's agreement" as to initiation of rates by Board and sent it to Secretary Mellon for consideration.

In afternoon the Governor of National Bank of Belgium called at Platt's office and Miller and I went in to see him for a few minutes.

September 30, Friday

Drew up a gentlemen's agreement on rate case yesterday and sent it to Secretary Mellon. He asked me to come this P.M. and said he thought it in good shape, the only suggestion being to strike out the phrase--"pending the determination of the matter"--as that rather looked as if we were surely going to ask an opinion of Attorney General or go to Congress.

October 1

Governor Frank told C.S.H. at Millers that while he could not say it was a fixed custom to charge commissions for credits such as were given Belgians for stabilization, yet Belgium was very willing to pay the Commission.

October 2, Sunday

Did not go to Mattapoisett because of visit of Governor Franch of Bank of Belgium.

October 3, Monday

Talked with Secretary Mellon about meeting tomorrow and gentlemen's agreement.

October 4, Tuesday

Governor Young arrived and was sworn in at 10:30 afterwards our photos were taken.

The Comptroller urged Governor Young not to have the gentlemen's agreement brought up today as he said James was inclined to be ugly. Governor Young thought it might be as well to hold it up for a few days. C.S.H. went to Secretary Mellon before the meeting and said he would agree to this if Secretary Mellon did. No meeting.

October 5, Wednesday

At the meeting, at which every member was present, Secretary Mellon asked about the gentlemen's agreement and C.S.H. said it was agreed at last meeting that he should prepare a draft but that he would like to have the matter go over for a few days.

C.S.H. is satisfied the Comptroller will do all he can to stave off any new by-law or any gentlemen's agreement as either would reflect upon himself as he voted to put in the Chicago rate.

Although C.S.H. feels the Board now has a majority opposed to precipitate initiation of rates, yet he feels if the Board takes no positive action the matter would surely come up in Congress.

October 4, Tuesday

Glass called. He now hopes the matter will blow over so far as Congress is concerned and thinks it will only if 1. The Federal Advisory Council publishes its resolution condemning Board's action. 2. The Federal Reserve Board pass a by-law or a vote as to five or better six affirmative votes, and also publish this.

Delano came up in evening and I talked over the Chicago rate matter confidentially with him as a Government Director of Richmond bank. He intimated that Richmondmight soon try to increase its discount rates as it was not earning its expenses.

October 10, Monday

Governor Young said Cunningham and James would not agree to any by-law or even understanding as to the initiation of rates, as they were getting support from agriculture papers in West and Northwest. He said to let the matter rest awhile and he would see if he could not persuade them. C.S.H. said only reason he wanted an agreement with understnding was to keep the matter out of Congress. Governor Young went into Secretary Mellon's office and came back saying the Secretary thought we ought to let the matter rest awhile.

Governor Young said the Comptroller told him he did not know Secretary Mellon was coming back next day or he would never have voted to put in the rate. As C.S.H. remembers the Comptroller was not in the room when Platt spoke of the Secretary. Governor Young said he had suggested a by-law to Cunningham that before putting in a rate the Board would give ten days' notice to Federal Reserve Bank and have a hearing. He said Cunningham seemed to approve this.

October 11, Tuesday

Federal Reserve Agent Newton and Mr. Robinson of Pacific Southwest Title and Trust Co. (now a merged national bank) came before Board. Mr. Robinson outlined his plans showing how he had raised millions of new capital. He explained why he still kept on rolls of bank, Hervey and other indicted men and added that Hervey was one of the most prominent Masons in the State. He said wholly apart from the indictment he did not defend their actions. This Board took up matter alone. Sometime ago the Board gave discretion to Federal Reserve Agent Newton as to the exact time when he should notify the U. S. District Attorney of the apparent violations of law.

C.S.H. at first felt the District Attorney should be notified at once.

The Comptroller pointed out that the men were now under State indictment and if new Federal indictments for practically same officers were procured it would bring matter into public notice again and surely injure the new national bank.

October 12, Wednesday

Board finally voted to leave Pacific Southwest matter in Newton's hands just as now - he is directed to report the facts to U. S. District Attorney but he is given discretion as to when to report.

C.S.H. Said he voted for this on understanding and promise of Newton - given to Board yesterday that he would see to it that his report would be made before Statute of Limitations could run.

C.S.H. feels it better to take above course as otherwise the new national bank would be severely injured if the matter were brought again to public notice through Newton's report.

C.S.H. feels Robinson should instantly discuss Hervey and the other indicted officers, for although they may not be found guilty, yet their conduct as to loans, etc. was such as to warrant their dismissal. Both Newton and Robinson stated this to Board.

C.S.H. feels Robinson made a weak appearance and C.S.H. has a feeling that he does not dare to remove these men--as they have some hold on him. How Robinson could leave his bank to go to Geneva Economic Conference passes C.S.H.'s comprehenson.

Governor Young said Governor Strong said he had just had a talk with Senator Glass and had showed him a memorandum as to the Chicago loan which Alexander had O.K.'d and that all differences between them had been adjusted.

C.S.H. believes it must have referred to the controversy of 1919 as he does not know of any controversy regarding Chicago rate case.

October 13

Board took up regulations, which forbade F.R. Banks to buy secured bills where warehoused grain was owned by owner of elevator. In spite of Governor Young's arguments the Board adhered to its original decision and Governor Young withdrew his objection. James said we could not give this privilege without opening up all warehouses in country not only for grain but, as well for cotton and all other staple products.

Board heard Mr. Hengle who asked more liberal interpretation of acceptance regulations so as not to bar renewal acceptances. He said we were losing much business by our strictness. C.S.H. pointed out that the Acceptance Bulletin said we were doing wonderfully and that we were securing much business formerly financed in London through our lower Federal Reserve discount rate.

Hengle also complained of the British cutting commissions on acceptances and C.S.H. quoted London Financial News which quoted from Acceptance Bulletin to effect that American Banks started this practice.

October 12, Thursday

Governor Strong called up Governor Young at 5 P.M.; said Dutch bank wanted to increase its rate and asked whether it should go up 1/2 of 1% or 1%; that it had asked a credit of 10 millions which his Board wished to grant.

Federal Reserve Board voted to approve, Cunningham alone voting no.

October 21, Friday

Telegram from Newton - Cuban Government had decreed that Federal Reserve Bank of Atlanta, Cuban Agency, must, within ten days, pay the Cuban tax on excess of exports over imports of currency. It was originally agreed that this tax did not apply to Cuban "gency but now the Government has shifted its ground.

This tax will be over $50,000 for 1925 and more for 1926.

The Cuban Agency is making from 20 to 25,000 dollars a year, but deducting cost of printing Federal Reserve Notes - about $20,000 - will leave the Agency breaking about even.

Governor Young had gone away for the afternoon. I went in to see Secretary Mellon. He said he did not see how we could continue the agency if we had to pay this tax.

I told him that giving notice of discontinuance would instantly be followed by another run on the three American Banks there, and would break Cuba financially.

Secretary Mellon said he would take it up with the State Department.

C.S.H. thought the American banks there could get the decree reversed but Secretary Mellon doubted whether they had any such influence. He said the Cuban Government had sold sugar which belonged to the banks.

C.S.H. called up Assistant Secretary White of State Department and told him the facts. He said he would get in touch with National City Bank.

Secretary Mellon said a new Ambassador would be appointed within a few days.

Before leaving Washington C.S.H. wrote Secretary Mellon and James a letter saying that in my opinion we should direct the Federal Reserve Bank of Atlanta to pay the tax under protest and take an appeal which would give us time to think over our future course.

October 22, Saturday

Called up Governor Harding and told him in confidence of the Cuban matters and suggested that he tell Wing as his bank had a branch in Cuba.

Governor Harding thought we should at once close the Agency but I pointed out the difficulties.

