TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

332.

December 10, 1919.

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Morss, Boston
Passmore, Philadelphia
Wellborn, Atlanta
Miller, Kansas City.
McDougal, Chicago

Board believes that in order to discourage speculation and check loan expansion it is necessary to use discriminating judgment in making discounts and advancements as provided in Section Four, and to have member banks understand that resources of system are not unlimited. Board realizes, however, that advances in rates constitute an important element in making member banks and their customers understand need of such discrimination and limitation. Treasury position at present is sufficiently favorable as to warrant abolition of preferential rates in favor of paper secured by Liberty Bonds and Victory Notes. Maintenance of four and one-half percent rate on Treasury certificates seems necessary to insure success of future certificate issues, but maintenance of this rate involves no great danger of expansion as that rate affords no profit to banks carrying certificates but on the contrary offers inducement to distribute certificates among taxpayers and other private investors. Treasury does not ask continuance of four and one-quarter percent rate on four and one-quarter percent certificates. In bringing these facts to your attention Board desires to say that if conditions in your district are such as to render desirable four and one-half percent rate on all certificates and abolition of the one-quarter percent differential in favor of rediscounts and advances secured by Liberty Bonds and Victory Notes, Board is prepared to approve such changes.

HARDING

RGE

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD FILE
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TREASURY DEPARTMENT
Washington.

ASSISTANT SECRETARY

RECEIVED
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OFFICE OF
THE GOVERNOR

December 10, 1919.

Dear Governor Harding:

Since my letter of November 29th was written the situation has changed materially. The offering of 4¼% certificates of an average maturity of three months was conspicuously successful and this relieved the Treasury of risk of immediate embarrassment as to its cash position. The Treasury has offered a new series of 4½% six-months certificates with the privilege to the holders of outstanding certificates of earlier maturity to make payment for the new certificates in the old, and the Treasury looks forward confidently to the success of this offering. Apprehension concerning the coal strike and the Mexican situation is allayed and there have been some indications of renewed speculative activity and of expansion of credit for speculative purposes. Under these altered circumstances, while I would not be understood as proposing any specific action by the Federal Reserve Board at this time, whether as to rates or otherwise, I should not wish the views expressed in my letter of November 29th to stand in the way of any action which the Federal Reserve Board might now desire to take.

You will, of course, have in mind that on December 15th some $850,000,000 of income and profits taxes are payable, while the Certificates due on that date amount only to $640,000,000, and that payment for the new issue of 4½% six-months Certificates will be made on and after December 15th. These things will involve a very heavy strain upon the money market and the possibility of grave financial stringency. The Treasury is taking steps to relieve the situation by offering to redeem on and after December 15th the Certificates due on January 2nd. Danger signals have already been thrown up in the form of high call money rates this week. The situation at the moment is, therefore, one which to my mind suggests the importance of extreme caution on general grounds rather than because of the Treasury's position.

Very truly yours,

R. C. Leffingwell

Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.