

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF VICE GOVERNOR

August 4, 1927.

Dear Mr. Hamlin:

Following our telephone conversation this afternoon I thought it would be well to give you the full facts with relation to the Chicago matter as they stand. The Governor was very much disturbed by the appearance of the item in the "Wall Street Journal", and sent the following telegram to Mr. Heath:

"The following appears as a Chicago item in Wall Street Journal, August 4, 1927: 'Further Bank Rate Reductions' - 'Chicago - Federal Reserve Bank of New York may be expected to reduce its discount rate in next few weeks following action by Boston and Cleveland banks, it is declared in high banking circles here. Federal Reserve Board last week requested Chicago Reserve Bank to reduce, but directors positively refused on grounds that there was no basis or necessity. Kansas City was then chosen. Boston and Cleveland have agreed to go along with Reserve Board wishes.' This clearly appears to be a flagrant violation of confidence on the part of those rightfully having intimate knowledge of situation, as well as a distortion of fact. You are directed to report thereon immediately by wire."

I disapproved sending the telegram in this form over open wires because of the sentence "This appears to be a flagrant violation of confidence on the part of those rightfully having intimate knowledge of situation". Clearly this statement confirmed the statement contained in the Chicago item, viz: that the "Federal Reserve Board last week requested Chicago Reserve Bank to reduce * * * Kansas City was then chosen. Boston and Cleveland have agreed to go along with Reserve Board wishes." It seemed to me that to send all this over open wires was to make pretty certain that a lot of people would know about the action of the Board. The telegram was, nevertheless, sent, initialed by Governor Crissinger, Mr. James and the Comptroller. The Governor then sent to Mr. Cunningham the same telegram with this introduction "With the approval of three of four members of Board present, I have today wired Heath as follows." At the end of the quotation of the telegram to Mr. Heath he said,

"In view of foregoing, same three of four members of Board present in favor of initiating and making effective immediately lower rate for bank in question. I am trying to get in communication with Hamlin. Please wire or better call me on telephone to advise how you would vote."

You understand, of course, that the telegram to Mr. Heath was repeated in between these two sentences and the whole thing sent in an open telegram, which I think was extremely unwise, without regard to the policy. I have talked with

Mr. James and think I succeeded in convincing him that no hasty action should be taken, and I made the point that such action could not be obtained without a Board meeting ^{with a quorum actually present} and that members could not vote by telephone. The Governor admitted to me in conversation afterwards that it made no difference whatever whether Chicago reduced its rate now or some time later.

About 2:15 P. M. or perhaps a little later the Governor called me at the Cosmos Club, stated that Boston and New York had reduced their rates and that he and Mr. James had approved them. I told him I would join them, and on return to my office initialed the approval. The Governor had gone I think when I got back here, for I haven't seen him since and when you called me on the telephone we found that he had already started out of town. According to Mr. Eddy's information he will not be back until Tuesday and may not be back all the week. I am going tomorrow night to Grove Beach to stay over Sunday and Monday. I shall leave there in time to catch a midnight train back to Washington, so as to be here Tuesday morning. It is evident, I think, that the Governor and Mr. James have cooled off somewhat and that no hasty action is likely to be taken.

In answer to the Governor's wire with relation to the "Wall Street Journal" item, Mr. Heath sent the following telegram:

"Chicago Item in Wall Street Journal August 4 is but a materially abridged resume of two articles appearing in Chicago Journal of Commerce this morning, copies of which I have mailed down to you by fast mail. They should be in your hands tomorrow morning. Accompanying these clippings was a letter from which I quote as follows: 'Neither of the articles in this clipping were in any sense inspired from within the Federal Reserve Bank of Chicago. I was called up last Friday after our executive committee meeting by three or four Chicago newspapers. In answer to their inquiries I merely stated that Chicago had made no change, and stopped at that point without any further discussion whatever. I know that Governor McDougal has pursued exactly the same course. I have called up Reynolds who was the only director present at our Friday meeting. He tells me that several newspapers have approached him and that he has uniformly stated to them that as director of the Chicago bank he would not discuss the matter with them. He states that David Friday was out here about a week ago and at that time Friday said in substance just about what has been actually done in reduction of rates and that others coming from the east have also had a pretty accurate forecast.'

This does not preclude the possibility that Reynolds or someone who knew the facts may not have talked with some other director of the Federal Reserve Bank of Chicago who was not present at the Executive Committee meeting. Governor Crissinger declared that Mr. Traylor knew about it but I don't know where he got that information.

With relation to David Friday, when I first got to my office on my return from Europe last week I recall hearing someone mention that David Friday had been here, or had talked with some of our people. It seems to me not at all impossible that he may have obtained in some way an idea of what was taking place. Personally I think it very unfortunate that the idea got out that the whole scheme of rate reduction was rigged up by the Federal Reserve Board.

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One thing is clear, however, and that is that the newspaper men did not know about the Open Market Committee meeting, and nothing leaked out with relation to the general plan until this Chicago item appeared. The fact that the rate reductions were started wrong end to however, naturally aroused considerable curiosity and was the subject of items in the financial columns of all papers. Some of them tried to make out that it was a farm relief proposition, but the financial experts pointed out that to lower rates in the West while leaving the rates up in New York would have the result of drawing money from the West to New York. This is, of course, in accordance with the whole theory of comparative rates, the theory on which London wants a higher rate than New York, so as to attract funds to London. It was pointed out in some of these items that such a movement of funds from the West to the East would in time lower rates in New York, and perhaps force a reduction in the New York Reserve Bank's rate. I haven't heard anything yet as to how Boston and New York happened to act together today. I did suggest to the Governor yesterday, when St. Louis came through, that it would be a good plan to suggest ~~it~~ to Boston to follow suit. Whether he did that or not or whether the Chicago item had anything to do with New York's action, I don't know.

Anyway the whole purpose of the movement has now been accomplished and it does not make any difference at all, as I see it, whether any other bank in the System follows suit or not. In my opinion, they should be allowed to follow their own time without ever any further suggestions from the Federal Reserve Board, certainly without anything in the direction of coercion or the initiation of rates. It will be interesting to see how Wall Street interprets these latest reductions, and it seems to me quite possible that they might conclude that the Board thought business pretty bad and needed a stimulant.

Yours very truly,

Edward Flatt

Hon. Charles S. Hamlin,
Mattapoisett, Mass.

The Chicago meeting referred to above was an executive committee meeting. Simpson and other members were out of town or could not be reached. No directors meeting has been held. The executive committee has authority to act on rates, but as I understand it the authority was not recently conferred and it is natural for that executive committee to postpone action until the directors can be further consulted.