

The Federal Reserve Act
and the Farmer

ADDRESS
of
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The Federal Reserve Act and the Farmer

Mr. President, Members of the Farmers' National Congress, and Fellow-farmers:

It is fortunate for you, perhaps, that the subject on which I am to have the honor of speaking to you has been defined clearly as "The relation of the new Federal Reserve System to the Farmer." Under the terms of my agreement with your committee, I must stick to that, only stepping a little beyond it for a few comments on the new Rural Credits measure which is so natural a sequence to the Reserve Act as to be considered almost part of it or an appropriate adjunct and supplement.

As I shall endeavor presently to show you, the farmer was by no means overlooked in the drafting of our Federal Reserve Act which has so splendidly reorganized—I might almost say revolutionized—and perfected the banking and currency system of this country; but the Congress deemed it just and wise to go further and pass an additional and special law—the Rural Credits or Farm Loan Act—to provide stimulation and protection for the great agricultural interests which are the real foundations of our prosperity and hope as a people.

So I shall talk to you on these two things, or these two parts of one thing. If I were not so sternly limited, the temptation to give you more or less valuable instruction on the conduct of your own business might be irresistible, for I am an amateur farmer, and I have noticed that farming is the only avocation in which the beginner, the raw recruit, undertakes to direct the veteran.

I am an experimental farmer-in-law, as we might say. The real head work and other work on my 50 acres of somewhat difficult land in Virginia, near Richmond, is done by the lady of the family. But I have read something about farming, and though born on a farm, have lived in cities practically all my life; and, like the others of my kind, doubtless would feel fully competent, if I were allowed, to tell you all about how to get the best results from farming and about scientific treatment of your soil.

The city farmer and the book farmer are notorious advisers and mentors of the plow and hoe farmer. Maybe they persecute and bore him a little with their attentions, but they persist, notwithstanding the fact that many of them in actual agricultural operations have the same experience as that announced by Henry Ward Beecher, who calculated that the green peas he raised himself and enjoyed so much in the spring cost him two cents apiece; or like Whitelaw Reid who, it is said,

was wont to inquire of his guests whether they would take champagne, or milk from his fancy cattle, remarking that they cost exactly the same.

While I have never taken gold medals for a farm exhibit, I hope I may be excused for boasting a little of a near neighbor of mine in Virginia, who ventured to exhibit the products of his farm at the Panama Exposition at San Francisco last year and who was awarded fourteen gold and silver medals, four diplomas of honor and in addition the grand first prize for the best exhibit from a single farm in the entire United States; and whose specimens of corn Luther Burbank declared to be the finest he had ever seen, or ever expected to see.

Really, however, no actual experience on a farm or with the soil is needed to convince any thinker that prosperous and progressive agriculture is the basis for the prosperity and progress of any people. Several years ago a cartoon was published in Germany. If I recollect aright, it showed the Kaiser at the top, saying, "I rule all"; next below him was the cabinet, "We think for all"; then the soldier, "I fight for all"; then the merchant, "I serve all"; at the bottom was the farmer supporting the entire weight, "I carry all."

The picture conveys a powerful and indisputable fact. Agriculture, or as some prefer to call it, just plain farming, is not only the oldest and the most essential of all human occupations, but in this

country at least has for many years been the most neglected by our government and thinkers. The "down trodden farmer" is a favorite theme—especially around election time; but until quite recently little has been done for him in a comprehensive and practical way.

Almost inevitably we have been a wasteful and a thoughtless people. Because through the first two and a half centuries of our settlement on this continent, we had plenty of land and it was cheap, we learned to have little respect for land. We acquired it easily and in vast quantities, exhausted its virgin freshness and strength by improvident use, and then cleared or broke up new tracts. So we have prospered and made enormous showings of new wealth and glory from decade to decade, as men do who are gradually but steadily eating into their capital.

Now we are nearing the time of change and discovery. In some parts of the country we have reached it, as the abandoned or deplorable farms and desolate farm houses testify. Every year we get closer to the time when the prosperity, wealth and growth of our country will depend not on the original quality or on the quantity of the land, but on the capacity, the methods and the equipment of the men who till the land.

