

Miss Mary Parker

glad guest  
accept  
realize  
precious  
opportunity  
restricted  
second-hand  
intimately  
familiarily  
average farmer  
perplexing  
.  
trade industry  
foreign  
breed  
Wall Street  
agriculturist  
works hard  
country  
good time  
works hard  
city

I am glad to be the guest of your association and to be able to accept your invitation to address this meeting. But you realize that a New York banker probably knows precious little about farming. His opportunity to learn of farming conditions is much restricted, and most of the information which comes to him in regard to the farmer's problems is second-hand. So you will not expect me to discuss intimately and familiarily the difficult problems of farm economy. On the other hand, I suppose the average farmer likewise knows quite as little about the many perplexing problems of the New York banker, which largely have to do with the financing of the vast trade and industry of our country; and in these difficult days the even more perplexing task of financing the country's foreign trade.

New York does, however, produce a breed of farmer with which you are little familiar. Many of them are to be found in and about Wall Street. We call them agriculturists. The difference between a farmer and an agriculturist is this: - A farmer works hard on his farm all the year in order to make enough money to enable him to go to the city and have a good time; an agriculturist works hard in the city all the year in order to make enough money to run a farm where he can go and have a good time.

no experience  
observations  
perplexed  
distressed

Having had no experience with either kind of farming, I must content myself with a few observations which have some bearing, I believe, upon the problems with which you are now very much perplexed and by which many farmers are very much distressed.

*Completed*

Japan etc  
farm districts  
similarity  
Consider Java  
richest

A few years ago when poor health necessitated abandoning work for a period, I made a trip through the Far East. During some months of travel in Japan, China, Malaya, Burma, India, and the Dutch Indies, a large part of my time was spent in farming districts. One thing that struck me most, I think, was the great similarity in much that we saw. Consider Java, which is probably the richest of all of the Eastern farming countries, both in fertility of soil and in the natural advantages of an equable climate with abundant rainfall. There for hundreds of miles one sees the Javanese farmer, his wife and his children working in the paddy fields where rice is grown by irrigation. What one describes as a field is really a series of patches of land, frequently but a fraction of the size of this room, often running up the slope of a volcano, each patch carefully banked by hand to retain the water which is supplied by irrigation; - it is little more than a basin of mud. When one sees a plough, it is being drawn with leisurely dignity by a huge water buffalo. The work in fact is done almost entirely by bare-footed Javanese, both men and women, who

climate  
rainfall  
hundreds miles  
paddy  
irrigation  
patches  
volcano  
banked  
basin of mud  
water buffalo  
bare-foot

ankles in mud work over their ankles in mud and water with simple  
hand tools hand implements. As you know, their principal cereal  
crop rice crop is rice, which starts its growth in a seed bed and  
transplanted is transplanted from there - every plant - by hand into  
operation the paddy. That operation alone, where for hours on end  
bent back the farmer and his wife and children stand with bent back  
poking in a pool of mud, poking these little sprouts into the  
toil ground, is a species of toil that would try the soul of  
hardest the hardest American farmer.

harvest When the harvest comes, these people go into the  
knives fields with small knives and cut simply the tops of the  
sheaves stalks by hand, bind them up in little sheaves and carry  
1 - 2 garments one or two light cotton garments. The man frequently  
loin cloth works dressed only in a loin cloth, and the woman dressed  
sarong in a short skirt, or earong, and loose jacket. The homes  
houses where they raise and support large families of children,  
consist of one or at the most two room huts. The walls  
mats are built of loosely woven mats made of strips of bamboo  
thatched or palm fibre, and the roofs are thatched with palm leaves  
doors or rice straw. The doors and windows are simply openings  
no furniture without glass or shutters. There is no furniture,  
frequently no stove, and no cooking utensils to speak of.  
The family equipment usually consists of but little more  
pot than an earthenware or copper pot in which the food is  
cooking boiled. The cooking is frequently done out in the road

*E. J. K. + Co. J. K. + Co. J. K. + Co.*

road in front of the house, where the family gathers around  
meal the fire, and the meal, consisting of rice mixed with  
some vegetables and possibly some chicken and eggs, is  
pilaf prepared in a sort of stew or pilaf. Not infrequently  
I have seen the family meal served by the simple method  
banana leaf of each member pulling a broad leaf from a banana palm,  
scooping out his share of the meal from the pot and eating  
it with his fingers, sitting on the ground. During the  
planting and harvest season when the village is working.  
harvest in the fields, the meal is quite possibly furnished from  
one or more travelling restaurants, and is cooked alongside  
travelling restaurant of the road, where one sees a good part of the farming  
community gathered in groups, eating this simple meal such  
as I have described,

*Competition Grows*

100 years About a hundred years ago, this Island of Java  
jungle was an almost impenetrable jungle. Under one of the  
Daendels early Governors - Daendels - a rather brutal system of  
roads enforced native labor brought about the clearing of the  
jungle and the building of a great system of roads. At  
that time I believe the Island had a native population in  
4 million the neighborhood of four millions. To-day, the Island  
has a population of 36 millions, and practically all are  
rice, tea engaged in agriculture, principally the raising of rice,  
coffee, sugar sugar, tea and coffee. Now the conditions are not unlike  
Not unlike India this in other parts of the East. India with its population  
320 million of 320 millions is engaged largely in just such agriculture.

