

15-17  
September, 1955

11

Internal Memorandum

Owen D. Young Papers

EC-#27

Roy 265

Cable of March 11, 1929 to Harrison concerns the probable raise in the British bank rate and the rate in Amsterdam.

This was followed by a cable from Harrison to Young dated March 13th. This must be in the New York Bank.

Situation was as follows, "February 28, our directors with Mr. Woolley absent unanimously agreed conditions still made an immediate increase advisable, especially in view of approaching Treasury financing which was to be announced on the following Thursday, March 7th.

'But Roy Young had advised me officially on telephone that Federal Reserve Board would not approve increase that day even though it meant probably delay of three or four weeks on account of Treasury operation.

'Directors therefore voted no change, not desiring to make futile gestures merely as a matter of record.

'Still believing urgency so great, I went to Washington Saturday, March 2nd, hoping that through <sup>Roy</sup> Young and Mellon it might still be possible to procure approval before announcement of Treasury program March 7th. (2c)

'Both Mellon and <sup>Governor Roy</sup> Young appeared to agree to continuing hardening of all outside rates would make our increase inevitable sooner or later. They questioned how much good it would do and felt it might probably just as well wait until Treasury operation is over.

'... But my best judgement is that a majority of Federal Reserve Board will probably be ready to approve by time Treasury operation makes it proper, that is, March 28th, or even possibly through March 21st."

March 16, 1929, Harrison wires Mr. Young as follows, on the part of Mr. Woolley, "Have read your telegrams March 12th. The gold situation abroad is grave and demands action." Reasons for Board's delay are given, and suggestions made for sidestepping it.

Following cable from Harrison contains this paragraph, "Finally the System appears already to have lost some prestige through a failure to follow up with action warnings which were based upon the conditions that are little if any improved."

Young replies saying that "Whether wise or not, we are committed to the policy of a high rate program by the announcement of the Federal Reserve Board and our own action. To change our policy now would be misunderstood, or at least not understood, both at home and abroad. The central bank heads here and the technicians all seem to be agreed that the traditional method of control of our market through rate increase is the wise one. The fact that they are willing to take the increased strain on their resources which will inevitably come from our rate increase indicates their sincere belief in the method. They expect, of course, that if a high rate policy is adopted, it will be consistently carried out until we are in control of our own market and then that relief will come. They expect it to come quickly. Otherwise their position will be more dangerous than at present. Therefore, in view of our policy at home up to date and this unanimous opinion here, I personally would hesitate to take the responsibility for a low rate program now. It is essential, however, that we adopt one program or the other and act on it promptly and firmly because we cannot stay where we are. Approval of President and Secretary of the Treasury would be necessary."

Result was that Board refused to approve rate raise.

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