AFTER RECESS.

The Conference met, pursuant to adjournment, at two o'clock p. m.

Governor McDougal: The Conference will kindly come to order. As stated at the time of adjournment, Governor Crissinger and his associates, have topics of outstanding importance which the Board would like to discuss, and under those circumstances, Governor Crissinger, I am going to ask you to take the Chair and go on with the meeting.

Governor Crissinger: I can state what is in my mind. Just recently the Federal Reserve Bank of New York lowered its discount rate, and it seemed to me that it would be of very great interest to the Governors of the several districts to know upon what theory they acted in lowering the discount rate; and, after hearing from Mr. Case on that subject, it would appear to me to be very important that each Governor of the various banks give his views on the discount rate, what ought to be done with it, whether anything further should be done, or what policy should govern the banks in determining whether or not the discount rate should be raised or lowered from this time on.

Having that in mind, the Board has felt that it would be very interesting to have Governor Case briefly give to the other Governors and to this meeting the motives and reasons that prompted New York in lowering its discount rate, and then I thought it would be well to have the views of the other Governors on the matter.

Mr. Case, you have the floor.

Deputy Governor Case: Mr. Chairman, I think in undertaking to give you a little resume of what happened, one should go back and review all of the year. The year has closed with the New York Bank having earning assets of $250,000,000. Some of our large banks were borrowing considerable amounts, and the money rates were fairly stable. Commercial paper in instances was quoted at 4-1/2 to 4-3/4 without change, and it ran along on just about an even keel, with some reduction in our earning assets due to currency being returned and so on, until March 15. On March 15, as a result of the Treasury operations there was a period,-- it was a temporary period--- but a period of distinct ease, and that lasted for a week or ten days.

Now, I am frank to say, in passing, that I think if our bank, the Treasnry and the Board, perhaps, together, had taken a little census of the situation we could perhaps have foreseen just what would happen, because for the first time, on March 15th, our banks were practically out of debt, the Treasury operation was an unusually large one, which resulted in the New York banks cashing in approximately $200,000,000 in the form of matured Treasury certificates and interest on Liberty bonds, with the result that they had an over-plus of funds. They had with us on March 14th about $720,000,000 of reserve, which was a normal amount, and on March 15, $840,000,000 or $850,000,000; in other words, we had $130,000,000 or $140,000,000 excess reserves that they could not use and they did not know what to do with. The Treasury had an overdraft with us of $136,000,000 or $138,000,000. I think if that situation would exist again we would undertake to do something, either in having, perhaps, the Treasury borrow direct from some of the big banks, if there was no objection to that, or possibly by our selling some of our portfolio temporarily to some of these banks, so as to exert a stabilizing influence. It is a fact that as a result of that overplus of funds, call money rates dropped from five per cent down to 2-1/2 per cent in about two weeks time.

On March 22nd, call money was listed at 2-1/2 per cent. The redemption of checks, due to the discussion that perhaps there would be a 25 per cent tax reduction, came in more slowly, and at that time, about March 15 to March 25, the condition provoked a great deal of discussion in the financial centers about the Federal reserve discount rate, and some of our financial writers and commentators began a discussion about the rate and that it should be lowered. While it is a practice of the New York Bank to discuss the discount rate regularly at each weekly meeting, and to take formal action on it---not merely pass it over, but discuss it, and then finally, by a vote, take action on it, we all felt that that situation would likely be but temporary, and that it would probably correct itself, and that is precisely what did occur.

However, after April 1, and running along until about the 15th, the trend of money rates was unmistakably lower, and on or about the 15th a number of our directors began actively discussing, and there was a discussion perhaps lasting half an hour or more, at each directors' meeting, at the meeting on the 16th, and I think on the 23rd and 30th, and on the 30th of April the directors took action.

My own judgment is, and Mr. Harrison will correct me if he has a different view, that the action was taken first with a view of bringing our discount rates more in line with open market rates, so that our rates would reflect the actual existing credit conditions, and I think the change in our rate from 4-1/2 per cent to 4 per cent did reflect just that.

On April 30th, 90-day bills, or short bills, from thirty to ninety days, were selling at 3-3/4 per cent, and short government paper, all of it, was selling way below out then discount rate. So this action was taken first with a view of bringing our rate in line with the money market. I think there was a feeling that in certain other Federal reserve districts they had some frozen assets, that is, they had some banks that were in more or less of a frozen state, and that our action, assuming that the other Federal reserve banks maintained their present rate of 4-1/2 per cent, might tend to ease that situation somewhat, to bring about more equitable distribution of credits.

Then too, I think all of us, directors and officers as well, read the report of the Federal Reserve Board very carefully and were very favorably impressed with that report. Indeed all the comments in our district respecting it have been most favorable, and we felt that our action was in line with the principles enunciated in that report. That, briefly, is the situation.

Governor Crissinger: I think it would be interesting if you would give the Governors what prompted your three merchant directors, business men, to favor it. I think that is very important, and in that way we can get what is going on in the rest of the country.

Deputy Governor Case: We have on our Board some very prominent merchants and manufacturers, Mr. Wooly, of the American Radiator Company, Mr. Saunders, of Ingersol-Rand, and Mr. Whitmarsh, of the Liggett Company, wholesale grocers, so that our directors really are in pretty close contact with business and know what the business sentiment is. I should have mentioned, and this will give me opportunity to do it, that it was pointed out by all of these men on our board that a recession in business was taking place, that sales were falling off, that there was a slowing down, and, based on past performances of recent years, the last two or three years, they could see no possible danger arising from our reduction in rates, that they did not believe it would act as an important stimulous or tonic, that it would not start speculation, but that it would have an excellent psychological effect in serving notice on the country that, so far as credit conditions were concerned, they were in a very comfortable, safe and sound position.

I will say in passing that I know all of these business men, and this is true of Mr. Owen Young, who returned just after we had taken action, were very heartily and enthusiastically in favor of reduction. They commenced talking about it some two weeks before we took action, and there were several weeks when they were rather pressing for it. I think some of the officers felt--- Governor Strong felt before he went away--- that it was imminent and was probably coming, but that we should wait and see, and that if there was a recession in business, together with an ease in money rates, that would be an indication that would justify us in taking action. So I can say that our business men on the board were absolutely unanimous--- in fact the action taken was by unanimous vote.

Governor Crissinger: I was wondering whether there were any peculiar reasons that governed Owen Young in his views about it.

Deputy Governor Case: I do not think so. I had half an hour's talk with him just before coming down here and Mr. Young told me that while he had, of course, been more or less out of touch with active business conditions while he was over on the other side, that the moment he put his foot on the soil here he began to get in touch with business conditions, meet his business associates, and he learned there was a pretty strong prevailing opinion that our rate was too high and should be reduced. He said that was his own view and he was very glad that we had taken action although, as a matter of fact, he had not been consulted, so far as I know, prior to the action of the Board.

Governor Crissinger: Governor Harding, would you give us your views on this, after having heard Mr. Case, with regard to the situation in New England, and how the rate change in New York will affect your situation there, if at all?

Governor Harding: As you all know, business in New England is very closely related to business in New York. All of the large concerns which have good rating have access to the New York money market. The Federal Reserve Bank rate of Boston I donot think is a controlling factor in that district, because whenever any concern that is independent and not tied up with any one bank as a source of credit, finds that the bank that he goes to ordinarily is out of line in its rates as compared with rates that they can get in New York or other centers, they go there.

There has been a very distinct recession in business in New England in the last few months. The textile industry is particularly depressed. A great many mills are running spasmodically, shutting down for a week or two at a time; some of them are running three days a week. The leather business is not as good as the low price of leather might lead one to think it would be. At the same time, in the face of this general depression in business, wo have a period when bank deposits are at their height, and the consequence is that the loans of Federal reserve banks to member banks are very substantially reduced. If I remember correctly, we had advances and rediscounts from member banks when I left of about $20,000,000, of which $2,500,000 was to Boston institutions, four or five of them, and the rest of it to banks outside of Boston. Of the $200,000,000 advanced in discounts to member banks, probably more than half of that amount was against government securities which they were carrying for investment. So that the discount rate, I do not think, is a factor in the New England situation at the present time, that is, the Boston discount rate.

The depression in business is not due in any sense to any curtailment of credit or to any high interest rate. It is due to broad, economic conditions. As far as the Boaston bank rate is concerned, I do not believe that any reduction in the rate would stimulate business. It might possibly stimulate buying investment securities and probably borrowing money for carrying securities on margin and speculation; but when we were advised that the New York rate was reduced we had a bare quorum of our directors present and Mr. Ripley, who is a Group 1, Class A Director, representing the largest banks, was not at the meeting. I had seen him on the preceding Monday and told him I understood this change of rate was imminent in New York and asked him how he would feel about a simultaneous reduction in our rate. He said he thought it was unnecessary, that it might be ill-advised from certain viewpoints, and suggested that, unless there was some very good reason advanced for an immediate reduction, it might be well that no action be taken and that the matter of establishing the rate, subject to the approval of the Board, be left with the executive committee. That was the action that was taken.

