2014

Benjamin Strong Jr.: The Common Monetary Thread

Richard A. Naclerio
Sacred Heart University, naclerior@sacredheart.edu

Benjamin Strong Jr.: The Common Monetary Thread

Prof. Richard A. Naclerio

Sacred Heart University

Benjamin Strong Jr.

Benjamin Strong Jr. gave no speeches and did not appear in public to wax theoretically on the ways of economics and high finance. He was J.P. Morgan's workhorse, and he built his reputation and his fortune from the ground up.

Adeline Torrey Schenck married a railroader/small-farmer named Benjamin Strong, and together they had four sons and a daughter. Her forceful personality befitted Adeline, the daughter of a prominent Presbyterian writer, theologian, and minister, and her four sons continued the tradition of prominence in their respective fields. The oldest was a Princeton graduate who earned a Ph.D. from Columbia University and became a professor of neurology at the College of Physicians and Surgeons. Her second son became the vice president of the American Radiator Company and partner in the engineering firm of Meyer, Strong, and Jones. Her youngest boy went on to a highly successful career in medicine and psychiatry after earning degrees from Princeton and the College of Physicians and Surgeons.

Adeline's third son Benjamin Jr., was left no choice but to forego college because of a lack of financial stability in the family at the time of his high school graduation. Yet, he went on to become the governor of the New York branch of the Federal Reserve and one of the most powerful and influential men in the United States.[1]

In 1891, at the age of 18, Benjamin Strong left the family home in Montclair, New York, to seek his fortune in finance. After being quickly fired from his first job for of all things, poor penmanship, he entered the firm of Jessup, Patton and Company, which became John Patton and Company, which became Cuyler, Morgan and Company (as in J.P. Morgan). He started as a clerk, and by 1900 Strong was representing international investors in real estate and securities ventures.

He left Cuyler, Morgan, and Company at twenty-six, to join the Atlantic Trust Company, which in 1903, became the Metropolitan Trust Company. He married Margaret LeBoutillier, started a family, and soon settled in the prominent New York City suburb of Englewood, New Jersey. There, he and his wife entered the social circles of their community, and Benjamin met a man who would alter the course of his life forever. Henry P. Davidson was a neighbor of the Strong's and in April, 1904, offered Strong a job at the newly founded Bankers Trust Company, owned by J.P. Morgan.

Bankers Trust was an instant success. Known as a "banker's bank," it held the reserves of banks and other trust companies as a correspondent for them, and often made loans to those banks and others, so they could repair their reserve positions or strains on

---

[1]Lester V. Chandler. Benjamin Strong, Central Banker (Washington D.C., 1958), 21-22.

their leverage. Bankers Trust wrote many of these types of loans when the panic of 1907 hit the industry.

Davidson appointed Strong to a committee to determine which institutions could be saved after the panic, and which would be sacrificed. The committee answered to three men; J.P. Morgan, George F. Baker, and James Stillman. J.P. Morgan trusted only Benjamin Strong's reports and adopted him as a key advisor. Morgan was merciless, locking prominent bankers in his library and pocketing the key until they found a way to aid the institutions he saw fit to rescue. Strong summarized these trying times later in life as, "the endless incidents, some tragic, some humorous, many of them exciting or depressing, which characterized those weeks of strain and anxiety."[2]

Strong's anxieties did not end at the workplace. In 1905, his wife Margaret bore their fourth child. She was stricken with what could have only been post-partum depression and other psychological ailments, and committed suicide. His friend and neighbor, Henry Davidson, took the Strong children into his home, and Strong plunged himself into work. Then, in 1907, at the age of thirty-five, he married the twenty year old Katherine Converse; daughter of Edmund C. Converse, the president of Bankers Trust. This marriage, too, ended unhappily when Katherine left Strong, took their two daughters, and divorced him in 1920.[3]

