February 24, 1954

Internal Memorandum

Interviews with Mr. J. Herbert Case
See interviews with Owen D. Young, July + Sept. 1955

Interviews with Mr. J. Herbert Case, now retired after a long career both in commercial banking and in the Federal Reserve System. These interviews took place on four days, during each of which Mr. Case talked for about an hour beginning at 11 a.m. In spite of his considerable age (he is over 80) his memory is sharp and precise. He has enough of the pedagogic quality which distinquishes his two sons, both of whom are presidents of colleges, so that it was possible to stop him and ask him to go back to explain things not clearly understood at first hearing. Mr. Case was an operating man in his day. He seems to have had the reputation (this comes not only from Mr. Leslie Rounds but also from one or two other people) of being more or less passive until an emergency arose then he was able to summon the extra force needed to cope with it.

Mr. Case said that he was one of five children in a family with very little money where the father fell ill and died. He himself went into banking in 1887 at the age of 15. His banking education is obviously one in which experience has played the largest part. He became skilled as a man who knew all about commercial paper. In February 1917 the Federal Reserve Bank of New York had taken in millions of dollars worth of commercial paper as collateral for war bonds and no one in the System at that time knew what to do about it. He was then receiving $15,000 a year from the City's Farmers Trust Company and was asked to go at a salary of $25,000 to the Federal Reserve. (Obviously in those days that represented much more money than the same figure does now.)

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Mr. Case met Mr. Warburg at Saranac and long discussions of the then young Federal Reserve System were carried on. The major problem was that of how the war would be financed and, said Mr. Case, "We then established the pattern for the government financing of the war." (This does not necessarily mean that Messrs. Case and Warburg by themselves established the pattern.)

The System was that the Federal Reserve of New York sold to member banks and other banks short-term Treasury paper (certificates and/or notes) worth four to five billion dollars/ ~~and~~ was ~~On~~ the patriotic plea that the banks were financing the government in its war venture. Then when the banks were loaded with short-term paper the Federal Reserve set out to sell to the public four liberty loans and one victory loan which would "bail out the banks". This was the process which it was repeated of the four liberty loans. The fifth, the victory loan, was issued late in 1918 or early in 1919. It was a much larger loan than any of the others and carried 4 3/4 per cent interest.

At that time England usedto issue Treasury bills which were 90 day paper. The United States had nothing like this. In 1929 Mr. Case was asked by Mr. Mellon (Ogden Mills was then Mellon's assistant) to go to the Bank of England and study the procedure on these Treasury bills. They had features which Mellon thought might be adoptable to the United States. Arrangements had been made with the Bank of England for this visit and the bank officers gave Mr. Case what is now known as the VIP treatment. They were met at the pier by deputy governor Cecil Lubbock in a car with a chauffeur and that car and chauffeur were turned over to Mr. and Mrs. Case for the duration of their visit. The Bank of England set aside a room

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for Mr. Case and went so far as to put his name on the door. The Bank of England was at that time correspondent of the Federal Reserve Bank of New York and the entire treatment was as of one bank official to another.

As matters progressed Mr. Ogden Mills wanted also to go. Mr. Montagu Norman said "Mills is a government officer. He must contact the Chancellor of the Exchequer and come as of one government man to another. His treatment will be that which the Chancellor dictates." Mr. Mills did not go.

It is obvious that Mr. Case remembers this visit as a high point in his career and is extremely proud of the role which he played and the treatment which was given to him.

On his return to New York Mr. Case recommended that United States adapt the 90 day Treasury bills. Mr. Mellon agreed and they were made a part of regular Treasury issue.

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Continuation of Case Memorandum

At that time the Bank of England put out for the British Treasury four to five million pounds in 90 day paper every week. They had about five billion dollars worth in Treasury bills. These revolved weekly. The bidding by banks was so close as to be almost uniform.

The Bank (Board?) put a similar system into effect in the United States and this was 1932. The New Deal did not think that the 90 day bills were enough. They began issuing Treasury bills of other periods including some for six and some for nine months. In Mr. Case's opinion this was poor business. He believed that the banks must have a cushion of liquid paper and that they welcomed the 90 day revolving bills. Those for the longer periods are neither one thing nor the other in his opinion. Neither short-term nor long-term and they merely gum up the process.

The ~~subject~~ conversation jumped to the bank holiday which is treated at greater length at a later period in these Case memoranda. Mr. Case said that there were at the time 1,200 banks in the New York district and of these some 30 per cent were in trouble. The operating problem was up to Mr. Rounds who was the kind of man that could be called on to solve a fantastic problem. As, for instance, during the week of the Bank holiday the New York Federal Reserve directors had to review the condition of everyone of the 1,200 banks. Mr. Rounds set up a system whereby this was possible. The Board met every day for all day. Rounds came in with a report on 40 to 50 banks each day with a recommendation as to whether they should be allowed to continue in business or not. The rule was that the banks had to be licensed in order

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to open. The RFC could help if they were asked by putting forth money with which preferred stock of the bank in trouble could be purchased. Obviously the directors had knowledge of where the weak spots in the banks were. Nevertheless the handling of this number of bank report in the time given was little short of miraculous. Mr. Case attributes it to the excellence of Mr. Rounds as an operating officer.