The country bank rate all over New England, for concerns whose credit is purely local and who have only one place to go, is usually around six per cent. With regard to the city banks in Boston and Providence, their ruling rate seems to be from 4-1/2 to 6 per cent.

A 6 per cent loan in a Boston City Bank is a slow loan, a loan that could not very well go anywhere else. But even then there is more 5-1/2 per cent paper than there is 6 per cent paper. The Boston Banks have a clearing house agreement by which their interest rate on deposits is automatically adjusted on the basis of the Federal reserve bank rate.

Governor Crissinger: What is it, half of it?

Governor Harding: Yes, at the present time.

Deputy Governor Case: That is true in New York.

Governor Harding: With a Federal reserve bank rate of 4-1/2 per cent their interest rate is 2-1/4. I believe the Boston banks are going to look at it purely from that standpoint. Two of the large Providence banks, when they heard of the action taken by New York, telephoned up to know what action was taken in Boston, and expressed the hope that no action would be taken. They were satisfied with the present rate. They are not borrowing. The Boston banks, some of them, would like to reduce their interest rate on bank balances, but those banks that would like to do that are a little bit afraid of the pressure that might be brought to bear upon them by some people who are not exactly independent of them, who would point out "You are charging us 5-1/2 per cent and 6 per cent and the Federal reserve bank rediscount rate is lowered to 4 per cent. Couldn't you do better?" I do not know what conclusion they have come to. I do not think theyhave given it much thought. I expect to see a good many of them tomorrow. Under the resolution adopted by our directors, at the last meeting with regard to the Executive Committee, which consists of the Chairman of the Board, Mr. Washburn, Mr. Ripley and myself, we can establish the rate, subject to the approval of the Federal Reserve Board, and the directors expressed the wish that if we should get an indication from the Reserve Board of any broad policy that the Board felt was desirable, and under which they felt the rate should be reduced, they wanted the Executive Committee to reduce the rate. So far I have not gotten that impression from the Board, so just at the moment I am unable to say what action will be taken.

Governor Crissinger: I think the Federal Reserve Board would like to have your personal view of it. What do you think about it?

Governor Harding: I think this, Governor Crissinger; I think possibly it might create an unfortunate impression, unless there is some important reason, if the rates of New York, Boston and Philadelphia are readjusted simultaneously; it might give the impression that they are the eastern bloc, the big moneyed interests which have gotten together for simultaneous action with a view to affecting the rest of the country. There is no question that the New York Bank discount rate which, as Mr. Case has pointed out, has been readjusted to conform to many market conditions will, in the long run, necessarily govern our discount rate. We cannot keep out of line as a permanent thing, but the impression prevailed the other day that it was not necessary to take prompt action, and the matter was simply deferred for further consideration. Our buying rate on bills has been readjusted, had to be readjusted from time to time; and at some times our rate of 4 to 4-1/8 per cent was entirely out of line with the market, and the result was we got no bills in the Boston market. After conferring with Mr. Kenzel in New York, to find out what he was doing, we readjusted our buying rate on bills to 3-3/4, with a possible shaving, on short bills, to 3-5/8, but we have only purchased a negligible amount of bills since that change was made, less than a million dollars worth.

Governor Crissinger: Do you think any harm could come from lowering the Boston rate?

Governor Harding: No, I do not see any effect from it one way or the other, because we have the same reasons for lowering it that the New York Bank had, that the rate as lowered more nearly harmonizes with broad money market conditions. It would not affect the ordinary small town borrower, because his bank would continue to charge him six per cent, which he has been paying.

Governor Crissinger: That being the case, then, ought not the rate to follow the market conditions? That is the point I am trying to get at; ought your rate not to follow, if that is true, that market conditions would warrant it, even though it might not have any effect?

Governor Harding: I say in the long run it is bound to follow it.

Governor Crissinger: What is that?

Governor Harding: I think in the long run it is bound to follow it. Those of us who were here in 1915 remember very clearly that the Federal Reserve rate in those days was negligible. A good many banks had a three per cenr rate, the gold imports were coming in more rapidly than they are now, bank deposits were increasing under the impetus of general business expansion. The banks went ahead and made the loans, the deposits frew as fast as their loans did, they did not have to have recourse to the Federal reserve banks, and it did not make any difference in those days what the Federal reserve bank rate was. The situation in the Boston district right now is that the Federal reserve bank's rate is begligible. We are carrying the majority of our advances to member banks against Government securities.

Deputy Governor Case: I would just like to add to what I said that simultaneously with our reduction in discount rate to four per cent, our directors also lowered our buying rate for bills to a minimum of 3-1/2, and our rate has been precisely as Governor Harding has indicated, We have been buying at 3 to 3-3/4, and have not bought any bills at the minimum rate established by our board, the understanding being that there was a big demand for them outside at 3-1/2, and we have not felt, under those circumstances, that it was at all necessary for us to go in and buy them.

Governor McDougal: Of course you could not get any bills unless you met the market.

Deputy Governor Case: That is true. It is true of anything.

Governor Crissinger: Governor Norris, what have you to say on the question of whether or not the rate should be allowed to remain the same?

Governor Norris: Mr. Case very kindly phoned me last Wednesday morning that the rate probably would be reduced at their meeting in New York. We had that day a full meeting of our Executive Committee. Under our by-laws the Executive Committee has no power to change the rate, but weekly makes recommendation to the Board either that a change be made, or that no change be made. I stated to the Executive Committee what Mr. Case had communicated to me, and the Committee, consisting of three, voted unanimously not to recommend any change. There was no extended discussion of the subject at that time, becase we cid not know what conditions had influenced

New York. We are not disposed to make changes unless we see a very good reason for making them. I think our board has the feeling that at times there has been what you might call a certain restlessness about the operations of the Federal Reserve System, and that while there are times when the System perhaps ought to intervene, and intervene quite actively, that there are other times when it should function purely in a reserve way and that this is one of the times when it should keep in the background and function purely as a reserve system.

Governor Crissinger: To follow, instead of to lead?

Governor Norris: At the present time, yes; for the reason that we can see nothing that requires leading. We can see nothing that is wrong, nothing that needs correction. Prices are stable, business is moving along, not at top notch speed, but in fairly satisfactory volume; the supply of credit is ample, so that we can see nothing in the situation that seems to call for correction or for any action by us.

We feel also that it would have been desirable if the

Federal reserve rates had been generally at or above the market rates, and we figure that the fairest criterion of the market rate is the rate on commercial paper. No commercial paper is being handled in our district, below our rate, and scarcely any of it at our rate. The same is true in our district as in Boston, that outside of the City of Philadelphia practically everything is at six per cent, and in the city there is no paper moving below 4-1/2, and very little at that. The prevailing rate is 4-3/4 to 5 per cent.

If we make a change in our rate it should be for the benefit either of the banking interests or the business interests of the District. So far as the banking interests are concerned, every bank in Philadelphia, with the exception of one which is borrowing quite a fair amount from us--- every other bank would certainly be opposed to a reduction in our rate, because we do not have a rule by which there is any relation between our rate and the rate that they have on out of town balances --- so that they would have nothing to gain. They would have more or less pressure brought on them to make a reduction in their rate to borrowers, because of the sentimental effect of our reduction. So far as business is concerned, it was the view of our directors that the effect of a reduction in our rate on business would be unfavorable, for the reason that the business community would accept it as an indication that the Federal reserve authorities foresaw at least a fairly long period of easy money, which is synonymous with saying it foresaw a fairly long period of slack business. If it is argued that there is a recession in business and that stimulation might now be applied, we feel that it is too early to apply that stimulus, that if the time has come for a reaction that the reaction should be allowed to run its course, provided it does not become too violent, and that after it has run a reasonable course would be the time to apply the stimulus, and not when the decline had just begun. We think that such trouble as there is with business now is the same trouble that the farmers of the Northwest are suffering from, not lack of credit, but lack of market, and inasmuch as the lack of market causes timidity of people in buying and stocking up with goods, not because of inability to pay for it or to get paid for it, we do not feel that it would do any good to business.

As you know, the committee did request the chairman to communicate with the Board and make inquiry as to whether, in the judgment of the Board, there were any national conditions, that were not local to our district and which perhaps we did not think of that we ought to consider. I do not know whether that statement has been sent, and if it has I have not had opportunity to see it, so that in what I am saying I am not attempting to state conclusions, but am just giving you my own feelings at this time, and that of the Executive committee, and that I think is probably or nearly, if not quite, the unanimous feeling of our Board.

Governor Crissinger: What is your feeling about the broad national view that should be taken of it?

Governor Norris: I do not know of any conditions that may exist in the country different from those in our district. Of course agriculture does not count much in our district, but so far as industry is concerned, we have a large representation of almost every form of industry that would be helped by a reduction in our rates.

