

Internal MemorandumProgressive Discount Rate

The problem of the inception of the progressive discount rate which sent me to the files in Kansas City still has question marks about it. I asked the file division of the Federal Reserve Board to turn me up what they could, and their file (#332.2) on Bank Credit, FRB Kansas City, begins with a telegram of April 14, 1920 from J. Z. Miller to Governor Harding saying that the Kansas City Bank was about to adopt the progressive discount rate and wanted the Board's approval. This file did not contain the original of a letter from Mr. Miller dated January 1, 1920 to Governor Harding of which I found a carbon in the Kansas City office.

The Board file contains a letter April 28, 1920 from Mr. Harding to Mr. Miller explaining the attitude of the Board in discouraging loans to enable wheat being held for higher prices. The distinction which Governor Harding makes between money loaned for the purpose of moving commerce and money loaned for the purpose of keeping foodstuff stored for higher prices is, of course, no longer government policy. The letter would make an interesting exhibit.

There is evidence that the progressive discount idea may go back as early as 1918, but this evidence is not particularly strong. June 20, 1918 Mr. Leffingwell, then in the Treasury, forwarded to Mr. Harding an inquiry regarding the grain corporation from Mr. Swinney of Kansas City. Mr. Leffingwell asked, "Is there any reason to suppose that the Federal Reserve System will be inadequate to handle the grain movement? That is what is bothering Mr. Swinney." Mr. Harding replied that as of June 21st, "In my opinion the resources of the Federal Reserve System will be put to the test this summer in assisting member banks to carry Treasury certificates of indebtedness." He went on to say that any help for (from?) the grain corporation would help the Federal Reserve Bank of Kansas City which was already discounting largely with other Federal Reserve Banks.

File 332.005, another file on this same matter, but in this case

entitled "Progressive Discount Rates," contained a letter of May 4, 1920 from Mr. Case, then Acting Governor of the New York Federal Reserve Bank, to Governor Harding in Washington analyzing why New York does not think that the progressive discount rate is sound or feasible. This letter might possibly be worth reproducing.

Apparently John Skelton Williams was violently against the progressive discount rate. He caught hold of the case of the Henry National Bank of Abbeville, Alabama which he claimed had been charged 87 1/2% by the Atlanta Federal Reserve Bank. This was a cause celebre and created a great stir both in and out of Congress. The fight on it lasted well into 1924.

A pamphlet entitled "Interest Charges of Federal Reserve Banks," dated June 16-18, 1923, and published as Senate Document No. 291, 67th Congress, 4th session, contained a summary of this case as well as of other difficulties in the matter of interest charges.

I have written the Kansas City Bank asking if they can push their material on the subject back of January 1, 1920. It is possible that old files or Board of Directors' Minutes will show more about the inception of this idea.

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