I asked Mr. ~~Rounds~~ Case whether he knew where we might get track of the Ogden Mills papers. He said that Mr. Mills had married a widow named Mrs. Fell whose son John R. Fell is now with Lehman Brothers. He suggested that a telephone call to Mr. Fell might result in an interview and some information as to where the Ogden Mills papers were. This we carried to a successful conclusion. (See Mills Memo)

The second interview with Mr. Case was February 10 at 11 a.m. Asked about the situation that led to the bank holiday, he said that the United States had emerged from war as a creditor country and did not know how to behave in that role. He would not say that the New York Federal Reserve Bank was entirely blameless in bringing on the conditions that led to the bank holiday. 1928 he described as a period in which speculation reached the height of an orgy. Washington kept putting out soothing statements claiming that a new economic period had dawned. Politics fed finance and finance in turn spurred part political statements to go still further. The New York Bank went too far in yielding to the current climate of opinion. They were said Mr. Case, asleep at the switch. The New York Banks were making broker loans higher than ever. The Federal Reserve Bank was in its turn loaning to those banks. By mid-year of 1929 both the Federal Reserve Board and the Federal Reserve Bank were worried. Their recourse was to begin raising the discount rate. They kept on raising that rate up to 6

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per cent or even higher (check the rate and the way it went up). Commercial banks' stock rose to incredible heights. The National City Bank's stock which has a ~~power~~ par of $20 and now a book value of $51 a share then was selling around $500. Not only were bank loans rising to new heights but corporations were putting their own money into the speculative machine because call money (also known as street loan) was earning 25 per cent.

The New York Federal Reserve began ~~founding on~~ frowning at more loans and trying to restrain its member banks from making loans for speculative purposes. Charles Mitchell, Chairman of the National City Bank, put 25 million dollars ~~out~~ out into the market to satisfy the demand for speculative money. The reaction was little short of scandalous.

The day of the crash stocks opened soft and off. The banks got scared and began to withdraw their loans. If a broker has borrowed 25 million dollars, all secured by stocks with a 20 per cent margin and that, loan of 25 million is called he can liquidate it only by getting another loan elsewhere or going bankrupt. That day everybody wanted their money back. One hundred million dollars or so was called in loans and in order to return the loans stocks were dumped at whatever they would bring.

Owen Young, at that time a director of the Federal Reserve of New York told Mr. Case that the General Electric Company of which Mr. Young was Chairman had 25 million dollars in government securities. This Mr. Case wanted. This eased the situation to a certain extent. Mr. Case, for the Federal Reserve Bank, put 100 million dollars into the market. ~~About purchase of governments~~ He does not know what would have happened if this small bit of flexibility had not been possible.

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Mr. Case emphasized the difference between the Federal Reserve money and commercial bank money. When the Federal Reserve issues its check for 100 million money becomes easy. When it takes this money out by selling governments the money market tightens and the available funds shrinks. Such movements on the part of a commercial bank merely wash themselves out.

Mr. Case recommended looking carefully at the inscription on the entrance to the Federal Reserve Bank of New York. The directors gave it much thought. Mr. Pierre Jay put the inscription together. It tells the purpose of the Federal Reserve System in every day language. Mr. Case is proud of it.

Asked where the papers of Pierre Jay might be, Mr. Case suggested that Mrs. Jay or Rebecca Holmes, the former secretary of Mr. Jay, would know. The latter he regarded as more likely to know than the former.

To get back to what was happening in the market on that 29th of October 1929 (check that date). The calling of loans depressed the market. No one had any surplus. There was no flexibility.

Mr. Case believes that the System had it in its power to fore-stall the crash. Montagu Norman of England had told him that are times when you must go against what the public wants. The Federal Reserve could have put on the brakes and checked the borrowing of the big city banks. "This is a controllable process" says Mr. Case. In that instance it was not controlled.

I raised the question as to whether things might have been different if Mr. Strong had lived. The latter had died in 1928 after a year or two of serious illness. Mr. Harrison new governor of the New York Bank had come from the Federal Reserve Board in Washington where he was counsel. He had been trained by Mr. Strong, but he had not yet completely taken over the reins of control, nor did he have the ability to act as fast and as

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emphatically as Mr. Strong. Mr. Case believes that had Mr. Strong been alive and in good health at the time the situation might have been very different (this ties in with Mr. Riefler's statement that the whole history of the Federal Reserve Board is one of "men in time").

