

FEDERAL RESERVE BOARD

WASHINGTON

X-3187

August 19, 1921.

CONFIDENTIAL

SUBJECT: Farm Products Paper.

Dear Sir:-

As you may know, there is very strong pressure here, both in Congressional and Administrative circles, to do something for the farming interests of the country. All manner of unsound plans have been pressed upon the attention of the Board, which has, however, consistently taken the view that discount rates of Federal Reserve Banks ought normally to be somewhat higher than current rates. The reply is made, however, that times are not normal and that they cannot become normal until the farmer becomes more prosperous.

One plan which has been suggested, and in fact has been voted on favorably by the directors of one of the Federal Reserve Banks, is that a low rate be established on paper secured by agricultural products, to be effective only in cases where the member banks will sign a certificate that the money has been loaned to producers or merchants at a rate not more than 2% higher than the special discount rate offered. The Board thinks that this plan is absolutely unsound and I do not think that it would ever consent to any such arrangement. The plan which has been suggested would give a profit of 40% to borrowing banks on each such transaction, and would commit the Board to the principle that a borrowing bank is entitled to a profit in its rediscount transactions.

I enclose an alternative plan which I have worked out and which is submitted to you for your consideration and frank comment. I may say that it meets with the favor of some members of the Board, although it seems to me that in ordinary circumstances it is one which should not be considered. However, with the limitations provided it appears that there is nothing particularly harmful about it, for if the plan should be adopted and the statement, which is now submitted to you, given to the public, it would show on its face that it is offered in order to facilitate orderly marketing and a definite time limit is set for its operation. It might open the way for Federal Reserve Banks to relieve themselves of farm pressure without making any drastic changes in their general discount schedules. It would leave the rate to the borrower as a matter to be determined between him and the bank to which he applies for a loan.

If the Board should decide to make the announcement outlined, each Federal Reserve Bank could determine for itself whether or not it desired to establish a special seasonal rate on farm products paper and if so, each bank could establish for itself its own rate, subject to the approval of the Federal Reserve Board. I would appreciate an early reply, giving your candid opinion as to the advisability of such a statement being issued by the Board.

Very truly yours,

G O V E R N O R .

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NO COPIES TO ANY OTHERS

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TENTATIVE REGULATION - STRICTLY CONFIDENTIALFARM PRODUCTS PAPER:

In order to aid in the orderly marketing of the major crops of the country, the Federal Reserve Board has authorized all Federal Reserve Banks to establish a special seasonal rate on Farm Products Paper, which is defined as follows: notes, drafts and bills having a maturity not exceeding ninety days, exclusive of days of grace, adequately secured by shipping documents, warehouse, compress or terminal receipts, or other such documents, conveying security title, covering readily marketable agricultural staples of the new crop. Authority is given Federal Reserve Banks to establish this special seasonal rate on Farm Products Paper, as above defined, with the expectation that the benefit of the rate will be passed along by member banks to the borrower or primary producer. Any renewals after ninety days will be made at the regular rate and notice is given that this special seasonal rate will lapse after January 31, 1922, after which time all offerings of Farm Products Paper, as above defined, will be subject to the rate then prevailing for commercial paper.

The Board has consistently advocated the policy of orderly marketing, for any undue rush of staple products to market results in congestion of transportation facilities, in a strain upon the banks and usually in a temporary depression in prices, which, without benefiting the ultimate consumer, works a hardship upon the producer.

8/19/21