October 26, Wednesday

Went up to Boston. Attended meeting of directors, Federal Reserve Bank of Boston with Governor Young.

Governor Young said President of Cuba had extended for thirty days the time within which to pay export tax in currency - Cuban Agency.

November 1, Tuesday

James moved to have an official stenographer at every meeting of Board with Federal Advisory Council and Open Market Committee.

C.S.H. moved in substitution that an abstract of all action be made for the Records.

Dr. Miller for one-half hour's time attacked our records as having been wretchedly kept and then he opposed C.S.H.'s substitute motion on the ground that the records now showed all action.

C.S.H. then withdrew his substitute motion expressly for reason that Miller said present records were well kept.

Aye--Dr. Miller, James & Cunningham. No--Governor Young, Platt and C.S.H. Lost.

November 2, Wednesday

Board met with Open Market Committee which presented a report to Chairman of Committee and recommendations of Committee as to Open Market policy until March 1, 1928 were presented by Governor Strong. Secretary Mellon presided and the recommendation was gone into in great detail. The policies laid down were (a) to maintain stable rates for money at about present levels and (b) to prevent further imports of gold.

The following programme was suggested in the recommendation to bring about 1 and 2;

1. Plan of offsetting gold movements by purchase and sales of securities to continue.
2. Any considerable advance in rates for money towards end of year to be dealt with, if necessary, by temporary purchase of securities.
3. During return flow of currency in ? sales of securities should be made to retire the seasonal issue and prevent its being added to member bank reserves.
4. In event of renewal of gold imports,
   - (a) Gold may be purchased in London, Holland and Switzerland, or
   - (b) Exchange on those countries may be purchased. Limit on such purchases to be offset same as gold movement.
   - (c) Gold with exchange purchased may be invested in bills or employed at interest, as in case of Bank of England account.
5. Considerations which will guide Committee as to when and for what amounts such transactions shall be made are--
   - (a) Amount of borrowing for Federal Reserve Banks by member bank;
   - (b) General level of interest rates;

(c) Movement of foreign exchange rates as an indication of possible gold imports.

The committee would expect to be charged with the execution of the program for account of those Reserve Banks which approve and participate.

C.S.H. finally moved the Board approve the Open Market policy recommended by Committee as per memorandum of November 1.

Miller then proposed two amendments as a substitution.

1. Any use made of gold or exchange under four shall be subject to special authorization from the Board in each case.
2. Any purchases or sales of securities from Open Market investment account under two and three of committee's recommendation shall be made in consultation with Governor of the Federal Reserve Board.

Miller's first motion was lost. Aye--Miller, Platt and possibly Cunningham. No--Secretary Mellon, Governor Young, C.S.H. and James.

Miller then withdrew his second motion. C.S.H's motion of approval was put to vote and adopted without a dissenting vote. No roll call was called for.

Eddy tells C.S.H. Cuban Ambassador called on Secretary Kellogg and said Cuban President authorized him to say the tax on currency exports would be waived.

<u>November 4, Friday</u>

Dinner at Metropolitan Club given to Board by Federal Reserve Agent and Governors.

Secretary Mellon, Perrin (formerly Federal Reserve Agent) Eugene Meyer, et als, present.

Speakers: Gates McGarrah; Federal Reserve Agent Walsh; Governor Talley; Governor Bailey, Perrin, Meyer, and C.S.H.

November 11, Friday

Attended stockholders meeting of Federal Reserve Bank of Boston. Ogden Mills delivered an address on taxation reduction and C.S.H. was called upon for a short address.

November 15, Tuesday

Board discussed question of reappointing and redesignating Federal Reserve Agents. Comptroller and Cunningham said the Chicago directors wanted Heath reappointed, Reynolds saying he could get his resignation any time the Board might want it.

C.S.H. said two questions: One, Reappointment of Heath and Martin whose terms would expire December 31; and two, Redesignation of Curtiss, Hoxton, et als whose term as Class C director will not expire.

C.S.H. said designating for one year as Federal Reserve Agent was a mistake even if legal. Failure to redesignate would not affect the three year term as director. C.S.H. said failure to redesignate would force Board to remove the man from his Class C directorship, and such removal would not be for "cause" under the Act. C.S.H. said the Federal Reserve Agent is the only banker appointed as Class C director and a banker must be appointed as the law calls for tested banking experience; that bankers have the Class A directors, and business men and Agricultural Class B, and Class C represent the public interest; that if the Federal Reserve Agent is not redesignated there is no other banker in Class C directors to take his place, therefore, he would have to be removed.

Miller said there is a vacancy each year and Board could appoint to that vacancy the man it wished to make Federal Reserve Agent, leaving the former Federal Reserve Agent as a Class C director for balance of his term.

C.S.H. replied that in that case the bankers would have the Class A directors and two of the Class C directors which would not be within the spirit of the Act.

The meeting was called for discussion early. Nothing was done and meeting adjourned.

November 18, Friday

Federal Advisory Council meeting.

Council gave us copy of resolution passed at last meeting condemning action of Board - Chicago rate case.

November 17, Thursday

Dined with Delano. He agreed to accept reappointment as Class C director. Richmond bank.

December 6, Tuesday

Board took up Regulation H State banks. C.S.H. moved to put in Regulation only statement that Board will impose regulations pursuant to Act. Failed. Aye--Governor Young, Platt, C.S.H. No--Miller, James, and Cunningham.

Board then took up specific regulations. The one as to change of assets on motion of Platt was greatly modified. The one forbidding purchase by State bank of stock in another company without consent of Board was finally passed, as modified by Platt, C.S.H. voting No for want of power in Board. The clause as to State banks relinquishing all branches established after date of McFadden bill as a condition of entrance into System was left as it was as it does not specifically refer to foreign branches. Wyatt in opinion on application of Old Colony Trust Company ruled that it could not establish a foreign branch and remain in System. Miller objected to this as did also Platt and C.S.H. and it was practically agreed to ask opinion of Attorney General but not to rule agreement Old Colony Trust Company until, at least, the Attorney General told us we must.

McGarrah wrote Board earnestly asking that Board reverse its vote and permit bank to continue to employ Snyder. On motion of C.S.H. Board voted to reconsider and approve Synder's continuance. Miller, only, voted No.

James joined C.S.H. in reporting that Hoxton should be redesignated as Federal Reserve Agent of Richmond Bank.

C.S.H. joined James in reporting in favor of appointing Harris in place of Hopkins as Class C director, Atlanta. Tremendous pressure has been brought for Hopkins and he himself came down and begged to be reappointed. This fact alone shows he is not the man for the job. Among others, Clark Howell of ATlanta telephoned.

December 8, Thursday

Board took up appointment of Class C directors and Federal Reserve Agent Martin and Heath and redesignation of those whose terms had not expired. All were passed on unanimously except that Miller asked to be recorded as not voting and said he would file a memorandum giving his reasons for not voting later.

December 9, Friday

At Charlotte, North Carolina, at opening of Federal Reserve Branch, Delano and I went on together. Mr. Graham, a director of

Federal Reserve Bank of Richmond and also the Baltimore director Mr. Krilman (?) were in the train. We arrived at 8:40 and went to the Charlotte hotel at 10 A.M. we went to the bank and attended first meeting of directors of the Branch followed by a meeting of the Richmond Board held there instead of at Richmond. This lasted until 1:15. At 1:30 the clearing house gave us a lunch at the hotel. About 50 were present and C.S.H. delivered an address.

Mr. Lassister told me Mr. Harris' appointment as Class C director of the Atlanta bank in place of Hopkins whose term expired December 31, was a splendid one--that he was a far better man than Hopkins.

December 10, Saturday

Told James what Lassiter said about Harris. James said Harris was a Republican in National politics.

H. Parker Willis called.

He said he knew, from reliable information, that President Coolidge had come to the conclusion that Governor Crissinger should go off the Federal Reserve Board, and had asked Reynolds of the Commercial National Bank,--very close to the Smith Co.--to arrange for Governor Crissinger's speedy appointment and retirement from the Board!