One of the chief difficulties hampering and obstructing the young and vigorous men who would

farm if they could see in the work opportunities for success and the fulfillment of their ambitions—and the older men anxious to extend their activities and increase their product,—has been the lack of capital. The farmer usually finds it harder than almost any other business man to obtain the capital he greatly needs; and when he does get it, he is too often forced to pay for it extortionate rates. All of us know that farming is becoming more and more an ordered business, governed by the same rules that apply in other business; less and less a hap-hazard venture on the caprices and chances of nature. Like every other business, it needs for success capital and the just credit that represents and secures capital. The farmer, I say, in a great measure, has lacked these, to this time. He has been denied the means of preparing and equipping himself. Too often he has been in the position of a man undertaking to open a store and lacking money or credit to obtain a stock of goods.

We hear, from many sources, clamorous cries of “back to the farm,” and “back to the land.” Gentlemen, we can’t get people back to the farms or keep people on the farms unless we can show them promise that the farm will give them at least as much comfort and happiness and prospect as they can find in towns and cities by equal effort and labor of head and hand. Put money, or the opportunity to earn it, on the farms and the people

will go to them fast enough and will stay with them.

That is precisely what the Federal Reserve System is doing in a large measure, and what we hope and believe the Rural Credits System will do in even larger measure. It is said of Mr. Gladstone that he could make even statistics eloquent, and of John Wesley that he could cause his hearers to shed tears by his way of saying "Macedonia." I am sorry I have no such faculty. I cannot so enunciate figures as to avoid temptations in my audience to yawning. But I beseech your patience while I try to show you some figures which don't lie and which it seems to me should be interesting and informing.

I am not going to tell you that there was really a dearth of money in this country before the Federal Reserve Act was passed, for it would not be true. There was plenty of money in the country. Official statements show that on January 1, 1914,—a week after the passage of the Federal Reserve Act—the actual money in circulation in this country, consisting of gold, silver and paper money, was close to 3½ billion dollars. The total resources of all the banks and trust companies in our country—State and National—July 1, 1913, had been reported at over 25 billion dollars. The trouble was that these huge resources were not evenly distributed. People in some sections were able to

borrow all the money they wanted and at favorable rates—4, 5 and 6 per cent—while in other sections very much higher rates were being charged, and many people just as honest and capable as those in the big money centers were unable to get money for their legitimate requirements on any terms, and others had to pay 8, 10, 15 and sometimes 50 and 100 per cent per annum, or more, for what they got.

These unfair, unfavorable, threatening conditions developing unrest, uneasiness, unnecessary poverty and resentments against society and government,—all the more dangerous because vague, and because the real cause of the disease was obscure, and the remedy consequently undiscovered,—really were results of our outworn and outgrown banking laws and system, favoring the few, depriving the many, discriminating inevitably against the farm and the farmer, the foundations of all. Hundreds of millions of dollars every year were drained away from the country banks, first to the banks in the fifty odd so-called Reserve cities, and then from these Reserve cities further concentrated in the three Central Reserve cities of New York, Chicago and St. Louis—principally in New York City.

An investigation made by the Comptroller of the Currency in the winter of 1914, a few weeks after the passage of the Federal Reserve Law, showed

that the National Banks in New York, Chicago and St. Louis and in three or four other eastern cities held 1500 million dollars of money belonging to other banks and trust companies from every part of the United States, and that the total amount of money which the National Banks in these six or seven cities were lending back to all other banks and trust companies in the United States at that time was scarcely 110 million dollars, or less than 7 per cent of the 1500 million dollars of money which they were holding for the other banks, thus concentrated in these six or seven cities.

Approximately half of this 1500 million dollars was in the National Banks of New York City to the credit of other banks and trust companies. A very large portion of it was being loaned in Wall Street at two or three per cent *per annum*, while you farmers were paying in many cases two and three per cent. *a month*, sometimes as high as five and ten per cent a month. But even then, many farmers were not able to borrow enough money to operate their farms economically and efficiently.

The Federal Reserve Act has completely revolutionized, as I have said, the old banking and currency system. The only wonder is that we were able to get along as well as we did. You gentlemen of the farms know what would happen if you stacked all of your fertilizer in one pile or even in two or three central reserve piles. That plan

would not do your crops any good, except in spots, and even where the fertilizer was heaped your land would be over-heated. The Federal Reserve Act has been the means of spreading the fertilizing money evenly and equitably over the whole land. It has established 12 great reservoirs conveniently located for every section of the country, and since the opening of the Federal Reserve Banks, nearly two years ago, no member bank entitled to credit has applied for a loan which was not promptly furnished.

