

STATEMENT
OF
HON. ROBERT L. OWEN

UNITED STATES SENATOR FROM OKLAHOMA

WITH REGARD TO

THE CAUSES OF THE RECENT AND EXISTING INDUSTRIAL
DEPRESSION—REPUBLICAN PARTY LARGELY RESPON-
SIBLE FOR DEFLATION OF CREDIT AND CUR-
RENCY AND THE SEVERITY OF THE
INDUSTRIAL DEPRESSION

IN THE

SENATE OF THE UNITED STATES

SEPTEMBER 22, 1922



WASHINGTON

1922

12611—23227

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STATEMENT

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The Federal reserve act was intended to give stability to credits, industry, and commerce and to prevent unwarranted inflation or unwarranted deflation. As chairman of the Committee on Banking and Currency of the United States Senate, which framed and passed this act, I am justified in this statement.

When the United States entered the war in 1917, and purchasing agents with unlimited money were turned loose to buy war materials without limit on cost, it caused commodity prices to rise in an unprecedented manner, these prices going up two and three hundred per cent.

When the war ceased and the purchasing agents were discharged and the surplus war materials put on the market by forced sales and the nations of the world went back to peaceful processes, millions of men again became productive, the volume of commodities increased, and the urgency of the demand diminished, and therefore there took place, of necessity, a great fall in commodity prices, causing heavy losses through inventories which had to be rewritten. This had a natural tendency to bring about an industrial reaction.

But it was a process which was accomplished somewhat slowly and only began to make itself felt in the fall of 1919.

No man and no party should be held responsible for this natural reaction from the high prices of war; but if the powers of the Federal reserve act had been wisely employed, an industrial depression could have been largely avoided and its effects mitigated.

In the election of 1918 the tremendous discontents due to our war activities were successfully employed by the Republican Party leaders, and they elected a majority of Republicans to the House of Representatives, and by a gigantic effort, and obtained through the lavish use of money in many States, and especially in Michigan, were able, by Senator NEWBERRY'S vote, a single vote, to organize the United States Senate. They therefore organized and controlled the Sixty-sixth Congress, which met May 19, 1919.

Immediately the influence of the Republican control of the two Houses of Congress made itself felt on the Federal Reserve Board, whose membership, nominated by Secretary W. G. McAdoo, with a single exception, was reactionary and ultra-conservative.

Gov. W. P. G. Harding, under this Republican influence, and representing the Federal Reserve Board, thereupon determined

upon a policy of deflation. About the 1st of July, 1919, as governor of the reserve board, he went to New York City, called the leading bankers together, and notified them that they would have to cut down their loans on stocks and bonds, which at that time amounted to about nineteen hundred millions of dollars.

With this Government support and this Government demand, the New York banks promptly began a policy of deflation, which they made effective by raising interest rates, charging more and more for money and credit. The call rate, which had been at a very reasonable point, began to rise to 5, 7, 10, 15, 20, and as high as 30 per cent by November, 1919, with the apparent approval of the Federal Reserve Board, who did nothing effective to stop it, in spite of a demand that they should do so. The running up of the rates to 30 per cent on call in New York shocked the confidence of the country, drew money violently from various industrial centers to New York, and broke the stock market, resulting in losses eventually running into thousands of millions in the value of stocks and bonds.

Along in December, 1919, the Reserve Board, under the Republican influences to which I have referred, began to consider raising the rates of the Federal reserve banks and, over my vigorous personal protest made in person to the members of the Federal Reserve Board and then by writing, they did raise the rates of interest. Then on the floor of the United States Senate I protested against the ruinous deflation policy.

In the meantime the Kansas City Title & Trust Co. tied up all the loans of the Federal farm loan banks by a suit intended to test the constitutionality of the farm loan act. (*Smith v. Kansas City Title & Trust Co.*, 255 U. S. Sup. Ct., p. 180.) The banks of the country followed the bad example of the Federal reserve banks in contracting credits.

