X-6873

CONFIDENTIAL. April 27, 1931.

C. E. MITCHELL.

Review. (By C. S. Hamlin).

-I-

Banking Conditions at Time of Statement, March 26, 1929.

There was a near approach to a panic on the New York Stock Exchange on Tuesday, March 26, 1929. The break was one of the sharpest in stock exchange history. Call loan rates reached 20%, the highest figure since 1920.

The so-called direct pressure to reduce total borrowings of the banks had been in force since February 7, 1929, the date of the Board's warning.

There was a feeling abroad that the banks had finally determined to adopt the most drastic methods, and would refuse even to extend credit facilities which, under ordinary circumstances, they would have granted as a matter of course, such as to meet temporary withdrawal of funds by corporations for quarterly interest and dividend payments, or withdrawals from New York to interior parts of the country.

Brokers loans both for the New York banks' own account, and "for others" had been declining during the week ending March 27, 1929.

The call loan renewal rates were as follows:

March	25	9%
"	26	12%
"	27	15%
"	28	15%

Undoubtedly one cause of the crisis which arose on that day, March 26th,

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was the acute credit stringency in Chicago, arising from the heavy liquidation on the Chicago Stock Exchange beginning on March 21st, which resulted in large withdrawals of funds from New York.

Frightened traders all over the country were selling stocks blindly on that day. By 1:30 p.m. the volume of trading on the New York Stock Exchange had reached over 5½ million shares, and the ticker tape was 58 minutes behind the market.

Under these circumstances, Mr. Mitchell, on Tuesday, March 26th, came to the relief of the money market, advancing six millions of dollars on call loans.

-II-

Mr. Mitchell's Statement.

In the afternoon of Tuesday, March 26th, Mr. Mitchell gave out the following interview, as taken from the New York Herald-Tribune of Wednesday, March 27th:

> "So far as this institution is concerned, we feel that we have an obligation which is paramount to any Federal reserve warning, or anything else, to avert, so far as lies within our power, any dangerous crisis in the money market.
>
> "While we are averse to resorting to rediscounting for the purpose of making a profit in the call market, we certainly would not stand by and see a situation arise where money became impossible to secure at any price."

Mr. Mitchell is quoted by the New York Times of March 29, 1929, Friday, as saying that his Bank was prepared to make available 5 millions for the call loan market at 16%, and a like amount for each gain of 1% up to 20%.

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He also made it clear that his action was based not so much on concern over the movement of the rates, but to kill the idea that money could not be had no matter what was offered for it. From the time the offer was made, the call money rates did not go above the minimum rate, but did go down, closing at 8%.

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The New York World of March 30, 1929, quotes Mr. Mitchell as follows:

> "Should another crisis develop, will you stand by again?" was the next question. Mr. Mitchell answered, "It can be safely assumed that we will endeavor at all times to prevent a critical situation going out of bounds. We won't be alone. Other banks will subscribe as strongly as we to that doctrine."

-III-

Senator Glass on Mr. Mitchell.

The New York Times edition of Friday, March 29, publishes an attack on Mr. Mitchell by Senator Glass, who was quoted as follows:

> "The Federal Reserve Board has adopted the administrative policy of having Federal reserve banks remonstrate with member banks against permitting the facilities of the Federal Reserve System to be used for stock speculative purposes.
>
> "This should have been done long ago, before the situation got out of hand. Now that it has been done, a Class A director of a Federal Reserve Bank, himself President of a great banking institution, vigorously slaps the Board squarely in the face and treats its policy with contempt and contumely. He avows his superior obligation to a frantic stock market over against the obligation of his oath as a director of the New York Federal Reserve Bank, under the supervisory authority of the Federal Reserve Board.
>
> "Mr. Mitchell's proclamation is a challenge to the authority and the announced policy of the Federal Reserve

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"Board. The challenge ought to be promptly met and courageously dealt with.