Every national bank and every other member bank of the system has the assurance that if it will conduct its affairs efficiently and according to law, these great Federal Reserve Banks will not only be ready and able to help them meet any emergency that may arise, but can always be counted on to supply funds to help them meet the legitimate demands of their customers, far and near.

An immediate effect of the passage of the Federal Reserve Act was to inspire business men and bankers with new confidence and to give them new assurance that money and capital would be obtainable at fair and reasonable rates for the ordinary operations of business, and also for new creative and constructive work, and there was instant revival in business from the very day the Federal Reserve System was placed in operation, as the records clearly and abundantly show.

The huge increase in our money supply resulting from the imports of gold from abroad has been greatly augmented by the money which has come out of its hiding places, from old stockings and safe deposit boxes and been placed in banks and in circulation because of the new and increased confidence which everyone has felt since our Federal Reserve System was started.

The first effect, therefore, of the opening of the Federal Reserve Banks, as it concerns the farmer, has been the decentralization of the huge accumulations of money which had been permitted to concentrate in the few great centers, and the transfer of capital to these 12 reservoirs. From these 12 reservoirs the pipe lines already run to nearly 8,000 banks, where it is available for the use of every farmer, storekeeper or business man whose fidelity and industry and standing entitle him to credit.

This does not mean that the Federal Reserve Act has placed money at the threshold of everyone who asks for it, whether he is entitled to credit or not. The trouble heretofore has been that men who were in every way responsible, intelligent and trustworthy, have in wide sections of the country suffered severely, oftentimes because they could get no accommodation from the banks or got it on terms of interest and payment working silent ruin, demoralization and despair. God Almighty alone knows how many strong, capable, manly men have

had the strength and hope and power sapped from them by unfair interest rates, how many promising boys and girls have been deprived of opportunity and driven to worthlessness and crime by the same direful, inexorable power.

The latest official returns from the National Banks of the United States show vividly how the work of decentralization and distribution is progressing. I shall again impose on you a few more figures in considering the condition of our National Banks on September 12, 1916, as compared with their status $4\frac{1}{2}$ months earlier, on May 1, 1916. During this period the transfer of money from the great centers to the country banks and to the interior cities has been especially noticeable. . In these $4\frac{1}{2}$ months, the deposits in the National Banks of New York City were reduced 222 million dollars, in Boston the reduction was 36 millions, and in Philadelphia 13 millions. The aggregate reductions in seven or eight other reserve cities amounted to 12 millions.

Coincidentally with the reduction which has taken place in the eastern money centers, the deposits in the country banks and in the banks in other cities in the interior and in the West and North and in the South have shown enormous accumulations. The growth of deposits in San Francisco since May 1st was over 35 millions; in Kansas City, 23 millions; in Pittsburgh, 21 millions; in Cleveland, 18

millions; in Omaha, over 14 millions; in Houston, Texas, 8 millions; in Indianapolis, Columbus, Denver and Los Angeles, about 7 millions each. Milwaukee, Cincinnati, Richmond, Wichita and St. Joseph show increases of about 5 million dollars each in the deposits of their National Banks in this brief period.

While such increases as these are shown in the larger interior cities, the country banks in nearly every State in the Union have increased heavily their deposits. The figures, just compiled, tell us that the growth in the deposits of the country banks throughout the United States, outside the Reserve cities, since May 1, 1916, has been such that their deposits September 12, 1916, exceeded by more than 294 million dollars the greatest deposits ever previously recorded.

Having shown you how the money of the country has already been brought within reach of the farmer, has been and is being further decentralized and distributed, I will next ask your attention to certain specific provisions of the law which make it practicable for the farmer to get in touch with the money so distributed.

Section 13 of the Federal Reserve Act expressly gives to every Federal Reserve Bank the right to discount notes of all member banks secured by wheat, corn, cotton and other staple agricultural products; and although the ordinary commercial

notes of merchants cannot be discounted in the Reserve Banks if they run over 90 days, the notes and bills of exchange drawn or used for *agricultural* purposes or based on *live stock* can be discounted at the Reserve Banks even though they should have as much as *six months* to run. Any member bank in good standing therefore can get money from its Federal Reserve Bank, generally, at rates lower than ever known before, for the six month notes discounted for the farmers, whether advanced for the planting of his crops or based on live stock or non-perishable products already grown.