Indian peasant      The life of the Indian peasant farmer so far as I could  
standard living      observe was not unlike that of the Javanese peasant  
farmer, with possibly a slightly higher standard of living.  
I have not been in Russia, but from what I have read, one  
conceives that conditions there are not unlike those in  
India, China and Java. Practically the whole of the  
agricultural East is irrigated. With the most painstaking  
toil the peasant farmer in India irrigates his little farm  
with water drawn from a deep well in a bucket or the skin  
of a buffalo, drawn by a windlass operated by a bullock.  
Although 25 3/4 million acres of land in the hill country  
are irrigated by the Indian Government irrigation works,  
the vast plains of India are cultivated by small peasant  
farmers, and the success of his crop depends largely upon  
the seasonal rainfall, called the monsoon, and upon this  
primitive method of irrigation.

                                 This I hope will give some picture of those less  
fortunate farmers in other lands with whom the American  
farmer does and must compete. When I say compete, I use  
the word in the broadest term because the work of the  
farmer is principally to feed the world. The area of  
distribution of what he produces is limited by a great  
variety of factors. His frontiers may expand and contract  
according to relative costs of production and transportation,  
but broadly speaking, any nation with a surplus of farm  
production is in competition with every other nation with a

Handwritten signature: *Wm. C. Clegg*

Burma surplus of farm production. While the surplus rice of Burma assists in feeding the hundreds of millions in India, the surplus wheat from India and Southern Russia competes in Mediterranean ports with American wheat.

refer later competition puzzled figures Year Book

Later on I shall refer to the importance of these competitive markets; but now let us compare what I have described with our own situation. I have been deeply puzzled to explain the meaning of some of the figures published by our Government in regard to our farming industry. According to the Year Book of the Department of Agriculture, I find that the value of all of our farm crops, excluding animal products, in the last two years before the war was as follows:

1913 - \$6,153 millions

1914 - \$6,112 millions

1911 - 1912 25 billion

1917 - 1920 \$55 billions

30 billions

What became

If roughly the same values were produced in 1911 and 1912, the total value of the crops of the four years immediately preceding the war was about 25 billions. From the same source, and again excluding animals, I find that the value of all the crops of the country for the four years 1917 to 1920, inclusive, was in round figures \$55 billions; that is to say, in the four years subsequent to our entering the war the total value of all the crops in the United States was 30 billions in excess of the value of all of the crops in the four years immediately prior to the outbreak of the war. What became of this great treasure?

*Why I use these figures*

We can roughly assume that this enlarged value could principally have been disposed of in three ways:

1. For payment of debts.
2. For increased cost of production and for improvements.
3. In a better standard of living for the farmers.

bank loans

\$3,800

mortgage \$8,500

enormous enhancement

largest amount

doubled

1910 - 1920

Now as to payment of debts. I find further in the bulletins of the Department of Agriculture that the total of bank loans to farmers as of December 30, 1920, was estimated at over \$3,800 millions, and the total of mortgage loans exceeded \$8,500 millions, and that notwithstanding the enormous enhancement in the value of the crops of the four preceding years, these figures represent the largest amount of credit ever employed by the American farmer, and in fact the census shows that between 1910 and 1920, the debts of American farmers were about doubled.

As to increased production cost. Our investigations would indicate that only a part of this could have been absorbed in increased cost of labor, fertilizer, and other operating supplies. I shall not attempt to enlarge upon what is not capable of more exact estimate, beyond saying that the experience of each farmer can be relied upon to indicate what his farm and his labor is capable of producing at any given price level.

standard of living

cannot help

provident farmer

And finally as to the farmer's standard of living. I cannot help but believe from these figures and from what I have personally observed that for provident farmers it has generally and greatly improved throughout the years.

*No criticism*

Without  
statistical  
assume  
  
expressive  
possibilities

**Julius Barnes**

**20 years**

40 per cent.

4 per cent.

corn 35 per cent.

hogs 68 per cent.

smallest per  
acre planted  
largest per capita  
farm population  
developing agric.