"The Board should ask for the immediate resignation of Mr. Mitchell as a Class A Director of the New York Federal Reserve Bank.

"If the National City Bank in New York, or any other member bank of the System anywhere, imagines it is greater than the Federal Reserve System and may defy and reject the considered policy of the Federal Reserve Board, it should at least be given to understand that the President of such a bank will not be permitted to have an official part in the management of the Federal Reserve System.

"I do not know what the Federal Reserve Board will do about it, but I have a very decided conviction as to what it should do, and that swiftly.

"The whole country has been aghast for months and months at the menacing spectacle of excessive stock gambling, and when the Federal Reserve Board mildly seeks to abate the danger by an administrative policy, fully sanctioned by law, rather than by a prohibitive advance in rediscount rates, which might penalize the legitimate business of the entire country, an officer of the System issues a defiance and engages in an attempt to vitiate the policy of the Federal Reserve Board.

"Whatever his abilities as a banker may be, or however high his character, the spirit manifested by Mr. Mitchell totally unfits him for the position of director of a great Federal Reserve Bank. This is not an age for the manifestations of a Nicholas Biddle."

Senator Glass, in the New York Times of April 2, 1929, in reply to the attack of Ex-Senator Owen who had defended Mr. Mitchell, declared that the Reserve Board had the power to remove Mr. Mitchell and to compel reserve banks to refuse the rediscount privilege to those engaged in speculation. Senator Glass further stated:

"Whether or not the Federal Reserve Board should have removed Charles E. Mitchell for his open defiance of the Board's authority and his avowed attempt to frustrate its administrative policy, is, of course, a matter of opinion. It was my conviction, and still is,

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"that the Board should have taken exactly that action.

"This should have been done promptly, not so much, perhaps, for the offer by Mr. Mitchell's Bank of 25 millions to a dangerously extended speculative stock market which the Board was conservatively trying to curb, as for his dramatic assertion of a superior obligation to the stock speculators over against his obligation to the Federal Reserve System, of which Mr. Mitchell is a sworn director.

"He was well aware of the policy being pursued by the Federal Reserve Board; nevertheless he set out with apparent deliberation to thwart it and to bring the authority of the Board into contempt. In this he succeeded.

"The authority of the Board to suspend or remove Mr. Mitchell or any other officer or director of the New York Federal Reserve Bank is not a matter of opinion. It is so plain that denial of it betrays ignorance of the law.

"There is no implied limitation on the procedure thus sanctioned. If there were any, it is inconceivable that it would relate to an offense involving a vitiation of the Board's vital administrative policies.

"In scores of ways the Act lodges with the central Board at Washington supremacy of control. If the President of the National City Bank, who is also a Class A Director of the New York Federal Reserve Bank, can be persuaded to believe that the Federal Reserve Act authorizes reserve banks to rediscount paper for stock speculative purposes he is too simple to hold either position. Of course, Mr. Mitchell knows better; otherwise there was no point in his public defiance of the Federal Reserve Board. He would have thrown his Bank's $25,000,000 in the speculative swirl as a customary transaction.

"This stock speculating with funds of Federal reserve banks is by law precluded, as it was distinctly intended to be. To say Federal reserve banks are not subject to the authority of the Federal Reserve Board in making loans is to betray ignorance of the law."

The New York Times of October 25, 1929, also contains the following interview by Senator Glass:

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"The present trouble is due largely to Charles E. Mitchell's activities. That man more than 40 others is more responsible for the present situation. Had the Federal reserve acted and dismissed him, the trouble might be less. The crash has shown that stock gambling has reached its limit."

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-IV-

Comment, - Editorial and Otherwise.

Representative Hamilton Fish in the New York Times of April 2, 1929, attacked Senator Glass and defended Mr. Mitchell, stating that he had averted a panic. He also endorsed the recommendation of Mr. Mitchell's Bank for an increase in rediscount rates to 6%, expressing the belief that such a step would be sufficient to end excesses in the stock market. He further stated that Mr. Mitchell's quick thinking and acting should have been commended instead of condemned by Senator Glass.