Governor Crissinger: Your board, then, is of the opinion that you should keep your rediscount rate above the commercial rate?

Governor Norris: I think so, but I have not communicated with any member of the board, except the three on the executive committee.

Governor Crissinger: That would indicate a six per cent rate or six and a half.

Governor Norris: At the present time, I thought you said.

Governor Crissinger: No, I thought you said your commercial rate is six per cent.

Governor Norris: Only outside of Philadelphia.

Governor Crissinger: What is it in Philadelphia?

Governor Norris: When I speak of the commercial rate on paper bought and sold, as I say, it is about 4-3/4 per cent in Philadelphia today.

Governor Crissinger: We want to hear now from San Francisco.

Governor Calkins: My position at this moment is that which you express; I am desirous of listening rather than talking. I have listened with a great deal of interest, particularly to the testimony offered by the defendant. I was very much interested in the story that Governor Case told, particularly for the purpose of extracting from his discussion the reasons for the decrease in the rediscount rate, and with a preliminary apology to him, I have to say that I extracted no reason except that they thought it was desirable to reduce it, unless he intended to say that the reason was that it was out of line with the prevailing rates and the recession in business, which justifies a lowering of the rate.

I think both of those reasons are reasons to be considered, and perhaps in the absence of any other reasons, reasons that would be final, but my own view is that while our present rates are out of line with market rates, while there is possibly a recession in business in sight, the experience of the Federal Reserve System up to this time, and I can recall no exception, has been that lower rates had no appreciable effect. If changes in rediscount rates by the system have been effective, those changes have been effective through always an increase rather than a lowering of the rates.

Somebody referred to 1915. It is quite obvious that the rates of the Federal Reserve System might have gone out of sight at that time, without any appreciable effect. They did get pretty low. My opinion is that at the present time a reduction of one per cent in the rediscount rate of the Federal Reserve Bank of New York or in the entire system will have no very marked effect.

Governor Norris has referred to the disposition in Philadelphia, which he calls a Quaker disposition, of avoiding recklessness, but I think it would be difficult to find anything more restful than the rediscount rates of the Federal Reserve System in the recent past; they have rested at one point for a long time without any indication of change. I think there might be as much harm or potential harm, in too restful rates as there may be in too restless rates. The only reason for a reduction in the rediscount rates which I can pick out of the discussion so far as it has gone, a reason which has not been mentioned, and which I believe is the real reason, is that it may be desirable to lower the rate at this time for the purpose of raising it when the occasion arises.

Governor Crissinger: In other words, you think that the Federal Reserve System should keep step with the times in order to be able to take care of it in the future?

Governor Calkins: I think the Federal Reserve System ought not to stand still under fluctuating conditions outside the system.

Vice Governor Platt: What about open market paper rates in your district?

Governor Calkins: The San Francisco rate follows the eastern rate very closely. The rates in other cities in the district do not follow the eastern rate. Even Los Angeles, which, as you know, is larger than San Francisco, maintains a higher rate than San Francisco does. Our rate will come as near following the general trend as will that of Cleveland, or perhaps Chicago; but the rate in the district is as wide as the open sea. Probably the minimum at this time would be five, or possibly 4-3/4 per cent up to anything you please in the country, and in the distressed sections of the district.

I think the idea that the rediscount rate should remain definitely and permanently above the open market rate, or whatever you might call it, is pretty well exploded as a talking point. I do not think we have anything more to say on the subject.

Governor Crissinger: Governor Fancher, may we hear from you?

Governor Fancher: There has been no discussion indulged in on the part of either our board or the executive committee as to the effect of lowering the rate by the New York Bank. Our board meets on Friday, and I presume that question of rates will be up for discussion. Therefore, I am rather expressing my own views, by giving you a picture of the situation, rather than expressing the views of any of our directors.

We have been experiencing a slowing down in business. It began in March, and was quite apparent in April. The borrowings on the part of our member banks have not been very large. They showed a gradual increase up until the fore part of April, when our total advances to member banks were about $55,000,000. Of that $17,000,000 was to small country banks and the balance to banks in our principal cities. We have had a liquidation of that to the extent of about $15,000,000. The day I came away we were loaning to the small country banks about $14,000,000 and to our city banks about $25,000,000, and about half of that total was on Government securities. While we are governed somewhat by rates that may prevail in the east, particularly in New York and Philadelphia, yet I see no occasion at the present time for lowering our rate from 4-1/2 to 4 per cent.

Governor Crissinger: What harm would it do, do you think?

Governor Fancher: I do not know that it would do any particular harm, but I do not know that it would do any particular good.

Governor Crissinger: Why shouldn't the system follow the market?

Governor Fancher: I am speaking more of the prevailing rates in our own district, as the thing which may guide us in discussing rates we might make and not the prevailing rate in the centers, such as Cleveland, Pittsburgh, and Cincinnati, because they would naturally follow the rates prevailing in New York or the eastern centers. The rates are from 4-3/4, possibly I might say the minimum rate is 5, 4-3/4 in some particular cases where the borrower is in the open market and can get the advantage of the competitive rate, up to 5-1/2.

Our rate in the smaller cities ranges from 6 to 7, and in some cases the country banks charge 8 per cent, so that a reduction in our rate of 1/2 per cent would not be passed along to the country borrower, and I do not know that it would affect very much, only sentimentally, perhaps, the rates in the other centers.

I had opportunity of discussing the reduction of the rate by the New York Bank with two or three of our Cleveland bankers, and they expressed the opinion, of the hope, that our rate would remain the same, because if our rate was reduced undoubtedly they would be importuned by some borrowers for some reduction in the rate they were naming, and they thought the rates were fairly low at the present time. There is no lack of credit on the part of our banks in the larger centers. Our board will take up the rate question on Friday; I know it will be up for discussion, and I think the attitude will be, knowing what took place in the past, when the rate in New York was reduced to four and in Boston to four, and the probabilities were that we would have to follow--- but we kept pretty closely in touch with the situation with the result that our rate did not go below 4-1/2, which has been our low rate for some time.

Vice Governor Platt: Have you any clearing house regulations?

Governor Fancher: We have no clearing house regulations. The rate as charged hasn't any bearing on the rate paid.

Mr. Hamlin: How far would you have to go to pull down those eight per cent rates?

Governor Fancher: I do not think we would pull them down if we went down to three or to two and a half. That is a fixed rate. It doesn't prevail with the banks generally, but I think Governor Crissinger can think of some banks out around Ohio that charge 8 per cent pretty generally, some small banks, and that is the only rate they have.

Governor Crissinger: Why should that influence the Federal Reserve System?

Governor Fancher: I beg your pardon.

Governor Crissinger: Why should that influence your bank?

Governor Fancher: If the rate which prevails on the part of the Federal reserve bank is to benefit the borrower and benefit business generally it ought to some extent to be passed along, and I think in this case the small borrower does not get the benefit of it.

Governor Crissinger: Ought not the action of the Federal Reserve System to be based on general business and what is going on, instead of trying to regulate some little country bank down in Marion County.

Governor Fancher: We cannot regulate the bank with our rate.

Governor Crissinger: Of course you cannot do that. The banks down there have been charging eight per cent for the last six years and I presume they will continue to do it.

Governor Fancher: Yes.

Governor McDougal: Immediately, or very promptly after hearing of the change made in New York, we gave consideration to the question at a meeting of our executive committee. At that meeting there were present, among others, oub two merchant and manufacturer directors, men of the same outstanding importance as those referred to by one or two of the other speakers. Like those who have spoken before us, we too consider that the going rates for money are still a factor in guiding us as to what we should do. We try to have a different guiding basis from that which influences New York and New England, according to the statements made. They pay more attention to what they call the open market rate, whereas we, in Chicago, are considering the going or current rate for commercial purposes. In respect to that I think it is only right that we refer back to a meeting of our so-called open market committee, where we were asked at times to discuss matters with regard to the open market situation, and it was concluded at that time that if we should establish a basis for determining what open market rates were, and it was agreed and unanimously agreed by those present that we should consider, for our purposes, the open market rate as being a fair average between the going rates for commercial paper at the centers and the going rates over the country to customers in the financial centers. That thought was considered and at the time of the meeting the situation was about this: The minimum rate for commercial paper had gone up to 4-1/2 per cont, the country rates were reported to be from 4-3/4 to 5-1/2, and for our purposes we concluded that a fair average would be 4-3/4 per cent, and basis that conclusion we felt that our established rate of 4 per cent could not under any circumstances be considered an important factor, or a factor in the business depression, of which we have had abundant evidence in Chicago. It is general. It extends even into the automobile business, where it is more noticeable than at any other time in the past; but there is a depression there. The conclusion reached was that this recession might be in no way attributed to our rate which was then still below the going rate for money. It was considered and conceded that there might have been, and probably were, some influential factors which prompted New York's actions which might be peculiar to New York and did not affect Chicago. There have been some effects and there will be other effects develop, such immediate effect we know. It resulted in an increasing demand for investment at a lower return. The effect, which we have not felt yet, but which will come that is, at least, what we have in mind, will be first, that Chicago, like Boston and New York, through their clearing house regulations, have a schedule under which they pay interest to country banks based upon the rate at the Federal reserve bank. Our plan and schedule is identical with that of New York. When New York reduced its rate to 4 per cent, without any further action, automatically the rate on country bank balances dropped to two per cent. What is the result? The result naturally is that funds will naturally be shifted from New York to Chicago and to Boston, which is in the same situation, I presume, and the second effect is this, that with a discount rate established in New York of 4 per cent and a rate in Chicago of 4-1/2 per cent, strong concerns, individuals and corporations that have established lines of credit in New York, will of course use it in New York instead of Chicago. I have seen that work before .