**promote**

must be product  
efficiency

## questions

**approached**

prosperity, wealth  
happiness

**famine**

not uncommon  
normal

Without burdening you with a further statistical discussion of this matter, which I confess puzzles me a good deal, may it not be safe to assume that this great value produced from the American farms is, in fact, expressive in large degree of the possibilities of improved standards of living in this country. We note - as Mr. Julius H. Barnes has recently explained - that while in the first 20 years of this century the population of the United States has increased 40 per cent., the number of persons engaged in agriculture has increased only 4 per cent., whereas the farm production during this period increased from 35 per cent. in the case of corn, to as high as 68 per cent. in the case of hogs. In other words, in this country, where we get possibly the smallest production per acre planted, and the largest production per capita of farm population, we are in fact developing agriculture under conditions which do promote the highest standards of living that are possible for farmers in any part of the world. And this standard of living must be the product of a higher efficiency applied to our abundant natural resources.

John W. Wain, Esq.

Some of these questions I think are often approached without an appreciation of the fundamental facts as to what makes prosperity, wealth and happiness. For instance, consider only that such a thing as famine is unknown in this country to-day, nor has it been since our Republic was founded. Yet there was a time when famine was not only not uncommon but was almost the normal condition in North America



200 - 300 years  
ago  
natural resources

drawn heavily

few hundred  
thousand Indians

died

population alone

densely populated

exhausting  
back-breaking  
natural resources

What makes wealth

development

exploitation  
inventive

increasing prod-  
uction  
raises standard  
no country

work and save

every winter. Only two or three hundred years ago, our country possessed natural resources vastly in excess of what we now have, because since it has become settled we have drawn heavily upon the stores of our fertile soil, our coal, iron, oil, timber, and other things that we have taken out of the ground; and yet but two or three centuries ago, the few hundred thousand Indians living in this country in the midst of this vast abundance, often suffered and died from lack of food. It is not, therefore, simply the natural resources of a country that make wealth and economic contentment and a high standard of wellbeing.

Nor can it be population alone in conjunction with natural resources which makes wealth, for we have seen in the densely populated regions of the East the farmer extracting by exhausting and back-breaking toil only a miserable and precarious living from lands as rich in natural resources as our own.

What makes wealth is the application of the energies and ingenuity of a people of higher intelligence to the development and use of these natural resources, to their exploitation by methods devised by inventive genius and through the conversion of the things produced into the means of again increasing production. That alone is what raises the standard of living, and no country is capable of attaining a high standard of living no matter what its population or its natural resources unless its people are willing to work and to save.

apprehend  
precisely  
advantages

degree

Be assured

Japanese

banana and cocoanut

couple garments

no shoes

auto, radio

Victrola, phone

movies, education

Now I apprehend that it is precisely this which has provided for the American farmer the advantages of education, and the enjoyment of association with his fellowbeings to a degree unattainable in any other agricultural country in the world. Be assured that the Japanese farmer, like the Chinese or the Hindu, has no automobile; his house garden usually consists of a few banana and cocoanut palms; his clothing a couple of simple linen garments; he wears no shoes; he has no Victrola, no radio equipment, no movies; his opportunities for education are small.

setback

scarcely be

must not

things enjoys

education

entitled

assured

so far

But in this country, and I fear in like degree in the East, agriculture has had a temporary setback. It can scarcely be, it must not be allowed to be, permanent. These things that the American farmer enjoys, including possibly more important than any other, the opportunity to educate his children, are the things to which he is entitled, and in the enjoyment of which he must be assured so far as the laws of nature under which we live in this country are capable of assuring them to him.

momentary

difficulties

speak

quoting

There are <sup>or two</sup> momentary difficulties. I would like to speak of one of the greatest difficulties with which the farmer has been confronted, by quoting a few very simple figures:

In the Survey of Current Business issued by the Department of Commerce for November, you will find on page 111, a tabulation of cereal exports which includes barley,

fraser collection

corn, oats, rye and wheat. Flour and meal are converted into equivalent bushels of the grains. The monthly average exports of these grains for the year 1913 was 20 3/4 million bushels. From 1913 to 1921 the monthly average varied from 14 millions in 1914 - the low figure - to 46 millions in 1921 - the high figure - and I imagine the record high figure. In the last three years, the figure has been

1920 - 35 million bushels

1921 - 46 million bushels

and so far for the year 1922 - 43 million bushels.

The months of August and September of this year were 60 and 61 million bushels respectively, and those figures have only twice been exceeded in the last three years, being 90 million bushels in August 1921 and 68 million bushels in September 1921. Now compare these monthly average figures of quantities of exports of the five cereals named, with the figures of values of exports of grain and grain products for the same periods as reported by the Department of Commerce. I believe they closely relate to the quantities I have quoted.

