

"THE FEDERAL RESERVE SYSTEM."

By Paul M. Warburg.

Chapter XI: "The Redistricting Intermezzo."

Review.

By C. S. Hamlin,  
September, 1930.

(References, when not otherwise indicated, are to Mr. Warburg's book.)

-I-

The essential facts in the controversy, as alleged by Mr. Warburg, were as follows:

1. On October 20, 1915, a Redistricting Committee was appointed by the Federal Reserve Board.
2. On November 12, 1915, this Committee filed a preliminary report to the effect that a reduction in the number of Federal reserve banks was imperatively demanded for the best interests of the Federal Reserve System and of the country.
3. In this report the Committee asked instructions from the Board whether it should prepare a specific plan of reduction.
4. This preliminary report was set down by the Board for discussion on November 13th and again on November 15, 1915, but the meetings were postponed because of the absence of Secretary McAdoo.
5. The Board finally set down November 22, 1915 for the discussion of the merits of the report and a final vote thereon.
6. At the meeting on November 22nd, discussion of the merits was prevented by reason of the delivery to the Board of an opinion of the Attorney General advising the Board that it had no power under the Federal Reserve Act to reduce the number of Federal reserve districts or Federal reserve banks.
7. The opinion of the Attorney General was obtained by the Governor of the Board without the authority or knowledge of the Board.

8. The opinion prevented any discussion of the merits of the Committee report, and necessitated an abandonment of the whole matter, although a majority of the Board favored the Committee report and would have voted accordingly had a vote been taken on the merits.

1 - 427, 430, 436.

-II-

Mr. Warburg states as his reason for writing this Chapter, that after Senator Glass, in 1923, and Dr. H. P. Willis, in 1926, had lifted a corner of the veil regarding the controversy, it became imperative for him to break the silence of thirteen years and raise the veil further so that the real facts might be known and the story freed from the "half truths and perversions" by which it had been clouded.

1 - 454.

-III-

Mr. Warburg's lifting of the veil reveals, - as he alleges, - a sinister combination or conspiracy on the part of the President of the United States, the Attorney General of the United States, the Secretary of the Treasury, and the Governor of the Federal Reserve Board, to forestall discussion on the merits of the report of the Redistricting Committee by means of an opinion of the Attorney General, obtained by the Governor of the Federal Reserve Board, without authority from or knowledge of the Board, advising the Board that it had no authority, under the Federal Reserve Act, to reduce the number of Federal reserve districts or Federal reserve banks.

1 - 430.

- 3 -

X-6715

-IV-

Mr. Warburg's charge is a very grave one, and to avoid any possibility of error, I shall quote his very words:

"Thus while the Board had deferred the decision out of courtesy to Mr. McAdoo, the latter, together with the Board's Governor and the President, had combined, without the knowledge of the four appointive members of the Board, to forestall any debate by securing the opinion of the Attorney General."

1 - 430.

"The President and the Attorney General formed their judgment solely upon the evidence of the Secretary of the Treasury, whose action was to be reviewed and who had studiously avoided hearing the views of the Committee, and upon the evidence of the Governor devoted to Mr. McAdoo and acting in accordance with his instructions."

1 - 430.

-V-

Mr. Warburg draws a sharp line of cleavage between the sheep and the goats in this controversy, - between those who favored redistricting, called by him the "Majority", - and those who were opposed to redistricting, - to whom he refers as the "Minority."

He charges that the Minority were guided solely by political considerations, while the "Majority" acted as non-partisan trustees of the country at large.

The following quotations from the Chapter bring out this line of cleavage distinctly:

"It was certain, therefore, that three of the Members of the Board of seven would try to block any drastic readjustment.

1 - 427.

"The remaining four, however, had seen enough of the petty point of view resulting from a twelve-headed system, and of the difficulties of its administration, to convince them that with

regard to banking standards and efficiency of service it would clearly be for the benefit of the country if the numbers of the reserve banks should be reduced."

1 - 427.

"The determined insistence on the creation and preservation of "one crop" districts . . . could hardly be justified except on political grounds." (Italics mine.)

1 - 429.

"The four of us considered ourselves the non-partisan trustees of the interests of the country at large."

1 - 440, 441.

"The other three dealt with the question from the point of view of the interests of their Party." (Italics mine)

1 - 440, 441.