Our conclusions were, as I have said before, that while there might have been and probably was some condition peculiar to New York, which did not affect Chicago, that for the present at least we could see no reason why the rate should be disturbed in Chicago. We could see no good that would come therefrom, and the matter, of course, has rested that way.

Mr. Miller: Suppose you lowered your rate to 4 per cent? Do you think it would have any effect upon the cost of merchants' credit in Chicago?

Governor McDougal: It would have some, Dr. Miller; it always does have some, but the benefit of it would not extend to the country.

Mr. Miller: It would tend to depress the cost of money to borrowers in the larger centers of your district?

Governor Mc Dougal: It would tend to lower the cost, of course.

Mr. Miller: Then isn't it a fair question to ask-- I think it is the universal testimony so far, strikingly so in the case of New York, admittedly so in Boston and even in Philadelphia, admittedly so in Cleveland and now in Chicago--- isn't it a fair question to ask: What right has the Federal Reserve System under the present situation to lend its influence to the holding up of the cost of money to commercial and industrial borrowers?

Governor McDougal: I do not concede that we are doing that, Dr. Miller.

Mr. Miller: You do concede what has been stated here, that a reduction in the rediscount rate will weaken the customer rates in the larger centers?

Governor McDougal: If you are going to consider if from that standpoint, you might just as well say "Why don't we drop our rate to one per cent, because it would go all the way down the scale?"

Mr. Miller: It is not a question of reducing your rate to one per cent, but of reducing it to four per cent, and while that is not a perfectly legitimate question to ask, for the purposes of the argument I will answer it by saying, "Why not? If it is true that the banks will follow down and lower the discount rate to the banks, then it strikes me that in so far as the cost of credit is a part of the cost of handling business, that we have got to have a definite attitude on the question as to whether or not, in any situation, where we think we ought to, where conditions are easy and permit of it, whether we should hesitate to lower the rate, or in other words, use our influence to hold up the price that the borrowers have to pay for money?

Governor McDougal: I cannot answer that because you are thinking along lines that I cannot understand at all. As a matter of fact, if you are going to approach it from that standpoint, you are getting away from the fact, I think, that even the Federal reserve banks are entitled to some consideration.

Mr. Miller: Perhaps I put my question in those terms, but let me put the question otherwise: Are there others besides the Federal reserve banks who are entitled to consideration in determining whether or not we should regulate the discount rates under any particular set of circumstances?

Governor McDougal: Certainly there are, and they are the business interests of the country.

Mr. Miller: We are confronted with the fact that we are on a falling market. We have had a fall of prices in the last four or five months that ten years ago would have been regarded as a very, very radical, not to say revolutionary, fall of prices. On a falling market the manufacturer, merchant and trader who invest money in inventories of any kind, are taking a very considerable risk, in other words, of having a still further fall in prices involving loss in a hoped for profit. Now, in the face of falling prices of commodities, on your theory we would be using the influence of the Federal reserve system to hold up the price of credits and hold up the price for the banker and the merchant and manufacturer who are doing business on a scale of falling prices. We ought not to overlook the fact that when prices are falling and there is an unchanged rate for money, there is a progressive increase in the cost of money, so that I should say, Governor McDougal, in the light of the discussion up to this point, the thought which is really in the minds of the men who have spoken against the lowering of the rate is that we ought to use our influence to hold up the cost of money.

Governor McDougal: But, Dr. Miller, you put a man in a pretty tight box. From your standpoint we are holding up the price of money.

Mr. Miller: Why should we?

Governor McDougal: Why shouldn't we?

Mr. Miller: Why shouldn't we? Because, as I have indicated, the cost of credit is a very important part of the cost of doing business. When business is on a falling market you do not want to add unnecessarily to the burden of business, or to the cost of credit of the merchant who is buying today at one price and running the risk of selling six weeks hence at a price which does not reimburse him for the outlay. The ordinary man to-day is taking considerable speculative hazard in making any forward commitments and he will be doing so until the price level is again stabilized, or shows a movement in the reverse direction.

Governor McDougal: If seems to me, Dr. Miller, if I understand you, that if we should pursue a policy such as you have outlined, that we are going squarely against the policy that the Federal reserve banks should pursue, if we are going to remember that these are reserve banks.

Mr. Miller: I do not see that.

Governor Mc Dougal: We are going to encourage mis-use and abuse of credit; we are going to encourage inflation, the very thing that you have expressed fear of, and the very thing that we should not encourage.

Mr. Miller: Do you see anything that is likely to lead to the abuse or e pansion of credit by reason of the action taken in New York?

Governor McDougal: It is not reflected in the dema d upon the reserve banks.

Mr. Miller: Well, is it reflected anywhere?

Governor McDougal: We do not know.

Mr. Miller: Well, it is our business to have some judgment on that.

Governor McDougal: I would like to get your judgment on that, because I do not know. There is a vast amount of surplus credit available now, at the command of the Federal reserve banks. Whether or not that supply is growing greatly less I do not know, and I wish you would tell us.

Mr. Miller: The supply is there, but the price is lower, and the demand does not match the supply.

Governor McDougal: Then that condition will have to be removed.

Mr. Miller: I do not anticipate a reduction in rate is going to lead to any inflation, nor is there any reason to suppose that it is going to lead to increased borrowing, but there is every reason, from the testimony given here, to suppose that it will lead to lowering of costs.

Governor McDougal: I think we should not lead the rates down, and that is what has been done recently by one bank. The rates prevailing, and those are the rates that have been established in the eleven banks, are still below the current rate for money.

Governor Crissinger: One of the members at the other end of the table has stated that that theory has been exploded.

Governor McDougal: No, he says that the theory that we should make that a principal factor in determining our actions has been exploded--- am I not right, Governor Calkins?

Governor Calkins: Yes, that that can no longer be looked upon as a guiding factor.

Governor Seay: You said above. The tendency has been below.

Governor Calkins: What I said was that in my opinion we could no longer maintain that federal reserve rates should be maintained above the going rate for money.

Governor Seay: They have not been; they have been uniformly below.

Governor McDougal: They have been below at all times. I still maintain that they should be as high, or a trifle higher, over a long period of years, or else we are going to be in danger of misusing the credit of the system.

Governor Crissinger: At this time there has been a great deal said about prices, without any very definite information about prices. Dr. Stewart is here and I am going to call on Dr. Stewart to give us some notion as to the price levels in the past three months as compared with a year ago, so that we will get some idea of where we are going.

Mr. Stewart: There is no mistake about it. Compared with a year ago the Bureau of Labor's index, which includes something over 400 commodities, has gone down about six per cent.

Governor Seay: Is that six points or six per cent?

Mr. Stewart: Six per cent. For a group of commodities, say 200, the weekly index shows a decline of six per cent since February, since the second week in February of this year, so that in the last three months, for something over 200 commodities, there has been a decline of six per cent. That began in the second week of

February, and has been continuous. It coincides roughly with the slackening in trade and in production, so that I should say for the last three months the indication that prices have given has been borne out by the other information on trade production and as to slackening of industrial activity.

Governor Crissinger: You might give the percentage of falling off of production.

Mr. Stewart: Production had a marked spurt the first month of the year. December was the low point. January was higher. February remained about the same. March was three per cent lower than February. Employment did not pick up as much as production did. Apparently what happened was a curtailment of operations, with a reduced schedule of work, so that employment is now about two per cent below where it was at the high point in the latter part of 1923. Trade in March was influenced no doubt by the late Easter, so that roughly the trade figures reported for that month are lower than the downward trend would indicate. Wholesale trade is lower by several per cent than a year ago, and apparently for this month the weekly figure so far shows further curtailment of production.

Governor Crissinger: Are there any questions before we continue our discussion?

Governor Norris: I would like to ask one question, if Dr. Stewart can answer it from memory. Have agricultural commodities gone down in about the same proportion as manufactured goods represented in the six per cent?

Mr. Stewart: No. Agricultural and food products have not declined as much as the general index has declined.

Governor Norris: So that the six per cent reduction has tended to bring other things more in line with the price of agricultural commodities?

Governor Crissinger: I would like to hear from Governor Seay on the southern angle of it.

