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PAPERS
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Miscellany

WRITINGS --
"MEMORANDA CONCERNING THE FEDERAL RESERVE BOARD...," DIARY
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VOLUME XV

August 1, 1928 - March 22, 1929

August 14, Tuesday

Platt calls me from Washington says Board in a mess as to Open Market Committee report. James and Miller oppose giving any discretionary authority to buy more Government securities; that the Board is to meet tomorrow morning to discuss it further. C.S.H. talked with Platt and at 10 P.M. sent him the following telegram:

"Answering your telephone message would say that I know only in a general way as to report of committee. Feel personally that pressure should not be relaxed for some time at least. Would, however, favor discretionary authority to committee to buy acceptances as usual, and, in case of sudden emergency or of conditions under which continuous pressure would injure crop moving and penalize business more than it would be of help in controlling existing tendencies--to purchase securities up to a fixed amount, but, if reasonably possible, committee should consult with Governor Young before buying securities; if not possible, committee should have discretionary authority to act."

August 14 (Cont'd)

Mr. McGarrah told me he was present with Governor Crissinger when Governor Strong telephoned him for Secretary Mellon asking a postponement of the Chicago rate case until the next day; that it was before the Board sent its telegram to Chicago.

August 16

Board voted to send and sent letter to Harrison:

"The Board has reviewed carefully the report of the Open Market Investment Committee and its recommendation of August 13 and has also considered the verbal discussion which took place during the meeting and it is in agreement with the Committee that the seasonal requirements of credit will probably develop a strain when the future credit situation which may react unfavorably upon commerce and industry and that if such a situation should develop, the System should take some action to releive the strain.

"The Board would not care to agree to the purchase of Government securities, except or as a last resort, We understand from the discussion had with your Committee that you favor coming through the bill market, if possible, and through the Government security market only if unavoidable.

"With this understanding, the Board approves the purchase of Government securities by the Committee but limits the amount to 100 millions. If a situation should develop which will require reconsideration, the Board will be glad to meet the Committee at any time for the purpose.

"R. A. Young,
Governor.

"To Harrison
Acting Chairman
Open Market Investment Comm."

- -

The vote on the above was 3 to 2. Aye--Governor Young, Platt and Comptroller. No--Miller and James.

Cunningham wired his opposition and C.S.H. sent telegram above.

At the meeting August 14, Miller presented a proposed letter to Federal Reserve Banks stating it will approve a rate of from 1/2 of 1 per cent to 1 per cant below the rate on other classes of paper for "seasonal crop marketing paper" which was defined as paper arising out of the movement and marketing of the current crops--to continue only until the end of the normal crop moving season.

James submitted a proposition for a preferential rate only on bankers acceptances and trade bills, regardless of their origin.

These were submitted to Open Market Committee.

In afternoon, Committee reported that preferential rates would probably not accomplish what was desired; that the question whether the seasons crops can be moved expeditiously and reasonably involves a bigger question of the whole credit structure and will have to be dealt with through open market operations rather than through preferential rates on commodity paper.

The Committee stressed fact that its recommendation for purchase of securities was intended only to cover an emergency situation and that securities would be purchased only as a last resort if a dangerous tight money situation should arise despite efforts to prevent such a situation through purchases of acceptances, exchange operations and otherwise; that to reduce bill rates would mean dumping of a vast volume of acceptances on the Federal Reserve Banks which, although easing the credit situation would undo the work of many years in developing a bill market.

C.S.H. believes this is the first time that purchase of acceptances has been favored for purpose of releiving the credit situation. At the meeting above Miller and James were opposed to giving any authority for purchase of Government securities.

<u>August 19, Sunday</u>

Leave Mattapoisett for Washington.

<u>August 20, Monday</u>

Governor Young said he called for a separate vote of the Board on the various paragraphs in Board's letter to Harrison of August 16.

He said the members were unanimous on this and that seasonal requirements will probably develop a strain upon the future credit situation and that if such a situation should arise the System should take some action to relieve the strain.