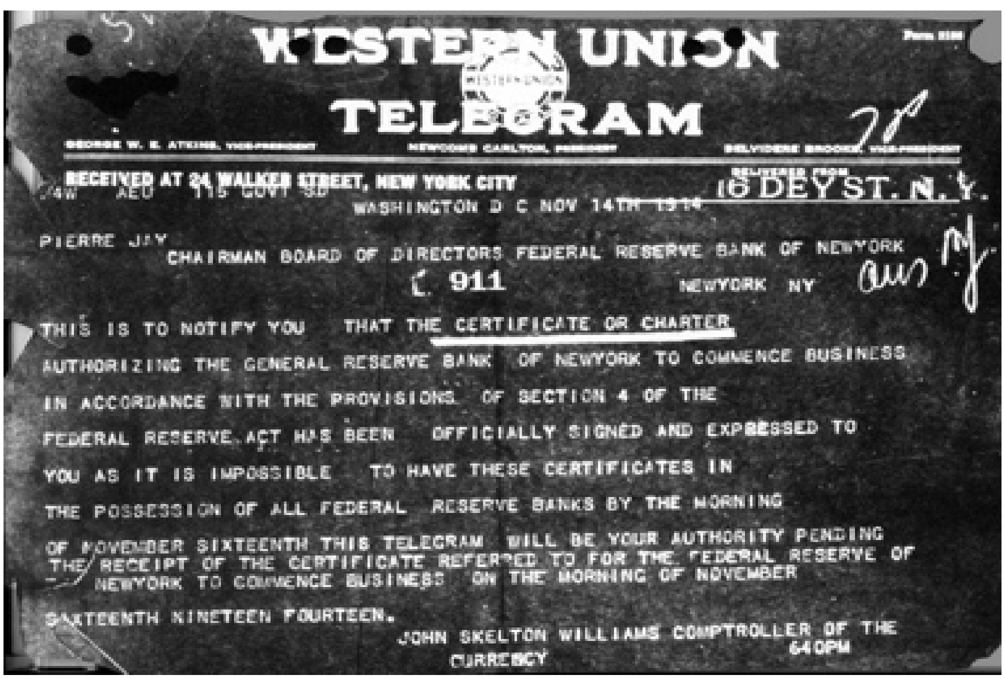
In 1909, Strong's other good friend and neighbor from Englewood, Thomas Lamont, resigned as vice president of the Bankers Trust to become vice president of the First National Bank. Strong succeeded him as vice president of Bankers Trust, working directly under his new Father-in-law. When Converse retired, Strong became the

---

[2] Chandler, 25-29.
[3] Chandler, 30.

president of Bankers Trust in January of 1914. By this time the company had merged with Mercantile Trust Company, and Manhattan Trust Company, making it the second largest trust company in the country. The position would last only ten months, as Strong resigned from his post as president of Bankers Trust, as well as from the myriad other business affiliations he had formed, like trustee of Seamen's Bank for Savings (which his great-grandfather helped found), and the boards of directors of two other trust companies, and more than a dozen railroad, public utility, and industrial corporations. He left all this, October of 1914 to accept the title of governor of the Federal Reserve Bank of New York.[4]

Below is a copy of the original telegram received from John Skelton Williams, Comptroller of the Currency, to Pierre Jay, Chairman of the Board of Directors of the Federal Reserve Bank of New York, authorizing the Bank to commence business on November 16, 1914.[5]