The New York Journal of Commerce, March 28, 1929, speaks of Mr. Mitchell's announcement:

"Reserve officials claim that every attempt has been made by the Federal Reserve Bank of New York, with the hearty support of its directors, to cut down the practice of resorting to reserve banks for rediscounts."

It points out that:

"At the end of 1928 local bankers rediscounted heavier in order to ease the strain in the money market, and now they propose to do so again. On the basis of such facts as these, the market and the public at large has gradually come to the conclusion that the appeals of reserve banks and their directors are not intended to be taken very literally, and that they are really in the nature of exhortations rather than in the nature of financial precept or advice. There has been a great deal in the whole conduct of the Reserve System to sustain this point of view,

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"including, of course, the well-known statement of Governor Young to a Congressional Committee to the effect that all was well, followed by speeches of bankers to the same purport, and then finally by his urgent request of last February not to loan for speculation and not to encourage speculative activities."

It also speaks of the lack of confidence which has been gradually engendered through the belief that leaders of financial opinion do not mean exactly what they say. States that it would help immensely if we could get to some definite accepted basis of understanding on the whole question which would be just as sound and forceful when one man's stocks are going down as when those of another have been subjected to pressure.

Mr. David Lawrence in the Washington Star of Friday, March 29, 1929, states that the Board has been disturbed not so much by the action taken by Mr. Mitchell as by his statement, which Mr. Lawrence quotes. Mr. Lawrence adds that:

"Naturally Mr. Mitchell had to borrow the 25 million dollars at the Federal Reserve Bank of New York, and by agreeing to loan this money the New York institution, by inference, acquiesced in his action, for the Federal Reserve Board was only interested in breaking down speculation and not in forcing a situation in which money could not be had by anybody at any price. To the extent that the New York Board of directors are presumed to have been acting in harmony with the Federal Reserve Board, the statement of Mr. Mitchell is recorded as unfortunate, in that it may be construed by the banking world as a criticism on his part of the famous Federal Reserve Board warning of February 14th."

"It was not what Mr. Mitchell did, but what he said, that caused discussion in official quarters here, and for that reason the Board itself is not likely to raise an issue at this time; in fact, Mr. Mitchell's point of view was outlined at Thursday's meeting of the directors of the Federal Reserve Bank of New York which was attended by representativesof the Federal Reserve Board at Washington."

"The Federal Reserve Board is determined to go to the limit of its powers."

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He finally added that:

"The raising of the rediscount rate is the normal weapon used, but in a situation like the present, which is abnormal, something more drastic than a mere raising of the rediscount rate is talked about. It is, in a nutshell, the ordering of the Federal reserve banks and branches to refuse to rediscount at all the paper of member banks when presented to get funds to aid speculation. It is difficult to draw the line between a speculative and a commercial credit, but the burden of proof would be on the banking institution, and the mere announcement of the order or regulation, it is felt here, would be sufficient to tell the speculative element that the Federal Reserve Board is in earnest, and will not be defied."

The New York Times, in an editorial in the edition of March 30, 1929, stated in part as follows:

"Yet it appears that the great emphasis and positiveness with which he (Senator Glass) has denounced the action of the National City Bank, and some other banks in New York, in striving to avert a money panic this past week were somewhat misplaced.

"Senator Glass seems to have confused a temporary emergency with a permanent policy.

"The banks did not come forward with funds to promote speculation but to prevent what threatened to be a serious crisis in the money market .....

"The endeavor was to surmount a threatening crisis. It was obviously successful, and the presumption was that these particular bank funds were thereupon withdrawn from the money market.

"There has been some idle talk that there was an agreement to "peg" the call money rate at 15%. The mere statement of this shows how ridiculous it is to suppose that the movement was one to bolster wild speculation. Paying 15% for money to speculate with ceases to be speculation and becomes insanity.