He even brings a similar charge against the President of the United States:

"It was natural that the President, on this question, could not disregard the political considerations." (Italics mine)

1 - 452, 453.

Mr. Warburg then portrays the role he played in the controversy:

"It was my duty to approach the problem from a non-partisan and non-political point of view, - with the sole thought in mind of what the best interests of the country, as a whole, required."

1 - 452, 453.

This calm, judicial juxtaposition of the attitude of the President, the Attorney General, the Secretary of the Treasury and the Governor of the Board, as against the pure altruism of Mr. Warburg, is certainly worthy of a Shakespeare!

-VI-

The writer proposes to "lift the veil" - to use Mr. Warburg's metaphor, - even further than he has done, and to show how grotesquely absurd are the charges of conspiracy hurled against the President, the

Attorney General, the Secretary of the Treasury, and the Governor of the Federal Reserve Board.

-VII-

Mr. Warburg refers briefly to the preliminary report of the Committee filed November 12, 1915, and of two meetings held on November 13th and November 15th by the Board to discuss it. He contents himself with the bare statement that these two meetings were postponed until November 22nd because of Mr. McAdoo's absence.

1 - 430, 431, 436.

He further quotes the Redistricting Committee, which stated in its report of December 2, 1915:

"Your Committee desires to repeat that at no time had there been a discussion of the Committee's original report of November 13th, or of the revised report of November 17, 1915."

1 - 436

From the above one would naturally be led to believe that, at the above meetings, the Board had convened but had immediately adjourned to November 22nd, because of the absence of Mr. McAdoo.

Why, it may be asked, does Mr. Warburg thus gracefully glide over the meeting of November 15th?

Was there no "discussion" at that meeting, of the preliminary report of November 12th?

The fact is that at that meeting of November 15th the preliminary report was discussed, briefly perhaps as to its merits, but at great length as to its demerits, and moreover it was one of the most earnest and vehement discussions ever held in the Board.

The discussion occupied a whole day, - "From morn till noon, from noon till dewey eve," - the Board sitting both in the morning and in the afternoon.

No final vote was taken, however, because of the absence of Secretary McAdoo, and because at the end of the day there was no report left to be acted upon, - as will appear later.

It was pointed out by the minority, during the discussion, that the Committee report in effect stated that because of the weakness of one-half of the Federal reserve banks the System would prove a failure and that a reduction of the number of Federal reserve banks from twelve to eight or nine was imperative for the good of the System and of the country.

The minority further stated that such a startling conclusion would cause uneasiness and lack of confidence in the System throughout the country; that this conclusion should have been supported by a statement of the facts and figures on which the conclusion was based; that no such facts or figures were contained in the report.

The minority then requested the Committee to file a supplemental report giving these facts and figures and that one week be allowed the minority to study the report as thus supplemented.

A formal motion or resolution was made to this effect, but was strongly opposed by the Committee, which opposition was later explained by the Committee in its report of December 2, 1915, as follows:

"The fact that the request of two members of the Board for another preliminary report in writing as to the reasons for its recommendations was opposed by the Committee, was, as explained by the Committee, solely because it desired to have the report discussed on its merits without delay and at that time lay before the Board all the facts and figures it had collected. Such a course was in consonance with our usual practice."

The writer knows of no such practice of the Federal Reserve Board and is very confident that the attempt of a Committee to withhold the facts and figures on which its report is based from the report itself, and to present them only when the report is before the main body for immediate vote, would not be sustained by any deliberative body known to Anglo-saxon procedure.

The charge was freely made during the discussion that the minority was trying to obstruct the proceedings and delay a final vote. The minority, however, pointed out that a delay of one week in which to study the facts and figures on which the report was based, was not an unreasonable request in view of the radical changes in the Federal Reserve Act recommended by the Committee.

The motion that the Committee report the facts and figures upon which its conclusions were based and that one week's time be allowed the "minority" to study the report thus supplemented, was finally put to the vote and was defeated by a vote of four to two.

3 Diary, p. 102, 103, 107.

The writer believes it apparent from the above that any lack of discussion of the merits of the Committee's report at this meeting was due not to the minority but to the action of the majority in defeating this motion.

Finally, as a climax of a weary day of discussion, the Committee itself announced that it would withdraw its report and would later file another, to which the Board consented.

