

Culbertson, Mont.
Jan. II, 1947.


Mr. Marriner S. Eccles,
Chm Board Of Govn'rs
Fed. Res. System,
Washington, D.C..

Dear Mr. Eccles:- Thanks very kindly for your favor of Dec. 17-47. And not to forget a copy of your address before the Joint Committee on the Economic Report .

In reading your address I am impelled to state that material from which I gathered inspiration for my letter was from TIME. That sheet vaunts itself over its thorough and complete report of the news. Without boasting I believe I could have made a better abstract of its contents than did the TIME writers.

The "myth" about the agricultural deflation of 1920.

At first I shall digress a trifle. Our newspapers are supposed to gather material that classes as news, print it and send it broadcast to the people.

Up to this day I have not been able to lay my hands on a newspaper, which tells that story directly. I shall now relate the nearest approach to a complete narrative that I have been able to find.

The following is a brief abstract from the Montana Farmer. Date, Oct. 15, 1920. The Editors Page 10. The Editor Chester C. Davis. And there is only one by that name.

" Within the last month the price of wheat the price of wheat has been hammered down on the boards of trade until it is now selling in Great Falls at around \$1.65 a bushel. 50 cents less than it was 40 days ago..

Grain gamblers can present laudible arguments as why this has happened."

From the above it is easily seen that Editor Davis had not the story who, or what, or when the Deflation of agriculture was decided on.

To go back in time a trifle. July 15th. "A farmer could get \$2.50 a bushel for wheat in Great Falls today What has happened to the wool price will happen to wheat". " If grain prices slump like wool prices did then department of agriculture , chamber of commerce, development associations, leagues and the like can shout over-production until they are black in the face, but it will not get us anywhere.

I say this. Editor Davis had the hunch but not the story of the planned DEFLATION.

Speaking about the price of wool. In 1919 the inflation brought the price of wool up to 68 cents a pound. That was the price received by two of my neighbors. In July wool was worth 16 cents a pound.

It would be nothing but waste of time and paper to write what periodicals and magazines had to say about what happened to the farmer and the prices of his products. Mr. Davis gives in specific terms just what had happened and would happen to the price of wheat.

It did just that.

I have looked through several copies of the Review of Reviews, edited by the venerable Albert Shaw. Nothing in any volume indicates that Albert Shaw knew the story.

Mr.Davis states the seriousness of the farmer's plight as well if not better than any other periodical.

The Secretary of Agriculture, Henry C.Wallace presents a dark and gruesome picture . He states. Page II, Report Of Sec'y 1921. "The unprecedented drop in prices of farm products in 1920 came as a stunning surprise to the majority of the farmers." He says further,"the bankers shared their belief2.

These brief statements prove conclusively that Secretary Wallace had not learned the story as to the leading spirits of that disastrous deflation of 1920.

Just a word ob two regarding the National Agricultural Conference called by President Harding in 1922. Richard T.Ely reports on the Conferehce in an articæ in the Review of Reviews.

I cannot help wonder if Richard T.Ely had any advance knowledge what brought on the Deflation in 1920. According to what he write, he hadn't even a shadow of a knowledge.

He ridicules the old expressions of farm leaders. The demagogue who worked for his own interests. This time there was no one to urge combinations of farmers that were to smite hip and thigh the organizations that that bled the farmers.. There was no talk about the fact that farmers do not fix the prices of goods sold.

Here are some of the most striking resolutions passed by this conference.

"Investigate plans for the stabilization of the dollar". Of course that is what should have been done.

Here is another. "Provide short time agricultural credits." Now that is the veriest rot. The grain farmer riases one crop in 365 days. It takes It takes 27 months to get a baby beef ready for market. It takes 16 months to grow a 200 pound hog.

Not a word,about the planned deflation. Not one word. Here was an assembly of some 200 men. Mature in age, trained by education and experience to get the national point of economic affairs. Yet not a single word about the orgaanization, which brought on the condition they were supposed to mend.