1913 - \$17 millions

1920 - 90 millions

1921 - 62 millions

1922 - ~~44,500,000~~  
millions

*20 Emphasize  
importance*

obvious  
quantity  
price  
another figure

It is obvious that while exports have been pretty well maintained in quantity, the varying return upon these farm exports has been caused by the price. Now let me refer to another figure. On page six of the same publication, you will find that throughout the years 1916 to 1921, down in fact to February of 1922, the chart of prices shows a very close correspondence in the index numbers of the prices of "all commodities" and of "wholesale food prices". In February of 1922, for the first time, however, a considerable divergence began to appear; the prices of "all commodities" advancing some 15 points in the index number above "wholesale food prices". In other words, prices of articles the farmer had to buy advanced out of proportion to prices of articles he had to sell. But this is a situation which never has, and I believe inherently cannot long continue. We now have in this country a tremendous urban and industrial population - twice that now of the farm population. It seems to me inconceivable that this vast army of urban and factory workers can be prosperous and the farmer not share this prosperity in the fullest degree.

been chart -  
often are I had -  
"services"

Labor dollar

Now to sum up, it seems clear that:

FIRST - We seem able to compete with farmers in other countries where standards of living are far below our own.

SECOND - The quantities of our food exports are not declining. Last year, one of great depression, they were, I believe, the highest on record.

THIRD - The enormous increase in the crop values of recent years has been unprecedented and could scarcely long continue.

FOURTH - That increase did not result in a reduction of the total of the farm debt.

FIFTH - That the farmer needs stable prices and a proper relation of prices between what he consumes and what he produces.

*Fraser Corp.  
Feb-Mar 1920*

The farmer  
two individuals  
consumer  
producer  
planting

current phrase  
deflationist  
prices low  
harvest

inflationist  
prices high

System

futile  
fantastic

farmer needs

capitalist  
laborer

The farmer like every other member of our industrial organization is, in an economic sense, two individuals. As a consumer he is interested in having prices low; as a producer he is interested in having prices high. During the planting season when the farmer is employing labor to plough and plant his fields, when he is buying fertilizer, repairing his fences and his buildings, then he is, in current phrase, a deflationist; that is, he would like to see prices low. In the fall when his crop is harvested and moving to the elevator or the concentration point, he is an inflationist; he would like to see prices high. Now obviously any system which attempted to insure that the farmer or any other man in his capacity as a consumer should get the advantage of low prices, while at the same time in his capacity as <sup>a</sup>producer getting the advantage of high prices, would be futile and fantastic. No such system is possible. I think you will agree with me without the slightest reservation that what the farmer needs as well as every other business man, whether he be a capitalist or a common

largest attainable laborer, is the largest attainable measure of stable prices.  
stable prices When I say this I mean not only that, in general, prices  
violent fluctuation shall not be subject to violent fluctuation but that the  
relation prices of different things so far as is possible in this  
reasonable imperfect world, run in their normal and natural relation  
certainty with each other. If the farmer knows with reasonable  
labor etc certainty what his cost for the season is to be in labor and  
fertilizer, in supplies, in the gasoline for his tractor or  
car, in the wire for his fences, in the cattle that he may  
reasonably buy to fatten, and he can be reasonably assured also that  
violent fall there will be no violent fall in the price of the crop that  
he produces, whether it be cattle, hogs, corn, wheat or  
bring into play cotton, he can then bring into play the two elements which  
two elements are essential to success in business, whether farming or  
incentive manufacturing or what not. He can work with the incentive  
of a reasonably certain reward;—that is, margin of profit,—  
intelligence and he can apply his intelligence to the determination of  
kind crop what kind of a crop to grow with due regard to the advantages  
due regard or limitations of the soil, the climate, of accessibility to  
market, and all of the other factors which should influence  
his judgment on this important point. It is a reasonable  
assurance as to stability of prices in both of his capacities  
as a consumer and producer which he requires in order to be  
assured of just reward for his toil and for the ingenuity  
with which he plans his work.

great problem Now this great problem of prices must be approached  
approached fairly fairly if we are to discuss it with any profit, with a clear  
many elements understanding that there are many elements which enter into  
the making of the prices of things. Obviously, one of the

quantity  
demand  
state of mind  
  
seller's buyer's  
changing cost  
transportation  
  
what influences

most important is the quantity of a crop in relation to the demand. Hardly less in importance is the state of mind of the public generally, whether it is in the mood to buy, so to speak, or whether in a mood to sell; or as the economists describe it, whether it is a seller's market, or a buyer's market; and changing cost of production, changing rates of transportation cost, and a great number of other factors must be taken into account in arriving at a judgment as to what it is that influences prices to move either upward or downward.