3 Diary, p. 112, 113.

At the next meeting of the Board, on November 17, 1915, one of the "majority" stated that he was satisfied that the preliminary report contained statements which might give a false impression, and that the criticism of the minority was, to a certain extent, justified.

3 Diary, p. 112.

Evidently the discussion held on November 15th had made a decided impression on the Committee!

On that day, - November 17, 1915, the Committee prepared a supplementary report eliminating some but not all of the matters criticised by the minority. This report also, however, was silent as to the essential facts and figures upon which its conclusion was based.

The Committee justified this omission as follows:

"The problem is preeminently one for the exercise of general judgment as to what will make for the most effective organization of the Federal Reserve Banking System, and your Committee does not, therefore, think it necessary to develop at length or in detail the reasons which have weighed with its individual members, each of whom has reached his conclusion in his own way." (Italics mine)

Would it not have been fairer to the minority to have the Committee's facts and figures so that they also could reach their conclusion in their own way?

1 - 771.

The Committee report of November 17, 1915 continued:-

"Attention may, however, be called to some of the considerations in favor of a reduction in the number of districts."

1 - 771.

The Committee then enumerates the general considerations of economy of operation, embarrassment in dealing with weak units, simplicity in check clearing and collection and greater ability to meet severe tests which may come when the war is over.

1 - 767.

It is very significant, however, as above stated, that no mention is made by Mr. Warburg of the discussion or of the contents of the first preliminary report which was discussed in the Board, as above stated, on November 15, 1915.



The supplemental report of Nov. 17, 1915, is referred to by him merely in a foot note on page 440 although it is printed in full in appendix 29 at page 767.

Throughout the chapter, ignoring the preliminary reports, excepting as to the foot note above mentioned, Mr. Warburg quotes as a justification of the Committee's position the Committee report made on Dec. 2, 1915, long after the redistricting dispute had been disposed of by the Board. A copy of this latter report is printed on page 431.

-VIII-

One result of the discussion in the Board on November 15th, not heretofore pointed out, should here be mentioned.

It will be remembered that in its preliminary report, the Committee had in effect expressed the conviction that one year's operation of the System had convinced it that a reduction in the number of Federal reserve banks was imperative, and that if not reduced, the System might prove to be a failure.

In rendering the final report of December 2, 1915, however, the Committee reversed itself and stated that the System had already brought immeasurable benefits to the country, and "..... whether with twelve banks or eight banks will prove of inestimable value." (Italics mine)

1 - 434.

-IX-

Before considering the final meeting of the Board held on

November 22, 1915, at which the Governor presented the letter of the President and the opinion of the Attorney General, it may not be out of place to refer briefly to certain interesting and significant events which transpired just before that meeting.

-X-

In its final report of December 2, 1915, the Committee stated that it delayed filing its preliminary report, - which was discussed, as above shown on November 15th, - in order to give Mr. Harding an opportunity to show it to Secretary McAdoo to obtain any suggestions he might care to make, but that as Mr. Harding could not confer with him, because of illness, the Committee finally filed its preliminary report on Saturday, November 13, and it was set down for discussion by the Board on November 15, 1915.

1 - 435, 436.

Although Mr. Harding did not have a personal interview with Secretary McAdoo, he did communicate with him through Mr. Williams, as will later appear.

Let us "lift the veil" a little further and see what is disclosed.

Mr. Williams, the Comptroller of the Currency, and an ex-officio member of the Board, told the writer that on Friday, November 12th, Mr. Harding called on him and had a talk with him, later reduced to writing and approved by Mr. Harding; that Mr. Harding told him that the Committee would report in favor of redistricting and desired their report to be sent to the President, and that unless the President personally requested the Committee to withhold its report, the Committee

would vote to put it through, but that if the President did so request, the Committee would lay it on the table for the present.

3 Diary, p. 95.

This was certainly a somewhat extraordinary ultimatum to deliver to the President of the United States!

The writer has also a copy of a letter from Mr. Williams to Secretary McAdoo enclosing the memorandum, above referred to, of his conversation with Mr. Harding, which memorandum, Mr. Williams said was duly examined and approved by Mr. Harding.

3 Diary, p. 96.

In this letter, Mr. Williams told Secretary McAdoo that Mr. Harding asked him to say that on the occasion of his call on the Secretary two or three evenings before, he carried with him a copy of the Committee report together with a map showing the proposed redistricting, with permission from the Committee to leave it with him, - Secretary McAdoo - for his information; that he, - Mr. Harding, - says he now has it on his desk, and will send it to Secretary McAdoo should he care to see it before it is submitted to the Board next week.