WESTERN UNION TELEGRAM

RECEIVED AT 24 WALKER STREET, NEW YORK CITY

16 DEY ST. N. Y.

WASHINGTON D C NOV 14TH 1914

PIERRE JAY
CHAIRMAN BOARD OF DIRECTORS FEDERAL RESERVE BANK OF NEWYORK
911 NEWYORK NY

THIS IS TO NOTIFY YOU THAT THE CERTIFICATE OR CHARTER AUTHORIZING THE GENERAL RESERVE BANK OF NEWYORK TO COMMENCE BUSINESS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 4 OF THE FEDERAL RESERVE ACT HAS BEEN OFFICIALLY SIGNED AND EXPRESSED TO YOU AS IT IS IMPOSSIBLE TO HAVE THESE CERTIFICATES IN THE POSSESSION OF ALL FEDERAL RESERVE BANKS BY THE MORNING OF NOVEMBER SIXTEENTH THIS TELEGRAM WILL BE YOUR AUTHORITY PENDING THE RECEIPT OF THE CERTIFICATE REFERRED TO FOR THE FEDERAL RESERVE OF NEWYORK TO COMMENCE BUSINESS ON THE MORNING OF NOVEMBER SIXTEENTH NINETEEN FOURTEEN.

JOHN SKELTON WILLIAMS COMPTROLLER OF THE CURRENCY
640PM

[4] Chandler, 31.
[5] The New York Federal Reserve. "Photo Gallery," http:\\www.newyorkfed.org (accessed November 20, 2012).

Benjamin Strong kept a hand-written note, which he wrote to himself, in the top desk drawer of his office at the New York Federal Reserve. It read:

> To the governor of this bank:
> Never forget that it was created to serve the employer and the working man, the producer and the consumer, the importer and the exporter, the creditor and the debtor; all in the interest of the country as a whole.[6]

In 1915 the country was enjoying liquidity and prosperity, thanks, mostly, to WWI. During this high time, Strong formed the Open Market Investment Committee [OMIC] that was comprised of representatives from district member Federal Reserve banks.

To ensure a continued strengthening economy, Strong wisely informed them not to bid against each other in the New York market for the limited supply of U.S. Treasury paper that had become scarce since the start of the war. With the economy healthy, the banks would be clamoring for more money to loan out. Strong also wanted the loan processes to go through New York to make sure all the banks in the system had access to a money market. Strong's desire for control over the entire system began to take shape early.

Strong was extremely outspoken about what he considered irresponsibility in banking and investing. He had true disdain for shady stock speculators and viewed the average American banker as a bottom-feeder and a vulture-like creature, picking at the bones of the banks' reserves during times when he felt discretion and patience better suited the economy. He was considered by many to be a snob, and a new-money elitist. The farm in Fishkill, New York was far behind him by this point in his life and career. In

[6] Chandler, 1.

a letter to Adolph C. Miller, Strong released some of his venom toward small bankers, and urged him to prepare for the worst:

> Until experience has demonstrated the contrary, I fear we must calculate that the American banker, by and large, will do in future emergencies just what he has done on similar occasions in the past. He will gather up every dollar of reserve money that he can lay his hands on and lock it up so tight that the Reserve Banks will never get a hold of it until the crisis is past. I personally saw that happen in the early 90s, 1907, and 1914. Frankly, our bankers are more or less an unorganized mob.[7]

His views on his fellow reserve banks' tactics were no less harsh in their criticism. In 1922, Strong told a Harvard audience,

> Practically all borrowing by member banks from the Reserve Banks is ex post facto. The condition which gives rise to the need for borrowing had already come into existence before the application to borrow from the Reserve Bank was made. The banks make their loans first, and then hunt for the money to fund them.[8]

Strong wished to head off stock speculators before they could "damage the economy." However, his theories only truncated the activities of the smaller investor. Large firms and individuals of considerable wealth had no use for loans at the stock speculation level. Smaller investors were obtaining credit for stock exchange investment, and Strong was intent on watching them like a hawk. In this regard he said,

> The best way to control unwise extension of credit at the stock exchange was to push the discount rates at the other 11 district Feds a percentage point higher than the rate in NY. The differential would suck money out of New York to the countryside, forcing the New York banks to call their loans to stock speculators, those being the shortest loans, and the easiest to cancel.[9]

[7] Martin Mayer. The Fed: The Inside Story of How the World's Most Powerful Financial Institution Drives the Markets (New York, 2001), 120.
[8] Mayer, 96.
[9] Mayer, 72.