In the spring of 1920 the Republican Congress passed an amendment to the Federal reserve banking law empowering the Federal Reserve Board to increase the rediscount rates without limit, and under this act the board permitted the Federal reserve banks to run the rates up in a manner to violently affect the stability of credits in the United States, in one egregious case the rate going over 80 per cent per annum and in many cases going up to 12, 15, and 20 per cent.

Unable to influence the Federal Reserve Board in favor of lower interest rates, I wrote a letter to the President on February 13, 1920, but his unfortunate illness made it impossible for him to consider it.

On February 16, 1920, I raised my voice on the floor of the Senate against this destructive policy and put in the CONGRESSIONAL RECORD my letter to the President explaining how speculation and hoarding could be prevented and controlled without these excessive interest rates and without deflation of credit. (CONGRESSIONAL RECORD, 2937. Exhibit A.)

Again, on March 8, 1920, on the floor of the Senate (CONGRESSIONAL RECORD, 4001), I raised my voice against this destructive policy and high interest rates, but the protest was unavailing with the Republican leaders of the Congress.

Again, on April 21 Senator McCUMBER, now chairman of the Finance Committee of the United States Senate, urged that the Federal reserve act should be modified so as to compel contraction (CONGRESSIONAL RECORD, 5936) of the currency, and he

complained about the greatly inflated currency and attributed the high prices of war to an "inflated" currency. He urged a contraction of the currency.

The Federal Reserve Board, under these Republican influences, put great pressure to bear on the banks to compel them to sell Government bonds which, under high interest rates, had fallen severely in market price, and again I protested against the high interest rates on April 30, 1920 (CONGRESSIONAL RECORD, 6337) and showed how speculation and hoarding could be controlled without raising the rates of interest and without deflation of credit or currency, and I put in the RECORD on that day a letter which I had written to the governor of the Federal Reserve Board, April 27, 1920, protesting against raising the interest rates, and I said to him (CONGRESSIONAL RECORD, 6337, Exhibit B):

"The Federal Reserve Board can not permit itself to be held responsible for the *consequence that will ensue* if it persists in this policy of raising the interest rates as a remedy for speculation."

The board asserted they were raising the rates and deflating credits to check speculation.

I explained to him in this letter how speculation could be controlled without raising the interest rates, and I urged the board to pursue a policy that would give stability to credit and avoid the dangers that would ensue if the powers of the board were used to break down confidence and credit in the United States. Unhappily the Federal Reserve Board, under the influence of the Republican leaders, refused to listen to my pleading.

In the interest of those *who had dollars* they seemed determined to *make the dollars buy more* by a policy of indiscriminate deflation and currency contraction.

I urged that the dollars could be made more valuable by increasing the volume of commodities through industry and prosperity rather than to make the dollars more valuable under industrial depression by the hammer of the auctioneer and reducing the cost of commodities below the cost of production.

On May 3d, 1920, the governor of the reserve board replied to my appeals, but did not change the policy of the board. He said, however (CONGRESSIONAL RECORD, 6556), that:

"During the year 1919 the board tested the policy of *attempting to control the credit situation by admonition and warnings without raising rates.*"

The board did far more than use admonitions and warnings to bring about deflation and "*control the credit situation.*" It issued its bulletins and gave its counsel and advice and issued rules and regulations, all of which went to carry out the policy of indiscriminate deflation, all of which had the purpose to limit credits throughout the United States and to reduce the volume of currency required and had the effect to break values ruinously and to create a terrible industrial depression and ruin tens of thousands.

On May 14, 1920 (CONGRESSIONAL RECORD, 7039), I replied to Governor Harding's letter, insisting that the Federal reserve system was intended to give stability to credit, that it was not a money-making institution, and I pointed out:

"The Federal Reserve Board is thinking much these days of *deflating credit*. The idea has been much exploited recently that it is a good thing to *deflate credit*."