Mr. Williams also told the writer that Governor Harding told him that the plan and map referred to in the memorandum, abolished the Federal Reserve District of Boston, merging it with the Federal Reserve District of New York.

3 Diary, p. 121, 139.

The above statement is confirmed by Dr. Willis who told the writer that, at Mr. Warburg's request, he had delimited the districts in a draft of report given him by Mr. Warburg, and that this draft merged

Boston with New York.

3 Diary, p. 137.

Mr. Williams also said later that Mr. Harding told him he had reported his talk with him to the Committee and that none of them had dissented. Later, Mr. Harding repeated this to the Board.

3 Diary, p. 108, 138, 139.

The above statements of Mr. Harding seem completely inconsistent with what Mr. Warburg states in his book, - that the Committee agreed that no plan should be considered which might increase the power of the Federal Reserve Bank of New York, and his further statement that no specific plan of reduction was formulated by any Committee.

1 - 427, 438.

These latter statements of Mr. Warburg are plain and unequivocal, yet it is interesting to note that on December 15, 1915, in response to a request of the Board, the Committee filed a memorandum giving a general review of its work, and annexed to this memorandum or produced at the same time with it, several plans and maps, one of which consolidated the Boston with the New York District!

The Committee stated, in the memorandum, that while the plan which merged Boston with New York was the most advisable, yet in view of the sentiment of the country it did not contemplate merging Boston and New York, and expressed the hope that Boston may succeed in proving its ability to act as an independent and self-supporting centre.

3 Diary, p. 154-A (Loose leaf)

Clearly everyone today will admit that Boston has proved its ability to act as a Federal reserve centre, but that is not the reason for quoting the above. The reason is that although Mr. Warburg, as above quoted, said the Committee had agreed not to increase further the power of New York, yet it had one plan before it which would materially increase its power and, as shown by Mr. Williams, as quoted above, Mr. Harding admitted that the plan which he was holding for Secretary McAdoo's inspection as the plan of the Committee - (Italics mine) - was the plan which abolished Boston as a Federal reserve district and Federal reserve bank, and merged it with New York!

It is evident that such a merger would have enormously increased the power of the Federal Reserve Bank of New York.

It should also be remembered that Mr. Harding told Mr. Williams that he had reported to his colleagues on the Committee his conversation with Mr. Williams in which he stated that the Committee's plan in fact merged the Federal Reserve District of Boston in that of New York.

3 Diary, p. 108, 121, 139.

While it may well be that the Committee had not formally voted at this time to adopt the plan abolishing Boston, yet the fact that Mr. Harding told Mr. Williams that the Committee plan did abolish Boston would certainly warrant anxiety and apprehension at even the possibility that New York's power might be increased, in spite of Mr. Warburg's statement to the contrary, above quoted.

-XI-

The writer furthermore was informed by Dr. Willis, the then Secretary of the Board, that Mr. Harding, on Saturday, November 20, 1915, - two

days before the final meeting of the Board on November 22, 1915, came to him and asked him to act as an intermediary between the Committee and Secretary McAdoo, telling him, from man to man, that he was willing to compromise as follows: - The Committee to lay on the table the redistricting report and Secretary McAdoo to yield on certain disputed questions as to open market powers and clearings; the Secretary further to direct Comptroller Williams to remove Mr. Starek, the National Bank Examiner at New York, and also to order him to furnish, henceforth, copies of the "yellow sheets" attached to the Bank Examiner's reports to the Federal Reserve Agents, which the Comptroller up to this time had declined to furnish.

3 Diary, 106, 116.

Dr. Willis reported this conversation to Secretary McAdoo immediately, and he agreed to meet Governor Harding on Sunday the following day.

3 Diary, p. 116.

Prior to this meeting, Secretary McAdoo told the writer he should never agree to compromise on these or any other lines, and later, on Sunday, after the interview, told the writer that Mr. Harding did not ask him to compromise, but told him unequivocally that he should vote to dismiss the whole matter at the meeting of the Board on Monday, - as will later appear.

