

ADDRESS OF E. H. CUMMINGHAM, before the
AMERICAN FARM BUREAU FEDERATION, CHICAGO,
ILLINOIS, December 9, 1924.



It is always a pleasure to be able to attend the Annual Convention of the American Farm Bureau Federation, because of the privilege it permits for the renewal of old acquaintanceships and the pleasure it affords in meeting many new representatives of agriculture and in that manner acquiring intimate touch with agricultural conditions at first-hand.

While I have not, for the past fifteen months been allowed to do any public speaking, I am now, for the second time, disobeying orders by allowing myself to be scheduled to speak at the Annual Convention of the A.F.B.F. I find myself in practically the same situation as the farmers. My Doctor tells me that I am improving - that is what I understand the banker says about the farmer; so, at least, we each have something to be thankful for.

I will be brief in my remarks; in fact, it is necessary that I do so. What I have told you about the situation will enable you to understand that I am, in a sense, like a man operating without his auto license - subject to severe penalty. You, I am sure, are sufficiently informed to realize that whatever could be said about the Federal Reserve System or the economics of finance and its relation to Agriculture, Industry and Trade and the different phases of the complicated set-up of a Reserve Bank, cannot in any of its phases be discussed in fifteen minutes.

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I was here a year ago and told you many facts about the System. I called attention at that time to certain matters that certainly concerned your business, but, up to the present time, there has not come to my attention any evidence that would indicate that you were in any sense interested. I am sure, however, that there was food for thought and action that would mean much to you individually and collectively.

During the past year the Reserve Bank rediscounts have been almost continuously reduced. Rediscounts on December 31, 1923, in the System were \$728,068,000.00 - on December 3, 1924, \$248,928,000. That the farmers are not obliged to borrow, but, on the contrary, are paying their debts, must certainly be a pleasant experience for them. In the language of the street: "It is a grand and glorious feeling."

Let me call attention to a situation that certainly concerns the borrowing public of the country. The loan and investment statements of all banks in the United States as published in their late report shows clearly what has actually taken place. The purpose of this statement is to leave with you the facts regarding the criticisms offered against the demands that have been made for liquidation. As some of the criticisms cover the period since 1920 and as part of that period covers the time that I have been a member of the Reserve Board, I take pleasure at this time in presenting the facts.

It has been customary, especially during the stress of the last few months, to refer to the large decrease in the loans at the Federal reserve banks, and refer to it as being due to a policy of

arbitrary liquidation. This is absolutely contrary to the facts. The decrease is rather due to the improvement in the condition of the banks of the country.

On December 31, 1920, the total discounts for the Reserve System amounted to \$2,719,134,000.00. At this date the total discounts of the System amount to \$274,668,000.00, which is a total reduction in discounts of \$2,444,466,000.00.

The thing that pictures the whole statement is as follows: On June 30, 1920, the total loans and investments of the banks in the United States amounted to \$42,268,436,000.00, while on June 30, 1924, the total amount was \$45,555,141,000.00, an increase of bank loans and investments, during the three and one-half year period of \$3,286,705,000.00. During the period that the Federal Reserve discounts decreased \$2,400,000,000.00, - the loan and investment account of the banks increased \$3,286,705,000.00.

In giving you these figures it is not with the thought that you could be greatly interested in them beyond the information they convey that will help you to be able to realize what increase in credit availability for agriculture and industry has taken place in the banks of the country.

If we were over-extended in 1920, and it is very evident that such an idea must have been prevalent as the Senate of the United States passed a resolution of concern over the situation at that time, what is your judgment of the present situation when the banks have loans and investment increases greater than the total loans of the

Federal reserve banks for 1920, without taking into account the availability of credit through the Federal Reserve System.

Another misconception and criticism we hear very often is with regard to the amount of money in circulation and its relation to credit conditions. The idea that bank credit and money in circulation are synonymous terms, is more or less erroneous. The greater part of the large business of this country is transacted by the use of bank credit which does not involve the transfer of one cent of actual cash.

A decline of 2 billion 400 million in rediscounts with the Federal reserve banks the last four years is criticised as a policy detrimental to the country and the banks in that it really amounted to arbitrarily forcing a restriction in loans; while the figures I quote show an increase in bank loans and investments during that period of 3 billion, 300 million, or a net increase in credit availability at the banks of approximately \$900,000,000.00 above the decrease of \$2,400,000,000.