He said also no objection was raised to the paragraph that the Board would not care to agree to purchase of Government securities except as a last resort. He said Miller and James voted against giving Committee any authority to purchase Government securities. He said he was not prepared at the time to accept Miller's suggestion of a commodity rate on seasonal crop moving paper; that such a rate should apply to business as well as to agriculture; that he was not sure we might not use this idea in the future; that purchases of acceptances in increasing amounts would probably accomplish all Miller had in mind; that Governor Harding said Federal Reserve Banks could easily increase purchases of acceptances.

I spoke of my telegram and Governor Young said the New York Bank would certainly consult with him before buying any more Government securities so that it was unnecessary to put this in as a condition; that if a crises arose requiring instant action, the Committee was given discretion just as C.S.H. suggested.

<u>August 20</u>

Governor Seay writes Open Market Committee expressing hope that no Government securities be bought but that initiative be taken by the member banks which have created the situation by reducing their speculative loans.

My "last resort" he says he me a condition in which credit for business purposes cannot be obtained except at rates materially higher than those which now prevail.

August 16

Governor Fancher writes Governor Young that existing rates are not hampering business.

September 4

Governor Young says he and James went to New York last week and talked with Young, Woolley, Reyburn and Harrison at Wooley's office; that Harrison wanted to ease the market but the others would not consent: that they riddled Harrison; that he thought if Governor Strong should resign they would never choose Harrison in his place; that Governor Young said if ever the New York officers complained the Board did not trust them he would say it trusted them as much as did their directors who forbad any purchases either of British exchange or Government securities without consent of Wooley, Young and Reyburn.

September 7, Friday

Governor Young said Norman said he was going to cease protecting British exchange and let some gold be exported to United States. We all agreed to let this come without offsetting. Governor Young said if it came the member banks would simply take down the Federal Reserve discounts. James claimed that as long as call loan rates were higher than discount rates the banks would loan the amount on call rather than reduce their discounts. Governor Young denied that they would be guided by profits in the matter and showed how some New York banks had sold bond holdings at a loss, thus reducing pro tanto their Federal Reserve discounts otherwise necessary.

James said he was satisfied that New York was being well managed by its directors and was satisfied the credit demand of 200 or 300 millions for crop moving could be met. The Board has given permission to Federal

Reserve Banks to buy bonds of Federal Industrial Credit Corporations under certain restrictions. Governor Young said the Federal Reserve Banks would discount paper for such banks, and the Board arranged for inter-bank rediscounts at same rate as that in force at the discounting Federal Reserve Bank; the Federal Reserve Bank of New York said it would be glad to take any such rediscounts. In this way Governor Young believed the crops could be moved successfully.

Governor Young said Harrison said that Norman said he was going to stop protecting British Exchange and let some gold go to U. S.

Governor Young tells C.S.H. he prepared Board reply on suggestion that a preferential rate be given to 15 day notes secured by Government bonds. The Board disapproved this vigorously. Secretary Mellon wanted Governor Young to sign it but he said it was advisable to show that the Secretary and the Board were in harmony. Finally, rather reluctantly Secretary Mellon signed it as Chairman. Such a preferential rate would have greatly helped the Treasury in its financial operations, but Secretary Mellon never thought of taking such an advantage. This ought to be an answer to Dr. Miller's claim that a Secretary of Treasury must, even unconsciously, dominate the Board!

<u>September 13</u>

Called on Governor Harding at Federal Reserve Bank. He firmly believes no more Government securities should be bought to ease up the money market, but that acceptance rates should be lowered and acceptances bought; that the proceeds from sale of acceptances filter into the money market more slowly than purchases of Government securities.

September 28, Friday

Meeting of Federal Advisory Council. Discussed the rate question. Governor Young said the Board might possibly soon have before it two requests: to increase rates at Chicago from 5 to 5½; to reduce rates at Cleveland from 5 to 4½%; that the Board would satisfying itself to grant both. The Council seemed generally to oppose both, taking ground that to lower Cleveland rate to 4½ would be construed as a change of policy of the System which would start up stock exchange speculation.