Banks in different parts of the country are offering money in large sums to farmers at unusually low rates of interest for the purchase of young cattle with the agreement that the loan shall be continued or renewed until the cattle can be fattened and made ready for market. Every stock raiser can understand the value of these opportunities to get money on his cattle while they are in process of making.

The Federal Reserve Banks, by standing ready to discount at low rates to any reasonable extent for their member banks the farmers' six months paper, enormously facilitate the farmer in getting money for the making of his crops and for raising his live stock.

Aside from the questions of individual character and responsibility, it is hard to see why farm

products in the course of growth or manufacture or finished, ready for sale, should not be as legitimate security for loans as the merchant's goods on the shelves waiting to be sold, or the goods in a factory in process of manufacture, or manufactured goods awaiting orders from customers. Probably it has happened that a farmer with his wheat or his cotton stored, was unable to borrow on it, or refused to pay excessive interest, while the miller or the manufacturer on this same wheat or cotton could borrow readily at low interest. This should not be. It is poor business and vicious political economy, because it is a sure fact that if the farmer does not prosper and get his right share of the products of his land and labor, the merchant's goods will remain on the shelves and the manufacturer will find himself short of orders.

Beyond these, what I may call details, is the broad general truth that the Federal Reserve Act has assured, as I have tried to show you, a supply of money sufficient to meet the requirements of the country, and of every section of it, and at all seasons, and that the proper administration of it will protect all claims of the people against extortion; and will forbid the grasping from using for their own advantage the necessities of their neighbors. The farmer is put on the same plane as the business man. He is enabled to borrow according to his industry and commercial standing because

his banks know exactly how and where to get the money for him. It will not be possible hereafter to have the money supply locked in the great centers to be used for speculation or gambling purposes, while the real producers and legitimate productive commerce are pinched or denied, perhaps just at the time of their most important need.

The Federal Reserve System furthermore greatly benefits the farmer by providing a method by which, when he has made his crops, he can borrow money to enable him to hold them until he gets a satisfactory market and can sell his products at what he believes them to be worth. The Federal Reserve Banks throughout the country have been offering money to their member banks at the unprecedentedly low rate of 3 per cent on what they term "commodity paper"—that is to say, on notes secured by warehouse or terminal receipts for wheat, cotton, tobacco, corn or other staple products. But this is done with the understanding that the banks borrowing at this low rate must not charge their customers on this paper more than 6 per cent per annum at the outside.

So it is that the Federal Reserve Act is benefiting the farmer by enabling him to borrow money to make his crops, and then to borrow money when he has harvested them in order to carry them until he can obtain a satisfactory market. He is thus enabled to use his own judgment and consult his

own convenience as to when he will sell what he has made. He cannot be forced into a glutted market or made to suffer for temporary sags in prices. It changes him in a great measure from the owner who must sell for the price the buyer chooses to fix, to the owner who can hold for what he thinks his goods are worth. It does not and cannot interfere with the law of supply and demand. It does release the farmer of the pressure to sell and leaves him free to study conditions for himself and act on his own opinion.

The Federal Reserve Act now goes still further and has given the National Banks of the country authority to make five year loans on improved farm property. This is the first time since the beginning of the National Banking system, half a century ago, that the farmer has been able to borrow on the security of his farm from any National Bank. The amount of money which National Banks may now, at their discretion, lend on improved and unencumbered farm property is limited to not more than one-third of their time deposits or one quarter of their capital and surplus; but by this provision, over 578 million dollars become available for such loans.

The figures show the farmers of the country are beginning to use this opportunity so recently provided for them. The total loans by National Banks on farm property June 30, 1915, were reported at

25 million dollars; and on September 12, 1916, they had increased to 48 million dollars and they grow steadily. The character of the average American farmer for conservatism and caution and his love for his land are guarantees that he will try not to use his new credit unwisely. He seems to me to be a better investment than the speculator in stocks whose collateral may be called gilt edged to-day and waste paper next month. I am sorry to say we come across relics of such shrinkages in the banks sometimes, but happily not often.

On June 30, 1916, our National Banks were lending to their customers, on warehouse receipts secured by wheat, cotton, corn, tobacco and other commodities, more than 124 million dollars, and on September 12, 1916, this had increased to more than 155 million dollars, about one-third of which was based on cotton. Exactly how much of this money is being loaned to farmers has not been definitely reported; but we do know definitely that the farmers throughout the United States, as a result largely of the operations of the Federal Reserve Act, have been and are obtaining funds for making their crops, for carrying their crops after they are made until satisfactory prices are obtainable, and also are borrowing money on their farms for development purposes or for the acquisition of new land, on terms more favorable than ever known before in our history.