And against this policy I entered my vigorous protest, fully set forth in the RECORD, and I put in the RECORD a letter dated May 14, 1920, to Governor Harding (Exhibit C), so that there might be no doubt that my appeal to the Federal Reserve Board for liberality in treatment for the country was made and was unavailing. (CONGRESSIONAL RECORD, 7042.)

The Reserve Board declared automobiles and various commodities nonessentials and advised the banks to refuse credits on automobiles and on many other things, including commodities in storage.

The answer which the Reserve Board gave me in answer to my letter was Senate Resolution 363, submitted by Mr. McCORMICK, leading Republican Senator from Illinois, to the following effect:

"Resolved. That the Federal Reserve Board be directed to advise the Senate *what steps it purposes to take or to recommend to the member banks* of the Federal reserve system to meet the existing inflation of currency and credits and consequent high prices," and so forth.

The Republican Senate passed this resolution, which was expressly intended to be a notice to the Federal Reserve Board by the Republican Party that they were expected to *deflate* "the existing inflation of currency and credits and consequent high prices," attributing to inflation the high prices instead of to the results of the war.

On May 18, 1920 (CONGRESSIONAL RECORD, 71993), I again addressed the Senate on this question and protested against the resolution of the Senator from Illinois and I warned the Federal Reserve Board and I warned the country that *an industrial depression would result* from the policy of forced deflation (CONGRESSIONAL RECORD, p. 7200). I pointed out that the earnings of the Federal reserve banks were running up to nearly 200 per cent per annum. I charged the Republican Party then and there with being responsible for the attitude of the Federal Reserve Board. Mr. MCLEAN, who was then chairman of the Banking and Currency Committee of the Senate, defended the high discount rates (May 18, 1920).

But, Mr. President, the responsibility of the Republican Party for the policy of indiscriminate deflation was fully assumed by the leaders of that party at the Chicago convention in June, 1920, in the following plank:

"The prime cause of the high cost of living has been first and foremost a 50 per cent depreciation in the purchasing power of the dollar, due to a *gross expansion of our currency and credit*. We condemn the unsound fiscal policies of the Democratic administration. As the political party that throughout its history has stood for honest money and sound finance we pledge ourselves to earnest and consistent attack upon the high cost of living by rigorous avoidance of further inflation in our Government borrowing and by courageous and intelligent deflation of our overexpanded credit and currency."

They deliberately declared in favor of a deflation of credit and currency and brazenly called it courageous and intelligent.

They could only do it through the Federal Reserve Board, as they had already been doing it by the Federal Reserve Board.

On July 22, 1920, Mr. Harding, Republican nominee for President, in his speech of acceptance, said:

*"Gross expansion of currency and credit have depreciated the dollar. * * * Deflation on the one hand and restoration of the 100-cent dollar on the other ought to have begun on the day after the armistice. * * * We pledge that earnest and consistent attack which the party platform covenants. We will attempt intelligent and courageous deflation, and strike at Government borrowing, which enlarges the evil."*

And there is not the slightest doubt, therefore, about the Republican responsibility for the drastic deflation which took place in their determined policy to deflate credit and currency. Its terrible effects upon the country are well known.

I was not alone in my efforts to prevent this drastic deflation policy pursued by the Republican leaders, acting through the Reserve Board and Governor Harding, of the Reserve Board, because Hon. John Skelton Williams, then Comptroller of the Currency—the best the Nation ever had—also vigorously protested against the high rates of interest, as will appear from his statement made September 11, 1920, and printed in the Report of the Comptroller of the Currency of 1920, page 82.

On September 11, 1920, the comptroller made public the following additional statement in regard to interest rates in New York, which explains itself:

"SEPTEMBER 11, 1920.

"A leading New York paper, in its financial columns to-day, criticizes the statements made this week by Senator OWEN relative to the excessive interest rates which have been charged by certain banks in New York City during the past year, and says that bankers 'point out that when Senator OWEN charges that \$500,000,000 has been loaned at rates up to 30 per cent he is speaking without the record.' Continuing, the press article says:

"That high figure obtained on the stock exchange for about 10 minutes one afternoon the middle of last November, and probably as much as \$1,000,000 was loaned at that rate."

