

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
HOPKIN WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD
WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

S i r :

There has been frequently in past seasons a congestion of farm products accompanied usually by high money rates, or at times by actual difficulty in obtaining the necessary funds and credits for moving these crops. These conditions have been met for several years past by deposits made with banks by the Secretary of the Treasury for crop moving purposes, and last year by the further expedient of the issue of emergency currency authorized under the Act of May 30, 1908 as amended, now expired by limitation. The Federal Reserve Act makes provision for meeting the demand for crop moving funds and is intended to guard against a recurrence of past stringencies. In order to forestall any possibility of congestion of crops this fall or lack of accommodation to move them, the Board calls the attention of all Federal Reserve Banks to the provisions in the Federal Reserve Act which have a special bearing on this subject.

Section 13 of the Act, hereinafter quoted in full, gives specific permission for the rediscounting for member banks of notes, drafts, and bills of exchange secured by staple agricultural products. The manifest intent of this provision is to enable producers to market their crops in a normal and effective manner. In view of the large

-2-

surplus reserves now held by the Federal Reserve Banks, by member banks and by other banks throughout the country, there should be no difficulty in affording the producers the assistance necessary to enable them to market their products in volume corresponding to the power of the trade to absorb them. In order to accomplish this end, it is suggested that Federal Reserve Banks adopt a definite policy with reference to rediscounting paper secured by documents in satisfactory form evidencing the ownership of stored agricultural products. Through such a policy, together with proper methods of warehousing, Federal Reserve Banks can be a potent factor in assisting the normal movement of staple agricultural products from the field to the factory, or to the consumer. It is recommended that regulations governing the rediscount of notes covering advances on such products be issued by such of these Federal Reserve Banks whose members are actively engaged in financing the movement of such crops to the market. In so doing the object in view should be to assist effectively, as above pointed out, in the normal movement of such products - in orderly transfer to the consumer. The carrying of products in behalf of speculators is not permitted under the law, and member banks can not certify the notes of speculators as eligible since the Act does not allow the rediscounting of notes, drafts or bills of exchange covering "merely investments."

-3-

Special attention is herewith directed to the marketing of the cotton crop. While the yield of corn, wheat and other cereals promises to be large, there is every reason to expect that these products will find a market in an orderly way. Cotton, however, is peculiarly sensitive to abnormal conditions such as now exist in our export trade, and it is clearly in the common interest that credits based upon this crop be protected as far as possible from the danger of demoralization such as existed during the autumn of 1914. No staple commodity is subject to greater variations in price than is cotton, which during the past twelve years has shown, according to figures based upon official quotations on the New York Cotton Exchange, an average annual fluctuation of 5.38 cents per pound, the maximum price range during any year of this period being 10.40 cents per pound in 1904, and the minimum range 2.65 cents per pound in 1906. It should be noted, however, that with two exceptions, there has been no very great difference in the average price of cotton for each of these twelve years, the exceptions being the year 1905 when the average price during the year in New York was 9.80 cents per pound, the lowest of the twelve-year period, and the other being the year 1910 when the average price per pound was 16.45 cents; but the average price for the entire twelve-year period was 12 cents per pound. Sudden and violent fluctuations are clearly to the advantage of neither the loaning banks, the producer, the manu-

facturer nor the consumer. They offer on the contrary an inviting field for the speculator, and should the Federal Reserve System, in making possible the more normal movement of the crop, be a contributing factor in reducing these fluctuations, it would have accomplished a great public good.

It is, therefore, recommended that, in pursuance of the policy already indicated, the Federal Reserve Banks communicate with their members, and with others who may be interested, for the purpose of directing attention to the steps which must be taken to secure the necessary cooperation. It is suggested that the Federal Reserve Banks point out to their members, and to the public generally, that those who are engaged in cotton production, if they intend to take advantage of the facilities offered by the banks for carrying cotton, should begin at once to arrange for its proper storage and insurance as rapidly as ginned. Federal Reserve Banks should particularly point out to their members that they are prepared to rediscount the notes of farmers and merchants secured by proper warehouse receipts for cotton and accompanied by evidence of insurance. Member banks offering these notes should be prepared to state the grade and market value of the cotton securing paper, and the notes should be of the usual collateral form, providing the right to call for additional security in event of material decline in the market value. The amount to be advanced per bale would be left primarily to the judgment of the member bank.

- 5 -

It is further suggested that Federal Reserve Banks in the cotton states should call attention of their members to the desirability of reserving storage space in localities where warehouse facilities are inadequate, for such cotton as will be used as security for loans. While there is not sufficient warehouse capacity in the south to provide storage at any one time for the entire cotton crop, it is believed that there are ample facilities for the proper storage of all cotton that is likely to be pledged as security for loans. In a normal movement of the cotton crop warehousemen at concentrating points estimate that the maximum storage required will not exceed 20 per cent of the total receipts for the season. It should be made plain also that compliance with the essential features of the plan herein outlined, modified as circumstances may demand, will be necessary for the normal marketing of this year's crop and for the proper protection of those who are interested in its movement whether banks, producers or manufacturers.

While there seems no reason to believe that the world's present and potential supply of cotton is out of proportion to requirements during the next twelve months, it is nevertheless important, because of our lack of adequate shipping facilities as well as restrictions brought about by the war upon free exports to all countries, that ample means be provided for the proper handling and effective marketing of cotton.

Similar steps may properly be taken by Federal Reserve Banks whose members are likely to be called upon to finance other agri-

cultural products, wherever there is available a system of warehouses, elevators or other approved means of storing and certifying to given quantities of staple agricultural products.

The Board calls particular attention to Regulation "P", recently issued, with reference to the subject of "Trade Acceptances". Such trade acceptances, when growing out of transactions involving the movement of staple agricultural products and being endorsed by a member bank, are eligible for rediscount with a Federal reserve bank in the manner indicated in said regulation, and their use should aid materially in the marketing of the crops of the country during the coming autumn.

The Board will be prepared from time to time to pass upon such special phases of the crop moving problem as member banks may present to it through the Federal Reserve Agents, who are brought into contact with the special conditions prevailing in the various sections of the country, and it will adapt existing regulations to such conditions as may have to be met in facilitating the normal and economic movement of the staple agricultural products of the country.

Please regard this letter as confidential until it is published - probably in morning newspapers of August 3rd

Respectfully,

Governor.

Mr.

Chairman, Board of Directors,
Federal Reserve Bank of