The Federal Reserve System does not, as I have said, undertake to provide credit for those who do not deserve it by character or financial responsibility, or both. It does go a long way toward assuring every business man, including the farmer, that he shall not be deprived by any temporary or permanent condition of the credit he has earned by his right living, his intelligence and thought and diligence.

The new System provides an abundant and ever ready source for supplying money or credit to its member banks and through them to farmer, merchant and business man. If the local member bank should lack the funds to meet the wants of a farmer customer, it doesn't have to wait for an increase in its deposits before it can grant the loan desired; nor does it have to call in loans from other customers. It merely takes from its vault a batch of notes acquired for loans made to farmers or others and maturing in not more than six months—it makes no difference whether these notes were given to raise crops or to buy cattle for fattening—and the little local bank then sends this paper to its Reserve Bank. The Reserve Bank discounts the paper at 3 or 4 per cent or whatever the prevailing rate may be at the time, and the money thus received the local bank lends to its farmer client.

If the local bank lets the farmer have this money at not over six per cent, and takes as security ware-

house receipts for wheat or cotton or other such products, the local bank can have this paper re-discounted at the Reserve Bank at especially favorable rates, say 3 or 3½ per cent.

There is no likelihood that the Reserve Banks may not have funds to meet all needs of member banks at any time. Whenever a Federal Reserve Bank finds its funds running low, it can take the paper received from farmers and merchants and deposit it in trust with an officer connected with each Federal Reserve Bank—the representative of the Federal Reserve Board in Washington, known as the Federal Reserve Agent—who is empowered thereupon to deliver to the Federal Reserve Bank an amount of Federal Reserve notes, which he receives under the law from the Comptroller of the Currency, equal to the face value of the commercial or agricultural paper so deposited. As these notes discounted for farmers or merchants are paid off the local bank pays its Federal Reserve Bank, and the Federal Reserve Bank deposits money with the Federal Reserve Agent and so redeems or retires the Federal Reserve notes thus issued to it.

Each Federal Reserve note must be secured by 100 per cent. of discounted bills; and besides this, each Federal Reserve Bank is required to keep a supply of available gold on hand at all times equal to at least 40 per cent of all outstanding notes. And furthermore, the United States Government itself

stands behind every Federal Reserve note issued by any one of the twelve Federal Reserve Banks.

The flexibility or elasticity of our currency is a cardinal feature of the Federal Reserve System. No longer do the business men dread the approach of harvest as a time for tight money and falling prices. The new system furnishes a volume of money, expanding naturally to meet normal and legitimate demands, and machinery for retiring it when the need for it no longer remains.

As I have pointed out on other occasions, the old, rigid and imperfect currency system which we had long ago outgrown made our very prosperity a danger, the diligence of the farmer and the fertility of the soil an annual threat and cause of fright. The more abundantly kind Providence had blessed us with great crops, the more alarm was felt at financial centers at the drain on reserves required to move them. We had alternating chills of fear and stagnation and deadly interest rates, fevers of abundant and cheap money, over-confidence and desperate speculation. We had at one time of the year gluts of money, heaped at the centers with nobody wanting or employing it; at another time such scarcity that legitimate business was denied the means with which to move and the best collateral went begging. The effect of that was to increase and harden constantly and steadily the concentration of financial power in a few places and a few hands.

These unhealthy conditions which had called so loudly and so long, but vainly, for reform were admitted by even the bankers themselves in the great money centers. In a written statement to the Pujo Committee just ten months before President Wilson attached his signature to the Federal Reserve Act, Messrs. J. P. Morgan & Co. had claimed, to use their exact language, that

“Such concentration as has taken place in New York and other financial centers has been due, not to the purposes and activities of men, but primarily”—mark you—“to the operation of our antiquated banking system which automatically compels interior banks to ‘concentrate’ in New York City hundreds of millions of reserve funds.”

They added that, secondarily, the accumulations in these centers were due to natural causes.

The American farmer, as a rule, deserves credit at the banks, not only because he is the foundation on which our entire commercial fabric is erected, but because he pays his debts faithfully. He does it not only because his instincts are honest, but because, more than any other class, he is tied to the soil on which he lives and dependent on his reputation.

