INTEREST RATES.

REMARKS

OF

HON. ROBERT L. OWEN,

OF OKLAHOMA,

AND HIS LETTER TO THE PRESIDENT,

IN

THE SENATE OF THE UNITED STATES,

February 16, 1920.

Mr. OWEN. Mr. President, before the war Belgium for 50 years had a 3 per cent rate of interest per annum. It was a fair rate. France had a 3 per cent rate, and even small sums were loaned by the Bank of France at 3 per cent. United States bonds with currency privilege, bearing 2 per cent, sold at par before the war. London during the war has loaned money to merchants on acceptances at 3½ per cent.

The manufacturers, merchants, and business men of the United States are entitled to stable, moderate interest rates.

They have this right interfered with by the violent fluctuations authorized and practiced in New York and Boston on stock-exchange collateral loans. The call-loan rates are arbitrarily fixed from low rates to 30 per cent, and a bull market or a bear market follows, of course, as cause and effect.

The high rate is fixed avowedly to check speculation, but speculation can be otherwise checked by raising the margins and declining to loan beyond a reasonable proportion of the bank's resources and by limiting the loans of the Federal reserve bank to banks which persist in this harmful policy.

These high rates on call loans on the stock exchange has seriously affected the interest rates in our vast commercial business, and even the Federal Reserve Board has raised the rates of the Federal reserve banks to 6 per cent for member banks, which means 7 and 8 per cent for the customers of the member banks.

Against this destructive policy, which adds to the high cost of living, I protest. I have written a letter to the President, which I ask to submit for the RECORD without reading.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

FEBRUARY 13, 1920.

Subject: Interest rates.

The PRESIDENT,
The White House.

MY DEAR MR. PRESIDENT: I deem it my duty to call your attention and the attention of your administration to the importance of moderate interest rates and stability therein in the United States and the important part which the influence of the Government can exert in accomplishing these ends through the Treasury Department, the Comptroller of the Currency, and the Federal Reserve Board.

Before the Great War Belgium had a fixed, stable rate of 3 per cent for 50 years, and the rate in France was practically the

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same, and United States Government bonds with the circulation privilege were sold at and above par when they bore only 2 per cent interest.

During the World War London merchants have enjoyed a 3½ per cent rate on acceptances.

Our manufacturers, our merchants, our business men are entitled to reliable, stable, reasonable rates of interest.

The productive and distributive processes so essential to restore the equilibrium of the world depend upon such rates in order to function most efficiently.

I call your attention to the unreasonable manner in which the interest rates on the stock collateral loans in New York have been fluctuating from normal to 25 and 30 per cent, with the most unhappy consequences upon interest rates, injuriously affecting our commercial business throughout the United States.

The Federal Reserve Board has been induced to raise the rate of discount of the Federal reserve banks to a high point as a supposed check on the extraordinary speculation which has been taking place on the stock exchange.

These artificially unreasonable high rates of interest charged by the banks in the central cities on stock collateral call loans have had the effect of drawing to these cities from different parts of the country funds which ought to be exclusively used in commerce, and this process went to a point where recently the amount of stock collateral exchange loans on call or short time reached a volume in New York City of $1,900,000,000, withdrawing for speculative purposes these credits which should be used in the industrial and commercial life of the country.

The investing and speculating public has been attracted to the stock exchange by the policy of narrow margins and low rates of interest; but after the public has taken on these speculative purchases the interest rates are raised to a high point and the margins are increased from 10 per cent to 20 and 30 per cent, with the effect of squeezing out the people who, in the language of the day, "can't hold on."

These loans, which were $1,900,000,000 60 days ago, have now been reduced to $1,000,000,000, and the stock market has gone through a very severe depreciation; and this is the second upheaval of this kind within two months. I inclose an exhibit showing the violent fluctuations which have taken place contrary to a wise public policy, to the ruin of many weak and foolish speculators; but, above all, to the injury of the manufacturers, merchants, and business men who are entitled to have stable, moderate interest rates.

The manufacturers, merchants, and business men are entitled to stability. They can not otherwise transact the business of the country with safety; and in their name and on their behalf I respectfully and very earnestly insist that the Government shall establish a policy which will give stability to interest rates, prevent these violent fluctuations, and lead to lower interest rates.

Will the question be asked, How can it be done? I venture to answer:

First. That the influence of the Comptroller of the Currency and of the Federal Reserve Board be exerted to require a limitation upon loans made by member banks or banks engaged in interstate commerce, so that only a reasonable percentage of the deposits of such banks shall be permitted to be used for the accommodation of those who are buying stocks for speculative purposes.

Second. That a margin of not less than 25 per cent shall be required in such transactions.

Third. That an interest rate not exceeding 8 per cent shall be permitted in such transactions.