Mr. Goebel of Kansas City said that if total conditions warranted a lower rate at Cleveland it should be put in.

The consensus of opinion was that the 5% rate was not injuring business. Mr. Alexander said that the fact that business men had to pay at least 6% was depressing.

He agreed with Governor Young that the discount rate at the present time was a national question but said he believed all rates should go down to 4½%; that this would stimulate business. He said the general feeling was that the Federal Reserve System was trying to control stock exchange speculative rates and that in his judgment speculation could not be controlled by discount rates. He favored a 4½% rate to show the country that the System was not trying to regulate the stock exchange. He said he did not agree with those who claimed that lowering rates from 4 to 3½% in August 1927, was a mistaken policy but that we might have gone back to the 4% rate a little sooner than we did.

He said he was extremely puzzled at the speculation in New York and felt we sould not control it. He said liquidation or a break was certain to come but he could not say when nor understand why it had not come before this; that even if a 4-1/2% rate might further encourage speculation it would in the long run correct itself; that many of the booming stocks were not so overvalued as the country seemed to think.

He was asked what would happen if the corporations, etc. suddenly withdrew, say, 500 millions of the money now on call. He said there would have to be a liquidation and that the banks would not take over these loans. Governor Young said in such case we might have a panic. Later, Alexander qualified this statement and said the banks would help as far as able and the system also must do its part.

Mr. Wetmore defended Chicago's increase from 4-1/2 to 5 against James' attack and said the increasing loans of the bank made the advance necessary.

James said Chicago was present at the open market committee meeting at which it was agreed to make no furtther advances but immediately broke the agreement, giving no names.

Alexander said no representative of a Federal Reserve Bank had any right to agree on discount rate action, that that was settled by the directors of the Bank. It was pointed out that there was no such agreement.

The committee suggested making all the Federal Reserve Banks members of Open Market Committee, but with an Executive Committee having full power.

Governor Young said this appealed to him, but Miller objected to giving the Executive Committee any power to act.

Governor Young asked if it would be advisable to call on directors of other banks wherever a rate increase was asked for, but the Council did not seem friendly to this.

Finally Governor Young suggested the possibility of asking the Council to advise the Board on any rate increase and the Council raised no objection to this.

October 6

This last week I sent copies of my memorandum in effect of $3\frac{1}{2}\%$ rate and Open Market purchases of Government securities from August 4, 1927 to February 3, 1928, on stock market speculation--to all members of Board and Federal Advisory Council, Secretary Mellon, Ogden Mills, Governor Strong and all Governors, Deputy Governor Case, all Federal Reserve Agents, Burgess, Harrison, and some directors of Federal Reserve Banks, George Roberts, Alexander Noyes, et als.

Secretary Mellon wrote me a letter saying I had proved my case and that he was glad to have my memorandum for future use.

October 11

At meeting of Board James complained of Board's statement as to retail trade dated October 10. He said the statment that two mail order houses had increased 24% in September 28 over September 27 was flase and misleading as it gave the impression that retail trade had increased that amount while he knew as a business man that this was not true; that these two houses had bought out many retail stores and had established others: that these new stores had, of couse, added to their gross sales but the increase may have come from previously existing stores; that this percentage, therefore, did not represent additional buying by the public.

James still objected and moved to discontinue this publication of retail trade.

Failed--C.S.H. and James voting Aye.

Governor Young, Miller, Platt, Cunningham - No.

It was finally agreed that the statement should be published, but a full explanation should be put in the Bulletin.

James said these companies were putting out debentures and that our statement would help deceive the public and assist the companies in placing the debentures.

Board took up examination of State member banks.