He also said that one of the Governors of the Federal Reserve banks told him that Secretary Mellon had written him asking him to appoint more Republicans on the bank staff; that this Governor bitterly resented this and later called on Mellon and told him his bank never inquired into the political affiliations of its appointees, whereupon Mellon told him to forget the letter was ever written!

He also complained bitterly at President Coolidge's reference to a desire for low discount rates in the 1924 campaign and Secretary Mellon's frequent interviews as to discount rates. He also complained of Secretary Mellon's statement that Governor Young's appointment would have no effect on Federal Reserve discount policy.

He cited these as evidence of Federal Reserve domination by the Treasury.

C.S.H. laughed at him and said President Co lidge never, directly or indirectly, had sought to influence Board policies; that Secretary Mellon's statement as to Governor Young did not mean, as he said he feared, that Governor Young had come into the Board pledged as to any discount policy.

C.S.H. further added that Secretary Mellon had not tried in any way to dominate the Board, and that the Board never was as independent of Treasury control as now--that it had never been controlled by the Treasury except during the War, the Treasury by fixing rates on Government securities necessarily forced the Board to put in correspondingly low rates on notes secured by Governments.

Willis also said Warburg soon was to publish a book, largely written for him to prove his authorship of the Federal Reserve Act and incidentally attacking Glass and himself. He also said Warburg had sent one of his acceptance bank employees, a son of Governor Strong, to the agency of the Philadelphia National Bank in New York to get facts discreditable to him (Willis) in his management of the bank but he feared thatall of the things complained were either opposed by Willis or done after he left the bank; that Warburg when in San Francisco made similar inquiries of Mr. Wilson, President of a San Francisco bank who had been in the Philadelphia National Bank, and got similar answers, and that he had consequently omitted his chapter on the Philadelphia National Bank.

I asked him about Marowitz's claim for priority in recommending regional reserve banks. He said this idea was based on the local clearing house committee's and that Fowler was entitled to much more credit that Morowitz and had been given such credit by himself; that Marowitz was asked to appear before the Committee but had rather surlily declined on the ground of pressure of business.

December 14, Wednesday

Board settled all salary adjustments of Federal Reserve Banks in about twenty minutes--record time.

January 6, 1928, Friday - 1928 -

Governor Young comes up to our room - he has taken a room at the Lee House temporarily. He said the President in the morning had given out a statement as to the stock speculation situation in New York, stating that he had inquired at the Treasury and was satisfied there was nothing alarming in the situation; that Secretary Mellon told him he could not remember any talk with the President on this matter. Governor Young fears that when this is published tomorrow it will cause another wave of speculation.

January 9, Monday

Goldenweiser addressed Board on Brokers Loans and New York stock speculation. Said it was grave but was not interfering with agriculture or commerce. Secretary Mellon asked if much of the brokers loans did not cover securities which promoters could not place. Goldenweiser said undoubtedly but could not tell how much. Goldenweiser said--no speculation in commodities.

The Board had decided to go to New York for a meeting of Open Market Committee and New York directors Friday.

McGarrah called up and said there was dynamite in the situation and intimated Board had better not go to New York/or it might precipitate matters. Finally, in view of President's message and McGarrah's feeling it was agreed that McGarrah, Wooley and Reyburn should come down Wednesday and Open Market meeting in Washington Thursday.

January 10, Tuesday

Governor Young told C.S.H. a reporter told him there was a rumor that the New York Stock Exchange would shortly issue a warning against brokers loans and stock exchange speculation.

This will be a blow at Coolidge. CS.H. cannot understand how Coolidge could have made such an extraordinary statement. He must have been deceived by stock manipulators. Governor Young also said he thought the New York directors wanted to put up rates and that Hoxton was there saying Richmond wanted to put up rates and that he should advise Richmond to wait until after Open Market Committee.

The consensus of opinion of Board seemed to be that we should first sell securities and we voted to authorize committee to sell from 50 to 75 millions, as Case, for Committee requested.

I fear that nothing short of a rate increase will cope with the situation caused by Coolidge's statement to Press.

January 11, Wednesday

McGarrah, Woolley and Raeburn of the Federal Reserve Bank of New York came before Board. We discussed rate situation. McGarrah felt time was near to increase rates although he agreed that first we might sell some more securities.

Wooley said there were faint signs of improvement in business from the present recession and that he feared a general increase might retard or kill this growth.

Raeburn believed rates should be increased and that it would not hurt business.

All agreed however that securities should be sold first.

Raeburn said that Coolidge's statement would not deceive professional operations in stocks but that it would encourage small investors to hold or increase these investments; that the statement was most unfortunate.

Governor Young said securities should be sold first; that a change in discount rates does not change the quantity of credit, while a sale of securities does and that this was the better course.

Present: Secretary Mellon, Governor Young, C.S.H., Cunningham and Platt.

Board took up recommendations of Committee.

C.S.H. offered resolution approving sale from time to time of further Government securities with accompanying power to buy securities temporarily if events not now foreseen required such action.

Platt moved to substitute by a similar resolution based more closely on committee's recommendation.

Cunningham moved to substitute C.S.H.'s resolution. Unanimously carried.

Returning from New York, Miller, after consultation with Alexander, vehemently opposed increasing rates to control credit and favored continunace of sale of Government securities.

January 22, Sunday

C.S.H. called up Glass and it was finally arranged that C.S.H. and Governor Young should call on Glass at Raleigh Hotel this evening at 8 P.M.

We called at 8 P.M. Glass was very glad to see us. He said wanted to keep in touch with what the Board was doing so he could defend it at short notice if attacked or criticized if necessary.

We went over the brokers loans situation in New York. He felt it might be wise to have Case notify some of the big New York banks that they must take steps to control the situation.

He said Congress never intended us to act as a regulator of the New York Stock Exchange and that we had no power/or duty to so unless commerce, business and agriculture were being injured or in danger of injury and even then he had some doubts as to our power.

He thought a slight increase in the discount rate would not hurt business neither would it affect the stock situation. He agreed that the directors of the Federal Reserve Banks had the responsibility for ruining the banks and that we should follow their judgment unless we believed it was clearly wrong.

He said he had spoken to Senator Norbeck about Governor Young's confirmation and Norbeck said his committee was holding it until Meyer was settled; that he then told Norbeck he was not holding it at all; that it had been sent to Finance Committee and not to Banking and Currency Committee and had been reported favorably by that Committee and was now in the calendar.

He said Norbeck was amazed and supposed his Committee--Banking & Currency--had it.

He said with Norbeck's consent he moved it be referred to Banking & Currency Committee--which was passed. He said he spoke to Smoot about it and he agreed it should never have gone to Finance Committee. He said he would do his utmost to have prompt confirmation as this was vital if rate questions were coming up before the Board. He said Heflin objected to immediate consideration of Young's name, but he could not defeat his confirmation.

January 23, Monday

Board considered broker's loan matters. Miller, who a week ago, opposed any rate advance, now shifted his ground and favored an advance.

He said sales of securities were being carried out temporarily by New York Bank, that in any event they were not exercising any control over the situation.

C.S.H. asked him about Glass' suggestion of calling in the Bank Presidents, without mentioning Glass' name. He said the New York Bank President's were alive to the situation but could do nothing as the money came from outside of New York.

January 24, Tuesday

Board took up application of Chicago to increase rates from 3-1/2 to 4%.

Present: Secretary Mellon, Governor Young, C.S.H., Miller, Comptroller, Cunningham; James sent letter favoring the increase.

Platt moved to approve. Long discussion. Most of Board seemed to favor increase.

