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STATEMENT

OF

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FEDERAL RESERVE BANK

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With widespread "social unrest," with a credit situation that is still serious, with living costs at the highest point since the close of the Civil War, and with the general public indulging in a prolonged period of reckless extravagance; the time has come when sober minded men must stop thinking in general terms. They must consider the present situation from the standpoint of personal and individual responsibility, if the dangers in the near future that should be readily apparent to every one, are to be avoided.

Social unrest arises from many causes, but mostly I think from the commonplace fact that it takes about everything the average man can make to keep pace with the outgo. This unrest, which is provocative of labor troubles, the slacking up of individual production, carelessness about money spending, and many other evils, has, I hope, reached its high point. It is easily evident that it cannot spread very much further without great danger to the whole country.

I would be one of the last to become seriously alarmed over such a possibility because I believe the common sense of the people will assert itself before this situation reaches a critical stage. In the meantime, its potentialities must be recognized. We hear it commonly said that the poor are spending too much money for luxuries. There is no evidence that the poor constitute the only ones who are indulging in a riotous display of wealth and spending money with no possible thought of what a given sum represents in terms of productive human energy.

The extravagances of those who have much naturally stimulates those who have less to indulge themselves in pleasures and luxuries which they do not ordinarily enjoy. Criticism of one class by another can hardly help a situation which can only be cured when the public generally realizes that it is going through its money and the available supplies of goods and commodities like a reckless spendthrift through his patrimony.

People everywhere are paying too much for what they buy and buying more than they should. Until the public can swing back to a reasonable basis which will permit production to catch up with consumption, there can be little hope of a fall in prices or the elimination of the inequalities which produce unrest.

High prices will prevail as long as there are reckless buyers. Normal conditions cannot be restored until each individual begins to limit his expenditures, and individuals cease to compete with individuals in the market, for goods which are scarce. Accusations of profiteering probably existed early in the war more than at any time since, although there can be no doubt that manufacturers, dealers and merchants generally are taking much more than they should for the handling of goods and commodities. The whole question resolves itself into a vicious circle out of which there is comparatively small real benefit to any one. The employee who thinks the employer is getting too much and demands a larger wage, drives up the cost of production. The wholesaler and the retailer pass on the added cost to the consumer. Excessively high prices upon analysis, are made up of very much higher production costs, higher handling and distributing costs, and a higher tax on the consumer, from which every one suffers alike.

To solve high living costs by wage advances is as fruitless as trying to lift oneself by one's boot straps. Increases in wage makes its vicious circle and surprisingly soon returns to the wage earner in the form of higher costs for every necessity. Farmers who welcomed the radical advance in the price of farm commodities are now bitterly complaining against the advance in the cost of labor over the old basis of from \$25 to \$60 a month to the new basis of from \$75 to \$100 a month; while feed, twine, machinery, and practically every item going into the cost of farm operation has likewise advanced. It is doubtful whether farmers are very much better off at the present time than they were under the old conditions when the high prices for wheat was from \$1.00 to \$1.20 per bushel.

Probably 25,000,000 to 30,000,000 men and women in the United States work at wages and are in the employee class who are powerless to protect themselves against the increased cost of which the farmers complain and have no opportunity, as have business men and those who are actual producers, to somewhat alleviate the situation which confronts them. If the productive effort of the country could be centered on essentials, the situation would probably soon right itself. But the productivity of labor, from the standpoint of the average man, is restricted to the rather important extent to which non-essential production has diverted an insufficient labor supply from the production of essential goods and commodities entering into the living of the people. Since it is not possible to divert the labor that is employed in automobile factories, talking machine factories, and other enterprises that are not particularly essential at this time to the production of shoes, clothing and food, there is no cure except for the people generally to curtail the reckless purchase of non-essentials and restrict themselves to their moderate and reasonable requirements of essential goods. They must exercise thrift and caution through which alone production will be given a chance to catch up with consumption.

The public has been thinking in too general terms. It has been placing its reliance upon investigating committees to look into profiteering, commissions to inquire into the cost of living, national, state and local legislation, and public criticism of those who are assumed to be responsible for the high cost of living, without stopping to think that in the nature of things legislation cannot reduce the high cost of living. The people as a whole do not stop to reflect that all the agitation, legislation and investigation so far, have produced a rather small and unimportant result.

Legislation will not prevent an individual from recklessly spending his money, nor will it curb the disposition of anyone to pay an extravagant price, or go into debt for something he may take a fancy to.

The high cost of living is an individual problem. The causes are individual causes arising from individual recklessness, carelessness, lack of thrift and unwillingness to exercise reasonable restraints. If the causes are individual, the cure must be individual as well. It can only be hoped for as the result of a more conservative attitude on the part of the public.

Certain essential items in the cost of living are extravagantly high at this center at the present time. People complain and feel

that the heavy cost is unjust and unreasonable, as it is. All of this, however, is short of an effective form of protest. If careless and reckless people continue to buy with the same freedom as before, and the supply of these commodities does not substantially increase, what is to prevent even the present extravagant prices from doubling or trebling? In many important respects the common sense of the people is the only safeguard against extravagant prices.

Certain factors in our immediate Northwestern territory should cause serious alarm. It has been habitual to associate unrest more with the laboring classes than with other classes of the public. Nowhere in the United States is unrest more acute or bitter feeling more prevalent than among the agricultural population in the Ninth Reserve District. Since the beginning of the war farmers have been under heavy pressure to attain the highest possible production. They have been enjoying the highest prices that have ever prevailed in the Northwest, yet there is widespread dissatisfaction and complaint.