Governor Seay: Our directors meet once a month, and are due to meet tomorrow, and I am sure they will give consideration to the discount rate question. Conditions in our district are not what they are in other districts. We are compelled to take some notice of the rates established by other Federal reserve banks. But the credit conditions in our district, if by credit conditions you mean, and I do mean, the borrowing of the banks from the Federal reserve banks, as reflecting the use of their own funds, the borrowing in the Fifth Federal Reserve District has grown to such an extent that if it prevailed in other districts the rate would be about six per cent. Our reserves went down to between fifty and sixty, about 57 or 58, and personally I have been unable to see at present any justification whatever, from any point of view, for a change in the rate of the Richmond Bank.

Deputy Governor Case: You have practically no open market investments, have you?

Governor Seay: We have few open marked investments. We have not participated in the distribution of purchases made by the Investment Committee, although we are co-operating with that committee. We have not purchased, because we did not need to do so from a revenue point of view. We have therefore expressed willingness that any pro rata share which might come to our bank might be given to other Federal reserve banks. The only open market operation in which we are engaged, and in which we have engaged, has been to support, within limits, the acceptances which originate in our district. We buy them only at a rate somewhat higher than the rate at which they are sold upon the open market.

Vice Governor Platt: Are there any industries in your district that are financed by salable market paper, commercial loans?

Governor Seay: There are a number of firms and corporations which are accustomed to placing h eir paper, not by sales through brokers, but to sell their own paper in the more redundant market of the north.

Vice Governor Platt: Directly?

Governor Seay: Directly, yes. I do not think we have any, what you might call, nationnally known corporations which sell their paper in the country at large through brokers. The largest that we have is the Virginia-Carolina Chemical Company, and that has been in difficulty, as you all know.

Vice Governor Platt: Such corporations as that would be more benefited, if they are benefited by a reduction in the New York rate than by a reduction in your rate?

Governor Seay: By all means, yes. The New York banks are accustomed to loaning down in our district. They seek borrowers in our district. Some of the banks in our district have a very much higher rate to a large proportion of their depositors. It is quite a usual thing for the banks in the rural districts to pay five per cent on their time deposits, and their time deposits are getting now up almost as large as their demand deposits, so you see that it is much easier to get the equivalent of a deposit by borrowing from the Federal reserve bank of Richmond than it is to go out and solicit accounts and obtain them by paying five per cent.

Vice Governor Platt: Do the member banks pay five per cent with a Federal reserve bank rate of 4-1/2 per cent?

Governor Seay: A great many national banks in the smaller places pay five per cent.

Governor Norris: And give a guarantee bond?

Governor Seay: Some of them give a guarantee bond.

Governor Harding: And that is what gets them in trouble.

Governor Seay: The Richmond Bank is loaning more than any other bank, I think, but I would like to say that a very considerable part of it is seasonal and perfectly legitimate and we are entirely satisfied with it.

Governor Bailey: As far as the immediate effect on Kansas City is concerned, it would not make any difference. We have no open market transactions. I am sure that there is no member bank in the tenth district which would borrow money and lend it at a lower rate than their established rate. I do not think it would affect us at all, and I do not think there would be any more money borrowed, if we loaned it at four per cent than there is now.

Governor Crissinger: You probably wouldn't let them---

Governor Bailey: Oh, yes, there are a lot of fellows we would loan to. We have a lot of money to loan, there is no question about that, and we are comparatively on easy street. I will say, so far as earnings are concerned, that we are going to make our dividend all right.

This has all been very interesting to me. As to our place in the great sisterhood of Federal reserve banks, if it would benefit the system, we are for it, but as to its effect on us I do not think it would amount to anything. Of course, if lowering the rate down to four per cent is going to have a beneficial influence on the entire country, of course we would go along with the procession. But I am just wondering whether lowering the rate out there would not amount to putting up the red flag, that it would be a signal that we think there is something wrong, when, as a matter of fact, we are trying to kid ourselves out there that we are getting along pretty good. We have a great prospect for a crop. We are a purely agricultural district. I have lived there forty-five years, and in those forty-five years I never saw it better. We are within six weeks of one of the biggest wheat harvests that we ever had, and unless you fellows get up some general scare and do things which indicate that things are going wrong, why, I think we are getting along pretty good.

Governor Crissinger: Governor Young, can we hear from you?

Governor Young: Governor Crissinger, I have not talked with the directors of our bank about the rediscount rate, so any view that I express is my own view. We, of course, have followed New York on the open market, but our dealings are through New York. We have no local market at all. I still believe that during the difficulties of 1919 and 1920 an increase in the rediscount rate was very effective in curtailing inflation in the country. I do not think you can stop inflation through a discount rate, because the harm is done long before it comes to the Federal reserve bank, but it can be stopped. I also think that when the system reduced the rediscount rate before the market rate went down that was of great benefit to the industries of the country; that when it was reduced a second time it was still a benefit to industry. In my own district, when it got down to five and a half per cent, it ceased to be a benefit to our district. That, however, is not true in other districts. I cannot see that a four per cent rate in the Minneapolis District would be of any benefit to anyone in the District, except some of the banks that are in real difficulties. As far as agricultural and liverstock interests are concerned, it would perhaps be a little more expensive to them. As it is now they already have in the neighborhood of thirty million dollars with the War Finance Corporation. The banks borrowing at the rate of 5-1/2 per cent are permitted, under the regulations of the War Finance Corporation, to charge not to exceed 7-1/2 per cent, and of course with a rediscount rate at the Federal reserve bank of 4-1/2 per cent that is quite an incentive for a great number of banks to switch their loans over to the Federal reserve bank at the lower rate, and also because they could then go back to their customers and charge eight, nine or ten per cent, the rate that they have in the northwest, or they can go to the Twin City correspondents with the same argument. Where there is only a spread of one per cent at the moment a spread of another half per cent would allow the member banks to come to us, banks that have paper that we can take and which we are taking willingly. Those that have not the paper we are not taking. A further decrease in the Minneapolis rate to 4 per cent would bring a pretty strong pressure to bear on the Federal reserve bank of Minneapolis to take on some paper on which you would have to use your imagination in order to make it eligible. I think that can be handled all right, but it seems to me that as far as the

Minneapolis Bank is concerned any further reduction in the rate would not be of any benefit to any great number of people at this time.

Vice Governor Platt: They switch over from the War Finance to the Federal Reserve Bank, but would they switch the rate from 7-1/2 to 10 or 11?

Governor Young: They cannot get above ten.

Governor McKinney: Mr. Crissinger, the conditions prevailing in the Dallas District are quite similar to those that exist in Governor Bailey's and Governor Young's districts. The effect of the reduction of the rate from 4-1.2 to 4 per cent in our district would not result in benefits to the borrower. The last report showed, I think, that the average rate charged to borrowers on paper rediscounted by the Federal Reserve Bank or Dallas was about 8.8 per cent. While that, of course, is higher than the rate charged throughout the district on all classes of paper, it does indicate that a large spread exists at this time between the rate of 4-1/2 and 8.8 per cent, and in my judgment the result would be somewhat similar to that stated by Governor Young. It would result in our being required to turn down a great deal of paper which had come to us by reason of the attractive rate.

We have been laboring very diligently in our district to bring our banks back to a normal condition, by individual pressure, and otherwise, and at the present time our advances to member banks are only half what they were a year ago. We would like to do anything that would have the general effect of inducing member banks to think things are easy again, and to get back into a condition from which, in most cases, we had to extract them.

Our Board has not met, of course, since New York promulgated its rate, and I do not know just exactly what they will do. I have an idea, however, that they will not look with favor upon reducing the rate, as that will be my personal recommendation to them.

Governor Biggs: The action taken by the New York Federal Reserve Bank in reducing its rate was called to the attention of our board at its last meeting, and after general discussion it was the unanimous opinion that we could see no reason in our district for making any change. It affected us very little one way or the other. There is no demand on the part of the member banks to have it reduced. There would be some difficulty with regard to the small banks, where we would get our demand in a short time. They will be beginning to borrow pretty soon for seasonal purposes, and some of them might want to borrow more than they are entitled to. But it would affect us relatively very little. Our directors at their last meeting felt that there was no need to make any change in our district at this time.

Deputy Governor Case: My good friend from the Pacific Coast said to put New York, as he stated it, in the role of defendant. He was then good enough to say that what I probably intended to say was that there were only two reasons for reducing the rate: One was to reduce it to the general level of rates outside, and the other was the condition of business and the price level. I not only intended to state that those were the two reasons that guided us in reducing our rate, but I did say that they were the two reasons.

Mr. Fancher, in speaking of the reason why he felt that it was desirable to keep the rate at 4-1/2, said that it was that he might retain effective control of the rate situation. It seems to me that the quickest way to lose effective control of the rate situation is to let it lag too far above falling market rates. If a time should come when e:pansion and inflation begin, you wouldn't have an effective chance of checking the rush by increasing the discount rate, but you would have to stand pat. In other words, a five or six per cent rate is no good. Unless your rate has been low enough to have brought discounts into your portfolio, on which the pressure will be felt. Our lower rate might fairly be construed as an invitation to discount at a time like this, and if they do we get through those discounts an effective contrel.