The total money in circulation - that is, the actual money used by the people of the United States in their daily cash transactions, increased about 500 millions between July, 1922, and November, 1924. Prior to that time there was a large decline in money in circulation from the end of 1920 owing to the general drop in prices and the depression in all lines of activity.

What this chart is particularly intended to bring out is that during the past two and one-half years while the total money in circulation increased by about one-half billion, there was a decrease

of about 350 million in the circulation of Federal reserve notes, and an increase of about 750 million in the circulation of gold and gold certificates. Some persons, looking at the decline in Federal reserve notes, have criticised the Federal reserve system for contracting the currency without realizing that what has actually happened is that the Federal reserve banks have put gold into circulation and that this gold has taken the place of Federal reserve notes, and that this increase alone has amounted to over 400 million dollars in the circulating medium.

The point that is important to bear in mind is that it makes no difference to the banks of the country or to the people who use actual money in their business transactions, what kind of money the Federal reserve banks put into circulation, so long as they supply all the currency that is required. If anything is certain, it is that no one has suffered from inability to obtain cash with which to transact his business since the organization of the Federal Reserve System. Prior to the establishment of the System when reserves were being hoarded by the banks in times of stress, cash money was hard to obtain and commanded a premium, as, for instance, in 1907 - a situation which many of you will remember. Since the establishment of the Federal Reserve System and its policy of extending credit or loaning money through the issuance of Federal reserve notes, we have gone through a period of very rapid growth in credit; through a period of advance in prices, and also through a period of price collapse and industrial depression, but at no time

has there been a shortage of cash.

The point I wish to stress is that under present circumstances the figure that indicates the amount of currency in use and therefore the figure that is significant is the total money in circulation, that any changes in the volume of Federal reserve notes generally represents merely the effect of paying out another kind of currency by the Federal reserve banks and has no significance in the general money situation of the country.

That the position of the farmer is considerably better in general than a year ago is indicated by the fact that the farmers' accumulated indebtedness to the banks has been reduced in large volume in practically every state. This liquidation is not altogether reflected in the decline in the total volume of commercial loans outstanding, as the banks, to a large extent, have had to furnish funds with which to finance this year's production and also for the carrying of the crop through the marketing period, and this has been done to a great extent without resorting to rediscounting at the Federal reserve banks. The improved situation, because of the current year's income, varies greatly in the different districts and it is evident that the final returns on farm incomes for 1924 cannot be classed as being more than a fair season for Agriculture as a whole.

The spirit of optimism which seems to prevail in the minds of the public at this time is somewhat misleading. The large business interests of the country who customarily gather detailed information regarding the real status of agriculture, are aware of the real condition. This real condition is also known to the farmers

who are fully informed as to actual conditions, but that part of the public that is generally inclined to accept irresponsible statements for statements of real facts are inclined to permit themselves to be oversold on the true economics of the situation, and in many ways this misleads people who should be better informed.

The year, as a whole, will probably show improvement in the condition of the farmer. I predict that final statistics will show that it has been a year of decreased production with an increase in prices that will leave but small advantage in net returns over that of 1923.

I would surely not care to express any sentiment of pessimism or offer the least discouragement to the farmer over the future outlook for agriculture; but, rather, I would be inclined to say that the situation, as a whole, so far as it concerns the future of agriculture, looks much brighter. However, we must not forget that the large improvement in conditions surrounding the wheat farmer is largely due to a decrease in the production of wheat in all of the surplus producing wheat countries of the world. The increase in the price of wheat by reason of that condition has been the strong factor that contributed so largely to our agricultural improvement - and, at this point, I want to congratulate the farmers of the country for the good sense they have shown in the present situation in that they did not undertake to rediscount the good prospects earlier in the season by borrowing money in anticipation thereof, but, rather, proceeded to harvest and market the crop and apply the proceeds in the liquidation of past due obliga-

tions. It certainly inspires great confidence in the future of farming to know that the farmer is profiting by the experiences of the past few years and while undoubtedly in need of many necessities, he is determined to put his own affairs on a more substantial foundation. He is not buying on time, and by so doing rediscounting his future prospects, but rather, in confining his purchases to cash transactions and is buying only actual necessities.