*Read*

You will, however, agree with me that one of the important elements, although far from being the only controlling element, is credit, which can be expressed in various ways, but let us call it the purchasing power of money. By the purchasing power of money I include of course the relation between the quantity of money and the quantity of goods, which influences the purchasing power. By money I mean not only metal coins and paper currency which pass from hand to hand, but principally bank deposits upon which checks may be drawn; in other words, bank credit. If, therefore, stable prices are desirable and if the quantity of credit exerts any influence upon prices, as I believe it does, what should be the objective of a banking policy? It seems to me that it should be about as follows:

On the one hand, it should insure that there is sufficient money and credit available to conduct the business of the nation and to finance not only the seasonal increases in demand but the annual or normal increase in volume which throughout long periods is fairly constant.

On the other hand, there should be no such excessive or artificial supplies of money and credit as will simply permit the marking up of prices when there is no increase in business or production to warrant an increase in the volume of money and credit. On this point I think I should state to you without reservation the views that I personally hold in regard to this important matter, and while I cannot speak for any member of the Federal Reserve System except the New York Reserve Bank, I may say that I have never heard views expressed that differ greatly from those which I now desire to express as my own.

I believe that it should be the policy of the Federal Reserve System, by the employment of the various means at its command, to maintain the volume of credit and currency in this country at such a level so that, to the extent that the volume has any influence upon prices, it can not possibly become the means for either promoting speculative advances in prices, or of a depression of prices. You must not understand from what I say that I assume that the power of price fixing rests or should rest with any one. It does not. Price changes result from a combination of many influences. So far as the influence of credit is a factor in prices, I am frank to say that I think our policy should be to avoid any development which would promote or encourage simply price expansion or price contraction. We should aim to keep the credit volume equal to the country's needs, and not in excess of its needs,



and then price readjustments, as between the various classes of commodities, will take place with the least possible disturbance to agriculture or to any other industry. It seems to me that some such policy will permit of that readjustment of the values of the various classes of commodities to which we must look in order that the farmer may again enjoy that proper balance between the cost of what he consumes and the price he realizes for what he produces. When that happy time comes, and I believe confidently that it is coming, and when that margin of profit presents the opportunity of doing so, I sincerely trust that the American farmer, as a class, <sup>need to</sup> will feel less anxiety as to borrowing money, and better able to direct his efforts toward repaying what he owes.

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Now as to credit and the influences which directly bear upon its administration by the Federal Reserve System. One especial reason at this time why the relationship of credit and prices must be particularly considered or is extremely important, is that one of the most important influences that normally restrains undue fluctuation of prices is not now in operation. Before the war when the credit machinery of the world was working normally, if the price level of any country got out of line with world prices, in other words, if for one or another reason prices advanced to a point where that country became a good selling market, the balance of trade turned against it; its exchange became depressed, and if the development went far enough, that country would have heavy payments to make abroad and

would likely lose gold. This loss of gold impaired bank reserves. The banks of the country then were naturally forced to raise their discount rates to protect their remaining reserves. The advance in the discount rate usually brought about two developments; it attracted funds to that market and it induced people who were carrying goods, possibly for speculation, or people who had swollen inventories, to sell them. This reduced the prices of goods, enabled the country to resume exports in competition with the rest of the world, checked excessive imports, arrested the outflow of gold, and frequently caused gold to flow in.

Under the conditions of to-day, caused entirely by the war, dollars are at a premium the world around. We could indulge in a riot of speculation in this country which would put prices to very high levels, and with a few exceptions, hardly any nation in the world would be in position to withdraw large amounts of our gold. And even then our gold holdings are so great that we could still lose a large amount without suffering serious impairment of reserves. With this situation as it is, and having regard to the interests of the whole country, there is every possible inducement for the Federal Reserve System to adopt and to execute, so far as it may, a policy of stabilization in every direction; to avoid encouragement to unhealthy speculation, on the one hand, and to encourage the return of stable values, on the other hand. There may indeed be little that we can do beyond what I have described and that is to keep the credit volume at a reasonably steady level, but sufficient to meet the seasonal needs of business, and its normal annual growth.

*Just good enough*

specifically  
farm credit  
various projects  
production marketing  
variety proposals  
  
familiar  
3 or 4 points  
  
candidly

Now more specifically, as to farm credit, I would like to refer in a very general way to various projects which are designed to assist the farming community in the production and orderly marketing of the crops. A great variety of measures have been proposed to the Congress, and I have no doubt that they have been carefully examined by your organization and that you are fully familiar with all of their details. There are three or four points in connection with these proposals that I would like to discuss with you quite candidly and I shall ask you to give them special consideration.

