CONFIDENTIAL

October 12, 1927.

Dear Senator Glass:

Upon return to the bank after vacation, I found your letter of September 15, in which you mention that Governor Harding, of the Boston bank, had shown you my letter to him of September 10 relating to a suggestion from one of the governors of the Reserve Banks that the action of the Board in establishing a discount rate for the Chicago bank should receive the attention of the Committee on Legislative Matters pertaining to the Federal Reserve System, of which I happen to be the Chairman. I have read the statement prepared by you for the New York TIMES, under date of September 15, to which you referred in your letter to me.

Under ordinary circumstances, it might not be considered either as appropriate or the exercise of good judgment for reserve bank executives to discuss with those not now actively engaged in the administration of the System differences of opinion on such important matters as this discount rate controversy. I hold the situation to be entirely different in writing to you, however.

When the communication was received from the Board suggesting -- and as I interpreted it, strongly intimating -- that this bank should consider its rediscount rate and lower it, I was of the opinion that the intimation was going too far. When later the Board actually established and promulgated the rate for the Chicago bank, I was astounded and felt towards that action just about as you have expressed yourself. My own opinion upon the discount rate for this bank was expressed in a letter to Governor Crissinger, dated August 12, a copy of which I venture to send you. Ordinarily a uniform discount rate for all the Federal Reserve Banks is illogical, contrary to good practice in a country where banking practice and money rates and business customs and conditions vary widely in different sections, and cannot fail to work evil results.

You will probably recall that I wrote you a short time ago enclosing a newspaper clipping, about the time when the new Federal Reserve Agent for the New York bank was appointed, commenting upon the assumed attitude of the Board in centralizing its authority over the operation of the Federal Reserve Banks. In that letter, I expressed the opinion that unless the autonomous powers of the Federal Reserve Banks were preserved at least to the extent provided for in the Act, disruption of the Federal Reserve System would be likely to ensue. I have observed that you have called

attention to and expressed your opinion upon that disposition or tendency of the Board.

Governor Harding has sent me a copy of his letter to a member of the Federal Reserve Board giving his interpretation of the rate-fixing powers of the banks and the Board respectively, with which I agree in large measure. I note your statement that you do not go quite as far as Governor Harding does.

The public mind seems to have quieted down on this controversy, and so far I have seen little if any defense of the action of the Board. In my judgment and according to my experience, time has abundantly demonstrated the wisdom of a regional bank system in this country as opposed to an all-powerful, autocratic, centralbank. I am, however, not disposed to question that the power of reviewing and determining that powerful factor influencing credit and the movements of money, the discount rate, under certain conditions should be lodged with a supervising body such as the Federal Reserve Board; and it is my opinion that that provision of the Act should be handled with extreme care should any disposition arise in Congress to legislate upon the matter.

The conception of the present Board of its powers and duties in that connection is wholly erroneous in my opinion, and its action in the case in point entirely to be condemned. It was unwarranted under conditions and was vicious in its effect, as you have rightly characterized it. So far as we know, or are led to believe, the decision was not made by a majority of the Board, and I trust that the crystalization of public opinion upon this action of the Board will ultimately result in good and not harm to the System.

Yours sincerely,

CJS-CCP

Honorable Carter Glass,

Lynchburg, Virginia.

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United States Senate

COMMITTEE ON APPROPRIATIONS

Lynchburg, Virginia,

Oct. 30, 1927.

Dear Mr. Seay:

I would have sooner acknowledged yours of October 12th but for illness in my family. I am writing now to thank you for letting me have your views of the action of the Federal Reserve Board in the Chicago rate case. You know, of course, that the Federal Reserve Advisory Council unanimously disagreed with the capricious action of the Board and that steps are now being matured to prevent a repetition of any such foolishness, without the necessity of resorting to legislation.

Sincerely yours,

Carter Glass.

George J. Seay, Esq.,
Governor Federal Reserve Bank,
Richmond, Va.

OCT 31 1927