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March 24, 1923.

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Dear Mr. Gilbert:

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Your letter of March 22nd, in which you quote from a letter written by Professor Bullock, of Harvard University, to the Secretary of the Treasury, I have turned over to Dr. Miller.

I am not going to let the occasion pass, however, without saying that I could quote the leading authorities on central banking, including Walter Bagehot and Professor Dunbar, under whom I studied banking myself a good many years ago, to the effect that no definite ironclad policy with respect to central bank rates can be outlined that will work in all cases. Sometimes open market rates are a guide but Bagehot in "Lombard Street" points out that they are at times an unsafe guide and cannot be invariably followed by any means. All sorts of conditions have to be considered, including the trend of prices and the expansion of loans outside of the central bank. At the present time some of the old Bank of England guides, such as rates of exchange, appear to be inapplicable so far as our Federal Reserve System is concerned, but almost every other guide at the present time indicates that rates should in the near future be advanced, in my opinion, and if we were to go on the open market rate alone we would find that city banks are charging their country bank customers 5 per cent, which is 1/2 of 1 per cent higher than the Federal Reserve rate, that open market commercial paper is 5 per cent or above and that "time money" based on the best collateral brings 5, 5-1/4 to 5-1/2 per cent. Hence it would seem to me, with prices advancing and production practically at its peak, with speculation developing not only in stocks but in commodities here and there, that Federal Reserve rates cannot safely be left below 5 per cent. It may not always be necessary to have Reserve bank rates above or exactly even with open market rates but an increasing spread between them is certainly an invitation to inflation.

Yours very truly,

Acting Governor.

Hon. S. P. Gilbert, Jr.,
Under Secretary of the Treasury.