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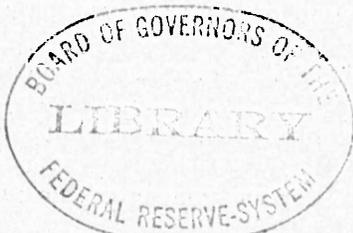
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A N A D D R E S S

before the

NORTH CAROLINA BEEF BREEDERS AND FEEDERS ASSOCIATION

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. By

FREDERIC A. DELANO

Vice Governor, Federal Reserve Board

at

Pinehurst, North Carolina

April 10th, 1915.

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TO THE NORTH CAROLINA BREEDER'S
AND FEEDER'S ASSOCIATION

Although I had some boyhood experience on a farm and have always been interested in agriculture and horticulture, it is not my purpose to come down here and tell the farmer how he should run his business; and even though now officially connected with the development of an important banking and currency system known as the Federal Reserve System, it is not my purpose to come here and walk to bankers as to how they should run their business. My object is rather to discuss in a very informal way the importance of cooperation.

Cooperation, like many other good words in our language, is used so often that it has ceased to mean very much. Literally, it means working together, but it carries with it a broader idea of producing harmonious results. An orchestra

of musicians, however expert, cannot sit down and produce pleasing or harmonious music without cooperation. But this example illustrates the true and underlying meaning of the work. Ten or twenty-five or a hundred men, all expert musicians, cannot produce a fine piece of music without leadership; in the same way, a hundred thousand or a million men may be an irresistible army with good leadership, whereas, without leadership, they are simply a mob who can be reduced to obedience by a mere handful of policemen. And along with cooperation, which in turn requires intelligent leadership, we see that both ideas involve the necessity of intelligent organization. Thus, an army, to be effective, needs more than trained men, good weapons, and a good general. It needs organization. An army divided as it is into companies, regiments, brigades, divisions, is a fine example of organization. So it appears to me that in the problems which you gentlemen face it must be recognized that results will not be obtained except by cooperation;

and that that cooperation will require intelligent leadership and organization. When you have these you will attain efficiency, another of the words which is now-a-days, so often used, that it has come to mean little. The farmers' problem in this country is a very big one and I can well believe that the farmer is more than often annoyed at the abundance of advice he is given by the banker, the merchant, the manufacturer and the railroad man. I can well believe that the farmer sometimes wishes that the distinguished gentlemen who are telling him what he should and should not do, would do it themselves. But while gratuitous advice is never pleasant for the recipient, the very fact that so much is being said upon this subject indicates a great appreciation of its fundamental importance. More than three hundred years ago, Lord Bacon, the writer, philosopher and statesman of England in the time of Shakespeare, said there were three things which could make a nation great and powerful; the production of the soil, the manufacture

and the carriage or transportation of these commodities to market. In other words, Lord Bacon, even in those early days, saw that the same principles apply to a nation which apply to an individual or a group of individuals; that a nation can gain in wealth or power only when it produces more than it consumes. He also recognized that complete production depended upon the farmer, the manufacturer, and the carrier. You may say, "where do our friends, the bankers, come in?" Bacon did not mention them, for bankers, in the modern sense in which we use the word, were unknown, and yet the banker is an essential link in the productive chain. He is the merchant in money and credit. He is the man who brings the seller of money or credit (in other words the investor) and the borrower together. Nothing in modern industry has contributed more in increasing the possibilities of the average man. It is almost unthinkable now that there could

be a community in which every man was dependent upon his own personal resources. So, I think it is generally appreciated that the banker plays a very necessary part in the development of all modern industry alike in his relation to the merchant, the manufacturer and the carrier.

As I have already said, the whole nation is interested in the success of the farmer. Every individual is interested in seeing the product of the soil increased. The constantly rising cost of living is very largely due to the fact pointed out by Malthus that there is a constant tendency for the population of the world to increase more rapidly than the area available for production. Our virgin fields in this country which encouraged us for years to adopt extravagant and wasteful methods, have now been occupied, and we are compelled to turn our attention to more intelligent methods; methods such as Europe long since was forced to adopt. Instead of our acres producing, as they do, less wheat

or corn per acre than they did twenty-five to fifty years ago, they should be producing more. And yet I can hear someone say that the farmer is frequently confronted with the fact that he actually earns less from a very big crop than he does from a moderate crop, and right there a question arises which is too big for the individual farmer to settle, for it involves the great problems of diversified farming production, the study of markets, the successful marketing of crops, actually produced, the reducing of rates of interest which farmers must pay, etc.

These problems, as has already been said, are too difficult for any single farmer to handle, for their solution involves too great a risk in experimenting; and some plan of successful cooperation which will distribute these costs and give all communities the advantage of experience and special study, is necessary. I am glad that in this community you have progressed so far in this direction. As I understand it

you have for years depended upon one crop - cotton; - that you are now going into stock raising which in turn involves the raising of forage crops, alfalfa, clover, cowpeas, grain, etc. The Department of Agriculture at Washington has accomplished wonders in an educational way and the agricultural schools of the various states of the union and the work of state and county demonstrators has been important.