"The credit situation of the country at this time is very satisfactory. There is, however, in the present easy situation of credit, considerable danger and this has been especially emphasized by the optimistic feeling prevalent in large money centers, and, to some extent in commercial centers of the country. While, ordinarily, this should not be of great concern to the agricultural areas, yet, I cannot help but feel that there is that in the situation and in the optimistic attitude of the country generally that could easily result in an era of speculation and over-extension that would not be justified by the present status of agriculture. The stock market situation at this time in New York is very active and it would be well for all to realize from all appearances that the country is buying heavily, and, evidently, for cash, as the Federal reserve banks do not show anything to the contrary. The professional traders in New York are reported as out of the market at this time. This information should be sufficient to cause any country investor to stop and consider well what is going on and what it portends as to the future prices for some classes of investments, especially, when the time comes that the

country withdraws its buying support. To my mind the country may well stop and ponder what the effect of this kind of an investment will have in future money conditions, especially, should the changing conditions that are now perceptible throughout the agricultural districts advance to the point where credit might be desired for the carrying on of greater business activities and increased agricultural activities. For months interest rates have been low in financial centers, but high in country districts. There is something very much out of balance in the economic arrangement for credit distribution, when it is possible to manufacture, distribute and carry automobiles at a rate of 3% to 3^{1/2}% in one section of the country, while in another the rate on loans to produce wheat from which to make bread is 8% and higher. "

Agricultural conditions throughout the country were very accurately described by the President a few days ago in his address at the International Stock Exposition. He presented a very clear picture of the agricultural come-back, and at the same time warned the country against too optimistic a feeling over the situation by calling specific attention to its actual status in the following words: "We cannot yet conclude that agriculture is recovered from the effects of the war period or that it is permanently on a prosperous basis." He stated further, that present conditions of partial recovery was not the reason for, but, on account of past depressions, that he appointed the Agricultural Commission. That is conclusive that President Coolidge

is not convinced that agriculture has permanently recovered. The farmers of America are now receiving the recognition that has long been their due. Never before in the history of the government has the importance of agriculture as an economic factor in the progress and future welfare of America, been so fittingly recognized. To the farmer has come the privilege of prescribing the remedy for rehabilitating and stabilizing the industry on sound, economic principles. I am tempted at this point to ask a question of the regularly designated representatives of Agriculture assembled here: "How do you propose to discharge the obligations and responsibilities that this confidence imposes?" I doubt, ladies and gentlemen, if ever under any condition have the delegates to the Annual Convention of the A.F.B.F. been charged with a greater responsibility. The statement one hears most often is an expression of despair over the probable outcome of the conference. I entertain no such pessimistic fears. I hope and I want to believe that the Farm Bureau Federation of each State will, through its authorized delegates and its representatives on the Committee, discharge the responsibilities in such a manner as to command public approval and in no way be discreditable to the organization. I speak only of the Farm Bureau. It is the only organization I can speak of with full knowledge as to what it is. It is too much to hope that no discussions or conflicts of opinions will appear in the Committee, but I do expect the Farm Bureau to advocate only such things as will appeal to a sane sense of reasoning. It is not essential that it must lead in all things, but, to the extent that the Farm Bureau advocates, and will fight for, the things that are fair and just to all classes, as well as helpful to Agriculture, will it be judged.

The Farm Bureau organization is organized to carry on along useful lines. It is dedicated to the highest ideals of civilization. It asks no advantage but insists upon equal privileges. It subscribes to the principles that there is no room in America for the development of class or caste. Every American is to be measured by the one yard stick. It recognizes education as fundamentally necessary to free government and will tolerate no foreign dictation of American policies or American ideals.

These are the things that inspire confidence in the membership of the Farm Bureau Federation. It is not how much or how little you offer to the cause, neither does it imply that you are bound to have your way; but the character, soundness and fairness of what you offer, is going to fix your status in the mind of America. The thought you give to this subject at this time - the opportunity to exchange ideas and opinions with each other, will enable you to reach sound conclusions. You have the judgment, common sense and patience to reason with each other and out of it will come directions as to procedure and guidance for your own President who is representing you. He needs your help. He needs your council. Will you show your loyalty and ability to the cause by meeting the responsibility in a constructive way? President Coolidge has shown his confidence in you. He has not in the creating of the Commission done so without strenuous opposition to such a procedure. The Commission is not limited in its scope. The privilege to cover a wide range of investigation is granted, but the responsibility for offering a sane method for reestablishing Agriculture's permanent stability, is undoubtedly now the duty of the Agricultural interests of this country.