Part of this is due to vicious propaganda based on false economics which has been spread through all the farming districts. The farmers have been deliberately misled and have not had the benefit of corrective education at the hands of those competent to tell the truth about the economic problems that are serious to the agricultural class. Part of this is due to the feeling of surprise and bitterness upon realizing that while enjoying high prices, their anticipated profits have been cut by rising costs. The two influences combined have made many thousands of men who have ordinarily been clear and level headed in their views, critical and antagonistic toward their Government, and bitterly hostile toward business interests at the larger centers, which they have been led to believe are antagonistic toward them. A division between country and city would be one of the most unfortunate things that could happen in this district.

There is urgent need that reliable and thoughtful men to whom the farmers will listen should seek to make clear the manner in which the various economic cross currents have been working during the past three years. Those who have the confidence of the farmer can do the latter a genuine service in annihilating the false doctrine that has been spread about. The causes of complaint should be analyzed and identified, and if they rest upon injustice, these should be ruthlessly eliminated. To a certain extent, the

farmer, like everyone else, must work out his own salvation, but the community, as a whole, is seriously at fault, if it permits the farmer, because of his isolation and his lack of close contact with other sections of the public, to become the victim of either those who are radical propagandists for profit or those who are propagandists because they hate their Government, and who while prating of democracy are seeking to overturn the very foundation stones upon which the truest and best democracy in the world is founded.

Those who came into this territory 25 or 30 years ago included many thousands who came with nothing whatsoever in the way of property or goods. Today these men find, as does every citizen, that there are some things in life and environment which are justly subject to criticism. On the other hand, a very large percentage have prospered amazingly, and those who were thrifty and industrious have become influential citizens and well to do members of their communities. Obviously, a world in which such remarkable things have occurred is not all wrong. It is a duty resting upon every responsible citizen to counteract the vicious, conscienceless, false and deliberately misleading propaganda which has created this feeling.

The evidence multiplies that speculation is by no means confined to the stock market. The annual fall liquidation this year has been appreciably delayed. At this season, when it ought to be in full swing, it is hardly yet begun. Part of this is due to car shortage, bad roads and other causes, but this is not the only year in which the roads have been bad and weather conditions adverse. Loans by country banks to their customers and by city correspondents to country banks are still in active demand. The wiser bankers are endeavoring by consultation and counsel to encourage their customers to clean up and get their affairs upon a sound basis, but this attitude is not as prevalent as it should be. Throughout the entire Ninth District, even in sections where crops have not been good, there is active speculation in farm lands. Upon every hand people are buying too much and buying too freely. New indebtedness is being incurred before old indebtedness has been wiped out. These are not wholesome tendencies and are likely to react in an unfavorable way, unless they are checked. Incautious farm land speculation will probably receive a severe check when the March 1st settlement date arrives. This may have a tendency to put the land movement for the coming season upon a more conservative basis.

The general public cannot hope to escape indefinitely the usual and natural results of continued recklessness. Prolonged real estate speculation will undoubtedly bring the same result that followed such a period something more than a dozen years ago. Individual carelessness and refusal to economize in the face of excessively high prices can only result in higher prices and disaster. Personal indifference to the outgo has undoubtedly already impaired the savings and the capital of many individuals and will, if persisted in, leave them helpless to utilize the excellent opportunities that are sure to follow during the period of reaction from present conditions. Too liberal an attitude on the part of banks toward their customers, correspondents toward country banks, or the Federal Reserve Banks toward its members, can have no result except to hasten the time when the strain upon credit has reached the breaking point. The time has undoubtedly come when there must be general efforts to take up the slack and these should begin with the individual, who, if he will put suitable restraints upon himself, can powerfully assist the return to normal.

Loans for non-essentials should be vigorously discouraged. Thrift and retrenchment should be stimulated wherever possible. Those who complain that it is now more than a year since the war ended, and that the return to normal conditions has not occurred, should be pointedly reminded that they, like everyone else, must do their part or such a return cannot be expected for many months to come. They must realize that the highest price the merchant charges is not necessarily the hall mark of value. They must return to the old habit of buying conservatively, of using goods and commodities carefully, of economizing in their purchases, and of exercising thrift and prudence in both personal and business affairs.

When normal conditions return, there will be business and investment opportunities of a very unusual character that will be open to those who have exercised common sense and conserved their capital. The banking resources of this district have very nearly doubled in a period of about five years. This is indicative of the tremendous growth that is in progress in the Northwest. Nothing short of disaster can check this growth and it is obvious that growth and opportunity go hand in hand.

What could be more advantageous to an individual than to clean up his indebtedness with a dollar which today is worth one hundred cents only when applied to indebtedness? What could be wiser than to economize, than to save, even to the point of per-

sonal inconvenience, in order to have funds in hand when these sound opportunities present themselves? The individual who pursues this policy performs a public service and by exercising thrift and refusing to spend either his funds or his credit, discourages inflation. By cleaning up his indebtedness on terms that are particularly advantageous to himself, he relieves the credit situation. Should he be wise enough to invest his savings in Government securities which are now at a discount, he may expect to have, not only the capital which he will require at a later date, but he may safely expect a handsome profit from his securities, which are certain to advance substantially in price.

Sign boards on the road back to a reasonable basis for the cost of living, and toward such a return to normal conditions as we may expect, are so clear that he who runs may read.

If the banking business, if the commercial business, and the general public do not recognize the significance of the warning signs that are apparent in present conditions, there is no way of avoiding a situation which undoubtedly contains elements which simply invite disaster.



