



FEDERAL RESERVE BANK OF RICHMOND

August 20, 1928.

Mr. George L. Harrison, Acting Chairman,
Open Market Investment Committee,
Federal Reserve Bank of New York,
New York City.

Dear Mr. Harrison:

We have received from Mr. Matteson, Secretary of the Open Market Investment Committee, a confidential report of the last meeting of that Committee, which took place on August 13.

I am in very firm agreement with the opinion expressed by the Federal Reserve Board, as set forth in the minutes of your Committee meeting, to the effect that no purchase of government securities should be made by the Committee except as a last resort, which I take to mean under conditions radically different from those which now exist, and only in case credit for business purposes could not be obtained except at rates materially higher than those which now prevail. It does not appear to be open to question that any credit injected into the market by the Federal Reserve System would be seized upon for other than business purposes if it were possible to obtain it. My own opinion is identical with that expressed in the August circular of the National City Bank of New York, which states that the only absolutely effective check upon credit expansion is by making credit sufficiently costly to all borrowers.

It may be desirable that the Committee should have authority to purchase government securities in a limited amount, which the Board has fixed at \$100,000,000, and that in extreme emergency this power should be exercised. I have very grave doubts whether it should be exercised in any event, and whether the situation should not be made to correct itself through whatever operations the member banks may feel called upon to take. The initiative should be in their hands and should not be taken by the Federal Reserve System in the present situation. Our directors are on record that this bank should not only not purchase government securities but that it should sell those which it has. When that decision was taken by our directors, our holdings of governments was considerably larger. They were sold through the Committee until at the present time our holdings are extremely insignificant, being little above \$3,000,000. Until that position is altered by our directors, this bank will not participate in any purchase of government securities.

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By EC NARA Date 8/13

Mr. Geo. L. Harrison, Acting Chairman,
Open Market Investment Committee, Pg.2.

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Nobody can contend that business in the aggregate has been hurt by current high rates for money because business has improved. There are or may be complaints from individuals and individuals may feel it to some extent. As for business at large being hurt (big business being represented by the corporations), according to the best information available, it has tremendously aggravated the present situation by lending in the market for the purpose of carrying securities. Business should come into court with clean hands before it pleads for lower interest rates.

We are prepared to admit that the situation is an extremely perplexing one, but to my way of thinking the Federal Reserve System has been dragged into the situation against its will, and those who have dragged it into that position should lie in the bed which they have made for themselves. The public and the banks at large seem willing to take any but the perfectly natural and logical course to relieve the credit situation, and that is by liquidation of credit in the same direction in which such huge amounts of credit were absorbed. There is no other real cure for the situation, and I think we should recognize it, and the very most we should do is to endeavor to ameliorate too great extremes.

I note with very keen interest that we were called upon to take over acceptances for the account of certain foreign banks, and that we may even be called upon to take over government securities for such banks. That is highly regrettable, although we may not be able to avoid it.

Our position in plain is that if more credit is needed for business this fall, the situation should remain such as to compel its release by those who have absorbed credit for other than business purposes rather than by putting more Federal reserve funds into the market, which while it might have a temporary effect of easing interest rates, if we are to believe the evidences of our senses, would almost certainly have the effect of stimulating the activities of those who have been responsible for using credit in huge amounts, and thus contribute to its further absorption in the same direction.

I will thank you to make these views known to the Committee on behalf of our bank.

Very truly yours,

GJS-CCP

(Signed) GEO. J. SEAY,
Governor.