

FEDERAL RESERVE BOARD  
WASHINGTON

X-3116

May 13, 1921.

Dear Sir:

The enclosed letter and enclosure are self explanatory and are forwarded to you for your information.

Very truly yours,

G o v e r n o r .

TO ALL FEDERAL RESERVE AGENTS  
(two copies of enclosure to each)

C O P Y

X-3116a

A. B. Banks

E. F. Holmes

W. V. Howland

GULF COMPENSATION EXCHANGE  
OF  
HOME LIFE AND ACCIDENT CO.  
BANKS, HOLMES & HOWLAND  
MANAGERS  
Canal - Commercial  
Building.  
NEW ORLEANS.

May 10th,  
1921

W. P. G. Harding, Esq., Governor,  
Federal Reserve Board,  
Washington, D. C.

Dear Sir:

The enclosed copy of letter to Mr. Richard  
H. Edmonds, Editor, The Manufacturers Record, may be  
of interest, and we are therefore glad to furnish you  
a copy.

Yours respectfully,

Banks, Holmes & Howland, Managers,

(Signed) By E. F. Holmes.

EFH:L

C O P Y

X-3116b

May 10th,  
1921.

Mr. Richard H. Edmonds, Editor,  
THE MANUFACTURERS RECORD,  
Baltimore, Maryland.

Dear Sir:

Your favor of the 3rd inst., is at hand, and with regard to stating facts to back up the writer's position toward your criticisms of the Reserve Board, it seems to us that the whole history of the human race, economically speaking, is full of such facts.

In the panic of '73 there was no Reserve Board and speculation prior to that panic went on uncontrolled until the smash. That depression lasted some six or eight years. The present depression is just about over; it has lasted about one year. Europe then had ample funds to aid this country,--today Europe is flat. We have had to work out our own salvation and that of Europe as well. The boom was controlled and we have been brought down with less actual suffering than any equal period of time brought us in the '73 depression. The causes of the previous boom and depression were insignificant, speaking in a world sense, compared to the war we have gone through, resulting, as all wars do, in a boom.

Deflation had to come, Reserve Bank or no Bank at all, and we cannot think you deny that. As to picking out any particular class to be deflated, such as "speculators" or "profiteers", no human intelligence was able to do that. We were all potentially profiteers or speculators. The farmer who wanted to hold his cotton for 50 cents, in the face of no demand on the other side, and then plant another crop which presumably was also to be held for 50 cents, was a speculator as well as an economic ignoramus, but his local banker could not tell him so,--he would have resented it. Therefore, the "Buck" was passed to the only agency that was doing anything at all to handle the situation,--The Reserve Board; (just as Woodrow Wilson was blamed because they peeled the potatoes too thick in the Army). Only by raising interest rates to where speculation was unprofitable could speculation be checked. The isolated cases, such as the poor little Bank in Alabama that had to pay 87% for money, have a good reason back of them, else all banks would have been penalized in the same way. I cannot believe that the Reserve Board deliberately picked on the little Alabama Bank.

R.H.E. -#2-

X-3116b

Mr. Williams' speech would have been more convincing if he had anywhere in it used one phrase or sentence that betokened a study or knowledge of economic history or facts. We dug through his tirade and found no constructive suggestion. Why was this? He wanted the interest rate cut, but did he want speculation to continue? He says not. Then how could he stop speculation? Possibly by going around finding out who the speculators were and putting them in jail. Everybody would have denied that they were speculators.

Incidentally I have never found in any of your criticisms any complete constructive suggestion, that is, a suggestion that took into account all the facts in the case. Apparently you wanted the boom to continue, but did not want to pay \$25.00 for shoes. Had the boom continued, if it could have continued, you would have had to pay \$50.00 for shoes, because it is forever true that as long as business is good prices go up. It is equally true that they come down when the strain gets too heavy.

The Reserve Board is composed of rather intelligent men who have devoted their lives to the study of a very intricate subject, and who can hardly be accused of having an axe to grind. I do not know what time you have devoted to the study of the history of panics. It is plain to read what happened in the past, and human nature acts and reacts according to the same laws that it did in the beginning. You spoke of facts, and that is the one fact that answers all your questions. The Reserve Board merely took conditions as they found them, and deflated them as best they could. They have done it in one year. Now that reserves have reached a safe point, they have cut the interest rate. Mr. Williams will of course figure that they cut the rates to meet a storm of public opinion that was aroused by his speech. The storm, however, is not visible in this neighborhood, --immediate business prospects are too good.

Mr. Frank A. Vanderlip said that the American people are a nation of economic illiterates and some times it looks like he is right. I believe he worked up from a fireman on a railroad, so the conclusion is not that of a "silk-stocking".

We could answer each of your and Mr. Williams' statements in detail, but hesitate to encroach further on your time.

We would, however, be deeply interested in some plan that you evolve as to how to deflate without deflating, and would be glad to be referred to some article of yours that provided a complete, constructive program for handling the past year's troubles.

Yours very truly,

Banks, Holmes & Howland, Managers,

EFH:L

(Signed) By E. F. Holmes