I would just liko to reiterate what I think I did mention, that is, that at the present time we have a great volume of open market investment in New York, bills are selling at three and a half, and short time governments are offered as low as 2-3/4, with a maximum of four. Government paper maturing June 15th of this year is selling at a maximum of four per cent for the commercial paper rate, and there is very little being offered, because, as Dr. Stewart has pointed out, there has been a great recession in business, a six per cent reduction in the cost level. There isn't very much paper offered, but the quoted rate is about four and a half. I have always understood that the quoted rate, even in the open market, was generally the rate which prevailed throughout the country. Governor Calkins spoke of it being about the rate out there, and I was a little surprised that Governor Norris indicates that the rate in their district would be four and three quarters. Would you think that would be true for so-called open market paper in the hands of brokers?

Governor Norris: There is very little of it selling at four and a half. The bulk of it is going at four and three quarters.

Governor Calkins: I am very much pleased to find that while Mr. Case and I disagree so pointedly, that we are really in entire agreement, and I still think that the best reason he has advanced for lowering the discount rate is that it would give opportunity to raise it later, and that both of his other reasons are contained in that reason.

Governor Seay: It seems to me, Governor Crissinger, that the integrity of most of the arguments which have been made here has been upon the premise from which you started. Governor Calkins stated, I believe, that the theory that the Federal reserve bank rate should be above the open market rate has been exploded.

Governor Crissinger: The commercial market rate, he said.

Governor Seay: Well, below the market rate for money and for commercial paper, has been exploded. It has been exploded by the fact that it has not been so, and I do not suppose it can be. There has been no time recently when the reserve bank rate has not been below the open market rate.

Deputy Governor Case: For commercial paper only.

Governor Seay: For commercial paper only. Now, it seems to me if you take the average rate, then, between commercial paper and bankers acceptances, that might be one way of expressing the open market rate. Even upon that basis the Federal Reserve Bank rediscount rate would not have been above the market, but probably would have been below the market. It seems to me that the gist of the argument so far advanced is whether the federal reserve banks' rediscount rate maintains its relative position toward the open market which it occupied when it was four and a half per cent. It was below the market then.

Governor Crissinger: Below the commercial market?

Governor Seay: If we kept it at that it would not have been as much below the market--- it probably would not have been below the market. But I want to ask Dr. Miller this: He asked the question of several speakers whether or not they thought the Federal Reserve System should lend its influence to holding up the market rate, and he also used another form of expression, "increasing the cost to industry". I would like to ask him whether he considers the Federal Reserve System should directly lend its influence to lowering the market rate?

Mr. Miller: Yes, when it sees no untoward effect. It all depends upon conditions. But I should say, and would have no hesitancy in saying, as a general principle, and this is particularly true in the big centers, that the Federal reserve bank rate ought to be as low as it safely can be, and by that I mean they should be as low as would not serve as an obstacle to any legitimate borrowing, and that they won't remain low when they induce borrowing for unproductive, speculative or other illegitimate purposes. To my mind the thing to be explained is not why rates should be low, but when rates should be advanced.

The Federal Reserve System has gradually, in the public mind, attained a position where it is an important influence in the money market. The Board, in its annual report definitely states, based on a survey of experience, that the leadership or influence is pretty well recognized. It is not clear thus far that this leadership on the fall of rates is recognized, but the testimony of five or six of the larger Federal reserve banks here today is that in this situation a reduction in the Federal reserve bank rate will be followed by a reduction of customers' rates and commercial paper rates. As a practical administrative problem, therefore, I say we have got to answer this question: Do we think that a lowering of the commercial or customers' rates under present conditions is a desirable thing? Will that money be put into undesirable expansion of credit? So far as I can see there is no indication that it will.

Now, if the Federal Reserve System wants to get the support of the banking interests, business interests and public opinion generally, when it understakes to use its rates for the purpose of restraining credit, it has got to show that it is also willing to do what it can to give the public and borrowing community the benefit of lower rates when conditions warrant it. I think it follows ample working principle, and a most important thing, in estimating the psychological influence of our action, not only on the outside, but on the inside also, that is, on the mind of the Federal Reserve System itself, that if you have gone down with the market when there are no conditions that indicate a contrary course, that is, when there are no indications that that is going to breed an unhealthy increase in credit, then we are going to act more promptly when the situation alters and we need to move upward.

Now, let me recite a very interesting and very brief chapter in history. We have had a four and a half per cent rate in nine of the reserve banks for a period of almost two years. We had a four per cent rate in three reserve banks for a period of eight or nine months, beginning with the late summer of 1922. Does any one doubt that the fact that New York, Boston and San Francisco had a four per cent rate in effect, when things got to speeding up pretty briskly in the opening months of 1923. put in our possession a very valuable little instrument that gave indication, without very much disturbance, of our attitude towards credit moment, and at a time when it was desirable to exercise a little salutary restraining influence, we were able to do it.

The important thing, as I said, in the operation of the Federal reserve system is that this change in the direction of your rates produces major effects. Let me say parenthetically here that if the situation dirfts along for two or three months as it is now, I sincerely hope the Federal reserve bank of New York will not hesitate to bring its rate down to 3-1/2 per cent. I say that because I feel perfectly convinced that it won't be a very long time, possibly before the end of this year, when we will have a situation developing in New York where it will be desirable to change your direction and move it upward, and it will be very much easier for the directors of the New York Reserve Bank and its officers to bring the rate up if they move up from 3-1/2 per cent than if they had stuck at 4-1/2 per cent, and desired to raise it from 4-1/2 to 5. They they will have a more flexible instrument, because there will be less hesitation, less prolonged deliberation as to whether this thing should be done. An advance from 4-1.2 to 5 is a far bigger advance than from 3-1/2 to 4. My personal view is that it should have gone to 4 per cent three months ago. I think we would have been in better position when the time came to move upward. The more boldly you go on the decline, the more sure you are to have the support of the community when you go boldly on the rise.

Governor Harding: I would like to ask Mr Miller whether he and his colleagues on the Board have given any consideration to the probable harm or effect of offering European loans on our market?

Mr. Miller: Yes. I think everybody has had it in mind.

Governor Harding: I hope before you get through with it you will discuss that feature.

Mr. Miller: I think you and Mr. Case would be in better position to talk on that than I am, or possible than any of us here. Our expressions are more or less based on hearsay, without any very definite knowledge.

Governor Harding: There is already a forty million dollar Dutch loan, if the plan is approved, and a two hundred million dollar German loan, and a Hungarian loan.

Mr. Miller: I suppose on that point, if we have a lower rate that it would really attract considerable volume---

Governor Harding: (Interrupting) I was much impressed on reading the French papers and the English papers to see the statement made quite frequently that the American discount rate was too high and ought to be reduced. Another thing that made an impression on me was the fact that Governor Normal, when I was in London, the first remark he made to me was, he says, "Your discount rate is too high." I told him that I did not make the discount rate. There wasn't any use in discussing it, but that seemed to be his opinion. The idea in some of the journals has been that the American rate is too high, that if we had lower rates we would get the price levels up and there would be a better opportunity for European business.

Governor Crissinger: Price levels are running down, though.

Mr. Miller: Yes, and that means that it is a deterrent to business.

Governor Harding: The French price level went up very appreciably when the price went down to twenty-seven to one on the franc. They raised the railroad fare 50 per cent in one week, and other prices went up, but when the franc got back again to sixteen to one, the same old prices prevailed and were not reduced.

Mr. Miller: With prices running down in the American market, if there is any considerable industrial movement that takes place in Europe, under the new reprarations plan, the American market is going to be a far more attractive one in which to buy materials. Considering the variety of materials, and with money cheap, you have all the circumstances that will bring the foreigner here to borrow. He can buy cheaper than he has been able to buy in the American market for almost two years. I cannot see that any untoward effects would result from that. As nearly as we can estimate it roughly, we have an unused production capacity of from fifteen to twenty per cent in practically all directions, in excess of what we are actually using at the present time, so that you can have a pretty considerable bulge in industry before you have any very considerable price disturbance. If we go ahead and say to the country that we will give them the benefit of conditions, and watch whether there is any abusive use of these credit facilities, either those that are provided by the Sys tem, or those that accrue from the influx of gold, we are in just that much better position later on to act quickly and boldly when, in our judgment, the situation has become one that needs some restraining influence. The thing that is clear to my mind in the Federal reserve system is that when we move very promptly in the matter of a raise upward, if we go from a low level the psychology of our rate change has a very considerable influence, and I think it is of the utmost importance that we should keep the public in a frame of mind where they attach importance to it.

Governor Harding: Everyone recognizes that a rais in rates has a more important effect than a lowering of rates.