Some months ago I protested to a certain country bank against the rates of interest which it was charging farmers, its sworn statement having con-

tained a list of 168 loans made during the preceding sixty days at rates ranging from 20 per cent. to 50 per cent. The Bank replied that the rates were high because of the losses on that class of business. "Practically all these small notes," said the banker, "are chattel loans on which our loss is heavy, and when the loss and expense of collection are deducted, our net revenue will not average over 10 per cent or 12 per cent." I thereupon called for a detailed statement of alleged losses, and found that his excuse was quite unfounded and that the total amount charged off on account of losses of every kind for the preceding five years had amounted to less than \$6,000; and that this same bank, during the preceding 15 years, had declared to its stockholders dividends amounting to an average of over 46 per cent per annum for the entire period, on its original capital.

I shall not weary you by enlarging at any length upon the hardships which the farmers, especially, have endured in the past because of their inability to obtain loans or credit from banks on the one hand, or because of the unjust and extortionate rates which have been charged them over wide sections of the country for years past on the other hand. I am happy to tell you that there have been large sections of the country where the farmer has been able to obtain on fair and reasonable terms the credit which he has needed and he has pros-

pered accordingly. The farmers in those sections know little of the hardships which have been endured by their fellow farmers in other regions. Of course, those who have suffered most have been the small farmers, the men who needed to borrow comparatively small sums of money to make their necessary crops.

I could show you from the records innumerable cases where the small and struggling farmer in the past has been made to pay from 25 per cent. to 100 per cent per annum for the small accommodation he had to have from year to year. The difference between 6 per cent and 60 per cent on a \$300 loan for one year is \$162; and I do not have to explain to this audience the comforts and blessings that just that \$162 would mean to a striving farmer with a wife and little children to provide for. How much in shoes, hats, school books, or food or forage. It may represent just the margin between a grinding privation and comfort.

While on a visit to my office not long ago a gentleman who had been Governor of the State in which he resided, told me of an instance where a farmer had borrowed about \$100 to help raise his crops, the loan being for less than a year; that the bank had charged this farmer in addition to a heavy rate of interest, \$50 for the trouble of going out to look at the land and for a few preliminaries to the loan. I am sorry to say that instances of extortion

are not isolated, but that there have been thousands of them in some parts of the country.

Banks making these charges have been violating the laws of their own States and the laws of the United States, and it is not a surprise to me that in trying to break up these irregular and unlawful habits, I have incurred the wrath of some of these violators of the law. I have been perfectly willing to endure this unpopularity, feeling that in being instrumental in any way in ending practices which have been the source of so much misery and despair to those who have deserved better treatment, I am amply compensated.

It is with great satisfaction that I can announce to you that as a result of the inauguration of the Federal Reserve System and the determined efforts of the Comptroller of the Currency to require the banks under his supervision to obey the laws against usury and extortion, there has been a general collapse in interest charges in those sections of the country where the abuse was greatest, and a general disposition on the part of the banks in all sections of the country to live within the law.

Hundreds of banks have made perpendicular drops from the excessive rates which they formerly charged. Many that have been charging on some of their loans as much as 50 per cent or 60 per cent, are limiting their charges to the rates permitted by

the laws of their respective States. In other instances where 12 per cent or 15 per cent rates have prevailed, borrowers are being accommodated at 6 per cent and 8 per cent. The reports received from some of the small country banks in distant districts indicate that they are adopting a conservative course, desiring to avoid the jar which might result from too sudden a drop in rates, but that they are moving in the right direction. One bank testifies under oath that it has reduced its maximum from one per cent a day, or 360 per cent per annum, to about one-third of one per cent per day, or 109 per cent per annum! Another in the same State reports that it has brought its maximum rate from 300 per cent down to 30 per cent, and other banks which heretofore have been charging an average of from 18 per cent to 22 per cent on all loans have come down to the legal rate of 10 per cent authorized in their respective States.

It seems almost incredible, but one National Bank reported to me under oath that it had been charging an *average* of 36 per cent on all loans made by it, while another declared that the *average* rate which it received for all money loaned by it was 40 per cent.