Governor Young offered a resolution that hereafter the Federal Reserve Agents be charged with this duty; that Chief Examiner Herson be given duty of seeing that the Federal Reserve Agents perform this duty; that Federal Reserve Agents should no longer send reports of State examinations to Board; except in special cases - expulsion of banks; that Examination Division--Gilbert--should be abolished.

Cunningham objected that reports should continue to be sent to Board.

C.S.H. suggested that if so they should be sent to Herson and this seemed to satisfy Cunningham.

Miller asked that Herson be required to report to Governor Young to which latter agreed. Finally, Board agreed to print Governor Young's suggestion and to take them up when he returned from Texas.

Miller did not seem to favor the plan. C.S.H. believes it a fair solution. At last meeting Board voted a formal resolution that credit investigations should no longer be used in lieu of examinations and cost of examination must be assumed by bank examined, but this is not to take effect until discussed by Federal Reserve Agent.

October 16, Tuesday

Governor Strong died this morning in New York at a hospital.

October 18, Thursday

Attended meeting of directors of Federal Reserve Bank of New York at 11:30.

At 2 P.M. attended funeral of Governor Strong. A splendid of bankers. He was a genius--a Hamilton among bankers. His place will be almost impossible to fill.

November 12, Monday - In Washington

Dr. Goldenweiser asked authority to appoint a foreigner to help him in his statistical work with relation to foreign statistical data, the work to be done in Washington and the man apparently now living here. Dr. Goldenweiser said he had tried in every way to get an American for this purpose but could not. Dr. Miller objected. Failed by tie--Aye: Governor Young, C.S.H. and Platt. No: Miller, James, Cunningham.

November 15, Thursday

At the Board meeting yesterday the Board voted to have a stenographer at the joint conference of governors and agents on Friday. Sometime ago the Board voted against having a stenographer and C.S.H. opposed the idea. Yesterday, however, Dr. Miller said that the discussion over the Open Market Committee would be the most important in the history of the System and he and James asked to have the stenographer take down what was said on this topic and on no other. I accordingly voted for this, although I believe the fact that a stenographic report is being made will destroy all freedom of speech.

After today's meeting the Comptroller came in and said Governor Young was terribly upset over this vote and felt it was a discourtesy to him as he had always opposed having a stenographer present; that Governor Young thought the vote was that a stenographer was to take down all the proceedings at the joint convention.

I went in to see Governor Young and he was busily engaged on the resolution to protest based on the erroneous assumption that the vote required all proceedings to be taken down. I explained to him the narrow scope of the vote.

Later at the Board meeting he filed a Resolution of protest claiming that the Board had no right, or at least he thought it had no right to direct that his remarks be taken down by a stenographer, as they were essentially confidential and intended only for the meeting and not for the public. He also expressed the hope that the vote intended no discourtesy to him.

I at once explained my vote as above and said that in all Congressional hearing if a witness asked that his remarks on any specific matter be not put into the record, his request was always complied with and that I had no doubt this would be the rule in this hearing. Miller and James both agreed to this.

Governor Young then put in another resolution that no stenographic report be made except with consent of the Governors and Agents.

Considerable discussion followed and finally Cunningham, after praising Governor Young's fairness and courtesy, moved that no such report be made except with consent of Governors and agents.

This was passed, Miller and James voting No.

Governor Young really seemed to have a brain storm. No discourtesy or reflection on him was intended by anyone. The resolution against having a stenographer report proceedings plainly stated "except in exceptional circumstances " and the Board merely vote that this particular topic--"Open Market Investment Committee" was an exceptional circumstance.

Miller seemed very much disturbed at Cunningham's motion requiring consent of the Governors and Agents. It should not be forgotten, however, that this was not a conference at which the Board was considering the exercise of any power. It was on the contrary, a discussion leading up to an agreement between the Board and the Governors and Agents. The power of the Board, under the law, was involved in great doubt and it was considered better to enter into an agreement, which was clearly lawful. As it was a conference as to an agreement it was clearly proper to ask the Governors and Agents to agree as to a stenographer.