First  
  
enlarged membership  
  
first essential  
  
conserving reservoir  
  
water or fertilizer  
  
pile in corner  
  
even distribution  
  
look at conditions

FIRST - In my opinion, any new legislation should be designed to very greatly enlarge the membership of the banks of the country in the Federal Reserve System. Let me say earnestly that I believe this to be a first essential to the administration of credit in the interest of agriculture. The Reserve System is the conserving reservoir of credit. That credit must be applied throughout the various sections of the country exactly as water or fertilizer, is applied to the soil. No farmer can expect to make a crop if his land is fertilized by piling a heap of fertilizer on one corner of his field. It must have a fairly even distribution, and so too with water. Now look at the conditions as to membership in the System which exist to-day. In the great area known as the Mississippi Basin, with the exception of the States of Iowa, Illinois, Indiana, Alabama, Oklahoma and Texas, and extending east, south of the Mason-Dixon line to the Atlantic Seaboard, there is no State where more than

25 per cent. of the banks are members of the Reserve System. Missouri and Mississippi have only 10 per cent. and the percentages vary as follows:

	North and South Dakota	22 per cent.		
16	Minnesota	24	"	"
	Wisconsin	19	"	"
	Nebraska	17	"	"
	Kansas	20	"	"
	Missouri	10	"	"
	Arkansas	24	"	"
	Louisiana	19	"	"
	Mississippi	10	"	"
	Tennessee	20	"	"
	Kentucky	24	"	"
	North Carolina	16	"	"
	South Carolina	22	"	"
	Georgia	23	"	"
	Florida	25	"	"

The exceptions that I mention have the following percentages:

6	Iowa	27 per cent.		
	Illinois	30	"	"
	Indiana	30	"	"
	Alabama	35	"	"
	Oklahoma	39	"	"
	Texas	49	"	"

West of this section there is only one State which has more than 50 per cent. of its banks members of the System, and that is Idaho which has 60 per cent. The percentage of membership in these western States varies from 50 per cent. in the case of California to 30 per cent. in the case of Arizona. Broadly speaking, therefore, in about one-half of the agricultural sections of this country, less than 25 per cent. of the banks are members of the Federal Reserve System, and as to the other one-half, between 25 and 50 per cent. are members. Now in the East, there is a very

different situation. In my own State, New York, 72 per cent. of the banks are members of the Reserve System, and from this percentage, it runs to

	51	per	cent	in	Connecticut
	62	"	"	"	Pennsylvania
	70	"	"	"	New Jersey
	42	"	"	"	Delaware
	71	"	"	"	Massachusetts
	61	"	"	"	Rhode Island
	55	"	"	"	Maine
	56	"	"	"	Vermont
	69	"	"	"	New Hampshire

If distributing liquid fertilizer on your farm, you would not consider that you were doing a very effective operation if from 50 to 90 per cent. of the outlets of your sprinkler were clogged. One of the particular influences of the Federal Reserve System is noticeable to us now in this way. Since last year the great bulk of the loans of the Federal reserve banks have been repaid by their members. Most of the banks of the large cities which were at one time heavy borrowers have almost entirely paid off what they owe. But do you realize that not many months ago there were still 2300 banks - nearly 25 per cent. of our members - which were borrowing from the Reserve banks, and these were almost entirely banks in the rural communities? It has been so right in New York State. You may not realize that New York is the fourth or fifth largest agricultural producer of all the States. The banks in our large cities have repaid most of what they owed to the Federal reserve bank. Until within the last month or two almost all that we were

lending was to the country bankers and largely to those in the farming communities.

situation different  
twice as many

Might not the situation have been very different indeed had there been twice as many country banks in direct contact with the Federal reserve banks and thereby enjoying the security and protection they afford, not only for themselves, but for the farmers and business men they serve?

difficulty

One of the difficulties of our banking system, and one which I apprehend there will be great difficulty in remedying, is that there is not a sufficiently direct contact between the different elements in the banking system, so that the capital supplies in the richer communities can be drawn upon for credit by the less developed communities where

insufficient  
contact  
elements

branch banking

credit is needed. Of course, a system of branch banking might accomplish this, but a system of branch banking extending over an area so wide as that of our country would be most difficult to manage and would hardly be adaptable to our conditions. No one wishes to see a comparatively small

network

number of banks extending a network of branches throughout the entire United States. In default of that possibility is it not reasonable to take some steps to bring a larger

default

larger membership

number of the country banks into the Federal Reserve System, and in part to remedy the difficulty by that means? But one-third of the banks of the country are now members of the

two-thirds

System. If we had two-thirds of the banks in the System, I believe this distribution of credit would be sufficiently effective to meet all reasonable needs.