3 Diary, 116, 117.

Whether or not Mr. Warburg knew of this conversation between Mr. Harding, Dr. Willis and Secretary McAdoo, in which a compromise was suggested, the writer does not claim to be informed, but if he knew of

the ultimatum to the President, above mentioned, or of the suggestion of Mr. Harding, or either of them, it certainly placed him, - the "non-partisan trustee of the country's interests," as he felicitously called himself, - in a decidedly anomalous position. Perhaps, however, he may have reached the conclusion that the other matters, quoted above, represented the "greater good" and justified dropping the redistricting plan!

-XII-

We can now take up the question of the submission to the Board by the Governor of the opinion of the Attorney General, which Mr. Warburg charges was brought about by a combination to forestall debate, on the part of the President of the United States, the Secretary of the Treasury, the Attorney General, and the Governor of the Federal Reserve Board.

The events leading up to the request by the Governor for the Attorney General's opinion were as follows:

Just prior to the meeting of November 15, 1915, the Governor heard indirectly that the Committee was consulting with J. P. Cotton, Esq., - who had acted in several matters as special Counsel of the Board, - as to the Board's power. In the discussion of the preliminary report, as the writer recalls, the Committee made some reference to this fact.

3 Diary, p. 89, 92.

On November 15th, just prior to the meeting, the Governor prepared a formal resolution asking the Committee whether it had sought an opinion from any one other than from Mr. Elliott, the General Counsel of the Board, with relation to its power to reduce the number of the Federal reserve banks.

3 Diary, p. 100, 101.

On November 16, 1915, Mr. Williams wrote to the Committee asking it to produce Mr. Cotton's opinion.

3 Diary, p. 109.

Late on Saturday afternoon, November 20, 1915, the Committee gave the writer a copy of Mr. Cotton's opinion, dated November 19, 1915, in which he advised the Committee that the Board had power to reduce the number of the Federal reserve banks.

Mr. Elliott, it should be remembered, had previously advised the Board that it had no such power.

According to the writer's recollection, no authority from the Board had been obtained by the Committee to secure this opinion from Mr. Cotton.

In any event, the fact remained that at the meeting of the Board set for November 22, Monday, - only a few hours distant, - when it was expected that a final vote would be taken, there would have been before the Board two radically conflicting opinions as to the power of the Board, - that of Mr. Elliott, the General Counsel, and that of Mr. Cotton, the special Counsel.

Such conflict of opinion, it must be evident, would have plunged the Board into hopeless confusion, and an opinion from the Attorney General was absolutely necessary to settle the question of power once for all.

The Governor would have called a special meeting of the Board to obtain a formal vote requesting such an opinion, but it was late Saturday afternoon and the Board members had separated so that a



meeting on Sunday would not have been practicable. The Governor felt that it was the intention of what Mr. Warburg describes as "the majority" to force a vote on Monday, and it therefore, seemed imperative to ask the Attorney General for an opinion.

Ordinarily, under the practice of the Board, a request of three members for an opinion of the Attorney General upon any important question would be acted upon favorably by the Board almost as a matter of course, without question. Had the Board voted adversely upon such a request, the Secretary of the Treasury, as Chairman of the Federal Reserve Board, under existing law and practice, could have, of his own volition, called upon the Attorney General for an opinion; or any member of the Board could at any time request the President to call for such an opinion.

Under these circumstances, the Governor, late on that Saturday evening explained the situation over the telephone to Secretary McAdoo, who told him that he had a copy of Mr. Cotton's opinion and further, - what he did not know before, - that the Attorney General had been engaged in studying the question of the Board's power for some time, at his request. Secretary McAdoo further said that the President wished the Governor to write him a letter requesting him to obtain and forward an opinion of the Attorney General.

The Governor accordingly, addressed a letter to the President stating that, both in his capacity as Governor and as a member of the Board, he would be greatly helped if an opinion of the Attorney General could be secured.

The letter was sent to the President on Sunday, November 21, 1915, and on Monday, November 22nd, just before the Board meeting, a letter from the President was received by the Governor, together with a copy of the Attorney General's opinion, which the Governor at once laid before the Board.

This opinion negated any power in the Board and thus settled the conflict between the opinions of the General and special Counsel of the Board.

