

June 15, 1955

Internal Memorandum

Progressive Discount Rate in Kansas City

This memorandum supplements material in the memorandum on Mr. Phillips and was gathered from material in the Kansas City files. Regrettably those files seem not to go back of 1920, although I have a strong suspicion that if the dead files on the 20th floor were searched, more information could be found. For some reason, I was not able to spur the file head, Mrs. Skinner, into the search; ~~and~~ she kept protesting that there were no files there earlier than 1920.

According to the file data, the progressive discount rate was adopted in Kansas City April 17, 1920. Its soundness was endorsed in principle, and member banks asked the board of the Kansas City Federal Reserve Bank to continue it in this district. Requests were dated, from Kansas City June 4, 1921, from Oklahoma May 17, 1921, from Colorado May 7, 1921.

A letter from Edmund Platt of the Federal Reserve Board dated August 19, 1922 says that a Senate resolution on the subject of the progressive discount rate was then pending. Congress asked the Board to get from the Federal Reserve Banks of Atlanta, St. Louis, Dallas and Kansas City statements showing where a discount rate 10% or more was charged. Mr. Platt forwarded this request to the Federal Reserve Bank of Kansas City.

On January 5, 1920 Mr. Houx, then president of the Kansas City Livestock Exchange, protested to the board of the Federal Reserve of Kansas City on their raising rates on agricultural and livestock securities. He sent a telegram to Carter Glass on this subject.

Going back in the files, a letter from Joe Zach Miller dated January 1, 1920 to Governor W. P. G. Harding suggests a graduated charge for accommodations to any member bank in excess of its capital and surplus. It is this letter which lends color to the Kansas City claim that the progressive discount rate was invented there, and it is because this letter exists that I tried so hard to go back into the correspondence of 1919.

A letter exists in the files from Mr. Elliott, then counsel of the Federal Reserve Board, saying that the progressive discount rate is legally not feasible. However, Mr. Harding swung around to it, and an amendment was passed April 13, 1920 allowing it. By April 3, 1920 three Federal Reserve Banks were recommending it, according to a wire sent by Harding on April 16, 1920 to Joe Zach Miller.

The progressive discount rate was suspended August 11, 1921, and the Federal Reserve Banks were accused of profiteering.

Senate Document No. 291 of the 67th Congress is entitled, "Interest Charges of Federal Reserve Banks." This was printed in Washington in 1923.

Apparently the whole thing came out at the Agricultural Inquiry, and it is possible that more detail exists in that than I have been able to find in the files.

February 24, 1920 and February 25, 1920, a hearing was held before the Board on the complaint of the state banks of Nebraska against the alleged methods of check collection of the Federal Reserve Bank of Kansas City. The verbatim of this hearing exists in Kansas City. (This should be in separate notation and put on a card for the bibliography. It has nothing to do with the progressive discount rate and is only here because I got the information at the same moment.)

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