effective

SECOND - Now as to another point which I believe  
carefully consider you should consider with care. It is frequently proposed  
longer maturity that the Federal Reserve Act be amended so that agricultural  
sure paper of longer maturity than six months might be eligible  
accomplish for rediscount at Reserve banks. I would ask you to be sure  
that this proposal if adopted would accomplish what is desired.  
Personally, I cannot see that any very great injury, in  
probably no injury fact possibly no injury at all, would result to the Reserve  
System from extending the maturity of eligible agricultural  
paper say from six months to nine months; but I believe  
overlooks influences this proposal overlooks some important influences which  
control this type of credit. I must ask you to review such  
personal experience personal experience as you may have had in borrowing money  
so as to judge whether there is not considerable basis for  
the following statement:

two reasons There are two reasons why the president or cashier  
of a country bank does not like to lend money for nine months  
or a year or longer to his farmer customer or for even two  
or three years to a cattle breeder. One reason is that he  
middleman is simply the agent or middleman for receiving deposits  
from one class of customers and lending them to another  
class. Most of those deposits can be withdrawn by check  
check 30 days or upon thirty days notice. No prudent banker likes to  
commit himself beyond a moderate amount for loans that run  
6 mos. 3 years from six months to as long as three years, when his own  
demand deposits obligations are payable upon demand. It is not prudent

other simple banking. The other influence is a simple one, known to every banker. Farming is an industry in which certain hazards are inherent which are possibly greater than applying to many other industries. The cashier of the bank wishes to have the farmer's note mature at sufficiently frequent intervals so that he may be in position to meet changing conditions. Now personally I do not believe that simply a provision which will give the member bank the right to discount paper at the Reserve bank which has a maturity of more than six months will be a sufficient inducement to him to make the longer time bank loans that the farmers, possibly with every justification, believe that they are entitled to receive.

Practically all commercial banks have the right to make loans now for any length of time that good judgment permits. The reasons why they do not do so are those that I have stated. But even if the country banker were induced to make longer time loans simply because he gained greater protection in doing so in the event of heavy deposit withdrawals because he is able to discount this paper at the Reserve Bank, he would not want to discount long time paper anyway. Banks as a rule do not borrow money nor should they be induced to borrow money from the Reserve bank simply for profit or to permanently enlarge their business. The inducement to borrow is to take care of the needs of their customers, and when they do borrow they prefer to borrow for the shortest possible time. To discount a note running for

no legal  
reasons stated  
protection not  
induce.  
borrow profit  
increase business  
customers' needs



commit borrowing      nine months or more commits the borrowing bank to a long  
time borrowing which it would prefer as a rule not to make.  
And furthermore, you must bear in mind that this remedy,  
only 1/3 anyway      even if it were effective, would apply to only one-third of  
the banks of the country. My suggestion is that a certain  
proportion of these farm credits, especially those relating  
to the business of the stock men, should be furnished by  
investment funds      attracting investment funds. You know that banks throughout  
the United States generally, and in the East particularly,  
banks buy securities      are large investors in securities. They often prefer to  
hold securities of reasonably short maturity, and it is wise  
short maturity      that they should. They are purchased by those banks which  
always surplus      always have a surplus of funds over what their borrowing  
customers require. If by some method, the long time credit  
requirements of the farmer, and especially of the cattle man,  
read this      can be met by some such method as this, it will in a measure  
avoid the difficulty which I have described as inherent in  
many country banks.

Third      THIRD - The third point is one with which every  
familiar      one of you is familiar. To the extent that it is possible,  
existing agencies      it seems to me that the credit needs of the farmers should  
be met by the employment of existing agencies rather than  
by creating new agencies which for many years would be too  
remote from the actual borrower to afford him the immediate  
close contact      facilities and the close contact which present organizations  
can afford if properly organized. One of the principal  
character      elements in credit is the character of the borrower. A  
mortgage loans      mortgage loan of course requires time for negotiation and

time

inspection

title

turnover credit

promptly

character, farm  
record

the borrower is allowed a long time for repayment. He can make an application and send it a considerable distance to some lending office, such as a Farm Loan Bank; it can then be investigated and after a lapse of time, after the farm is inspected and the title examined, the loan may be made. But when the farmer needs credit for his turnover, he cannot wait in order to go through this elaborate operation. He should be able to go to the local institution where his character and credit and the general record of his farm is known.

intermediate

bank credit

farm loan

investment market  
sympathy

commercial banks

farm loan system

read

In a word, the farmer, and especially the stock man, needs a type of credit which in maturity is intermediate between the loan which he now gets at his local bank and the long time mortgage loan which he obtains possibly through the farm loan system. For this type of credit I believe his interests will be better served by appealing to the investment market. I am wholly in sympathy with efforts towards making this possible, but the point I wish to make is that existing agencies, - the commercial banks and the farm loan system, - should be used so far as practicable but facilities provided which will enable them to furnish services which heretofore have not been possible for them to afford.