Mr. Miller: Yes.

Governor Harding: Last year they raised from 4 to 4-1/2, which meant the price of money went up a half of one per cent immediately.

Mr. Miller: It is quite true that you raise your rates very much more promptly and energetically if you have got yo ur rate low. Looking forward for the next two or three years, I am apprehensive that in the large centers the Federal Reserve System is not going to have very much direct effect by reason of the volume of re-dis counts, but I think if it plays for it it might have a very considerable indirect effect because of its acknow-ledged competent leadership, and our leadership on the rise will be more promptly acknowledged if we assume leadership on the decline and do not wait and take the leadership on a rise only. In other words, if we show ourselves ready to give the country every actual economy or advantage of the low rate, when conditions are not unfavor-able to that course, we can take the opposite cours e with far more convic tion and confidence when he time comes for a rise.

Now I want to repeat again, because I want it to be burned right into this record, that New York, Boston, Chicago, Cleveland, Philadelphia, San Francisco, the six largest banks of the Federal Reserve System, have all testified here to this important statement, that a reduction in the discount rate does reduce the customers' rates, and I assume of course that means customers' rates not to all classes of borrowers, but to borrowers for a very considerable volume of credit.

Governor McDougal: I am glad that Dr. Miller has touched upon this phase of the matter again, but I regret that we have not had the benefit of the expression of views of the others with respect to the inquiry you propounded a few moments ago. The direct question you asked of me, as I remember it, at least one of them was whether or not the reduction in the discount rate would be reflected in the rates charged by banks to their customers, and I said it would to some extent. Then I think you made inquiry, "If that is true, why not proceed accordingly," and I said if we did proceed to that point, why not proceed still further, and what reason have we to believe that we would not be expected to proceed further?

I am sorry it has not beeb brought out, but it seems to me in considering that phase of the question you have got to look upon credit as a commodity, a commodity which it costs money to produce, just as it costs the wheat producer to produce his crop. If such a policy is pursued, and through the influence of the Federal Reserve Board and the Federal reserve banks, we establish rates for benefit that may accrue to the business interests of the country --- that policy extended too far would only be temporary, but ultimately would lead to the destruction of the producer of credit, and the producers of that credit, to a large extent at least, are the commercial banks, large and small, in this country, that gather up the loose change in their territory and make it available for loan purposes. It seems to me, therefore, that this Board and these banks ought to at all times give some consideration to the cost of the commodity. Now, I have no thought that you have in mind carrying it to an extreme, but it might be, nevertheless, and as applied to the wheat producer in this country at the present time, to show that the available supply of wheat is vastly in excess of the requirements.

Unfortunately, that same situation exists throughout the world, although it does not prevail with respect to money and credit. But it seems to me that you might, with equal propriety almost, say that to force down the price of wheat would temporarily benefit the consumer, and it would; but it would very wuickly destroy the producer, and that is one reason why I think we should not adopt a policy of lowering the rates down to a point where it is questionable whether they will return to the producer the cost of production, because if we do that it will ultimately lead to the destruction of the producer.

Mr. Miller: But nobody has made such a proposition as that. We have been discussing a reduction in the rate from 4-1/2 to 4 per cent. In other words, taking your statement as correctly as to a commodity, your economic logic would imply that this Board, which has power to regulate the price of that commodity, should hold up that price when commodity prices in general are going down. Now, if it is of any value to conduct this discussion in terms of price, I should think that when we have the price of one commodity in this country whose price is subject to public regulation, below the general movement of prices, when that movement is downward--- when it is upwards it is quite a different proposition--- but when it is downwards, because the business is never so costly, never so hazardous and the margains of profit are never so uncertain as when business has got to be done on a falling market, and on a falling market any fixed price for credit becomes really a progressive charge upon capital---

Senator Norris (interposing): But hasn't the price of money fallen to a greater extent than the price of commodities? The price of money in Philadelphia has fallen ten per cent in the last four months, that is, from five to four and a half. If the price of money is unduly high, in comparison with other things, or if it is being kept up by a monopoly, I would say that then probably the situation exists where the Federal Reserve System should act. It seems to me that instead of speaking of a failure to reduce the rates as keeping up or maintaining the price of money, it would be more accurate to say that a reduction in our rates, if it had any effect at all, would be to interfere with the law of supply and demand and be an attempt to force an artificial reduction which natural conditions did not justify.

As far as the effect goes, I was going to say, so far as I am concerned, that I wanted to modify a little the statement that the benefit of a reduction in our rate would pass on. It would not be passed on to any but a favored few large borrowers. There isn't a single concern, practically, outside of Philadelphia, that would get any benefit of it. There is scarcely any small business concern in Philadelphia that would get any benefit from it. A few large and rich independent concerns like the Baldwin Locomotive Works and John Wannamaker and so forth would get the benefit of it.

Mr. Willer: The concerns doing a considerable volume of business?

Governor Norris: The aggregate of the business is large, but the number of concerns is extremely small.

Mr. Miller: Exactly, and whatever benefits any considerable volume of business exerts a beneficial influence through the whole industry.

Governor Seay: But isn't that a good point which Governor Norris makes, that the price of money, or not so much money, but the price of market capital, has fallen relatively as much, if not more than the price of commodities has fallen? I remember a little while back we were very glad to be able to take refuge in the argument that the Federal reserve system did not make interest rates, that it followed the price of capital, and it therefore would seem to me to contain an element of very great danger, if we should assume the position that the Federal reserve bank--- and I propound the question now--- should exerciso a very direct influence for the svowed purpose of reducing interest rates.

Mr. Miller: It is quite a different thing to say that it does it for the avowed purpose. I do not believe anyone here would perhaps go so far as to say that it was for an avowed purpose. So far there is no avowal of purpose brought out in the discussion, but let us say it may be for the purpose of getting into a good position if the time ever came that the rates should be moved in a contrary direction--- let me say that you cannot over-estimate the psychological factor. I think where the Federal Reserve System is slow and a little callous, yet it is not indifferent to the fact that we have an enormous constituence that is not represented on the advisory council or in the confe ences here before the Board, a constituency which is watching what we do, which sometimes interprets ignorantly, but nevertheless whose good will and whose partnership in this thing we want to enlist. The main problem in our country is how to restrain the bulges in credit. I anticipate that probably in the next two or three years we will be moving into a period that will parallel more closely what we went through in 1919 than anything before the aystem at this time. I think our prestige is going to be the most valuable asset in handling that situation to the extent that we can handle it, that we will have, and I would build up that prestige, with the little cost that the reduction of rates in the leading centers would cause at the present time, by not having any hesitancy in showing the public that we can be bold on the decline, and that when the time comes for an advance we will be bold on an advance; in other words, that we are not only an institution to advance rates and to lower rates reluctantly, but that we will also lower the cost of credit with exactly the same boldness that the Bank of

England has done it. The discount rate of the Bank of England has been as low as two per cent and at other times it has been as high as ten per cent. Those are things that I think we ought not to overlook. I may be over solicitous, unduly solicitous, but I am inclined to look forward for a period of two or three years, when the Federal Reserve System is going to be in a position where the only influence that it can exercise is going to be in the nature of a psychological influence. In other words, it isn't going to be what it adds to the cost of credit or subtracts from the cost of credit, but it will be in a position where movement of the discount rate will create a certain attitude on the part of the public, and if we are at three and a half per cent, let us say, later on in this year, and we get a strong forward movement in trade at the end of the year, or in the early months of 1925, we are in a position where we can move promptly; we are in a better position so far as the public is concerned; and we are in a far better position, so far as we, ourselves, are concerned.

I call your attention again to the very salutary influence that was exerted when the rate was advanced from 4-1/2 per cent in three of the reserve banks over a year ago. They were fortunately in a position where the rate had been reduced at this point in the preceding year with no untoward factors---

Governor Seay: But there are not a few who think that we gave business an unnecessary chill.

Mr. Miller: Perhaps our judgment was wrong, but that does not alter the fact that we gave them a chill, and if we did, then when you are in a strategic position half a per cent can give them a chill--- whether our action then was well or ill-advised, we might have a situation where it is very desirable to produce a chill with an advance of one half of one per cent.

Governor Norris: I would like to ask Dr. Miller a question, not intended to be argumentative at all, but purely for information. Suppose this decline in prices, which has amounted to 6 per cent so far, should go on until it amounts to thirty per cent. Assuming that that is what is going to happen, do you think it would be wise to make a half per cent reduction in rates when the decline had reached six per cent?

Mr. Miller: Well, I do not reason on these things mathematically, as you will observe, Governor Norris, but I am talking mainly about the psychology of the situation.

Governor Norris: I asked what question from a psychological standpoint.