C.S.H. said this application was not one for a general increase of rates by a uniform amount but was simply an application from directors of one Federal Reserve Bank; that if he were a director of the Chicago bank, with the knowledge he had up to this A.M. he would have voted against an increase, on the ground that no satisfactory local reason was given, but merely the broker's loan speculation in New York; that agriculture, business and commerce was not affected by the New York stock speculation; that he did not want to incur the danger of chilling the recent slight improvement in business for the mere sake of putting an end to New York speculation; but that the telegram from Heath sent yesterday and read at this meeting gave a distinctly local reason for a change in rates--i.e., that Federal Reserve rates were out of line with customers' rates--3-1/2 Federal Reserve and 4-1/2 customarily; that if the Board overruled the judgment of the Chicago directors we would have to take the matter in hand ourselves; that our efforts to do this through selling securities in New York market had not appreciably reduced the broker's loans; that we should not overrule the judgment of the Chicago directors--who had the right to establish the rate--unless we were clearly satisfied that their judgment was wrong; that in view of their statement that the Federal Reserve rate was out of line, he was not satisifed that the judgment of the Bank was so clearly erroneous as to warrant our overruling the directors judgment; that he regretfully had reached the conclusion to vote to approve the increase.

The others expressed similar views except Cunningham who could see no reason for the increase.

On vote, every vote was affirmative except Cunningham who voted No and said he would place on the records his reasons for so voting.

January 25, Wednesday

Board took up salary adjustments. Approved all except New York, Philadelphia and San Francisco.

C.S.H. motion to approve $3,000 increase to Burgess failed by tie vote: Aye Governor Young, C.S.H., Platt. No, Miller, Cunningham and Comptroller.

Long discussion over Harrison's proposed increase from 30 to 40,000. Finally, Secretary Mellon was called in and he said he would vote for all salaries recommended by New York directors. It was finally agreed that Governor Young should talk with McGarrah and see if some less increase should not be given to Harrison.

On reading the minutes Cunningham's reasons for voting against Chicago rate increase were read. He said, among other things, that there was no reason advanced by Chicago other than stock speculation until the "inspired" statement in the telegram from Heath as being out of line, etc. Finally he struck out "inspired". He claimed by approving the increase the Board had gone on record as trying to regulate stock market speculation by rate increases, although business was not injured in any way and no increase was needed for business reasons.

There would be force in Cunningham's reasons were it not for the telegram showing Federal Reserve rates were/out of line--about 1% below customary rates.

January 26, Thursday

Board took up application of Richmond to increase from 3-1/2 to 4%.

Cunningham introduced a resolution calling for an inquiry by Federal Reserve Banks as to rediscounts used for speculative purposes which the resolution stated were illegal under the Federal Reserve Act.

Secretary Mellon came in and a long discussion followed.

Governor Young and Miller criticized the resolution pointing out that there were few, if any, banks loaning on Wall Street which were rediscounting to any extent except for temporary purposes from day to day.

Miller favored an increase for reason that member banks getting higher rates would be less likely to loan on call.

Miller also made the impression that he was objecting to Cunningham's desire to control or put an end to speculative use of Federal Reserve funds by favoring a rate increase instead.

C.S.H. reminded Miller that in * he made a speech in Boston claiming that rediscounts for banks carrying speculative loans were illegal under Federal Reserve Act. Miller gave a rather equivocal reply and said his proposed letter to Federal Advisory Council dated * which the Board tabled, put his attitude plainer. Finally agreed to take up resolution next week at day to be fixed by Governor in consultation with Secretary Mellon.

On vote, the Richmond increase was approved. Aye: Secretary Mellon, Governor Young, C.S.H., Platt, Comptroller and Miller. No. Cunningham.

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January 27, Friday

Governor Young, Platt and C.S.H. went before Banking and Currency Committee in behalf of bills to amend Clayton Act and Federal Reserve Retirement bill. The Committee practically said it would report both bills with slight amendments to Retirement Bill: 1. Striking out privilege to member banks to join; 2. Making 15,000 the maximum in computing benefits.

January 30, Monday

Harrison came down with Sir Otto Niermyer, a director of Bank of England. We gave him a lunch at Metropolitan Club. C.S.H. asked him if a holder of a Bank of England note for $5 should demand gold on it from the Bank could he as matter of law get the gold? Sir Otto said No. C.S.H. asked what the Bank would do and Sir Otto said--redeem it in currency notes. England is evidently not on a real gold standard basis.

February 1, Wednesday

House of Representatives passed our Clayton Act bill without a roll call.

House of Representatives referred Federal Reserve Pension Bill back to Committee with instructions to strike out enacting clause.

McFadden for some unaccountable reason did not demand a roll call. The principal objection raised was the figure $15,000 as maximum salary for computation of pension.

February 14, Tuesday

Board voted three to two to accept invitation of League of Nations to conference in Paris of statistical experts of Central Banks, etc.

Aye--Governor Young, Platt and C.S.H.

No---Miller and Cunningham.

February 26, Sunday

Spent evening with Senator Glass. He said that the history of his resolution of investigation of the rumor that Chicago bankers had sent large sums of money lobbying for the Hull amendment of the McFadden bill was as follows: that Edge, Sackeet and he were put on the Sub-Committee; that they both went abroad leaving Glass to look into the matter for their consideration when they returned; that he, Glass, did this and found that $65,000 had been raised by the Chicago bankers and spent in behalf of the Hull amendment; that among other things, Congressman Hall--a millionaire, had been paid his expenses in going to American Bankers Association at * California; that Congressman Wings had been paid $2,000 for same purpose; that Wing's accepted this while on the Conference Committee which was to settle the question; that this was really a bribe; that many came to him and said Wings was a dying man and that this exposure would kill him; that he consulted Dr. Ruffin, the physician of Wings, who finally said that the exposure might and probably would have a serious effect on his health, as he had heart disease and many dizzy turns; that he did not want to kill Wings, especially as he had always fought him and despised him; that he finally consulted his two colleagues on their return and other Senators and it was finally agreed to drop the matter in view of Wings' health.

Glass also said Senator Reed (Pennsylvania) held up Woodlacks nomination for Interstate Commerce Commission (reappointment) avowedly to get someone on Commission who could make the Commission reverse its decision and give a larger subsidy to the Pittsburgh coal men as against the Virginia and other Southern coal operators; that he heard

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Reed say that Coolidge had promised to give the next vacancy to Pennsylvania if Woodlock were confirmed; that Reed then withdrew his opposition (Woodlock he said would have been confirmed anyway); that later Cox a good man was not reappointed and Cyrus Woods of Pennsylvania was appointed; that Woods was a former attorney for Pittsburgh coal operators; that it was a scandalous appointment and the Senate rejected him; that the Committee reversed itself putting the case on different grounds; that it actually took into consideration the fact that Pittsburgh had to pay union wages while in Virginia they had an open shop with lower wages; that in Pittsburgh they had antiquated machinery while in Virginia it was modern and up-to-date; that it was a scandalous decision not based on any railroad reason for Virginia, etc. Railroads showed they could meet Pittsburgh rates to Lake ports and make a profit; that each who changed his opinion, he believed was forced to change by political pressure, although he thought it might have been unconscious on his part; that he was an able man.

March 7, Wednesday

Two weeks ago, February 14, the Board took up an invitation from League of Nations to send a representative to conference in Paris this summer of statistical experts of Central Banks. The Board voted to accept it--see supra, but C.S.H. said the State Department should be consulted as the invitation came not from a Central Bank but from the League of Nations. C.S.H. understood that this was agreed to. Later, however, Eddy told him the League of Nations had been notified of our acceptance. C.S.H. at once told Governor Young to write a letter to the State Department explaining the matter. C.S.H. also met Professor Young, advisor of the State Department and told him about it. He said the League of Nations should have addressed the State Department--to which C.S.H. agreed but explained that by some misunderstanding the acceptance had been sent. Governor Young wrote the State Department and said if it did not approve the Board would take up a reconsideration of its vote.