"That criticism by the unnamed 'bankers' is misleading, and in justice to Senator OWEN it is proper to say that the Senator's public statements on this subject, as printed in the press dispatches which have been brought to my attention, are substantially correct, and in view of actual facts are moderate and conservative.

"During the past year the burdensome and oppressive interest rates to which the Senator refers have been exacted, not in 'one or two possible insignificant instances,' as one New York paper expressed it, and not as the 'high figure' as another paper expressed it, 'for about 10 minutes one afternoon the middle of last November,' but in thousands of instances, at numerous times, and upon call loans aggregating hundreds of millions of dollars.

"The information on this subject called for as of August 5, from all of the New York City banks has been supplied by nearly all of them and is now being compiled; but in anticipa-

tion of a more complete statement which will be available later, it may be interesting to the public to know that the amount of demand loans, upon which two or three of the banks, only (exclusively of various others which were charging the same rates), were exacting 20 per cent or more per annum interest (in some instances as high as 25 and 30 per cent) was—

| | |
|--|--------------|
| On November 13, 1919, about..... | \$50,000,000 |
| On November 14, 1919, about..... | 40,000,000 |
| The new call loans at the rate of 25 per cent per annum made by one of these banks at the end of 1919, on December 29, 30, and 31, aggregated about..... | 20,000,000 |
| On January 2, 1920, these same two or three banks were lending at 18 per cent, 20 per cent, and 25 per cent interest, about..... | 75,000,000 |
| On January 3, 4, and 5, at 18 per cent interest from \$60,000,000 to..... | 70,000,000 |
| On February 6, 1920, at 20 per cent and 25 per cent interest, over..... | 40,000,000 |
| On February 9, 1920, at 20 per cent interest, about..... | 40,000,000 |

"As late as the end of June it appears that interest as high as 14 per cent per annum was being demanded by these banks on millions of dollars of call loans.

"These illustrations are from the official records of only two or three of the thirty-odd national banks in New York City, but they are sufficient, I think, to show the unfairness and incorrectness of the criticisms of Senator OWEN's just condemnation of the excessive interest rates which for some time past have been a distinctly disturbing factor in the business and financial situation.

"I am pleased to confirm the statement I made some time ago that although the aggregate amount upon which unjust and oppressive interest rates have at times been exacted by some banks is very large, a majority of the national banks in New York City have made a comparatively small proportion of their loans at these indefensible rates."

The comptroller denounces these high interest rates in his report from pages 79 to 105.

The result of this drastic deflation of the Republican Party was that there was a decrease, from September, 1920, to September 6, 1921, of \$2,191,104,000 in the deposit of the national banks; a decrease of \$1,042,186,000 in the deposit of the State banks; a decrease in the loans and discounts of the Federal reserve banks of \$1,621,630,000, and a decrease of Federal reserve notes in circulation of \$957,371,000; a decrease in Federal reserve bank notes of \$131,085,000; the loans and discounts of the national banks decreased \$1,446,858,000, and other banks' loans and discounts decreased \$481,882,000—a total contraction of credits amounting to over five billions in the space of one year.

On May 28, 1920, the outstanding credits of the Federal reserve banks were \$2,938,031,000; on January 25, 1922, the outstanding credits of the 12 Federal reserve banks had fallen to \$932,882,000—a total contraction in 20 months of \$2,005,149,000.

Besides this gigantic deflation, private individuals from one end of the land to the other were frightened into following the

same policy and in their relations with each other outside of the banks the same cowardly and injurious policy was followed, creditors pressing debtors for settlement to the ruin of the debtors.

Of course this resulted in the ruin of hundreds of thousands of farmers; of men engaged in cattle raising and in sheep raising and in animal industry. It ruined many merchants, manufacturers, and business men, and even ruined very many bankers. Of course it brought wages down and was intended to bring wages down.