"Senator Glass does well to hold up the hands of the Federal Reserve Board in the efforts which it has made to keep the whole credit system of the nation from being upset.

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"In this position it is probable that the great majority of cautious and responsible bankers agree with him."

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Further Comment.

Approval of Mr. Mitchell's course.

Annalist
D. W. Ellsworth.
Mar. 29, 1929. 190 - 17.

Brooklyn Daily Eagle. 190 - 58.

Baltimore Sun
Apparently approves what he did but criticises what he said.
190 - 58.

Financial News.
April 2, 1929. 190 - 145 (2)

Fish, Hamilton, Cong.
April 3, 1929, 190 - 33.

Fisher, Prof. Irving.
April 1, 1929. 190 - 24.

Hartford Courant. 190 - 58.

New York Evening Post. 190 - 58.

New York Herald-Tribune.
March 29, 1929. 190 - 3.

New York Times.
March 30, 1929. 190 - 2

New York World.
Mar. 28, 1929. 189 - 142.
Mar. 30, 1929. 190 - 16.

Owen, Ex-Senator
Mar. 31, 1929. 190 - 14.

Spokane Spokesman-Review.
Apparently approves what he did but criticises what he said.
190 - 58.

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Springfield Republican.
Approves what he did.
Criticises what he said.
190 - 58.

Approval of Senator Glass's criticism of Mr. Mitchell.

San Francisco Chronical. 190 - 58.

Lawrence, David. 190 - 5.

Raleigh News and Observer. 190 - 58.
Neutral

Chicago Daily News. 190 - 58.

Kansas City Journal-Post. 190 - 58.
Ambiguous

New York Journal of Commerce. 189 - 138.

Resume

The above quotations seem to show that as a rule the press of the country approved, or at least did not object to, what Mr. Mitchell did to relieve the money market and to avert a threatened panic.

Many of the papers, however, while approving what he did, criticised him severely for what he said.

--VI-

Proceedings in the Federal Reserve Board.

March 28, 1929:

Dr. Miller telephoned from New York that the bankers are very angry because of Mr. Mitchell's interview; that they did not object to his relieving the market to avoid panicky conditions, but that his interview overthrew banking control of the situation and started up speculative activity anew.

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Governor Young was asked by the Board to call up Mr. Mitchell and ask him to inform the Board in writing just what he said in his interview.

March 29, 1929:

Dr. Miller stated that he met Mr. Mitchell at a meeting of the New York directors; that Mr. Mitchell was very irritable and petulant; that he (Mitchell) told him he was in a belligerent mood, and that the Federal Reserve Act must be changed to take away the power of the Board.

Dr. Miller stated that the sentiment in New York was against Mr. Mitchell as having given his interview for the selfish prestige of his Bank at the expense of his banking competitors; that other New York banks had done as much as, or more than, Mr. Mitchell to relieve financial stress.

Dr. Miller said all was going well until Mr. Mitchell gave out his interview; that we could not yet say whether that interview had blocked direct pressure or not (previously he had told C. S. H. he feared it had.)

The Board finally agreed on a letter to Mr. Mitchell, and ordered it sent. Governor Young at first objected, saying that Mr. Mitchell might put the Board in a hole. Later, however, he dictated a letter couched more moderately, and all agreed to it.

Mr. James said that the Board should remove Mr. Mitchell, as demanded by Senator Glass in yesterday's papers.

Most of the Board felt that we should send the letter and later decide what further to do.

There was little, if any, criticism made in the Board as to what Mr. Mitchell <u>did</u>, but severe criticism as to what he <u>said</u>.

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No action was taken by the Board and the matter still remains on the docket as "unfinished business".

-VII-

Correspondence Between Federal Reserve Board and Mr. Mitchell.

On March 29, 1929, Governor Young sent the following letter:

"The New York Herald-Tribune of Wednesday, March 27, published the following statement attributed to you:

'So far as this institution is concerned, we feel that we have an obligation which is paramount to any Federal reserve warning, or anything else, to avert, so far as lies within our power, any dangerous crisis in the money market.