Crop rotation and the determination as to what sort of crops to raise involves many difficult problems and cannot be accomplished in a day or a year. The object of such organizations as you have here formed is to secure by joint effort the necessary information and then to apply the result of the experience as rapidly as can be done intelligently. We have many problems closely related to the farm problem; for example, the problem of labor, and especially the difficult problem of seasonal employment and the consequent unemployment during the off seasons; the tenant farming question which, in times past, brought

disaster to European countries, as for example to France at the time of the French Revolution and to Ireland in more recent years, is one which must be met and settled right. In some parts of our country some fifty to eighty per cent of the farms are occupied by tenants; but, what with absentee ownership and inadequate protection and unwise or improper forms of lease, the tenant has not always been protected in his improvements; and the effect has often been in this country, as it was for years in Europe, to "skin" the farms and bring them to a lower and lower condition of production. This again is a problem which no one farmer can settle alone; and yet, organizations like this can, at a comparatively moderate expense, put before its members the result of foreign experience.

The marketing of produce is another important subject for the American farmers is often at the mercy of the commission man or buyer in the city. In some of our states, notably in Wisconsin

progress has been made in the line of marketing cooperatively already developed in some of the foreign countries, notably in Denmark, Successful marketing of produce carries with it the necessity for intelligent standardization. If the grades of cotton, grain, butter, cheese or any kind of produce become an established fact by State-wide, or better still, country-wide standardization, the market price of these products becomes an established and recorded fact and the producer is no longer at the mercy of the buyer.

This State and other Southern states have, by their close proximity to phosphate deposits, been able to make unusual and extraordinary use of artificial fertilizers. At the same time, it has been abundantly shown by those expert in such matters that there can be a very extravagant and wasteful use of these fertilizers. It is just as important that expenditures for fertilizers shall be so made as to render as large a return on the investment as any other expenditure. And here again the intelligent

rotation of crops and the feeding of stock cattle are bound to play a very important part in the future.

The rate of interest which the farmer has to pay for advances for farm improvements or against his expenditures in producing his crop, is a very important phase of the matter, and one in which the banker is interested alike with the farmer. It is easy enough to find fault with the banker for high rates of interest, but neither fault-finding nor laws against usury will ever reduce interest rates. The banker represents certain invested funds, and it is his business to make a living and a return on the funds invested. The rates of interest which a banker charges depend, broadly speaking, upon two things: First, the relation of the supply of money and credit to the demand, going down if the supply is large, and going up if the supply is small in relation to the demand; secondly, upon the risk involved, in which case, of course, a part of the

interest rate represents insurance upon the risk taken. In the past, interest rates have been higher in the South and yet there is nothing, so far as I know, which shows that the profits from banking in the South have been inordinately large.. The inference is, therefore, unescapable that high rates of interest are due either to the paucity of capital invested in banking or to the risk involved. Diminish the risk and you will automatically increase banking profits, attract additional capital and then interest rates will go down. Some thirty years ago the mill owners of New England were weighed down by high rates of insurance.. They joined together and employed the ablest actuary (Mr. Edward Atkinson) they could find to make a study of the question, and he soon developed the fact that the reason insurance rates were so high was not so much that the insurance companies were making inordinate profits but on account of the extraordinary fire risks. Careful study of the problem soon developed the fact

that a type of mill construction could be adopted which would greatly lessen fire risks and consequently reduce the cost of insurance. The lesson to be learned from this citation is that it lies within the power of an organization of farmers, such as you have here, to standardize and diminish banking risks, and as rapidly as you accomplish this, you will find more money coming into the district. In other words, your interests and the Bankers' interests are largely mutual not antagonistic.

The new Federal Reserve Act is yet in its infancy, but as one of the indirect results of it, the banks have been able to retire practically all of the emergency currency issued last fall and in spite of the serious loss in the market for cotton, the price of this staple has noticeably stiffened. The banks of the country have not yet learned the full benefit of the new system, but the framers of the Act realized that it would take

two to three years to get the Act into its full operation and that these three years must largely be a period given over to careful development and education. The new system, while differing widely in principle from the old system, had to be so adjusted that it would gradually engraft itself upon and take the place of the old. One of the main results of the Act is to standardize loan paper, so that the cotton loan made in Georgia, or North Carolina, can be discounted equally well in Atlanta, Richmond or New York. This law makes commercial paper a basis of our future elastic currency; that is to say, the bank making the loan to the farmer, the manufacturer or the merchant can, if the paper is in regular and proper form, borrow funds against it from the Federal Reserve Bank and so have his loanable funds reimbursed. In this way, the little bank of \$25,000 capital has its resources so greatly enlarged that it can, if carefully managed, safely do as.

large a business in the community, as a bank having a much larger capital under the old law. This is another way of saying that the new law is going to greatly increase the availability of banking capital seeking investment or capital secured whether by live stock, cotton, farm produce or goods partly or wholly manufactured.

I will make no pretense that the new law covers the question of rural or farm credits. That is another branch of the banking question which must be dealt with separately. The important point to be borne in mind is that the intelligent handling of that question depends largely upon cooperation between the farmer, the manufacturer, the merchant and the banker.. You will never have cheap money unless you can improve and standardize your methods; unless you can greatly diminish the hazards.. In a rather long experience in the Western states (29 years residence) I can remember very well when cattle paper used to sell on a ten to twelve per cent basis..