Of course it paralyzed business until the process was completed. It caused the great strikes of the country.

The prices of the things, however, that the farmer and wage earner and great consuming classes have to buy, being controlled by the trusts and monopolists and by profiteers, still remain at a figure much too high.

To prevent the possibility of foreign competition with domestic extortion, the Republican Congress has now enacted the highest tariff protection bill in the history of the country.

The responsibility of the Republican Party for the great industrial depression we have suffered is thoroughly well established and must be acceded by every man with an open and a just mind who loves the truth first and party success second.

A few great bankers who think alone in terms of dollars and the purchasing power of dollars demanded the deflation of currency and of credits to increase the purchasing power of their dollars.

The Republican Party accepted the advice and carried out the policy. God save the American people. Torn and misled by a million grievances arising against the Democratic Party because of the autocracy and abuses of war, the people voted for a change. They got a change from wonderful prosperity in 1918 to a terrible depression in 1921. It is time for another change. The Republican leadership is controlled by reaction. The country is truly progressive and liberal, and to this spirit the Democracy must appeal.

EXHIBIT A.

FEBRUARY 13, 1920.

Subject: Interest rates.

THE PRESIDENT,

The White House.

MY DEAR MR. PRESIDENT: I deem it my duty to call your attention and the attention of your administration to the importance of moderate interest rates and stability therein in the United States and the important part which the influence of the Government can exert in accomplishing these ends through the Treasury Department, the Comptroller of the Currency, and the Federal Reserve Board.

Before the Great War Belgium had a fixed, stable rate of 3 per cent for 50 years and the rate in France was practically the same, and United States Government bonds with the circulation privilege were sold at and above par when they bore only 2 per cent interest.

During the World War London merchants have enjoyed a 3½ per cent rate on acceptances.

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Our manufacturers, our merchants, our business men are entitled to reliable, stable, reasonable rates of interest.

The productive and distributive processes so essential to restore the equilibrium of the world depend upon such rates in order to function most efficiently.

I call your attention to the unreasonable manner in which the interest rates on the stock collateral loans in New York have been fluctuating from normal to 25 and 30 per cent, with the most unhappy consequences upon interest rates, injuriously affecting our commercial business throughout the United States.

The Federal Reserve Board has been induced to raise the rate of discount of the Federal reserve banks to a high point as a supposed check on the extraordinary speculation which has been taking place on the stock exchange.

These artificially unreasonable high rates of interest charged by the banks in the central cities on stock collateral call loans have had the effect of drawing to these cities from different parts of the country funds which ought to be exclusively used in commerce, and this process went to a point where recently the amount of stock collateral exchange loans on call or short time reached a volume in New York City of \$1,900,000,000, withdrawing for speculative purposes these credits which should be used in the industrial and commercial life of the country.

The investing and speculating public has been attracted to the stock exchange by the policy of narrow margins and low rates of interest; but after the public has taken on these speculative purchases the interest rates are raised to a high point and the margins are increased from 10 per cent to 20 and 30 per cent, with the effect of squeezing out the people who, in the language of the day, "can't hold on."

These loans, which were \$1,900,000,000, 60 days ago, have now been reduced to \$1,000,000,000, and the stock market has gone through a very severe depreciation; and this is the second upheaval of this kind within two months. I inclose an exhibit showing the violent fluctuations which have taken place contrary to a wise public policy, to the ruin of many weak and foolish speculators; but, above all, to the injury of the manufacturers, merchants, and business men who are entitled to have stable, moderate interest rates.

The manufacturers, merchants, and business men are entitled to stability. They can not otherwise transact the business of the country with safety; and in their name and on their behalf I respectfully and very earnestly insist that the Government shall establish a policy which will give stability to interest rates, prevent these violent fluctuations, and lead to lower interest rates.