When Mr. Strong died it was supposed to have been said in the Federal Reserve Board in Washington "Now we have the reins and they will never get away from us again".

(Mr. Case wants to see what is written on the basis of these interviews. Question: Should he have a copy of these rough notes or should a more orderly and continuous recital be made from them?)

Asked about Mr. Gates McGarrah, who seems to have played a part at this particular juncture in the bank's history, Mr. Case said that Mr. McGarrah was a commercial banker. His bank had been absorbed by The Chase Bank under Albert Wiggin. When Mr. Pierre Jay went abroad as reparations commissioner Mr. Case was offered the chairmanship of the New York Bank. He liked the operation end better and preferred to stay where he was. Mr. McGarrah then took the chairman post. He retired in 1929 and it is Mr. Case's belief that he probably left no papers. (Check)

The crash of 1929 was followed by paralysis and fear on the part of both the banking and the business community. It was a period of complete business stagnation.

There was at that time no FDIC. There were 11 to 1200 banks in the second Federal Reserve district which were the direct charge of the New York Federal Reserve. Great corporations were lying prone, their stock fallen to almost nothing. Nobody knew what was good or what would last for the long pull. Judgment was in abeyance. Meanwhile there was a constant weakening of member banks. Their stocks were down, their bonds were down

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and those stocks and bonds had been collateral for them. The steady process of disintegration set in which lasted to 1933.

Before 1929 there were in the country some 30,000 commercial banks and trust companies. There are now only 15,000. This must not be taken as a measure of the shrinkage which came about between 1929 and 1933. Many banks were absorbed into others. Many banks have now established branch banking and in some instances these branches would probably be individual banks had this branch banking system not flourished. However, the cut in half is not only to be explained away by these reasons. To a certain extent it does indicate the havoc wrought by the 1929 crash and the resultant disintegration.

The Federal Reserve spent the period from 1929 to 1933 sitting up with sick patients. They sent for bank presidents and bank presidents came of their own volition. Question constantly was what were the banks doing to get in fresh capital. The difficulty was that there was no fresh capital to be had. Many of them had been severely hit. There was no system for guaranteeing their deposits. There was no reservoir of capital on which they could call.

Federal Reserve officials were like conscientious doctors when an epidemic is raging. They worked nights trying to stem the disease. The difficulty was that they had no curative tools strong enough to handle the thing. (Check the figures of monthly bank closings at that time.) The Bank of United States was an example of the worst of what was happening. Its name deluded the public and there was a general feeling in the New York banking community that it never should have been chartered under that name. The bank was far from popular. When runs on it began Mr. Case wanted the Clearing House Association to put in extra capital to save it. They refused to do so.

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Mr. Leffingwell took part in the discussion. There were late night conferences.

The Manufacturers Trust then began to have runs and then the Public National Bank. Mr. Harrison was in Europe. Mr. Case worked out a proposal that the three banks in trouble should combine, with the Clearing House to provide $20 million in new capital, an advisory committee should be formed including Mr. Frew, Mr. Davison and Mr. Buckner. They asked Mr. Case to take the chairmanship of this consolidated bank. Mr. Case was loath to do it. Mr. Leffingwell persuaded him that the whole thing hung on his willingness to take the chairmanship and that he could not refuse. Coming down in a cab late at night with Mr. Burgess he asked Mr. Burgess to cable to Mr. Harrison and then he himself returned to the bank where he was then spending his nights. A bed had been set up for him in the clinic. At 4 a.m., having gone to bed very late after the conference, the telephone rang and Mr. Harrison was calling from Germany. He agreed that Mr. Case should take the chairmanship of the new consolidation, and Mr. Case thereupon agreed to do so.

There was however a hitch. The Public National Bank withdrew from the proposed consolidation. Mr. Roosevelt, then governor of New York State, sent Mr. Lehman down to plead that the consolidation should go through. One of the then distinguished bankers shook his head and said "let it fail, draw a ring around it so that the infection will not spread". Obviously, any such idea was impossible.

In May of 1931 Mr. Case, his health very much injured by overwork, went to the hospital for an appendicitis operation and did not return to business until the end of 1931.

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Meanwhile banks went on folding up all over the country. Mr. Hoover, as President, suggested that Mr. Roosevelt cooperate in making national the bank holiday which then seemed to be spreading from state to state. Mr. Roosevelt refused.

