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EDITORS: Following statement of the Ninth Federal Reserve Bank is for publication in AFTERNOON papers of Friday, August 12, and MORNING AND EVENING papers thereafter without further notice of release, unless it is countermanded.

MELVILLE E STONE General Manager
THE ASSOCIATED PRESS.

Chairman John H. Rich of the Federal Reserve Bank of Minneapolis today issued the following statement:

"The fact that the Board of Directors of the Federal Reserve Bank of Minneapolis at its regular session on August 8th failed to reduce the present rediscount rate of 6½ percent should not be misunderstood, as has apparently been the case in some quarters, by either the public or the business, agricultural and live stock interests of the district. It should be kept clearly in mind that the purpose of producing a lower level of bank rates to the borrower can in no wise be served excepting in an extremely limited way by alterations in the rediscount rates at the Federal Reserve Banks The latter rates are the price of credit to borrowing member banks. These members are limited in number and represent only one in four of the banks in the district. It is therefore obvious that the discount policy of the Federal Reserve Bank could in no wise affect either directly or indirectly the rate to the borrower at any of the 3000 non-member banks in the district. It is unlikely that it would have anything more than a very limited effect upon rates to the borrower in the remaining 1000 banks of the district which are members, since neither the Federal Reserve Act or the regulations of the Federal Reserve Board give the Federal Reserve Bank of Minneapolis any right or authority whatsoever to dictate, interfere with, or control, the rate for borrowed money at any member bank. Unjustifiable emphasis has been placed upon the rediscount rate. The public has been inclined to believe that it is within the power of the Federal Reserve Bank to make money cheap or make money dear by simply raising or lowering the rate. There is no justification either in law or infact for this belief. Prior to the beginning of the war the rediscount rates of the Federal Reserve Bank of Minneapolis were very low. They were substantially lower than the average bank rate in the Ninth District to borrowers. The low rediscount rate was not reflected in a lower rate to the borrower at that time. That being true, there is no justification for the argument that a higher rediscount rate at this time forces a higher rate upon the borrower. The rate to the borrower in every case will be controlled by the borrower's credit standing and by the degree in which pressure upon credit exists or does not exist.

For more than twenty months the pressure upon credit in the Ninth Federal Reserve District has been very severe. The loans of all banks have steadily increased, and during the past year there has been at the same time a serious reduction in their deposits. As a result, they have been compelled to borrow heavily from their correspondents ,and the Federal Reserve Bank, in order to take care of the requirements of business, agriculture and stock raising. These borrowings have not been accompanied in due time by the appropriate seasonal liquidation, with the result that loans have remained high, and as a consequence of the continuous heavy borrowing of customers, banks have been unable to reduce their own obligations for money borrowed to take care of the excess load.

Member banks in the Federal Reserve System will not ordinarily rediscount paper with the Federal Reserve Bank except to take care of seasonal demands or unusual strain such as this. They are affected by the Federal Reserve Bank rediscount rate only when they rediscount paper with the Federal Reserve Bank, and they pay the rate only upon such amounts as they borrow for the accomodation of their customers during periods of strain.

At the present time the excess load in the Ninth District is represented by borrowings of nearly 85 million dollars at the Federal Reserve Bank and by borrowings by member and non-member banks from other sources of not less than 125 million dollars. This total of 205 million dollars of bank obligations for money borrowed for the use and benefit of their customers indicates the degree of excess strain upon the banks of the Ninth District. It represents an amount that they have borrowed and applied to the requirements of their customers after having extended to the same customers the benefit of their full normal loaning power.

As a result of the demands of approximately 85 million dollars upon the Federal Reserve Bank from its 1000 members, it has itself been obliged to borrow and is indebted to other Federal Reserve Banks for more than 10 million dollars for money brought into the Ninth District for the relief of agriculture and live stock. Its reserves are low and it has been compelled to resort to this heavy borrowing in order to maintain them at the point required by law.

While this heavy burden rests upon all the banks, including the Federal Reserve Bank, it would be illogical and absurd to reduce the Federal Reserve Bank rediscount rate, which course would not be justified until there has been sufficient liquidation to take the Federal Reserve Bank out of the borrowing class and to remove this heavy burden for borrowed money which now rests upon the banks. The interest rate is only a thermometer of credit conditions. Its natural course is downward when money is easy and upward when credit is scarce and fully employed. The shortest way to easier money rates in the Ninth District is through general liquidation, easing the strain upon each local bank and permitting them to come into possession of free funds for loaning purposes. This can be accomplished in only two ways, namely, by the reduction of the obligations of customers for borrowed money, and by a substantial improvement in customers balances which will remove the handicap under which Ninth District banks have been suffering by reason of the reduction in their deposits.

The action of the Federal Reserve Bank of Chicago in reducing its rediscount rate was justified by the fact that it was benefited prior thereto by an improvement to the extent of 10 points in its own reserve. The non-agricultural portion of the country has liquidated with the resul that money conditions are decidedly improved. The Ninth District has not yet come to the time when it is able to market its crops, and the liquidation which should come is only beginning at this time. The thoroughness with which it proceeds and the result that it produces in reducing the burden which all banks have carried for so many months will determine the course of the Federal Reserve Bank as to its future discount rates.

It is not to be assumed that the Federal Reserve Bank of Minneapolis will not respond promptly to the effect of any substantial liquidation, to any adequate improvement in its own reserves, or to an appropriate degree of relief from the pressure which all banks feel so keenly. The Federal Reserve Bank cannot of itself produce liquidation nor have commercial banks of the district this power. It is fair to say that the district itself controls both the rediscount rate and the bank rates to borrowers, since it is in control of the process of liquidation and can accelerate it or retard it as it desires. Prompt and full liquidation will mean an early return to an easier rate basis, but no such return is probable or possible until liquidation is general and adequate.

There is no occasion for pessimism as to the outlook. The conditions which have brought about the heavy pressure upon credit, large reductions in deposits, and high interest rates, are slowly improving, and from the present date on until the late fall, should improve at a more rapid rate. It is to be hoped that the Ninth District is at the turning point, and that it can break the continuous strain on credit which began in the fall of 1919, and that by reason of the improved situation of all of its banks, it can hope for freer credit and better rates at a reasonably early date. Liquidation is, however, a condition precedent to the accomplishment of this hope.