Today the Secretary of State sent Governor Young a letter saying he would ask the President if he approved and would advise us. He added that if any communication should come from League of Nations again, he trusted we would advise the State Department before acknowledging it.

C.S.H. believes that any foreign bank could properly write us but that a foreign Nation should address the Secretary of State and that as the League of Nations is a collection of Nations, it should have done the same.

It was an unfortunate blunder on our part in sending the letter of acceptance before communicating with State Department, and C.S.H. distinctly recollects that he said and it was understood that the State Department was first to be consulted. The State Department would not have known of this if C.S.H. had not told Professor Young about it.

March 7, Wednesday.

Governor Young, Platt, C.S.H. and Cunningham went before Banking and Currency Committee on the LaFollette resolution on brokers loans. Professor Sprauge of Harvard also was there. C.S.H. got Board's consent to ask Sprague to come down yesterday as he wished to consult him, as did possibly some other Board members, before we testified. C.S.H. told Senator Glass Sprague was to be here and suggested to him to get the Committee to ask Sprague to appear, not as representing Board but as an independent witness--which Senator Glass did.

Sprague testified first and made a very good impression.

Then Governor Young testified in general as follows:

1. Cannot tell whether brokers loans are unduly excessive or not.

2. They seem to be well collateralled and safe from banking standpoint.

3. They are not depriving commerce or agriculture of a dollar of credit.

4. As a fact the bank loans are less today than in 1922.

5. The increase is practically all in money lent on call by those other than banks, e.g. corporations, etc.

6. Of the bank loans the New York banks have decreased and out of town banks decreased.

7. Today practically no banks which are constantly in debt for rediscounts have large loans on call. The few which are gradually reducing their call loans.

8. If banks loan on call to any increasing extent and are perpetual reductions the Federal Reserve Board would admonish them as it has in the past (1925) and will in the future.

9. Federal Reserve rediscounts are in general not being used to obtain call loan funds.

10. No new legislation is considered necessary as the Federal Reserve Banks can cope with the situation under present law.

11. If speculative loans increased so as to react on general business or to encourage business speculation the Federal Reserve Banks can put up rates and sell securities in open market.

Governor Young did not say that the recent rate increase and sales of securities were for purpose of reducing brokers loans, but put it largely on ground of gold movements.

C.S.H. felt the reduction to 3-1/2% did not help borrower's generally (except perhaps in large cities) and left the Federal Reserve rates out of line with customers rates, eмpecially in Chicago and

Richmond; that the increase, therefore, would not put up the vast majority of customers rates, but would merely allow the Federal Reserve Banks to "feel the mouth" of the money horse, so to speak.

Nor did C.S.H. approve the untrue reduction of rates with any intent of encouraging the stock market. Nor did he base his vote favoring the reduction primarily on the International situation as did the directors of Federal Reserve Bank of New York. C.S.H.'s views were expressed at the Open Market Committee meeting on July 27, 1927. (Supra)

C.S.H. was called to testify. He said Governor Young had covered the case completely and his testimony would be largely cumulative so he had nothing to add but would be glad to answer any questions. The hour was late, the Committee was tired, and no questions were put to C.S.H.

Cunningham then read a statement to the Committee. He did not seek to justify brokers loans in any way but agreed they were not now depriving any farmer or business man of credit.

C.S.H. would approve an increase of rates and selling securities to control stock market speculation only when such speculation was interfering with agriculture or commercial credit or exciting similar speculation in business even then C.S.H. would regret necessity of putting up rates for the farmer and business man generally because of stock gambling on Wall Street or speculation on commodities among some business men. This would be so especially at a time when crops were moving.

In passing upon a discount rate Board merely approves or disapproves rate of Federal Reserve Bank. Board members may approve or disapprove for reasons other than those given by Federal Reserve Bank.

March 21, Wednesday

Judge Haugh of Federal Reserve Bank of Texas called. He said the directors made no findings on the Record as to Talley charges but simply voted to reappoint Talley; that Lenz told him he had consulted with Comptroller McIntosh last summer and Judge Haugh believes the Comptroller influenced him against Talley.

He also said that Mr. Milan was elected a director in Kells place by Williams and those who opposed Talley but that after reading all the evidence he had voted to reappoint Talley. He said Collier was determined to let no bank fail even if the Federal Reserve Bank had to give it money.

March 22, Thursday

James said that McIntosh and Lenz and Williams agreed to fix Talley last summer; that the Comptroller or his officers made various deals to get votes for the McFadden bill; that he agreed to vote for San Antonio and Charlotte in return for votes for McFadden bill; that he was playing politics.

Wyatt told me yesterday undoubtedly bargains had been made to get McFadden bill passed and that the Comptroller's office was scared to death lest Glass and his investigating committee should get wind of it. James said the whole attack against Talley was scandalous and was started by Congressman Black because Talley would not advance money to this brother's bank.

March 26, Monday

Meeting of Open Market Committee. Governor Strong read report asking authority to work for firmer money conditions, but he said this did not mean a desire to bring about higher discount rates.

Later the Board voted to authorize sales of securities but indicated in the vote its feeling that it did not in any way authorize any increase in discount rates.

The report of the committee was very ambiguous but plainly it believed that the stock market situation must be taken in hand.

Governor Strong said his directors were unanimous in favor of further sales of Government securities.

C.S.H. explained his vote by stating that he cast it in belief that a change in earning assets from Government securities to discounted paper would enable the System better to handle the credit situation - agriculture and business - now and in immediate future, without recourse to penalization of agriculture and commerce by higher discount rates.

Cunningham voted for the Board vote but concurred in C.S.H.'s memorandum. See Scrap Book 176.

On vote - aye--Governor Young, Platt, James, C.S.H. and Cunningham;

no---Dr. Miller.

Miller later explained his vote and put it in the Record. He favored doing nothing as fixing rates would necessitate raising discount rates. Miller orally attacked the whole policy of sales of Government securities--said he had always opposed it as a fact he has always been one of its most enthusiastic supporters!

August 2, Monday

Harrison before Board to explain Roumanian credit agreement. He said under agreement if ~~Board~~ Bank of France only joined syndicate we would be bound; that Bank of England would join if we would guarantee with Bank of France a satisfactory stabilization plan; that New York Bank refused to do this; that a private loan of 70 millions depended on a satisfactory stabilization plan and syndicate arrangement.

C.S.H. pointed out that in all previous credits the Central Banks had agreed to come in and we merely were asked to join, but here we were asked by Bank of France to join it in order to bring other Central banks in: that there was plainly a dispute between Bank of England and Bank of France; that, as Harrison had said, the Bank of England wanted the League of Nations to supervise the whole stabilization arrangement while Roumania objected; that this was really a question of European balance of power into which we were putting ourselves; that assuming the purchase of Roumanian bills was safe, he felt we ought not to approve until and unless the State Department said it had no objection.

He said he had seen Assistant Secretary Olds who raised no objection.

He said he hoped the precedent would not be established of consulting the State Department or rather asking for its approval as they had never done this although they had always talked it over with State Department.

He agreed that Board could not take his statement as to attitude of State Department and Governor Young and he were asked to see Secretary Kellogg.

April 3, Tuesday

Harrison called. Said that Secretary Mellon thought the Roumanian agreement was all right and that he had told Coolidge so; that Secretary Kellogg and Olds saw no reason to disapprove it; that they agreed that Federal Reserve Bank of New York not bound to get approval of a syndicate agreement between central banks, or be notified except as a matter of courtesy. Harrison said Mellon said the State Department had never interfered with loans except to Foreign governments and never with private loans.

C.S.H. then showed him his digest which showed that Mellon had claimed right of diapproval of foreign private loans where debt not funded.

Harrison said he hoped C.S.H. would not insist on a formal approval by State Department.

C.S.H. said all he wanted was to know that State Department offered no objection and a mere statement to that effect by Mellon would satisfy him; that we should have originally addressed the State Department only through Mellon.

