



Benjamin Strong, Jr., Ben Bernanke Where we are now and what needs to be done.

Many believe that Mr. Strong was one of the causes of the Great Depression.

The following is courtesy of Wikipedia, the online free encyclopedia.

"Strong was involved in the establishment of the Federal Reserve System. After the panics of the 1890's, leading bankers believed a private central bank should be created to issue money. (Prior to the establishment of the Federal Reserve money was printed by individual banks). The public was opposed to the establishment of a central bank. Strong, who was Vice President of Bankers Trust of New York, was JP Morgan's emissary to a secret meeting at a private club in Georgia with a select few from the New York financial community. What came to be known as the Aldrich Plan was drafted by these men during their conference. While the plan was never approved by Congress, it did serve as the model upon which the Federal Reserve was created with, however, significant changes that placed control into political hands (via the Board of Governors, selected by the President of the United States and limited the role of professional bankers in its operation to that of the 12 branches. The term Central Bank purposely was kept out of its name, as Paul Warberg who was a partner in a New York banking house warned the bill would not pass.

A bill creating the Federal Reserve was approved by Congress, after much heated debate, three years later on December 23, 1913 after initial hesitation on the part of President Woodrow Wilson and after a conference between Wilson and Bernard Baruch, one of his largest campaign donors. Strong became President of Bankers Trust in 1914 and shortly thereafter was appointed Governor of the Federal Reserve Bank of New York."

Strong had considerable knowledge of the banking history of the United States and promoted more effective cooperation among the world's central banks, traveling extensively to carry out his objective. Economic historian Charles Kindleberger states that "Strong was one of the few American policymakers

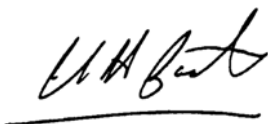
interested in the troubled financial affairs of Europe in the 1920's. He was greatly interested in maintaining stability in the international financial system."

So how was Strong responsible for the Great Depression and resultant bank failures? Strong died in 1928, just a year before the roof caved in. Subsequent Federal Reserve policy in the 1929-1930 period was one of a failure to provide liquidity to the system by rapid decreases. It took President Hoover and a bipartisan Congress to form the private Reconstruction Finance Corporation that we previously discussed in our communication entitled "*Congress gives thumbs down to the bailout plan.*"

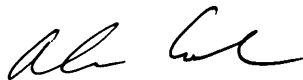
Why write a litany about a man who has been deceased for 80 years and why is this relevant? Strong was a believer in using monetary policy to provide liquidity to stressed financial systems. Ben Bernanke is a student of the Great Depression and of the policies articulated by Strong. The Federal Reserve has opened the floodgates of money to the financial system and has become a publicly owned mutual fund with assets that consist of consumer debt, investment bank securities, equity in commercial banks and commercial paper. While we disagree with the TARP plan (Troubled Asset Relief Program), it has been established and needs to proceed post haste.

Why are the global equity markets falling in freeform? We believe it is not because of a crisis in valuations, but a crisis of liquidity. It is telling that a consumer can obtain a car loan or a home loan, but businesses can't borrow regardless of credit. The system has shut down, here and abroad. We believe that the Fed needs to further cut interest rates and in a coordinated way with the central banks of European countries. (Alas, due to squabbling and posturing, there is no real European Central Bank.) Today is a start but another step remains - the forced mergers of banks that are not strong - accomplished without taxpayer funds. The Fed's Solomonic decision in splitting Wachovia between Wells Fargo and Citigroup is an example.

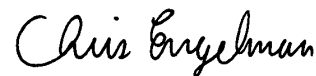
A coordinated global effort is needed to solve the liquidity crisis. Recent moves suggest central banks are finally addressing the problem in a manner that will prove more effective than the ad-hoc band-aids employed in the past.



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