A great many farmers who had never known what it was to borrow money below 12 per cent are getting it at 6 per cent. The cashier of a National Bank in the interior of Texas, which had been

charging excessive interest rates, recently in a letter to the Comptroller's office said:

“While it has been rather hard for us to get down to the legal rate, I realize that you are absolutely correct and I am sure that the cheaper rate of interest will bring and is already bringing to this bank a large increase of business. Your stand in this matter is entirely commendable and we will do our best to uphold you in it.”

The total loans made by all National Banks at the time of the June, 1916, call amounted to 7679 million dollars. Despite the reduction which has taken place in interest rates throughout the whole country, the indications are that the earnings of the National Banks for 1916, based on their returns for the first six months, will be greater, both as to gross and net, than they have been in any previous year in their history. While the rates of interest they are charging are lower, and while the farmers, merchants and business men are deriving great benefit from these reduced rates, the banks seem to be more than making up for the reduction in interest rates by their larger business. The National Banks in September, 1916, were earning interest on over \$1,700,000,000 in excess of the amount they were lending in June, 1913, before the passage of the Federal Reserve Act. If we assume that they are receiving for these additional loans a profit

of 3 per cent per annum, this interest alone would add to their earnings over \$50,000,000 a year.

The managers of hundreds of country banks have admitted to me that their losses on loans to farmers have been strikingly small, amounting to a mere fraction of one per cent of their aggregate loans; and that, though he is not always punctual in meeting his notes at maturity, the farmers' loans, I am assured, are about the safest that the banks ever make. And yet up to this time, it has been the farmer principally who has been paying the highest kind of rates, and who has suffered most from excessive charges.

I think you will agree with me that wise and foreseeing statesmanship gives attention first to the foundations, to secure their permanent stability. While they are sound, the structure built on them will be invincible against any storm or stress. In this country we are beginning to be confronted by the facts of a limited quantity of land, and much of the land we have losing productive power annually because those who till it have not the means to keep it up or improve it; and at the same time a population steadily and swiftly increasing and promising indefinite expansion by the mathematical processes of human reproduction. Let me show you, for a moment, what land—old land cultivated for a thousand or fifteen hundred years—can be made to do.

We made last year in the United States 607 million bushels of wheat, an average of 12 bushels per acre. If we, on our new land cultivated for an average of probably less than 50 years, had gotten the yield per acre which Great Britain secures on her lands, some of which have been cultivated more than 1,000 years, our wheat crop on the acreage planted would have been 1600 million bushels, or two and a half times our this year's yield. If we had reached the efficiency in cultivation shown by Germany in the production of oats, we would last year have raised 2400 millions of bushels on the same acreage from which we this year produced 1200 million bushels. Our rye crop could have been made on 47 per cent of the acreage we planted in rye if we had made the yield per acre that Belgium usually shows; and it can be no source of pride to us to realize that Belgium was accustomed to raise 120 million bushels of potatoes on the same number of acres on which last year we produced only 32 million bushels.

Having in mind present conditions, the probabilities of demand of the future, and the possibilities of production, this administration has given much thought and labor to improving the condition of the American farmer and increasing his usefulness to the world, while promoting his own comfort and prosperity, by giving him every possible fair opportunity to increase his productive capacity. You

have noticed that I spoke just now of the American farmer's usefulness to "the world," not to the country. The words were used advisedly. I tell you farmers, as I told the bankers at Kansas City the other day, that we Americans have outgrown our obligations to America. By force of our wealth, our population, our enormous power—never excelled by any nation that ever lived—and our immunity from the devastation of a war that has smitten every other nation and enriched us, we have become responsible to the world, its leading and guiding influence; and all our thinking and planning should include the entire planet. It is a responsibility that we cannot avoid if we would. For this world work of ours, the farmer is the fundamental source of strength. Therefore the Rural Credits or Farm Loan measure has been added to the Federal Reserve System.

The Federal Reserve Act enables the farmer to get, at liberal rates, the money he needs temporarily to make his crops; and also the money he may need to carry them for an advantageous market after they are made. The Rural Credits measure enables the farmer to borrow the more permanent capital he needs to enlarge his operations or to equip his farm with the machinery and buildings required for up-to-date operations; and furthermore it enables him to do so at better interest rates than he has ever known.