His goal, to keep an eye on these investors was important to him, but he still had to balance his disdain for speculators with his main objective of furthering American business interests. Strong wrote to the head of the Federal Reserve Bank of Philadelphia:

> That orgy [of stock speculation] will always be with us and if the Federal Reserve System is to be run solely with the view of regulating stock speculation instead of being devoted to the interests of industry and commerce of the country, then its policy will degenerate simply to regulating the affairs of gamblers.[10]

Almost immediately after the formation of the Federal Reserve System, and his appointment as Governor of the New York branch, Strong was single-minded in his efforts to expand the American banking system overseas. He sought to reform the currency and bring as many banks as he could into the system to acquire as much gold reserve as possible and to develop a major international money market in New York.[11] He indicated how important this undertaking was to him in a letter he wrote in January of 1917, to Charles S. Hamlin, a member of the Federal Reserve Board:

> If I live and keep my health, you will see our bank in a close and important relationship with all the great central banks of Europe where such relationships can be of value, and it is one of the matters which had been uppermost in my mind ever since we started our organization. When that part of the work is done maybe I will retire and grow potatoes.[12]

Years later, in 1927, Strong even joined a representative from J.P. Morgan and visited Mussolini to convince him that to keep the Lira strong, he had to make the Bank of Italy separate from the Finance Ministry. Mussolini failed to heed their suggestion.[13]

---

[10] Roger W. Spencer and John H. Huston, The Federal Reserve and the Bull Markets: From Benjamin Strong to Alan Greenspan (Lewiston, 2006), 7.

[11] A "money market" is the use of a system or institution for the borrowing and lending of liquid money in the short term. Examples would be T Bills (or Treasury Bonds), municipal bonds, and bankers acceptances.

[12] Chandler, 93.

[13] Mayer, 81.

For this herculean task of networking all the central banks of Europe with the Federal Reserve, Strong knew he could not just take on the old guard of ancient European financial centers head-on. Instead he promoted cooperation with international monetary institutions. Thus, in February of 1916, with the Great War raging, he sailed to Europe to negotiate with the leaders of the most powerful banks on the continent. His focus was on the Bank of France and the Bank of England. He met with financial leaders from both Paris and London and interviewed the men who ran the banks.

His work with the French proved to be fruitless, as their noted conservatism mired definite agreements. However, the British were much more accepting of Strong's ideas and motives and he achieved much more material results with the Bank of England. In his dealings and meetings with bank officials, on March 18th Strong met the man he would have an association with for many years to come; Montagu Norman.

Strong presented Norman with a letter of introduction and recommendation from James Brown, Montagu Norman's former partner in the New York investment bank and trading company, Brown Brothers and Company.[14] That evening they dined alone in Norman's house and began forging the relationship that influenced the monetary histories of both their countries.

By March 30th Strong and the representatives of the Bank of England had drafted the *Memorandum of Conversations between the Governors of the bank of England and the Governor of the Federal Reserve Bank of New York.* Strong reported the contents of the memorandum to the reserve board upon his return to the States in April. The memorandum began: "Confidentially and tentatively agreed upon for submission and ratification by the respective institutions, with a view to be put into operation after the

[14] Chandler, 258.

conclusion of the war." It seemed unusual that the war was a non-stop conflagration at that point, and the Bank of England and the New York Federal Reserve Bank were making deals pending its conclusion. However, no one seemed to make note of this. The memorandum contained 11 points:

1.) The Federal Reserve Bank of New York to act for itself and such of the other eleven Reserve Banks as might elect to join the account.
2.) The Federal Reserve Bank of New York to maintain an account with the Bank of England; but because of the law permitting the Federal Reserve Bank to receive deposits from only their own members, and the United States Government, any accounts with it would have to be in the form of earmarked[15] gold.
3.) The Bank of England, to purchase on request prime sterling bills[16] for the account of the Federal Reserve Bank of New York, and these bills to meet "eligibility" requirements.
4.) The accounts, respectively, to be kept free of charges and commissions except for out-of-pocket expenses.
5.) "It is hoped that the Federal Reserve Bank of New York will eventually reach an arrangement on similar lines with the Bank of France."[17]
6.) No announcement, directly or indirectly, to be made regarding the contents of this memorandum without the explicit consent of both institutions.