Mr. Miller: Psychology in credit is not susceptible to a statement made based on a mathematical formula. If you go into the political end of it, if I thought it would stay the hand of criticism and destruction of the Federal Reserve System I would go to 3-1/2 or 2-1/2 and would not hesitate to do it if I saw there would be no injurious economic effect from it. I would do that because I think we must never overlook the fact that the Federal Reserve System is on trial, and I think we do not want to acutely attract destructive attention to us through niggardly, parsimonious or hesitating action with respect to the discount policy. You must not overlook the fact that there are probably 25 to 40 million grown people, three fourths of whom, or probably four-fifths of whom, whether rightly or wrongly, think that our action has immediate effect upon the movement of prices. A great many now think that if our rate, was lowered prices would be higher. I think they are wrong. I think they are so wrong that I would have no hesitancy in reducing the discount rate for fear that it might have the cxpended and desired effect from their point of view, of blowing by the baloon of prices; but I say it gives them an unnecessary ground to stand upon for any attack that may be lodged against the system.

Governor Norris: Assuming that this was the remedy or help, or the brake, when would be the wisest time to apply it?

Mr. Miller: To apply what?

Governor Norris: Apply the remedy or the help?

Mr. Miller: You mean to apply the lower rate?

Governor Norris: No. Suppose you are going to reduce the rate tw, three or four times, if the decline is going to be a serious one. If it is only just begun and it is going on in spite of anything we can do, is the wisest time for us to apply such remedy or help as we have at the beginning, or to wait until the thing has partly exhausted itself?

Mr. Miller: I would have no hesitation in applying it just as quickly as you are satisfied that you are in a period of decline. The more quickly you do it the better, because in that way you will disarm any critics who are disposed to turn around and say that the Federal Reserve System is doing this now, because they are trying to undo the mischief. For that reason I think it would be far better--- I do not say this is any critical spirit, but I think in the light of what we know now it would have been far better if the New York Bank had reduced its rate three months ago, and if perhaps the others had swung into line.

Vice Governor Platt: I would like to ask a practical question of both Governor Case and Governor McDougal, and perhaps also Governor Norris. Governor McDougal referred to it briefly. The first effect of the reduction of the New York rate, apparently, according to your statement of May 2nd, was that New York lost through the Gold Settlement Fund $37,400,000.

Deputy Governor Case: That went to some of these other banks with a higher rate.

Vice Governor Platt: From April 30 to May 6, New York lost $20,000,000. As the result of that the member banks came into the New York Bank for $41,000,000 rediscounts. Call money fell from 4-1/2 to 3-1/2 per cent that day; time money went down one quarter and open market paper went down one-quarter, and that was the total effect on the market. The very next day, however, the Banks in New York paid off $38,000,000 of these rediscounts. I don't know just where they got the money from, but approximately $38,000,000 went out on May 2nd, and kept on going out until it reached $43,000,000, and yet the next day the banks in New York, according to the May 3rd statement, were able to pay off $33,800,000.

Deputy Governor Case: That was probably through liquidation of loans.

Vice Governor Platt: Where did the money go to? Did it go to Philadelphia or Chicago, and if so, did it have any effect on the money market?

Governor Norris: I should imagine that a great deal of that money goes out just before the first of the month and then part of it comes back.

Deputy Governor Case: Yes.

Vice Governor Platt: If that Gold Settlement money left New York to that amount on the 2nd of May it would lower interest rates on deposits, wouldn't it, under the clearing house rule?

Deputy Governor Case: I have no doubt that some deposits were driven away, going to Chicago and other centers. When they get a higher rate they switch balances.

Vice Governor Platt: If that is true, it ought to make money rates lower in Chicago and Philadelphia.

Governor McDougal: The figures quoted by you confirm my statement. I knew before I left Chicago that deposits were removed from New York to Chicago, but that has been the case before and it cannot be otherwise, and while I cannot say as to the effect of it, because it could not be measured by any figures that I could produce; I do not know what the effect is in percentages.

Governor Seay: Incidental to the removal of funds from New York to Chicago, call money rates in New York dropped about a half of one per cent.

Vice Governor Platt: It dropped immediately a half of one per cent.

Governor Bailey: I would like, in view of the fact that the Comptroller wants us to pay a little more money for the reports, and the Treasury wants us to do a little more work for nothing, and you are going to cut our earning power down, to know how we are going to pay our dividends and salaries?

Mr. Cunningham: Reduce the salaries.

Governor Bailey: That may be the practical way of doing it.

Governor Crissinger: Is there anything further on this New York rate?

Deputy Governor Case: A few of the Governors have commented upon the views of their member banks with regard to lowering the rate. My observation is generally, while we do not discuss this with our member banks when we are proposing a change of rates, that they are always willing to see the rate go up and never willing to see it come down. I think that is pretty generally true, although in this instance Mr.   representing the New York banks was actively for a reduction a couple weeks before we made it, and all the comments we have heard afterwards have been that it was a desirable thing to do, although some of them felt that it would adversely affect their own particular shop.

Governor Seay: In this case they had something to gain in a reduction in the rate of interest they were paying upon bargains.

Deputy Governor Case: That is very small--- out of town deposits?

Governor Seay: Yes.

Deputy Governor Case: That was comparatively very small.

Governor Harding: So far as the loss in business is concerned, it is an unimportant matter; it would have a negligible effect, because the purveyors of credit in the New England district have got to meet the competition of the New York market. There is no objection on the part of the small local grocer, in the western part of New Hampshire, who gets his credit from his local bank, but with regard to the bigger concerns that are known, if they cannot get credit at one place they will go to a cheaper place. It is not possible for the Boston Federal Reserve Bank to maintain a higher rate than the New York Bank. If the New York Bank reduces the rate it is simply a question of a comparatively short time before everybody who knows anything about the situation in the New England District will be in favor of reducing the Boston rate.

Governor Crissinger: Is there anything further? Has anyone else any subject they want to bring up?

Governor McDougal: I think we would be interested in having your views on this discount rate, Governor.

Governor Crissinger: My views, I think, are well known. I have felt that the rate ought to have been reduced for some time back. I think we would have had better results and better effect if it had been reduced in the middle of January, when things were very easy. But I am very much impressed with the reduction in New York being the right thing, and I can see no possibility of ill effect from it this year, or at any rate until after the election. If it then appears that there are results coming from it that we think are bad, we will be in a position to promptly remedy it, and in a way that will be effective. My notion about it is that if we had to raise a 4-1/2 per cent rate in order to control things, that it would be a disaster, that it would reflect on the system throughout the whole United States. I am of the opinion that it is desirable, at least to the eastern banks, and possibly in Chicago and Cleveland and San Francisco. To have the rate at four per cent at this time. That is my view about it. I think the agricultural districts possibly could well wait; I think there may be reasons why they should not lower their rate at this time, but on the whole it seems to me that if the Federal Reserve System is going to do anything, and is going to function properly, is going to step with business conditions, I think the Federal Reserve System should lead rather than follow.

Mr. Hamlin: I concur in the views that you have expressed, Governor, that we should lead in both directions.

Governor Crissinger: I do not think anybody has any intention of trying to hurt the member banks. I am quite sure a great many of the member banks realize the importance of this action. I have talked to a good many since who realize that the action taken was proper, and I believe it was myself.

Deputy Governor Case: How does Mr. Cunningham feel about it?

Mr. Cunningham: I agree with these men, absolutely, Mr. Miller, Mr. Hamlin and Governor Crissinger.

Deputy Governor Case: Mr. Platt, some of us would like to hear how you feel about the situation.

Vice Governor Platt: I guess my views are fairly well known. I do not think I can add very much to it. I believe the logic of events will force the other rates to come down as soon as they need to. If New York loses money to Chicago, that means there is more money in Chicago to loan, and the Chicago banks have got to do something with it. Presently their rates will come down and the Federal Reserve Bank will come down to meet it, in time, if the decreases are justified. It seems to me that the effect on the country is liable to be made by the lowering of the New York rate, and perhaps the Boston rate and the Philadelphia rate ought to follow. The other rates do not make so much difference, and ought to be fixed more with relation to the smaller banks rather than the big borrowers. The big borrowers get their benefits from the reduction of the New York and other eastern bank rates, and that distributes itself slightly through the rest of the country.

Governor Crissinger: I want to call the attention of everyone present to the fact that this discussion which has taken place ought not to be talked of outside of the Board, and I hope you will all bear that in mind.

Governor Norris: That does not apply to our own directors?

Governor Crissinger: Of course not. This record that has been made up in shorthand of the discussion of the New York rate, we think best not to put in the minutes that will be sent to the various banks, but that it will be retained here, unless you gentlemen see some good reason why it should come to you. We think it probably should remain a record here in the Board, and the record you will get will be without the discussion of this rediscount policy.

Governor Norris: Might it not be sent under separare cover to the Governor of each bank?

Deputy Governor Case: As a confidential communication?

Governor Crissinger: If the Governors would like to have it we will sent it to them under separate cover as a confidential matter, apart from the other report.

(Whereupon, the Federal Reserve Board retired from the Conference room and the Conference of Governors resumed their proceedings, a record of which is found in its numerical order in the record of the Conference of Governors.)