Fourth. That the reserve board shall charge a special rate of interest to those banks who are using the accommodations of the discount privileges with the reserve banks in excess of their rightful proportionate part of such accommodation, so that the normal discount rates of the Federal reserve banks shall not exceed 4 per cent, but the special rate for banks desiring to use more than their rightful proportion of the reserves with the reserve banks shall be at a progressively higher rate. In this way banks that put up Liberty bonds for the purpose of getting more than their proportionate part and lending this money out on very high rates of interest will find it less profitable to engage in such a policy.

The discount rates of the Federal reserve bank of Richmond, for example, effective January 23, 1920, included the following:

	15 days and under.	16 to 90 days.	91 days to 6 months.
Member banks:	*Per cent.*	*Per cent.*	*Per cent.*
Secured by United States certificate of debt	$4\frac{3}{4}$	....	....
Secured by Liberty bonds	$5\frac{1}{2}$	....	....
Secured by eligible paper	6	....	....
Secured by War Finance Corporation bonds	7	....	....
Rediscounts:			
Customers' notes—			
Secured by United States certificates of debt	$4\frac{3}{4}$	$4\frac{3}{4}$	....
Secured by Liberty bonds	$5\frac{1}{2}$	$5\frac{1}{2}$	....
Secured by War Finance Corporation bonds	7	7	....
Trade acceptances	6	6	....
Commercial paper	6	6	....
Agricultural or live-stock paper	6	6	6

You will observe from these discount rates that eligible paper—that is, the notes of manufacturers, merchants, and business men engaged in production and distribution—would be compelled to pay around 8 per cent if the member bank is permitted any margin over and above what they themselves have to pay the reserve bank. This is true even on trade acceptances, which in London have a rate of $3\frac{1}{2}$ per cent. In other words, our manufacturers, merchants, and business men engaged in production and distribution are compelled to pay by this policy twice as much as they do in London, charging the interest, of course, upon the cost of the goods, and thus raising the cost of living. Against this policy I enter my resolute and solemn protest.

I heartily approve the evident purpose of the Federal Reserve Board to reduce the excessive speculative loans on the stock market and divert such credits to the benefit of commerce; but this can be accomplished without raising the rate of interest by requiring larger collateral margins and by limiting stock collateral loans to a reasonable part of the reserves of the member banks, and all loans to a proportionate part of the reserves with the Federal reserve banks.

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LIBERTY LOAN AND VICTORY LOAN BONDS.

When the American people were engaged in the war the Treasury Department organized Liberty and Victory loan drives, and every citizen was urged to buy these bonds; if necessary to sell his property and buy the bonds; to borrow money and buy the bonds. The bonds were sold at par. It was a patriotic duty to buy the bonds, but the high rates of interest which have resulted from the unrestrained speculation on the stock exchange, and the high rates of interest which the reserve banks have established, have had the effect of having these bonds appear as a poor investment, and these bonds have shrunk so that in the case of the bonds, which have not the nontaxable feature, have fallen off in value almost 10 per cent, inducing many persons who are poor and who borrowed money to carry these bonds to sell them at a loss, and many more will be induced to sell them at a loss, contrary to a wise and just public policy.

If the normal discount rate of the Federal reserve banks were put at 4 per cent and the banks were discouraged from abusing the privileges of the reserve banks for stock-speculative purposes in the manner which I have pointed out, these bonds would come back to par, and they should be brought back to par. The people who bought these bonds ought not to suffer a loss, and the credit of the United States ought to be preserved by the policy which I have taken the liberty to suggest to you and to your administration.

The result of these speculative stock loans has been such that the New York Federal reserve bank has had its reserve very seriously impaired, so that the New York reserve bank has been borrowing money on a large scale from other reserve banks who do not suffer from this strain.

There is no adequate reason why the rates of the reserve banks should not be uniform; why they ought to be higher in one part of the country and lower in another part of the country. The loans are as reliable in one part of the country as in another, and every part of the country is entitled to a uniform rate.

The high cost of living demands for its solution stability in interest rates in order to encourage production and distribution, and to reduce the high cost of living demands a moderate rate of interest.

The Federal reserve banks were not established as money-making institutions, but for the purpose of giving stability and a reasonable stable interest to the productive enterprises of the Nation.

The Federal reserve banks last year made a profit of about 100 per cent of their capital, but this in no way measures the added expense on the cost of living, because the high rate of interest charged by the Federal reserve banks is reflected upon loans and discounts of other banks, running into the billions, since it affects the interest rates in all parts of the country.

I regard this matter as a matter of national importance, and I would not feel that I had discharged my duty to the country if I had failed to call your attention to it in these explicit terms.

Yours, very respectfully,

ROBERT L. OWEN.

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