'While we are averse to resorting to rediscounting for the purpose of making a profit in the call market, we certainly would not stand by and see a situation arise where money became impossible to secure at any price.'

"At the request of the Federal Reserve Board anf for its information, I would appreciate it very much if you would let me know whether you were correctly quoted."

On April 1, 1929, Mr. Mitchell replied as follows:

"I acknowledge receipt of your letter of March 29th asking on the part of the Federal Reserve Board, if, in a statement accredited to me in the New York Herald Tribune of Wednesday, March 27th, I was correctly quoted. You will realize that I did not write or give out any statement, but as the result of talking with a reporter for perhaps two or three minutes I was quoted in the article in question. Generally speaking, I think the reporter correctly expressed my view.

"That a credit crisis was not only threatened but did exist on Tuesday, March 26th, is a fact that has general acknowledgment.

"If there can be objection on the part of your Board to the statement, I assume it must have reference to the following words, 'so far as this institution is concerned we feel that we have an obligation which is paramount to any Federal reserve warning, or anything else.'

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"One of the actuating reasons for the formation of the Federal Reserve System was to avoid credit and currency crises and though in the formation of the System that became a Federal reserve responsibility, nevertheless I do not believe, and I do not conceive the public as believing, that such banks as ours were thereby relieved of a like responsibility, and I conclude that the obligation for the fulfillment of that institutional responsibility at any critical moment is paramount to the maintenance of a Federal Reserve Board general policy. It was our assumed obligation in that critical moment that is referred to in the article in question.

"Our position regarding the necessity of curbing speculation and of restraining the unhealthy growth of the credit structure has so often been publicly stated and so well known everywhere that I assume there is no need for elaboration thereon to your Board."

-VIII-

What Mr. Mitchell Did, as distinguished from what he Said.

The following table shows borrowings from the Federal reserve banks and call loans made (1) By the National City Bank, (2) By 22 banks in New York City, from Friday, March 22nd, through Saturday, March 30th:

(In millions of dollars)

Date	NATIONAL CITY BANK		22 banks in New York City	
	Borrowings from Federal reserve bank	Call loans	Borrowings from Federal reserve banks	Call loans
Fri. Mar. 22	14	137	114	812
Sat. " 23	0	138	157	833
Mon. " 25	25	144	191	842
Tues. " 26	24	150	177	809
Wed. " 27	35	141	190	802
Thurs." 28	-	135	154	785
Frid. " 29	-	135	137	826
Sat. " 30	-	135	154	848

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It is interesting also to note that the National City Bank in the following 12 weeks, borrowed only on 11 days.

It seems to me that the above figures could hardly serve as a conclusive demonstration of borrowing from the Federal reserve bank in order to increase call loans.

Between Friday, March 22nd, and Saturday, March 23rd, borrowings decreased to nothing, while call loans increased slightly.

From Monday, March 25th, to Tuesday, March 26th, borrowings decreased 1 million, while call loans increased 6 millions.

From Tuesday, March 26th , to Wednesday, March 27th, borrowings increased 11 millions, while call loans decreased 9 millions.

From Wednesday, March 27th, through the rest of the week, the borrowings were all paid off, while the call loans were reduced on Thursday to 135 millions and remained at that figure through Thursday, Friday, and Saturday.

Such a record would of itself hardly have justified the Board in removing Mr. Mitchell on the ground of having borrowed specifically in order to obtain Federal reserve credit for speculative uses, even though such uses, in unreasonable amounts, would undoubtedly have been in violation of the Federal Reserve Act and of the policies of the Board as announced, by Regulations or otherwise, thereunder.

-IX-

Discussion as to what Mr. Mitchell actually said in his Interviews.

The question left for consideration would seem to be whether the Board would have been justified in removing Mr. Mitchell from office

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as a Class A Director, because of what he said in the above quoted interviews.