To sum up: - The Board had secured an opinion from its General Counsel; the Redistricting Committee, without any authority from the Board, had secured an opinion from the Special Counsel; and the Secretary of the Treasury, of his own volition, had called for an opinion from the Attorney General. The two former conflicting opinions would have been before the Board at its meeting of November 22nd. It was absolutely necessary for the Board to have also the opinion of the Attorney General upon the same subject, asked for informally by the Secretary of the Treasury, and in asking for this opinion, at the suggestion of the President, on Sunday, the 21st of November, the Governor merely anticipated by one day what the Board as a matter of course, or the Secretary of the Treasury in his own right, would have done on the next day. This anticipatory action of the Governor, moreover, as it turned out, made it possible for the Board to have the Attorney General's opinion before it when it met the next day and thus saved the necessity of further postponement of the meeting to await its receipt.

The Redistricting Committee seemed to feel that there should have been a formal hearing at which each side could have presented its case before the Attorney General. No such opportunity, however, was afforded the Minority when the Committee asked for Mr. Cotton's opinion.

1 - 436.

The Committee, however, forgot that the only question before the Attorney General was one of law, and that the latter had before him the opinion of Mr. Elliott, and also that of Mr. Cotton, - presumably sent with the other papers by Mr. Elliott.

5 Diary, p. 146.

The Committee stated that if the Attorney General had known that branches would have been substituted for all Federal reserve banks abolished, his opinion might have been different, but the writer recalls no reference in Mr. Cotton's opinion or in the preliminary report of the Committee to this argument. If it was in Mr. Cotton's mind, he evidently attached no importance to it.

Mr. Warburg, however, in effect claims that the addition to the Board's files of the Attorney General's opinion beside those of the General and Special Counsel of the Board, constituted a combination or conspiracy to suppress discussion! As well might one claim that a decision of the Supreme Court of the United States that a claimant had in law no cause of action should be characterized as a combination or conspiracy of the Justices of that Court to forestall discussion!

The writer believes that the above statement of facts will effectually dispose of Mr. Warburg's charges of combination or conspiracy to

suppress discussion and that this myth will vanish into thin air.

-XIII-

As a matter of fact, however, the whole question of redistricting had in effect been disposed of prior to the receipt of the Attorney General's opinion.

Mr. Warburg, over and over again, states that a majority of four members of the Board favored cutting down the number of Federal reserve banks, and plainly seeks to have it implied that they would have so voted but for the Attorney General's opinion.

1 - 438.

This statement may have been true at one time, but it was not true on the morning of November 22nd, the date of the final meeting.

On Sunday, November 21st, as above stated, Secretary McAdoo told the writer that Mr. Harding had told him earlier in the day that he had become satisfied that any attempt to cut down the number of Federal reserve banks would be resisted in the courts and lead to long drawn out litigation which would be most injurious to the Federal Reserve System, and that he had determined to vote to dismiss the whole matter.

3 Diary, p. 117.

Senator Hoke Smith had previously told the writer of a similar conversation with Mr. Harding.

3 Diary, p. 115.

Thus Mr. Warburg's majority of four had dwindled to a minority of three.

The writer was further informed, on the very best authority, that one other member of Mr. Warburg's "Majority" had reached the same conclusion.

Perhaps these members had learned of the informal action of the Federal Advisory Council in unanimous opposition to any cutting down of Federal reserve banks at the present time.

3 Diary, p. 114.

Thus, if a final vote had been taken on November 22nd, - wholly apart from the Attorney General's opinion, - the Committee report would have been defeated by a vote of five to two and the whole matter would have passed into oblivion.

-XIV-

It should further be pointed out that although Mr. Warburg, in his book, over and over again expresses his conviction that the number of Federal reserve banks should be reduced for the good of the System and of the country, yet he took a very different position in addresses made by him at about that time and later, as the following quotations will show:

In an address delivered at Charlotte, North Carolina, on November 23, 1915, - only one day after the final disposition by the Board of the redistricting report, in reviewing the first year's operation of the Federal Reserve System, Mr. Warburg said:

"I am looking back upon the first year with full satisfaction." (Italics mine)

Again, in the same address he said:

"It was a difficult problem to write so intricate a law as the Federal Reserve Act. It is a very remarkable achievement to have put upon the books a statute which has brought into life a system which has proved itself entirely workable and successful." (Italics mine)

2 - 350, 351.

As one of the Committee, he also reported to the Board on December 2, 1915, that "the Federal Reserve System whether with twelve banks or eight banks will prove of inestimable value."

(Italics mine)

1 - 434.