November 16, Friday

Had joint conference with Governors and Federal Reserve Agents. Principal discussion was over recommendations tentatively laid before conference by Board as to new title, etc. for Open Market Committee. Just before the conference the Governors voted unanimously that no stenographer was advisable, so this, under the Cunningham resolution, killed the matters.

The Board and conference first discussed the Open Market Committee change.

1. The conference voted to accept change in having a Governor from each bank on Committee. Principal issue was whether

the Board should create the Committee of Governors or whether as Board plan provided the various directors should appoint whomsoever they wanted on the Committee--whether Governor or Chairman. Newton of Atlanta said the Governor and Chairman should alternate. Governor Harding said if his directors appointed the Chairman, he should immediately resign as Governor. The conference overwhelmingly favored the Governors' plan--the Governors to constitute the Committee but each bank to be represented.

2. Executive Committee to be chosen by the twelve Governors. Passed. The Board draft provided for an Executive Committee but did not state how it should be appointed.
3. Open market committee to prepare plans for purchase or sale of securities in open market. Board draft substitution same.
4. Primarily with view of accommodating commerce and business, etc. Same as Board plan. Passed.
5. Passed, but "Executive officer of Board" substituted for Governor of Board.
6. Substantially same as present procedure but for word "action by Board" was substituted "approval, disapproval or modification" by Board. McGarrah voted No as he thought "action" was better. Then on recommendation there was substituted "for such action as Board may deem proper".

Question then arose as to name of committee. Curtiss moved to adopt Board's suggestion--Policy Committee.

Governor Seay and McGarrah object as public may not understand it. Governor Harding says Board can give it any name it pleases. Change of name voted down. The chief controversy was as to whether the Governors should constitute the committee or whether the Boards of directors should choose it.

Governor Young was asked by Curtiss to define "securities" in three of governors draft.

He defined word as including Bills as well as Government securities, to which no objection was raised.

Dr. Miller answered Governor Hardings objections as to lack of power in Board to prescribe any such plan. He said he did not want the Board to operate any more than did Governor Harding; that there was doubt as to Board's power to put in any such plan, and this was why the Board was trying to effect an agreement in the matter; that the Open Market power was the very heart of System policy and that although operated by our bank chiefly, it vitally effected all the banks and that policy should be considered by all the banks and the Board.

To C.S.H. it was apparent that a stenographer would have been of little help. The discussion was open, simple and frank.

November 26, Monday

I have looked up the matter of notice of Governor Harrison's appointment and find that so far as notice to the Board at Washington was concerned the Federal Reserve Bank of New York was not discontinued. Eddy said that the Bank telephoned Governor Platt a little before 11 A.M.

December 14, Friday

Went to Baltimore to examine Federal Reserve Branch Bank. Governor Young, James and Cunningham also went. Mr. Wilcox gave us a lunch at the Maryland Club.

December 18, Tuesday

Motion to approve an agreement between Board of Directors of Federal Reserve Bank of New York represented by a resolution to pay Governor Strong's salary for balance of year 1928, on consideration that he withholds his resignation, failed by a tie vote. Aye--Governor Young, Platt, and C.S.H. No--Miller, James, Cunningham.

Wyatt gave an opinion that, while not free from doubt, the Board of the New York Bank could not legally make this payment and Federal Reserve Board, therefore, could not approve the payment.

C.S.H. justified his vote by construing the agreement to be for a lump sum--$2,800, but payable by installments for two months.

Miller fought it bitterly and said that Wyatt's further suggestion in his opinion that the Board could get a statement from Secretary Mellon that the Treasury would not object because of its effect on account of franchise tax, was in effect collusion and would involve a scandal similar to the Harding oil scandals. He said this differed from the Will's case as there the payment had been made.

December 19, Wednesday

Board after long debate voted to notify New York of failure to approve of payment to Strong estate, but to say the opinion of the Attorney General might be asked. C.S.H. during the debate spoke of his talk with Governor Harrison. Miller objected bitterly to any member talking of the matter with the New York Bank.

