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Authority EX 12356

By EC NARA Date 8/23

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

August 17, 1928

Dear Mr. Cunningham:

I was mighty glad to get your letter of August 11, expressing your views relative to the present situation. We had an open market committee meeting last Monday and after four days of discussion took action on the recommendation of the committee. I am sending herewith a copy of my letter to Mr. Harrison. The Board was in unanimous agreement with this letter with the exception of the sentence reading, "With this understanding, the Board approves the purchase of Government securities by the committee but limits the amount to \$100,000,000". This resulted in a vote of three to two. \*]

I know this is not in agreement with the thoughts contained in your letter, but for our record I quoted an excerpt from your letter which will explain your stand and I also inserted in the record a telegram from Mr. Hamlin.

You will observe from my letter to Mr. Harrison that we strongly urge the purchase of bills with the possible resort to the Government bond market as a final expedient. I feel reasonably sure that the open market committee has the same views and I therefore do not look for any increase in the System's Government bond holdings for the present at least.

For the past five years it has taken between \$100,000,000 and \$200,000,000 of Federal reserve credit to handle the crops. Because of the position of the banks, their already heavy indebtedness, and the further fact that dropping agricultural prices may prompt many producers to hold, it would not surprise me if \$300,000,000 or more were needed this fall. If the commercial banks make these advances freely and at reasonable rates, I know of no reason why we should not accommodate member banks to this additional amount without hesitancy. If, however, the banks are reluctant to borrow from the Federal reserve banks, such attitude on their part would result in unreasonable rates to business and industry, and in that event I believe we should do what we can to reduce the borrowings of the banks by operating first through the bill market and, as a last resort, through the Government bond market.

When the open market investment committee was here we discussed discount rates, but it seemed to be the unanimous opinion that it would not be advisable to reduce rates at this time, although the members of the committee had no objection to the four banks in the agricultural sections continuing to maintain a 4-1/2% rate; in fact, they expressed the view that from the standpoint of the System, it would be highly desirable if the 4-1/2% rate could be maintained by those banks. From information which I have received in a circuitous way, I am inclined to believe that Minneapolis and Kansas City will

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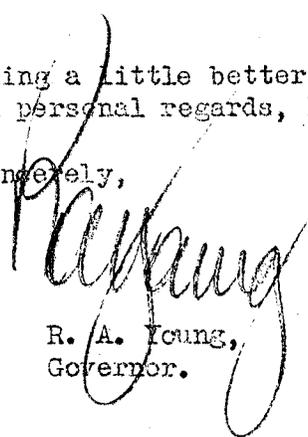
attempt to hold out. Dallas desires to maintain a 4-1/2% rate but may be compelled to go to 5%. I have had no information on the situation in San Francisco.

I was not altogether sold on the 5% rate at Chicago and so expressed myself at the time, although had I been in Washington, I probably would have respected the judgment of the directors and approved the rate. My objection to the Chicago rate increase was that there might be a reaction from business. That reaction has developed and the newspapers are pretty severe in their criticism.

There are many other factors in the situation that may result in the strain not being as bad as we now anticipate. I am not going into all the details, but will mention one thing that has developed. Foreign exchanges are dropping and some of them have already reached the gold import point. However, foreign banks of issue have large credits in this country and they are supporting the exchanges by selling dollars. That means that as they sell dollars we take over their bills or Government securities and by such action put money into the market. Ten or more millions have already been put into the market by this procedure.

I was glad to learn that you are feeling a little better and hope your condition will continue to improve. With kind personal regards, I am

Yours sincerely,



R. A. Young,  
Governor.

Mr. E. H. Cunningham,  
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