The purport of what he said was that he considered that his Bank had an obligation, <u>paramount to any Federal reserve warning or anything else</u>, to avert, as far as it lay in his power, any dangerous crises in the money market, with an intimation, very clearly expressed, that he would not hesitate to rediscount at the Federal reserve bank for this purpose.

This was clearly, and was intended to be, a deliberate defiance of the authority of the Federal Reserve Board, and an attack on its policies as he apparently conceived them.

This defiance and attack was made by a Class A Director of the Federal Reserve Bank of New York who had taken oath that he would not knowingly violate, or willingly permit to be violated, any of the provisions of the Federal Reserve Act.

This interview, moreover, constituted a direct incentive to speculators to proceed in their orgy under the belief that the speculative market would be supported by the banks by the use of Federal reserve credit.

In my opinion, this statement of Mr. Mitchell would have justified the Board in removing him, even on the assumption, as to which I express no opinion, that his action in relieving the money market may have been justifiable, and even though, in fact, he did not secure any additional rediscounts to provide the funds he placed, or proposed to place, on the call loan market.

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Final Conclusion.

Assuming all of the above to be true, however, it was necessary for the Board to consider possible consequences which might arise from the exercise of its power of removal in this case.

It should be remembered that the banking situation at that time was in a state of high tension, and that the break was one of the sharpest in Stock Exchange history.

It should be further remembered, that even at the lowest prices of Tuesday, March 26, 1929, the industrial averages were left higher than at the peak of the boom in November, 1928, so that there was ample room for a further disastrous break should the tension continue, or should some new source of apprehension arise.

Looking backward, I fear that the removal of Mr. Mitchell at that time might have brought about the very collapse which finally came in October - six months later. If such had been the result of the Board's action, I am sure it would have felt that the price paid was too high for expelling Mr. Mitchell.

The Federal Reserve Board, as it stated in its warning of February 7, 1929, neither planned nor desired a crash in the New York stock market. On the contrary, I believe it saved the country from such a crash by its refusal to adopt the affirmative rate increase policy of the Federal Reserve Bank of New York.

The Board, by its policy of direct pressure under the 5% rate,

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simply sought to protect agriculture and commerce by gradually withdrawing Federal reserve credit from the speculative channels into which it had seeped, and I felt at the time there was at least some hope that this could be done without bringing on a crisis in the stock market.

The final crash of October, 1929, in my opinion, came not from the withdrawal of Federal reserve credit from speculative channels, but from the increase of speculative credit in those channels brought about by the avalanche of "bootlegging" credit consisting of loans "for others" over which the Federal Reserve System had no control, - which avalanche made the speculative credit structure so top-heavy that it finally broke of its own weight.

It would certainly have been most unfortunate if the Board, having saved the country from a collapse in the stock market by blocking the policy of the Federal Reserve Bank of New York in entering upon incisive, repeated increases in discount rates, had found that by the expulsion of Mr. Mitchell, under the tense banking conditions at the time, it had brought on the very crisis it hoped it could avoid through the operation of direct pressure upon banks to reduce their borrowings, and I am of the opinion that the Board showed good judgment in failing to visit this penalty upon him, however richly it may have been deserved.

In this connection, attention should be called to Mr. Mitchell's grotesque misinterpretation of credit conditions between the time of the above interviews and the final crash in October. For example, on

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September 23, 1929, he stated in an interview that there was no occasion for worrying about brokers loans or credit conditions; on October 22, 1929, returning from Europe, he stated that conditions were sound, and that many securities were selling at prices below their real value; on the same day, he announced, with almost sardonic humor, that the public was suffering from brokers loanitis!

As above stated, this matter is now on the docket of the Board as unfinished business, and can be brought up at any time for final determination by any member.

In my opinion, however, it would be better for the Board to leave Mr. Mitchell in the morass in which he has placed himself, and not incur the risk of making a martyr of him by any further proceedings.

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