C.S.H. reminded him that a question of law was involved and that as a member of the Law Committee, he was entitled to ask for any information he desired, and said McGarrah might write Board explaining more fully the actual agreement with Strong. During meeting McGarrah called C.S.H. up and said the resolution of his Board stated essentially all the facts and that he merely would add that Governor Strong made certain commitments by virtue of the agreement he otherwise would not have made and continued commitments from which he would have been released if he had resigned. C.S.H. reported this to the Board. While considering the Strong vote C.S.H. said that while he could vote and had voted for the 2,800 yet he agreed with Dr. Miller that, involving as it did a question of law, on which our Counsel was adverse, it would be unfortunate to approve the payment by a small majority--that there should be at least a substantial majority and, therefore, he was prepared to vote to inform the bank of counsel's decision, and tell that if it wishes, the opinion of Attorney General might be obtained.

On motion, such a vote was passed unanimously except that Governor Young was recorded as not voting.

December 26, Wednesday

After Board meeting Dr. Miller said the two outstanding events in Federal Reserve history for 1928 were: 1. Board's refusal to accept stabilization of prices. 2. Board's breaking away from Open Market operations and leaving banks to settle credit problems by rediscounting. He also said Secretary Mellon made himself ridiculous by saying that the System put up discount rates to check speculation; that Secretary Mellon had predicated easier money but his report was construed as a prediction of higher money.

Unquestionably the Board in approving higher rates was actuated by a desire to curb speculation. Miller said long ago the

the only way to curb speculation was through discount rates and he approved higher rates with this object in view. Only the other day he put in a resolution favoring higher acceptance rates specifically for purpose of drawing money out of the call loan market, although he finally struck out this reference to the call loan market. This failed, though Miller, C.S.H. and Platt voted for it. Governor Young put in record an answer to effect that money was now tending away from the call loan market.

C.S.H. asked Miller how much less Federal Reserve credit would now be outstanding if there had been no undue speculation on Wall Street and he promptly replied--500 millions less.

December 28, Friday

At Board meeting Governor Young read memorandum on matter of calling on national bank notes showing that it would entail member bank borrowing of over 600 millions. (See scrap book)

Miller said it would be a sad day for country if national bank circulation were wiped out as future gold scarcity was surely need them, while if Federal Reserve notes were issued in their place it would increase reserve requirement from 5% (national bank notes) to 40%. He also said he favored taking away the gold reserve behind the greenbacks and have them simply as an unsecured obligation of the Government. This is surprising coming from a deflationist.

C.S.H. told Miller an equally good way would be for Government to seize the gold behind the gold certificates--as McAdoo wanted to do during the War. (Sarcastic)

All this is on road to having an irredeemable paper greenback currency!

I hope Miller is not speaking for Hoover.

December 31, Monday

Miller put in a resolution to effect that the present spread between Federal Reserve and stock market call loan and other speculative loans tends to tempt member banks into pushing Federal Reserve credit into stock exchange market, and asking the banks what they are going to do to correct this in 1929.

Governor Young vigorously objected saying that resolution meant that banks having call loans should be refused rediscounts. On vote:

Aye--Miller; C.S.H.; James; Cunningham; and Platt.

No---Governor Young. Not voting, Comptroller.

C.S.H. said he voted Aye on the interpretation that resolution was not intended to mean that the Board believed that speculative loans were necessarily illegal; nor that a bank should be refused rediscounts to make good reserves when the deficiency was in part due to speculative loans, but that it merely pointed out a danger and asked banks how they proposed to meet it in 1929.

January 4, Friday

Platt told me that yesterday at 4:30 Governor Young called a special meeting of the Board to take action on New York's increase in acceptance rates just reported; that Governor Young was furious at not having been applied to for approval; that he wanted to order the rate suspended; that Platt said that would seem like a slap in