The other five points dealt with interest rates, earmarking gold, shipment of gold, exchange of information, and cancellation provisions.[18]

---

[15] "Earmarking" is setting aside funds (or in this case, gold) to pay for something specific.
[16] "Sterling bills" is in reference to the "pound sterling" which is England's home currency.
[17] The Federal Reserve Bank of New York, led by Benjamin Strong, did reach arrangements with the Bank of France.

On April 26, 1916 the directors of the New York branch approved Strong's proposal. His plea for approval from the Federal Reserve Board was cut short because in early June, Strong was diagnosed with tuberculosis of the lungs, and his doctor ordered him to the thin air of Colorado for a year of rest and recuperation. Robert H. Treman was appointed deputy governor in his absence, but Strong continued his pressure on the Board for approval from the healthier air of the Rocky Mountains of Colorado[19]

On August 29th the Board tentatively approved the agreement with the provision that no business would commence until after the war. But the Board set off a bitter controversy between itself and the directors of the New York branch by immediately violating the sixth provision of the agreement.

Officials of the New York branch, including Strong, found out about the final approval in the newspapers. The Board sent the notification to chairman, Pierre Jay, in an envelope marked, "Confidential," disregarding the New York board, and Jay was on vacation. The press got wind of the approval, printed it, and the board of the New York branch was left out of the loop, completely. The Federal Reserve Board revealed its autonomy and fullness of power with this act.

However, all was forgiven when the Bank of England agreed to ratify the agreement and the Bank of France followed in February of 1917, with the war still raging. This relationship with both European banks was unprecedented, and Strong's vision for "our bank" to become an international powerhouse with the cooperation of the central banks of Europe, began.[20]

---

[18] Chandler, 93-94.
[19] Chandler, 94.
[20] Chandler, 94-98.

Montagu Norman worked with Benjamin Strong on almost every deal the New York Federal Reserve made with the Bank of England. The two men became such good friends that they would vacation together at Bar Harbor, Maine and the South of France. Steady flows of letters over years of collaboration kept their banking and personal relationships taut and up to date.

Norman came from a family of bankers. Both his mother and father came from prominent British banking families. He prepped at Eton, failed out of King's College after a year, and went to work at his father's banking firm, Martin's Bank, in 1882. He journeyed to America and worked at his grandfather's firm, Brown, Shipley and Company in New York. For reasons unknown he traveled across the United States and back, said to be learning about the American financial system, and then he returned to Brown, Shipley and Company in 1898. Two years later he was made a partner.

Never married and quite foppish, Norman did not look the part of a banking mogul, and before his experience in the Boer War he never did care for competition and was a lonely and isolated individual. In the war he was placed in charge of a unit whose duty was to hunt down Boer commandos. It was during this time where he found a sense of adventure, enthusiasm, confidence, and the killer instinct he never knew existed in him. He found who he was in war. He wrote to his parents, "I feel a different person now… One looks ahead with something of dismay to the time when one will again have to settle down to civilized life."[21] So, instead of civilized life, he returned to the banking industry.

A few years later he returned to England and was elected as the director of the Bank of England in 1907. By 1918 he was the deputy governor, and in 1920 he became governor. The traditional practice at the time was that the governorship of the Bank of

[21] [21] Liaquat Ahmed, Lords of Finance: The bankers Who Broke the World (New York, 2009), 26-27.