Will the question be asked, How can it be done? I venture to answer:

First, That the influence of the Comptroller of the Currency and of the Federal Reserve Board be exerted to require a limitation upon loans made by member banks or banks engaged in interstate commerce, so that only a reasonable percentage of the deposits of such banks shall be permitted to be used for the accommodation of those who are buying stocks for speculative purposes.

Second. That a margin of not less than 25 per cent shall be required in such transactions.

Third. That an interest rate not exceeding 8 per cent shall be permitted in such transactions.

Fourth. That the reserve board shall charge a special rate of interest to those banks who are using the accommodations of the discount privileges with the reserve banks in excess of their rightful proportionate part of such accommodation, so that the normal discount rates of the Federal reserve banks shall not exceed 4 per cent, but the special rate for banks desiring to use more than their rightful proportion of the reserves with the reserve banks shall be at a progressively higher rate. In this way banks that put up Liberty bonds for the purpose of getting more than their proportionate part and lending this money out on very high rates of interest will find it less profitable to engage in such a policy.

The discount rates of the Federal Reserve Bank of Richmond, for example, effective January 23, 1920, included the following:

| | 15 days and under. | 16 to 90 days. | 91 days to 6 months. |
|--|--------------------------|-------------------|----------------------------|
| Member banks: | <i>Per cent.</i> | <i>Per cent.</i> | <i>Per cent.</i> |
| Secured by United States certificate of debt..... | 4½ | ..... | ..... |
| Secured by Liberty bonds..... | 5½ | ..... | ..... |
| Secured by eligible paper..... | 6 | ..... | ..... |
| Secured by War Finance Corporation bonds..... | 7 | ..... | ..... |
| Rediscounts: | | | |
| Customers' notes— | | | |
| Secured by United States certificates of debt..... | 4½ | 4½ | ..... |
| Secured by Liberty bonds..... | 5½ | 5½ | ..... |
| Secured by War Finance Corporation bonds..... | 7 | 7 | ..... |
| Trade acceptances..... | 6 | 6 | ..... |
| Commercial paper..... | 6 | 6 | ..... |
| Agricultural or live-stock paper..... | 6 | 6 | 6 |

You will observe from these discount rates that eligible paper—that is, the notes of manufacturers, merchants, and business men engaged in production and distribution—would be compelled to pay around 8 per cent if the member bank is permitted any margin over and above what they themselves have to pay the reserve bank. This is true even on trade acceptances, which in London have a rate of 3½ per cent. In other words, our manufacturers, merchants, and business men engaged in production and distribution are compelled to pay by this policy twice as much as they do in London, charging the interest, of course, upon the cost of the goods, and thus raising the cost of living. Against this policy I enter my resolute and solemn protest.

I heartily approve the evident purpose of the Federal Reserve Board to reduce the excessive speculative loans on the stock market and divert such credits to the benefit of commerce; but this can be accomplished without raising the rate of interest by requiring larger collateral margins and by limiting stock collateral loans to a reasonable part of the reserves of the member banks, and all loans to a proportionate part of the reserves with the Federal reserve banks.

LIBERTY LOAN AND VICTORY LOAN BONDS.

When the American people were engaged in the war the Treasury Department organized Liberty and Victory loan drives, and every citizen was urged to buy these bonds; if necessary, to sell his property and buy the bonds; to borrow money and buy the bonds. The bonds were sold at par. It was a patriotic duty to buy the bonds, but the high rates of interest which have resulted from the unrestrained speculation on the stock exchange, and the high rates of interest which the reserve banks have established, have had the effect of having these bonds appear as a poor investment, and these bonds have shrunk so that in the case of the bonds which have not the nontaxable feature they have fallen off in value almost 10 per cent, inducing many persons who are poor and who borrowed money to carry these bonds to sell them at a loss, and many more will be induced to sell them at a loss, contrary to a wise and just public policy.