Mr. Case says that the last few days before Roosevelt's inauguration were "pure hell". Not only was the epidemic of bank closings spreading to an alarming extent, but big corporations such as Sears-Roebuck, Woolworth and Company and others which normally kept their money in Detroit, Cleveland and Buffalo began pulling cash out of the local banks in those cities and siphoning it to New York. This made a bad situation just that much worse. People began thinking they would never get their savings. They wanted gold and they stood in line to get it. (Get the record from Mr. Roelse on how much gold Federal Reserve Bank of New York lost on Thursday, Friday and Saturday before the national bank holiday was declared.) People took their gold and put it into the safety deposit vaults, leaving the banks just that much weaker.

The fourth interview with Mr. Case was on Monday, February 15. He picked up where he had left off the previous time.

The federal bank holiday lasted for an entire week. During that time the program in the New York Federal Reserve Bank was (as had been said earlier) to review conditions in all member banks and certify to the Secretary of the Treasury those that were in a condition to open. It was arranged in New York to have the Federal Reserve Board of nine members go into session at 10 a.m. every day and work until 6. A program was laid out

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whereby the examining department which was charged with analyzing reports would certify or pass on to senior officers each bank as they came to it. Mr. Rounds was charged with presenting each case in turn to the Board.

The Harriman National Bank was another instance of a bad one. Like many other banks it had by this time and during the boom days set up the Harriman Securities Company which dealt in Harriman bank stock as well as in other securities. The Harriman bank stock at that time was selling at something like $850 although it was perhaps worth $150. The head of the bank refused to let the stock drop. He had his subsidiary buy it and borrow money from the bank to carry it. Obviously this situation could not be allowed to continue. The Harriman Bank was not permitted to open. It was the only one in New York City which the Board did not license. It went bankrupt and the stockholders got little or nothing on their investments.

The Manufacturers Trust on the other hand after its period of weakness in 1929 and 1930 was bought by Mr. Harvey Gibbson who did very well with it. (It might be well to find out where are the papers of Mr. Harvey Gibson.) By 1933 the Manufacturers Trust was back on its feet again and so was the Public National Bank which also had had trouble in 1929 and 1930.

A substantial percentage of the 1200 banks in the second Federal Reserve District required no time or attention. In the four years that had passed since 1929 the New York Clearing House Association had done its own house-cleaning and had tightened up on its members' affairs. During the week of examination the Board of the Federal Reserve Bank had the superintendent of Banks of New York State sitting in with them. (Mr. Case suggests we check and be sure of this.)

The week was a fantastic one. Hundreds of bankers came to New York merely out of some obscure feeling that there might be comfort in the big city.

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Money had fled from small towns to New York, therefore New York might have money. They came to the Federal Reserve Bank of New York where a room is set aside for member bankers. Extremely worried, they needed the kind of personal comfort which can only be given by another banker. It was arranged that Samuel G. H. Turner, President of the Elmira Bank and Trust and former president of the New York State Bankers Association should spend every day at the New York Bank to reassure these worried men. Another man from Jersey also came in to work with him. This was an important piece of strategy and more than paid off. It was according to Mr. Case a "keep your shirt on" operation.

Two factors had created this deep set sense of panic. First the loss of confidence in banks on the part of people as a whole. Second the loss of confidence on the part of corporations which losing faith in their local banks siphoned their cash to New York. The local loss of individual deposits was accentuated by the local loss of corporation deposits. Detroit, Cleveland and Buffalo, the latter in the second district, were materially weakened.

Buffalo, Syracuse and Utica were much worse than some of the smaller towns and it would be interesting to find out ~~what-sh-~~ why. Why did Utica for instance have some very bad banks? Why did Elmira and Auburn escape the infection.?

Buffalo had at that time relatively few large corporations but many middle grade corporations. Many of them were tottering.

The creation of the RFC which had been under Hoover's presidency meant that there was fresh capital from government sources which could be obtained. The system was that the Federal Reserve Board could recommend that a bank be licensed providing the RFC was willing to put in a loan. Mr. Case

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thinks that 80 to 95 per cent of the banking resources were all right and were licensed.

He also told a tale of a small bank upstate with a capital of 100 million and a surplus of 50 million which had losses amounting to 150 million. This impaired the capital and wiped out the surplus. The Federal Reserve refused to license the bank. The director then came forward and put in 150 thousand dollars of his own. This repaired the capital so that the Federal Reserve could recommend licensing the bank. This did not happen in very many cases.

There were border line cases and there were areas of rottenness. It would be an interesting project to study these and find out why.

It is fair to say that the Federal Reserve Bank in each district knew where the trouble existed and where the border line cases were. The bank analysis department kept track of them and the directors were aware of them. This however did not mean that the rottenness had been repaired. It merely meant that they could deal with these more quickly when the difficulty came to them during the week of examination.

At that time Mr. Ray Gidney, now Comptroller of the currency, was working under Mr. Leslie Rounds. (Mr. Gidney should be a very valuable man. The question is whether he will like Mr. Daniel Bell be willing or able to touch high spots in a long career during a short interview.)

(Mildred Adams)

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