So well was the information kept a dark secret.

Here is a strong hint from another weekly. An article by B.J. Marsh of the People's Legislative Service. He heads his article. " Reserve Board Pltted Deflation". Policy was decided on at a secret meeting May,18,1920.

Mr.Marsh claims that he drew his information from an article published by the Baltimore Manufactuers Record.

The weekly I find this in was published April 1923.

I do not know if Mr.Marsh has all the information of what hap-pened to agriculture in 1920 or not. Had he been on a farm as I was he would have known what happened at the time.

"Governor Harding deliberately attempted to break the market for farm produce!" *Mr Marsh says.*

A few words are also said about increasing the Discount rates of the Federal Reserve Banks. In my previous letter I mentioned that an Alabama banker decided to protect his creditors. This banker had been charged a rediscount rate of 87%.

Says John T.Scott of the Dallas bank. "We are making in the neighborhood of 100% on our capital investment.

Wesley C.McDowelll of the Minneapolis bank said they were mak-
ing \$10,000 a day.

Governor Marriner S. Eccles. 3

Mr. Marsh ends up his article by saying that the policy of deflation by the Federal Reserve board cost the farmers \$14,000,000,000.

I lost an income of \$300 because a banker whom I asked the question, will there be a deflation, answered, "I don't know.

In 1920 there were about 927,000 farmers whose main money income was from wheat. If each suffered the loss that I did then \$278,100,000 was a direct money loss on one single crop. Say nothing about reduction in value of lands, and the farm outfit itself.

But I must go further.

I have a copy of the Non-Partisan Leader as of Sep't 19, 1921. I find there an article by one John Lord, at one time Editor of ~~Parson's~~ ~~Parson's~~ Magazine. Jon Lord is a pen name as it seems.

His statement of the powers of the Federal Reserve system I have found to be true in my own farming experience.

I shall quote a few statements. "The reserve banks fix the interest rates on such loans as are made and it is by means of fixing this rate high or low that credit is made easy or difficult"

Why Time in its Dec. 8th 1947 issue fairly quotes the Chairman of the Board of Governors to the very same effect. Mr. Lord surely had a vision

Mr. Lord continues. "The reserve board therefore may create hard times whenever they so desire, and they may do the reverse simply by lowering or raising the interest rate.

Here is a statement by Mr. Lord that has an eerie sound. Yet the main contention is true. The federal reserve banks have no incentive to make large profits. After a certain amount is made, the excess will have to be paid back to the government. In time the federal reserve will reduce the rediscount rate to 5, 4, or 3 percent or even lower. For a very long time now that rediscount rate has been half of 1% and only lately had been raised to 1; per cent.

Mr. Lord also says, "the deflation of agriculture was accomplished in 7 weeks. In eastern Montana it took from October 18 to Dec. 4.

Labor was to get thiers and labor resorted to the customary means to hold up the daily stipend-- the strike.

Here is what Wm. A. Alexander was handed. "We shall expect a substantial payment on your note within the next 20 days. Remember we have a mortgage on your wheat crop. If we should send teams out to haul your wheat that cost will be added to your note". Before the cut in price from \$2.35 a bushel to \$1.34 we were told market your wheat in an orderly manner. That sounded good to me. At the time I was working on a dam to hold water. A stock reservoir it is named now. I expected to hold 220,000 cubic feet of water from melting snows.

In the pamphlet sent me I find a statement to this effect, "Bankers are not engaged in inflationary expansion of credit". Apparently the Advisory Council which you quote are not well informed. Judging from what I know in several eastern Montana towns, and what I read in Dailies like the Great Falls Tribune, Williston Herald, Lewistown Daily News.; banks are fairly hanging out of their counting house windows urging people to come in and borrow.

This is getting a little lengthy. I shall have to close this letter.

In the next letter I shall come down to facts that are incontrovertible. My authority will be the Congressional Record.

I am very resp.

Wm. A. Alexander,