finally

cost

familiar

FOURTH - And finally there comes the question of the cost of this credit. I am perfectly aware that in some sections of the country where the usury laws permit, and possibly in some cases where the laws do not permit, the farmers are charged 8, 10 and 12 per cent. and sometimes

conception even more. My conception of a proper system of agricultural credit is that two elements are essential. One is that a sufficient and reasonable amount of credit should be available when needed, and the other that the cost of the credit should not be excessive. . But, on the other hand, I do not think that it is always fair to charge the country banks with too much responsibility for these interest rates. Primarily they arise from the lack of adequate credit and a demand in excess of the supply. The best opinion I can express upon this subject is that any means employed for developing agricultural credit facilities will go a long way gradually to eliminate some of these very high interest rates, if the three points I have mentioned are adequately dealt with. Membership by more banks in the Federal Reserve System will help more than anything else to do it.

point out But let me point out what would be the effect of drawing upon investment funds for these loans with intermediate effect maturity. Every million dollars of such loans negotiated drawing investment \$1,000,000 in the form of debentures or other obligations running for a year or more which found lodgment with Eastern investors or banks which had surplus funds to invest, would place a fund of investment money at the disposal of the community where the original loan was made, and would relieve the local banks of the burden of a million dollars of loans which they are now carrying and would release that amount of credit for other release employment. It would draw to the West and South the type West and South

lower rates

of investment money which is needed for this intermediate agricultural financing; gradually this would effect a reduction of local rates.

discussing  
general  
informal

Now I have been discussing in a very general and informal way some of the things which it seems to me to be more important in dealing with this matter of farm credit.

reconcile  
foolish things  
transform

The question is how to reconcile all the various views, how to prevent foolish things being done and at the same time to transform the various discussions which you and others are having into some concrete action. Let me take the liberty of making a suggestion entirely upon my own responsibility.

Joint Comm.

You know that as a result of the Hearings of the Joint Commission of Agricultural Inquiry last summer, certain legislation is proposed. I have been told that the officers of the War Finance Corporation are advocating certain measures.

War Finance

Senators

machinery

I believe that more than one Senator has introduced or is proposing to introduce bills in the Senate to deal with this subject. The measures with which I am familiar bring into play by one or another method, the machinery and resources of the Federal Reserve System and Farm Loan system. In one or two cases they provide for Federal appropriations. They have a direct bearing upon work and investigations of great importance being conducted by the Department of Agriculture.

Fed. appropriation

Dept. Agriculture.

if a member

It seems to me, if I were a member of your organization, that I would be inclined to take steps, possibly even going to President Harding with the proposal, to bring together the representatives of these various interests, including

President Harding

representatives

representatives of your own organization and other similar

discuss

competent men

wisdom

sound judgment

once prepared

after informal

what do

my own opinion

organizations, have all of these plans examined and discussed by competent men who are able to put forward each his own point of view and that these men, all of whom in my opinion are honestly seeking a wise solution of these matters, should in their wisdom be able to reconcile differences of view and produce a plan which will meet the need of the occasion and meet the views of people of sound judgment in the country. Once that plan is prepared then let's all get behind it, ask Congress to put it through and ask the President to approve it.

After this most informal talk you may wish to ask me with every justification in what way the Federal Reserve System proposes to assist in the solution of the problem of agricultural credit. I can express only my own opinion and that of my associates in New York. I think there are two principal things that we can do. We can endeavor by our policies, as I have already described, to maintain as stable credit conditions in this country as are possible, by employing such means as we command. Further than that we can, if means can be found to do so, enlarge the membership of the Federal Reserve System, as it should be, to cover all parts of this country with the facilities of the System and bring about a more even and <sup>it</sup>equable distribution of the credit which we furnish. We can serve all of the banks of the country that are entitled to membership just as readily and efficiently as we can serve one-third of the banks of the country which are now members.

read

*Some, less  
important  
read*

*Again*  
^

thanks

welcome

tell about

privilege

contribution

In conclusion, I ~~must~~ thank you for your courtesy in inviting me to this meeting and for the patience with which you have listened to this talk. I can assure you that the members of this organization will always be welcome at our office in New York. We will be glad to tell you all that we know about the operation of the Federal Reserve Bank and of the System, and we will esteem it a privilege to make any contribution that will promote a sound solution of the problems with which you are now dealing and the successful treatment of which are essential to the welfare of the most responsible and important element in the economic life of this country.