He said he was sorry what he said was interpreted as a dispute between Bank of England and Bank of France; that their relations were most cordial; that the Bank of England had not refused to join the syndicate but had accepted on condition that Federal Reserve Bank and Bank of France would be responsible for a satisfactory stabilization arrangement, which condition the Federal Reserve Bank would not accept; that he thought the Bank of England would ultimately come in.

C.S.H. said the agreement so far as related to the purchase of trade bills seemed entirely proper; that what he feared was that in approving it without any conditions the Board was in effect siding with Bank of France against Bank of England--an entirely extraneous political controversy, but that he accepted Harrison's statement that there was no controversy except a present disinclination to enter the agreement unless the Federal Reserve Bank would accept responsibility for arranging the stabilization plan; that on consideration he felt that to impose a condition of Board's approval that Bank of England must agree to join, would be in itself giving a political reason outside of the agreement on its merits.

C.S.H. feels also that such a condition would be tentamount to a statement that the Bank of England's policy was being followed by the Board which would open Board to censure. He said that what worried the State Department was whether to object to the private loan of 70 millions.

April 4, Wednesday

Board further considered Roumanian agreement. Governor Young said Secretary Kellogg had no objections to the plan so far as the syndicate agreement was concerned; that his only doubt was as to the private credit to Roumanian Government of 70 millions.

Someone, I think, Dr. Miller, objected to the syndicate arrangement on ground that the New York Bank would be bound by the decision of the Bank of France both as to the stabilization plan and the Syndicate agreement.

C.S.H. then read two questions which he asked Board to submit to Harrison who was remaining over:

1. Could the Federal Reserve Bank after entering into this agreement decline to go in under it for the reason that the syndicate plan was not satisfactory to it?

2. Because it was not satisified with the stabilization agreement which the Bank of France arranged?

The Board called on Harrison who read the various letters sent by Bank of France to Federal Reserve Bank of New York.

Harrison said he answered each of C.S.H.'s questions in affirmative; and the letters read showed this clearly.

Harrison then left room.

C.S.H. moved that the Board approve of the negotiations entered into between the Federal Reserve Bank of New York and Bank of France for a credit arrangement in favor of the Bank of Roumania, upon ten conditions and reservations of said Federal Reserve Bank of New York upon the understanding that the other Federal Reserve Banks should be given the right to participate.

Vote--Aye: Governor Young, Platt, Comptroller and C.S.H.

No: Miller and James.

Miller said he would put on record a statement of his reasons.

April 6, Friday

Miller filed a statement stating that Board had practically assumed responsibility for stabilization agreement and had abdicated to Bank of France. C.S.H. then explained his vote:

1. Federal Reserve Bank expressly refused responsibility for stabilization plan.

2. Reserved right to withdraw from syndicate.agreement (a) If it did not approve stabilization plan as finally adopted; (b) If it did not approve details of syndicate agreement.

April 16, Monday

Received letter from Governor Harding. Directors oppose putting up rates on collateral notes.. Executive committee willing to put up discount rate to 4-1/2%. Asks Board to let him know today what action Board would take if rate increased. Says no particular need of increase so far as Boston district is concerned but Reserve ratio is low enough to justify increase.

If executive committee votes to increase will not be because of any specific local condition but merely expression of willingless to help out general situation.

C.S.H. at once talked with Platt. Platt called up New York-- Case said was selling considerable amount of securities, hoped Boston would increase. Platt saw Mellon. Mellon did not object to increase. Said would not cause any disasterous break in market but might slow it up.

In P.M. Miller came in - Governor Harding had just talked with him. Said discounts had greatly increased and proceeds were being used in stock market and he thought rate should be raised (not consistent with his letter to me.)

Miller at first thought we ought to act at once and have meeting and tell Harding so. Later he veered around and felt we ought to ask Governor Harding at least to wait until directors meeting Thursday-- that putting up rates would chill business, etc.

Finally we agreed to ask Governor Harding/not to act through executive committee tomorrow but to wait at least until Board meeting Thursday.

April 17, Tuesday

Board received application from Boston for increase in all rates from 4 to 4-1/2%. No quorum present. Only Platt, Miller, James and C.S.H. Curtiss called up C.S.H. and said the directors were unanimous; that their decision was based entirely on local conditions; that their earning assets had increased 40 millions since Saturday; that their reserve percent was 56; that they feared further trouble and hoped Board would decide Case at once. All this C.S.H. reported to

Board. C.S.H. read Governor Harding's personal letter to him dated Saturday, April 14 and said conditions had changed and matter had become a purely local one. He said that to refuse the application on ground that New York should take care of it by further sales of Government securities would be equivalent to saying that New York was the Centrl Bank of United States.

Miller, who on Monday told Platt and C.S.H. we should promptly approve, now turned a somersault and said that to approve it would be to announce formally that Board would try to control speculation on stock exchange through discount rates.

C.S.H. replied that Governor Harding and Curtiss said the proceeds of the discounts were being used for speculative loans; that theoretically, the Federal Reserve Bank could decline to rediscount under such conditions; that this, of course, was impracticable as all the banks were involved and it would be equivalent to splitting up the Federal Reserve Bank; that if the Bank could refuse altogether it could put up rates to discourage such transaction. Miller said if the Bank should refuse to rediscount it would be a great stroke. James agreed with Miller. C.S.H. said the Federal Reserve Bank of Boston could not sell securities as could New York and that rate increase was its only practicable remedy; that it would be monstrous to say to Boston--New York cannot or does not sell enough securities, therefore, Boston must suffer in silence.

James said he thought the pressure at New York was producing results and was forcing borrowers to borrow at Boston. C.S.H. said if this was so it would be absurd to refuse to allow Boston to protect itself by rate increase. James did not answer this.

Secretary Mellon was tied up with Farm Loan Board and could not come in to make a quorum, therefore, we adjourned until tomorrow.

April 18, Wednesday

Board met. Present Secretary Mellon, Miller, Platt, James, and C.S.H. C.S.H. moved to approve Boston rate.

Discussed from 10 to 12, Miller talking almost incessantly against it. Tried to have matter go over until Friday for full Board meeting or until Monday. Miller said he was satisified New York was putting ? pressure on market which might settle question before Friday if Boston would wait. Said he could never vote to control stock speculation by increasing discount rates, etc., etc. C.S.H. reminded him that in fall of 1925 he earnestly favored advance in New York rate to control speculative activity; that New York Bank said it had it in hand through direct pressure that Cunningham moved to put in an increase (from 3-1/2 to4%) in New York over the heads of the New York directors and though defeated by Board, Miller voted for it with Cunningham.

C.S.H. said Miller's arguments would have some force if we were a central bank at Washington and Boston a branch, but that Boston is an indispensible bank and unanimously asked for increase because of increasing rediscounts and falling reserves, its present reserve--about 57%--being the lowest of any Reserve Bank; that he, C.S.H., would not hesitate to vote to increase rates where a speculative movement was interfering or threatening to interfere with business, commerce and agriculture; that he felt this coundition was at hand.

Finally Board adjourned ~~at~~ until 2:30.

At 2:30 reconvened. Same members present. Miller said he had just been talking with Case in New York; that Case was discouraged and said the situation was getting out of hand; that money was coming into New York for speculative purposes and that he could identify 50 millions as coming from Boston.

Secretary Mellon who had patiently listened to Miller all the morning, answering all his arguments, said he did not feel Board could overrule the Boston directors who expressly based their decision on the local situation, and he called for a vote.

Miller said he felt impelled to change his morning vote (a tie, C.S.H. and Platt Yes. Miller and James, No. Secretary Mellon for present, not voting) and vote Aye.

The vote was taken and stood. Aye--Secretary Mellon, Platt, C.S.H. and Miller. No--James.