If the normal discount rate of the Federal reserve banks were put at 4 per cent and the banks were discouraged from abusing the privileges of the reserve banks for stock-speculative purposes in the manner which I have pointed out, these bonds would come back to par, and they should be brought back to par. The people who bought these bonds ought not to suffer a loss, and the credit of the United States ought to be preserved by the policy which I have taken the liberty to suggest to you and to your administration.

The result of these speculative stock loans has been such that the New York Federal reserve bank has had its reserve very seriously impaired, so that the New York reserve bank has been borrowing money on a large scale from other reserve banks who do not suffer from this strain.

There is no adequate reason why the rates of the reserve banks should not be uniform; why they ought to be higher in one part of the country and lower in another part of the country. The loans are as reliable in one part of the country as in another, and every part of the country is entitled to a uniform rate.

The high cost of living demands for its solution stability in interest rates in order to encourage production and distribution, and to reduce the high cost of living demands a moderate rate of interest.

The Federal reserve banks were not established as money-making institutions, but for the purpose of giving stability and a reasonable stable interest to the productive enterprises of the Nation.

The Federal reserve banks last year made a profit of about 100 per cent of their capital; but this in no way measures the added expense on the cost of living, because the high rate of interest charged by the Federal reserve banks is reflected upon loans and discounts of other banks running into the billions, since it affects the interest rates in all parts of the country.

I regard this matter as a matter of national importance, and I would not feel that I had discharged my duty to the country if I had failed to call your attention to it in these explicit terms.

Yours very respectfully,

ROBERT L. OWEN.

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EXHIBIT B.

UNITED STATES SENATE,

April 27, 1920.

Hon. W. P. G. HARDING,

Governor Federal Reserve Board, Washington, D. C.

MY DEAR GOVERNOR: I have been intending to call to see you and beg of you and of the Federal Reserve Board to consider the injurious effects of raising the interest rates in America in its relation to adding to the high cost of living and in its relation to bearing down the market value of Government bonds.

I have just received a telegram from the president of an important national bank. He explained to me that his bank had bought and underwritten a much larger volume of Government bonds than they would have done normally because of important Government works put up in his city. Thousands of employees who were compelled to buy Government bonds unloaded them on the bank when the war suddenly ended, and he has been unable to sell these bonds on a falling market, and the market is falling because the reserve board has raised the rate of interest and set the example to the banks of the United States and justified them to their own conscience and to their customers in raising the rate approximately 2 per cent throughout the Union. For your consideration I quote the telegram:

Can nothing be done to give Liberty bonds some standing? The Federal reserve bank is pressing us unmercifully to sell what we have, and has served notice that they will rediscount no commercial paper until we do so, and as you know this can only be done in the New York Exchange at panic prices, it makes a serious and very embarrassing situation which might be very far-reaching.

The reserve banks should be cautioned in pressing the banks too far to sell these bonds on a falling market. This particular bank, I invite you to observe, would receive a great injury, and you will be unable to repair it afterwards.

The Federal Reserve Board can not permit itself to be held responsible for the consequences that will ensue if it persists in this policy of raising the interest rates as a remedy for speculation. This remedy is worse than the disease.

This remedy is not necessary because there are other available remedies whose consequences will be harmless. I venture to suggest several:

First. That the banks be advised to require loans for speculative purposes to be gradually reduced;

Second. That the banks be required to demand increased margins on such loans;

Third. That the banks be invited to raise the rate on such speculative loans, and not raise the rates on loans upon which the manufacturer, the commercial, and industrial life of the Nation depend; and

Fourth. That the banks be invited and required to refuse new speculative loans on investment securities.

My dear Governor, the bondholders of the United States have already suffered a loss in the market value of their bonds of over \$2,000,000,000. Bonds which they bought as a patriotic duty; bonds which they bought on borrowed money; bonds which they bought at a sacrifice.

The Government should not through its own agencies destroy the value of these securities by pursuing a policy of raising the

interest rates, and I beg you, and I beg the board through you, to change this policy.