It has also been claimed that Mr. Warburg's demand for reducing the number of Federal reserve banks is inconsistent with his oft repeated recommendation that a portion of the paid-in capital be returned by the Federal reserve banks to the member bank stockholders. If strong enough to be able to return part of their paid-in capital, surely they were strong enough to exist without the necessity of merging some of them with relatively stronger banks.

Mr. Warburg makes this recommendation unequivocally in his address at St. Paul, Minn., on October 22, 1915, - just one month before the Board meeting of November 22, 1915 (2-310); and also in his address at Atlantic City on June 9, 1916 (2 - 432).

In a letter to Senator Glass, however, dated February 29, 1916, he qualified this recommendation, favoring a temporary return of the paid-in capital of some of the Federal reserve banks.

This recommendation was based on the fear that failure to pay dividends might hurt the prestige of the Federal reserve banks, and

accordingly he favored paying back a part of the paid-in capital, thus reducing the necessity for earnings.

In connection with the above letter to Senator Glass, it is significant to point out that, up to June 30, 1916, the only banks which had declared dividends were the Federal Reserve Banks of Atlanta, Dallas, and Richmond, - followed by Kansas City in July - while the relatively strong banks, excepting only Chicago, did not begin to declare dividends until much later, almost at the end of the year 1916.

Thus the prestige of the Federal Reserve System which Mr. Warburg was trying to protect by returning part of the paid-in capital of the Federal reserve banks, was being in fact maintained by some of the relatively weak banks which Mr. Warburg wished to eliminate.

Another interesting fact to note is that the Federal Advisory Council, on November 18, 1915, - the day after the discussion in the Board on the Committee's preliminary report, - voted in favor of returning two-thirds of the paid-in capital of all of the Federal reserve banks to the member bank stockholders.

3 Diary, p. 110.

The Federal Advisory Council consists of bankers representing the twelve Federal reserve districts, and the above vote was an impressive tribute to the soundness and successful operation of the twelve Federal reserve banks, and utterly inconsistent with Mr. Warburg's claim that the number of Federal reserve banks should be reduced.

To cap the climax, the Federal Advisory Council, on the same date, - November 16, 1915, informally considered the question of reducing the number of Federal reserve banks, and while many thought it could wisely be done, yet it unanimously was of the opinion that it should not be undertaken at the present time.

3 Diary, p. 114.

-XV-

Mr. Warburg goes out of his way to drag in the question of rotation of the office of Governor. He charges the then Governor with subserviency to Secretary McAdoo, and states that the independence and prestige of the Board make it imperative that one of the other four appointive members should be the next Governor.

1 - 445.

Apparently the bare suspicion that the Governor was in harmony with the views of the President of the United States and the Secretary of the Treasury was a sufficient basis for the demand that he should be displaced and his place filled by one of the "Majority."

The fact also that any member of the Board should be either a present or former officer of the United States, seems to have almost infuriated Mr. Warburg; and yet, not long before, in outlining the principles of a modified Central Bank of Issue, he favored a central body at Washington (corresponding to the Federal Reserve Board) to consist, in part, of the Secretary of the Treasury, the Comptroller of the Currency, the Treasurer of the United States, and (*italics*



mine) six members of Congress!

2 - 77.

Mr. Warburg outlines the efforts he made to force the President to provide for rotation in the office of Governor, and evidently believes it was through his insistency that the then Governor was not redesignated, although reappointed for a ten-year term.

The writer takes a languid interest only in this matter, but would present the following brief statement of the facts.

Mr. Warburg states that two appointive members of the Board had an interview with the President and strongly urged the necessity of rotation in the office of Governor.

1 - 445.

This meeting took place during the week prior to June 19, 1916.

3 Diary, p. 233.

Mr. Warburg also states that he interviewed Secretary McAdoo and gave him a memorandum on the same subject on August 3, 1916.

1 - 445.

The writer will not undertake to express any opinion as to the effect on the President and Secretary McAdoo of Mr. Warburg's attempt to force rotation in the office of Governor, but will merely point out one reason, sufficient at least for himself, why he was not redesignated as Governor, viz. - that on Monday, June 19th, and again on June 30th, he informed Secretary McAdoo that while he would be glad to be reappointed for a new ten-year term, he personally had no desire to be redesignated as Governor, and begged him not to hesitate to drop his name in that connection, and even suggested another member for Governor,

in response to Mr. McAdoo's question.