England was rotated after two years. Norman, unaffected, served for twenty-four years in succession.[22]

The United States and Brown, Shipley and Company have a long and storied history together. J.P. Morgan Company began as George Peabody and Company, which began in 1814 as Peabody and Riggs, in Georgetown, District of Columbia, dealing in dry goods and operators of the Georgetown Slave Market. In 1815 they moved to Baltimore to be closer to the supply of both dry goods and slaves. From there, Peabody's business through importing and exporting began to flourish in London. So he then established the firm of George Peabody and Company in London. He was able to make this seamless entry into the London business scene with the help of his British friend in Baltimore, Alexander Brown. Alexander Brown possessed his already established firm in Liverpool called Brown Brothers, and operated Alex Brown and Son out of Baltimore. Back in 1801 he founded Brown, Shipley and Company, which remains to this day as the oldest banking house in the United States; presently operating as Brown Brothers Harriman, of which Prescott Bush (Father of former president George H.W. Bush, and grandfather of the more recent former president George W. Bush) was a partner.[23]

During WWI, Benjamin Strong's good friend, and fellow Morgan man, Henry P. Davidson also traveled to England when Strong was there, meeting with Montague Norman to hammer out the *Memorandum of Conversations between the Governors of the bank of England and the Governor of the Federal Reserve Bank of New York*. Davidson represented the great interests of the J.P. Morgan Company in the overseas war effort.

---

[22] Chandler, 258-262.
[23] Eustace Mullins, Secrets of the Federal Reserve: The London Connection (Staunton, 1984), 48-49.

J. P. Morgan adroitly used these long-standing ties with the British investment banks, his emissary, Davidson, and his former "lieutenant," Strong, to get the "House of Morgan named as the sole purchasing agent in the United States, for the duration of the war, for war material for both Britain and France."[24]

After WWI, the League of Nations required a certain aloofness from U.S. banking and business interests. But Strong had made his intentions very clear about financing reconstruction programs for allied countries after the war. After the armistice of November 11, 1918, Strong wrote to Montagu Norman, "There is no doubt that much of the world's happiness in the future will depend upon the relations now being established between your country and ours." The Bank of England and the Federal Reserve began drawing the plans for the design of the world's new economic landscape.[25]

Since Norman was not only unbound by the restrictions of the League of Nations, many of Norman's associates were on the League's Financial Committee for relief, reconstruction, and stabilization. The League was one of his principal channels for floating loans to beleaguered countries through any central bank he wished. Since Strong and the New York Federal Reserve represented the world's greatest economic power, and the largest monetary gold stock in the world, it was the largest potential source of international loans, and the two men collaborated despite both U.S. and global political restrictions.

To Strong and Norman, the United States and British post-war governments were dominating them with monetary policy intervention, and they did not believe either government had their best interests in mind. So the two men worked together through

---

[24] Murray N. Rothbard. The Case Against the Fed (Auburn, 2012), 70.
[25] Ahamed, 132.

central banking, in the face of government reprisal, and succeeded by using loopholes in the charter of the League of Nations.[26]

This was one of the catalysts that sparked the friendship and association of Strong and Norman, which in turn formed a banking coalition between the United States and England that would influence the entire economies of both countries, and even the world's. The whole time, the two men conducted their business while continuing to thumb their noses at their own political leaders.

[26] Chandler, 262-263.

Sources Cited

Ahamed, Liaquat. *Lords of Finance: The Bankers Who Broke the World.* New York: Penguin Books, 2009.

Chandler, Lester V. *Benjamin Strong, Central Banker.* Washington D.C: The Brookings Institute, 1958.

Mayer, Martin. *The Fed: The Inside Story of How the World's Most Powerful Financial Institution Drives the Markets.* New York: The Free Press, 2001.

Mullins, Eustace. *The Secrets of the Federal Reserve: The London Connection* Staunton: Bankers Research Institute, 1984.

New York Federal Reserve Bank. "Photo Gallery," http:\\www.newyorkfed.org (accessed November 20, 2012).

Rothbard, Murray N. *The Case Against the Fed.* Auburn: Ludwig von Mises Institute, 2012.

Spencer, Roger W. and Huston, John H. *The Federal Reserve and the Bull Markets: From Benjamin Strong to Alan Greenspan*. Lewiston: Edwin Mellen Press, 2006.