April 19, Thursday

Chicago telegraphed for rate increase saying letter by fast mail. Board met.

C.S.H. and Secretary Mellon favored waiting until letter arrived.

Miller, Platt and James wanted it decided now.

Platt telephoned McDougal and he read the letter which put request on local condition - increased reduction and increased customers rates putting them out of line with Federal Reserve rates. Board finally determined to vote now. C.S.H. moved to approve. VOTE: Aye--Secretary Mellon, Platt, Miller, and C.S.H.

No--James.

April 20, Friday

Board voted to approve increase in St. Louis rates.

April 23, Monday

Board voted to approve increase of Richmond rate unanimously. James voted Aye because Richmond Bank had ordered sold all its holdings of Government securities.

April 24, Tuesday

Board considered power of Richmond to order all its Government securities sold.

Miller claimed that Board had complete power over all open market operations and could if necessary prevent Richmond from ordering the sale.

C.S.H. said Section 14 gave Federal Reserve Banks power to buy and sell Government securities in accordance with rules and regulations of Board; it does not say that it is subject to direction or order of Board; that the Board can regulate these transactions in any reasonable manner, e.g. as to maturity and very probably could put some limitation as to total amount purchased by any one bank, but that it could not forbid such operations altogether; that the Board's power now being exercised was obtained through the voluntary agreement of the Board and Federal Reserve Banks, but that any Federal Reserve Bank could at any time withdraw and could then, e.g. set up its own agency in New York and buy or sell Government securities for itself subject only to reasonable regulation of Board; that this general agreement that such operations should be conducted by the Open Market Committee was a wise one as it prevented e.g. New York from buying or selling of its own volition subject only to reasonable regulations of Board.

Miller denied this and said the New York bank dominated under this arrangement.

Miller claimed that the Board had power to order each Federal Reserve Bank to operate in Government securities only through the Open Market Committee.

C.S.H. said such an order would be tantamount to saying that the Federal Reserve Board had power to take away from a Federal Reserve Bank one of its most important functions and vest it in a committee of all the banks or in the Board itself which would make the Board a ? System in effect a central bank.

C.S.H. cited a former vote of Board agreement authority of Philadelphia to buy a long term Government bond and said such order was illegal.

C.S.H. further said if Miller was right the Board could take away from Federal Reserve Banks the right to initiate discount rates and vest it in a central discount committee of all the Federal Reserve Banks or in the Board itself.

Miller threatened to tell the House of Representatives of this attitude--C.S.H. said he could if he wished.

Miller repeatedly has said recently that the Open Market Operations of Board should be put an end to.

May 4, Tuesday

Governors Conference. Miller told Governors, while discussing Open Market Investment Committee report, that open market operations should be put an end to and that discount rates only should be used to control credit; that this had always been his attitude and that he was disposed not to vote at all on recommendation of Committee that the policy of further sales of Government securities should be continued; at the most he said he <u>might</u> vote to give them all the rope they wanted (meaning with which to hang themselves). Miller also demanded that Governor Case call on banks and warn them.

The claim of Miller is preposterous. See memorandum showing his record in Scrapbooks.

C.S.H. prepared this memorandum intending to show up Miller's record on Open Market purchases and sales at next meeting as he was determined not to let Miller "get by".

<u>May 2, Wednesday</u>

Board considered open market committee report. It voted to approve report but defined what it understood as the general policy referred to by committee.

In afternoon Board issued answer of Governors to the Board's topics.

Governor Seay attacked vigorously Board's policy of inflation through open market purchases. C.S.H. read Seay's protest of August 17, 1926 against any further sales to the great amusement of conference and confusion of Governor Seay.

<u>May 3, Thursday</u>

Miller has been testifying before House of Representatives Banking and Currency Committee. He attacked Open Market Operations and made committee think he had always opposed them.

I shall look up the record and show up his ~~memorandum~~ inconsistencies.

He even told the Committee his part on the Board was to remain calm as against the hysteria of the other members.

May 14, Monday

President Coolidge sends Platt's name to Senate for ten year term.on Federal Reserve Board.

May
~~Monday~~ 18, Friday

Federal Advisory Council meets. On consideration of possible increase at New York to 5% every member said it would have no injurious effect in their Districts except Goebel of Kansas City who thought it would be criticised although he did not question the possible necessity of doing it. The discussion was as to whether the other banks would follow suit, and all, even Goebel, said they in all probability would.

May 23, Wednesday

C.S.H. testified before House of Representatives Banking and Currency Committee in opposition to the Strong stabilization bill. He made suggestions as to changes which would remove most of his objections. See official testimony.

May 24,

C.S.H. finished before Committee.

Platt was reappointed by President Coolidge to Federal Reserve Board and confirmed day before yesterday.

Miller has been testifying before Banking and Currency Committee for past two weeks, off and on. He made a very unfavorable impression, lost his head, and severely criticised the other Board members. A brief abstract of some of his remarks will appear later.

May 25, Friday

Meeting of Open Market Committee.

Committee made a report favoring continued sales of securities. Special account down to $100,000.

Committee also asked authority to buy 100,000 in case of emergency.

Governor Case said Morgan had made a firm offer for 25 millions and committee wanted to sell. Governor Harding alone objected, saying it was poor policy to buy and sell in small amounts and too frequently all Board members objected to giving power to buy more preferring to wait until the contingency arose.

Finally Committee decided to meet again at about 1 P.M. At 3 P.M. Board met with them again and they made a new report striking out the request for further authority to buy. This was somewhat amplified to suit James and Miller.

Board went into Executive session and on C.S.H.'s motion approved report and gave authority asked for to continue sales. C.S.H. called for a poll and it was unanimous. Aye: Governor Young, C.S.H., Miller, Platt and James.

At 5 P.M. Secretary Mellon asked me to come in. I had called at his office yesterday P.M. but he was tied up.

I gave him a fair, impartial account of the hearings on the Strong stabilization bill and Miller's attack on his associates. He was very indignant and said--How could we have reappointed him! We never would have if we had realized what was to happen. I knew his queer doings and his long speeches and talk but thought he would improve.

He was also indignant at Miller's recommendation to committee of changing the law so as to remove office of Secretary of Treasury from Board. He showed me a clipping from ~~November 9~~ New York Times

May 25, quoting my testimony against Miller's recommendation. It was headed--"Hamlin lauds Mellon!!" I told him it was a splendid thing for him and the President to reappoint three men originally appointed by President Wilson.

When I left the room he took me by the hand and thanked me for the confidence I had shown in him--referring to my statement that he had given more attention to Board matters than any other Secretary of Treasury.

May 26, Saturday

The following is a brief abstract of some of the things Miller said before Banking and Currency Committee on Strong stabilization bill:

1. Board should be reduced in number. Testified - May 2, 1928.

2. Board too sensitively attuned to foreign viewpoints. - May 2

3. Men of imagination and sound judgment very rare. May 2

4. Putting men in high Federal positions with high sounding titles may paralyze any native ability they may have. May 2

5. Says his function on the Board has been to maintain an attitude of relative calm where unconscious hysteria is developing. May 2

6. Agrees with Chairman McFadden that conversations with foreign bankers--Norman, Schacht, etc. should have been a matter of record of the Board. Testified - May 8

7. Board is innocent of European psychology. May 8

8. Governor Strong is an able man, but on this particular subject (Stabilization Bill) he does not know what he is talking about. May 8

9. Governor Strong is an able man, but ... a programme of economic statesmanship, such as this contemplates, calls for exercise of faculties, experience, training, etc. that is very unusual in any group of men. May 8

10. Says he is embarassed by questions put to him - because of his loyalty to his colleagues. May 9

11. You have got to put into the Board and Federal Reserve Banks men of the mental stature who can take up these things and state the reasons for them. May 9

12. Says did not approve statistical conference at Paris in April 28, attended by Goldenweiser and Burgess. May 9

13. May have some ulterior purpose behind it. Says we have a good deal of "Innocents Abroad."
"When we go abroad I want to see the U.S. represented by men who know what they are about, and whose heads are balanced definitely between their shoulders." May 9

14. "I am a man of years--I have a great variety of human contacts--an enormous variety of experience". May 9

He also attacked Open Market policy said it was mischievous and responsible for Inflation.

