What the Federal Reserve has done for Agriculture.

[Radio Address in the National Grange Hour by Hon. Charles S. Hamlin, Member, Federal Reserve Board.

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Ladies and Gentlemen of the Radio Audience:

Mr. Taber, the Worthy Master of the National Grange, has asked me to speak to you very briefly and tell you what the Federal Reserve System does for the farmers of the United States. It is a subject which appeals to me very strongly, for I have been a Member of the Federal Reserve Board since its organization in 1914, and, my wife and I have been members of the Grange in Mattapoisett, a beautiful little town in Massachusetts, on Buzzards Bay, for double that period of time, and she and our fellow members of that Grange are now, I believe, listening in with deep interest to these proceedings.

At the outset, let me say that I shall not undertake today to explain the Federal Farm Land banking system, or the Federal Intermediate Credit Banks, except to show later how the Federal Reserve System, through the Federal Reserve banks, renders invaluable assistance to these banks. Nor shall I more than mention in passing the Agricultural Marketing Act recently enacted into Law with its huge revolving fund administered by the new Farm Loan Board, for that would bring me beyond the limits of this address.

To understand what the Federal Reserve System has done for the farmer, we must go back to the days before the System was established. The farmer then had to borrow the money he needed from his local bank, and the limit of the amount the bank could loan him, and the time for which the loan could be made, depended primarily upon the resources of that bank. In times of seasonal stress or other emergency, the bank had to be less liberal because its resources were limited, and the increase of its resources by borrowing from other banks was not looked upon with much favor, and no assurance could be had that such loans could be secured.

The Federal Reserve Act has changed all this, and now behind the resources of the individual member bank with which the farmer deals, there looms up the Federal Reserve System with its vast resources available to the member bank in case of seasonal stress or emergency.

Under the old system, if the reserves required by law to be kept by a bank, were reduced to the legal minimum, that bank could make no more loans, unless it borrowed from some other bank. Under the Federal Reserve Act, however, it can, as a matter of course, take the eligible paper of the farmer on which it has made a loan, to the Federal Reserve bank and borrow funds for use in extending further loans.

This is brought about by the fact that under the Federal Reserve Act a bank must keep its entire legal reserves with the Federal Reserve bank; in other words, the member banks pool their reserves in the Federal Reserve bank, and the 12 Federal Reserve banks hold today over 2.3 billions of dollars thus pooled. When, therefore, a member bank has loaned all it can, consistently with the reserves it has, and desires to increase its loans to farmers, it can go to the Federal Reserve bank, present eligible paper it has taken from some farmer for a loan, and rediscount that paper with the Federal Reserve bank, thus securing additional reserves which will sustain further loans. If all banks at the same time tried to rediscount their paper of this kind, this privilege would not be so valuable, but it should be remembered that seasonal stresses and other emergencies occur at different periods throughout the country, and this fact enables the Federal Reserve banks to see to it that the member banks always obtain funds to make new loans when such loans are necessary for agricultural purposes, and consistent with sound banking.

Thus the individual member banks are immensely strengthened in their ability to care for the farmer. You will realize this when I tell you that the paid-in capital of the 12 Federal Reserve banks is over 158 millions of dollars, and the surplus is over 254 millions, a total of 412 millions. When you add to this the pooled reserves, - over 2.3 billions,— you will realize the vast Federal Reserve resources which are available to help the member banks take care of the farmer.

Advantages similar to those secured by the farmer under the Federal Reserve System are given also to the business men and manufacturer, but the Federal Reserve Act has given certain preferences in dealing with farmers' paper which have not been accorded to business or commercial paper.

For example: -

1. While commercial paper can be discounted only when it runs not over 90 days from the date of discount, farmers' paper and paper of farmers Cooperative Marketing Associations can be discounted when it has not over 9 months to run.

2. Sight and demand drafts, originally not subject to discount by Federal Reserve banks because having no fixed maturity, can be discounted by Federal Reserve banks when used to finance the domestic shipment of non-perishable, readily marketable staples, and secured by bills of lading.

You know there is an enormous volume of such drafts secured by bills of lading covering the shipment of wheat, cotton, and other agricultural products.

3. Bankers acceptances, when drawn by an individual farmer or a cooperative association against a bank, and accepted by the bank, may be discounted or purchased by Federal Reserve banks up to a maturity of six months, when secured by warehouse receipts. If drawn, however, for commercial purposes, the limit of maturity would be 90 days.

4. National banks are permitted by the Federal Reserve Act to make mortgage loans for five years when the note is secured by a mortgage on improved and unencumbered farm land, or other real estate.

5. Federal Reserve banks are permitted to purchase farm loan bonds and to discount paper for Federal Intermediate Credit banks established by the Agricultural Credits Act of 1923, and to buy debentures of such banks.

The above are a few of the cases in which the Federal Reserve Act gives preferences to farmers' paper over regular commercial paper. I wish I had time to go into this subject more fully, but this is all I can say within the time allotted to me.

Before closing, I want to point out that the whole country, including farmers as well as business men, is benefited by the issue of Federal Reserve notes by the various Federal Reserve banks. These notes have introduced an element of elasticity into our currency system which it sadly lacked before, and have made future money panics, of frequent occurrence before the passage of the Act, impossible in the future.

Before the establishment of the Federal Reserve Act, huge sums of money had to be transferred across the country every year to facilitate the movement of the crops. Such transfers today are largely unnecessary, as the effect is accomplished by the local issues of Federal Reserve notes and by entries on the books of the Gold Settlement Fund established at Washington by the Federal Reserve banks, thus eliminating the trouble, cost and risk of transfer.

In conclusion, let me add that the Federal Reserve Board has so construed and administered the Federal Reserve Act as to improve the credit standing and economic position of agricultural interests, placing at their disposal, through discounts and open market operations, the vast resources of the Federal Reserve System to the fullest extent permitted by law and consistent with the principles of sound banking.

I thank you for your attention.