3 Diary, p. 235, 240.

On July 21, 1916, the writer informed one member of the Committee who had seen the President, of this conclusion, adding that he was now merely a disinterested spectator and would loyally support whomsoever the President might designate.

3 Diary, p. 246.

Some light on this matter may also be thrown by a quotation from a letter sent to the writer by President Wilson on August 10, 1916:

"...I can not send you a note at this particular time without expressing my gratitude and appreciation for the generous and public-spirited attitude you have taken in the matter of the Governorship of the Federal Reserve Board, as reported to me by Mr. McAdoo...."

(Signed) Woodrow Wilson.

Mr. Warburg makes another interesting statement, - that Mr. Delano was not redesignated as Vice Governor but "was sacrificed in order to save appearances for the Governor."

1 - 453.

That the writer did not consider "appearances saved" for himself by the failure to redesignate Mr. Delano as Vice Governor would seem to appear from the fact that on June 19, 1916 (3 Diary, p. 235), on June 30, 1916 (3 Diary, p. 240), and even as late as August 9, 1916 (3 Diary, p. 270) he suggested to Secretary McAdoo the advisability of designating Mr. Delano as Governor of the Board!

As to why Mr. Warburg was designated as Vice Governor in place of Mr.

Delano, the writer has no recollection, but he is satisfied that the designation of Mr. Warburg as Vice Governor sprang from no desire to "save appearances" for the writer.

-XVI-

In summing up this unfortunate controversy, the writer would point out that the three members referred to by Mr. Warburg as the "Minority" had all had much to do with the preparation and final draft of the Federal Reserve Act, - the writer having been charged by Secretary McAdoo with the duty of examining critically all changes in the bill as passed by the House, suggested by the Senate Committee. Naturally these three members of the Board would require cogent reasons for such a radical change in the Federal Reserve Act as was demanded by the Redistricting Committee of the Board, especially after the experience of only one year's operation of the System.

These three members were perfectly familiar with Mr. Warburg's determined but fruitless efforts, while the Act was pending in Congress, to limit the number of Federal reserve banks to four, or to six as a maximum. They cordially accepted the will of Congress in fixing the number at between eight and twelve. While the writer would have preferred beginning with a smaller number than twelve, Federal reserve banks, he loyally accepted the decision of the Reserve Bank Organization Committee, consisting of the Secretary of the Treasury, the Comptroller of the Currency, and the Secretary of Agriculture, Mr. Houston, in fixing the number at twelve. The three of us were firm in the

conviction, however, that no reduction in the number should be made, - even assuming the Board had the necessary power, - unless and until the result of experience in the workings of the System clearly demonstrated that a reduction in number was absolutely necessary for the good of the System and of the country. They felt that the report of the Redistricting Committee revealed no such necessity. They felt that any attempt to reduce the number of Federal reserve banks would be resisted in the courts and would cause confusion, uncertainty, and lack of confidence in the Federal Reserve System, - a result specially to be avoided at that time when the world war was raging in Europe. Their feeling in the matter was also confirmed by the knowledge that the members of the Federal Advisory Council, - on November 16, the day following the discussion in the Board already referred to, - after informal discussion, were unanimously against any attempt to reduce the number of Federal reserve banks at the present time.

Finally, one member of the Committee and one other member of the Board, whatever their former views may have been, reached the conclusion that a reduction of the number of Federal reserve banks should not be undertaken at that time.

Thus, as once before stated, if a final vote had been taken at the meeting of the Board on November 22, 1915, wholly apart from the adverse opinion of the Attorney General, the Redistricting Committee's report in favor of reduction in the number of Federal reserve banks would have been defeated by the decisive vote of five to two, and

Mr. Warburg's "Majority" of four would have dwindled into a feeble "Minority" of two.

-XVII-

The writer believes that by thus "lifting the veil" at the point where Mr. Warburg ceased to lift it, he has exploded the myth of a combination or conspiracy on the part of the President and other officers of the United States to suppress debate in the Board; and he is firmly of the opinion that the subsequent marvellous work of the twelve Federal reserve banks in bearing on their shoulders, like Atlas, the credit burdens of the whole world during and since the war, will have convinced the most skeptical that the failure of the attempt to reduce the number of the Federal reserve banks has enured to the benefit not only of the System but, as well, to the benefit of the entire people of the United States.

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