On May 1, he told Open Market Committee at Conference of Governors that they should be put an end to and that he had always been of this opinion. Yet on May 9, he told the House of Representatives Committee that Open Market operations were the very heart of Federal Reserve policy.

He also told Governors May 1 that the only way to control credit was through discount rates. Yet in January 11, 1928, returning from New York, he opposed any increase in New York rates favoring continunace of sales of securities.

Also on April 18, for two hours he opposed increase in Boston rate saying he never would vote to put up rates to control speculation, and only reluctantly voted approval in P.M. after Governor Case had told him Open Market operations were not succeeding in New York.

C.S.H. put in a table prepared under his direction by Smead which showed that in the four years ending October 31, 1927 and further to April 1, 1928, Open Market operations plus acceptances increased only in two of the years but that total Federal Reserve Credit in these two years actually decreased; that in the other three year periods, Federal Reserve credit increased, but Open Market operations plus acceptances decreased.

In his testimony of May 9, Miller forgot his attitude towards Open Market operations and told committee they were the very heart of Federal Reserve policy! C.S.H. quoted this in his testimony before committee.

Goldenweiser told C.S.H. Miller felt very bad at his testimony and had tried to strike out part of it--especially the attack on Governor Strong, but that the House of Representatives Committee insisted it must remain.

May 27, Sunday

Governor Young, C.S.H. and Platt called by appointment on Senator Glass and went over whole banking situation with him. He suggested putting a higher rate collateralled note than on commercial paper discounts. He was inspired to think that borrowings on these notes secured by Government bonds might be responsible for the stock inflation. He said when Federal Reserve Act passed it had no such power. C.S.H. called to his attention fact that original Federal Reserve Act admitted to discount paper regular trading in Government securities. He said at that time total Government debt did not exceed one billion and Congress when it passed the amendment as to collateral notes never dreamed of such issues as was brought forth.

In discussing uniform rates Governor Young said at least everyone should be allowed to borrow on Government bonds at same rate, but Glass replied this would be placing a premium on Federal Reserve discounting which ought not to be.

I think Governor Young convinced him that the other Federal Reserve banks could not maintain lower rates than New York for it would encourage banks to borrow and invest proceeds in New York call loans because of the higher rates on call loans caused by the New York discount rate. Governor Young said we must assume that increase in New York rate to say 5% would force all other Federal Reserve Banks to increase also, and the New York Bank might have to increase to curb speculation. The question whether Federal Reserve Banks could maintain a higher rate than New York was not much discussed.

Glass said he should draw certain amendments to act this summer and would go over them with the Board.

He spoke in contempt of Miller and his performances before the Banking and Currency House of Representatives Committee and C.S.H. gave him a partial abstract of what Miller said before the Board.

May 28, Monday

Board considered Cunningham resolution of February 2, 1928 directing Federal Reserve Banks to report all banks who were rediscounting from Federal Reserve Banks and at same time loaning on call. The Board at that time voted to approve Platt's motion to substitute that Governor Young should study matters and report later to the Board.

Governor Young reported today that he had carefully studied the matter with Smead and that they had arranged with Comptroller to have bank put this information in their call reports but it was too late to put it in July call but must wait until October call.

Cunningham came in and was very indignant and Miller backed him up.

Governor Young said the delay did no harm as could not have had a reply from the Federal Reserve Banks in time to hope for any legislation from this Congress.

Board finally approved Governor Young's report. Cunningham voting No. Miller voted No.

May 29, Tuesday

Had talk with ogden Mills at 3 P.M.

Told him about Miss Heyser, a correspondent for seven Western papers who had been pestering the Board. Said she was simply seeking information for a partisan attack on Board and Secretary Mellon; that I saw her once and she was vitriolic; I declined to see her again but said that any letters of inquiry as to facts in which she wanted information would receive respectful consideration. Some time ago she had a long talk with Dr. Miller.

I asked Miller to look her up and let me know something about her which he said he would do.

We also talked of the hearings on Stabilization Bill and Dr. Miller's testifying. I said I had made an abstract of it not yet finished. He asked me if I would let him see it and I said Yes when it is finished and I gave him a preliminary abstract of Miller's attack upon his associates.

He said--don't you think the Committee signed him up? I said Yes I believed so. Glass, at our talk Sunday, said he did not agree with Miller that the Secretary of Treasury and Comptroller should be dropped as ex-officio member of Federal Reserve Board.

James yesterday spoke of fact that his company was still loaning its surplus funds on call in New York. I hope he has complied with the Federal Reserve Act and is no longer engaging in business!

June 9, Saturday

Governor Young said Governor Case told him that Miller attended meeting of New York directors last Thursday; that the New York banks found it increasingly difficult to keep in position of not being constant borrowers at Federal Reserve Bank and several had got into position where it could hardly be said they were now contant borrowers; that the directors discussed calling them in and admonishing them; that to the surprise of all Miller vigorously opposed this.

June 19, Tuesday

Whaley Eaton letter?

Whally-Caten Sewell has article on Hoover and Dr. Miller. (See Scrap Books).

James declared that Comptroller at a meeting in Texas with Williams et als made a deal by which in return for votes for McFadden Bill he promised (a) Removal of Governor Talley; (b) Federal Reserve Branch at San Antonio and Charlotte. Said he knew this.

July 3

Platt writes that Chicago increased its discount rate from 4-1/2 to 5% on Friday, June 30. He said he told Heath we could not act on it before Tuesday, July 10.

July 9

In New York at Federal Reserve Bank. Conference of officers in A.M. and sat with Executive Committee at 2 P.M. Discussed rates. Reached Washington 7:30 P.M.

July 10, Tuesday

Discussed Chicago application to increase rates to 5%. Approved increase. Aye--Secretary Mellon, Governor, Platt, Miller, C.S.H. No--Comptroller and James.

July 16

Left Mattapoisett with H.P.H. for Boston * * *

Call on Governor Harding at Alogonquin Club. He is much better. He said Miller called on him a week ago and told him he was an Independent with Democratic proclivities but that, out of friendship, he should vote for Hoover.

July 18, Wednesday

Meeting with Open Market Committee. Committee recommended no change in present policy, holding investment account as it now is--about 75 millions--keeping up 5% rate.

Board agreed unanimously to this.

James attacked Governor Case for not calling bankers together and admonishing them to reduce speculative loans.

Governor Case said he had talked with the banks individually but calling them together and admonishing them was a different question; that recently at a directors' meeting Miller was present and vigorously opposed this, while James now favored it.

Miller tried to explain his opposition faintly intimating that conditions were different now.

C.S.H. then asked Miller if he would favor now doing this and pointing out that it would amount to an order to   speculative credit. He finally said No as it was too great a responsibility for Federal Reserve Board to undertake.

In discussing his previous opposition, he used precisely the same argument.

Miller said he believed a practicable way could be found to prevent Federal Reserve Credit leaking into the speculative market.

C.S.H. asked him how and he finally said it would be by studying individual banks and when a bank normally had a certain percent of its loans on call but had increased them, we could admonish it.

C.S.H. asked if we should do same with all speculative loans, e. g. real estate, etc. but Miller said No! we should try call loans first! Miller said if we bought any more Government securities we should and ought to be hauled over the coals by Congress; that we should use the discount rate.

Miller also said that 500 millions of our gold had gone abroad; that we had the situation in hand through discount rates and that it would be folly to change our policy.

July 18

Governor Case told C.S.H. that Reynolds was the only New York director who voted against increased rate to 5%. Boston increased rates to 5%.

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