John Jones has a farm worth \$10,000. He wishes to put up a modern barn and silo, to run water pipes into his home, establish a gasoline engine to pump, saw wood, and churn. His efforts to borrow in the past had been vain, though at one time he came near getting a bank to lend him \$5,000 for 20 years at 12 per cent. This man will soon be in a position where he can get his \$5,000 from the Farm Loan Bank on a basis of paying interest at 5 per cent a year for 20 years with a small additional payment on principal. At the end of the 20 years, he will find his yearly payments of \$80.24 per \$1,000, or \$401.20 for \$5,000, have not only covered all interest costs, but that there has been accumulated a sinking fund which has also paid off his principal, and he is *entirely out of debt*.

If he had taken the money originally from the money lender at 12 per cent, he would have had to pay \$600 a year for twenty years, or a total interest charge of \$12,000; and at the end of that time would have had to pay in addition the principal sum of \$5,000, making his total payments for principal and interest \$17,000.

The net result to this particular farmer, under the new Farm Loan plan, is that he gets his \$5,000 for new land and improvements, makes yearly payments of only \$401.20, instead of \$600—a saving each year of \$198.80—and at the end of twenty years, instead of having to pay the \$5,000 principal,

is handed a receipt in full and his canceled mortgage.

The Farm Loan plan is safe and profitable for the Government; easy and most advantageous for the farmer, giving him better opportunity than he ever had, providing for his peculiar situation a peculiar, special and available basis for making the money represented by his land an active and ready force for enabling him to improve the value and capacity of that land and of the farm.

Now, gentlemen, I have tried to cover the main subject as comprehensively but as briefly as I could. It is of enormous interest to us here and to every student of our affairs and thinker on our future as a people, and as individuals.

Published utterances of the last few days suggest to me that I may interject here, near the close of what I have to say, a brief statement that may be regarded as almost personal. I see our President in an address at Shadow Lawn tells the country that the bankers, or certain bankers or some special interests are after my official scalp because I, as the Comptroller of the Currency, have enforced the law. This is no surprise to me.

I know that I have been held up as a kind of Ogre, a Raw-Head and Bloody Bones, a terror to the banking and financial interests of the country. Maybe the best answer to that may be found in the

records and indisputable facts, that the National Banks of the country are to-day stronger and in better condition than ever before; that they are more numerous than when I became Comptroller; are more prosperous, and show a smaller proportion of failures and losses than was ever known in their history; and my office is receiving a steady stream of applications for charters for new National Banks and for permission to increase the capital of the existing banks.

But I shall ask your permission to present here an extract from a communication I wrote the Wall Street Journal in April, last, in answer to certain criticisms of my efforts to enforce the law.

In my letter referred to I said, in part:

“Probably many honest bankers had fallen into the habit of using their own discretion as to when the law should be twisted, evaded or shaved a little for their own convenience or that of their customers. Conscious of their own good intentions, they are impatient of restraint and rigid regulations and enforcement of the law. The obvious danger is that if men of prudence and character are permitted to stretch or ignore any part of the law, men who are imprudent and of less character will do likewise with results injurious to everybody. As the law itself may not discriminate, so offi-

cers of the law are forbidden to discriminate. When they undertake to be strict here and lax there, they betray their trusts and take serious chances of doing vast harm. It is like sanitary regulations in a city. They are useless unless applied universally. A best citizen permitted to disregard them and intending no harm, may infect his entire neighborhood and community."

My official s^carp is not especially dear to me. My business is to administer the law and to do justice, and the law is justice put into words, as I understand them. I have had a somewhat stormy time and have been an uncomfortably prominent target. But always I have kept in mind some words spoken by Patrick Henry in a little wooden church, on a hill in my own town, about 141 years ago—"Is life so dear, or peace so sweet, as to be purchased at the price of chains and slavery? Forbid it, Almighty God!"

When I had recent occasion to address the bankers of the country at Kansas City, I talked along somewhat the same lines on which I am talking to you. I observe that some newspaper editors described my remarks as sophomoric, sounding more like a college student than a business man appealing to hard-headed, trained business men. I do not consider that exactly adverse criticism, however it may have been intended. The enthusiasm, the gen-

erosity, the fine, clean thought and dreams and aspirations of the well bred and taught boy might become any of us and do much to enliven and electrify and cleanse our considerations of our politics and our plans for our country and people.

Such a boy would cherish the ideal of a time when we here of this foremost nation of the nations of the world may lay aside the sordid and the base and work together faithfully to establish righteousness and justice, so that borrower and lender, producer and consumer, the people in the fields and the people in the cities may be working and thinking together for the happiness, the peace, the prosperity and the advancement of all humanity.