Moreover, my dear Governor, I call your attention to the unpardonable and scandalous practice of the usurious charges current in New York City, where on call loans, the stock-exchange collateral, the rates have been running as high as 30 per cent. I enter my solemn protest against this, and on behalf of the people of my State and the people of the United States I call upon the Federal Reserve Board to put an end to this nefarious practice which sets a false standard to the people of the United States in the matter of interest rates, and which has been used to justify the Federal Reserve Board to raise the rates on the whole country for the avowed purpose of stopping speculation when no such remedy was necessary.

Yours, very respectfully,

ROBERT L. OWEN.

EXHIBIT C.

UNITED STATES SENATE,
May 14, 1920.

HON. W. P. G. HARDING.

Governor Federal Reserve Board, Washington, D. C.

MY DEAR GOVERNOR: I thank you for your letter of May 3, answering my letter of April 27, in which I urged the Federal Reserve Board to lower the interest rates of the reserve banks as a means of helping to restore Liberty bonds to par.

The Secretary of the Treasury and every agency of the Government, including the reserve banks and the member banks, cooperated in a strenuous drive to induce the American people to buy Liberty bonds. The people were told to buy the bonds until it hurt. They sold their property, they borrowed money, they mortgaged their homes to buy these bonds on the assurance of the Secretary of the Treasury that there was no better security, and they had a right to believe that these bonds would be maintained at par. But, my dear Governor, if you permit these high rates of interest, of which I have justly complained, the inevitable consequence will be that these Government bonds must go still lower than they are now instead of reacting to par.

The violent fluctuating high interest rates on the New York Stock Exchange which go from 8 to 30 per cent, advertised throughout the country in every important paper in the land, together with the high interest rates of the Federal reserve banks to member banks at 6 and 7 per cent, and the consequent higher commercial rates daily advertised in the public press of 8, 9, and 10 per cent, not to mention commissions on the side and discounts, are jointly impairing confidence and creating an atmosphere of suspicion, distrust, and widespread talk of pending industrial depression and industrial panic.

I have insisted that the powers of the Government should be exercised through the office of the Federal Reserve Board, the Federal reserve banks, and the Comptroller of the Currency to remove these causes, which, if persisted in, may cause a serious industrial depression and make Liberty bonds go still lower.

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The claim of the New York Stock Exchange that these high and violently fluctuating interest rates on call loans are necessary for the purpose of preventing speculation is indefensible, because they do not prevent speculation. The professional operator immediately speculates in a bear market, which inevitable must follow these artificial high interest rates. The speculator can afford to pay high interest rates, but legitimate business can not. Moreover, the employment of bank credits for speculation can be prevented by harmless methods: First, by the banks refusing new loans for speculative purposes; second, by requiring gradual liquidation of old loans employed in speculation; and, third, by raising the margin on speculative loans.

The remedies I suggest are harmless to the general public. The remedy employed of high interest rates on call loans running up to 30 per cent is destructive of public confidence and threatens industrial depression.

When the Reserve Board raises the rate to 6 and 7 per cent it has the effect not of stopping the speculator but of stopping legitimate business, and putting the brakes on manufacture, commerce, agriculture, on production and distribution.

You quite misunderstand the point when you speak of my contention that the Liberty bond market recently fell because the Federal Reserve Board raised the rate of interest, which you think is disproved by the fact that the bonds fell in April, 1919, to 95 before the Federal Reserve Board raised the rate of interest. My contention is that the high rates of interest on the stock exchange and the high rates charged by member banks on commercial loans based in part on the high rates of the reserve banks, are all factors producing this result, and when the Reserve Board recently raised the rate these bonds went down much lower than they had been before, and they must go lower still if the board persist in this policy. What I contend is that the Federal Reserve Board in raising these rates, and thus adopting the unwise policy of the stock exchange, is depreciating the market value of all securities, including Government bonds.

I understand the Reserve Board desires to deflate credit by raising the rates of interest. Assuredly raising the rates of interest will deflate credits, even the credits of the United States, of which I complain, but I am anxious the Reserve Board shall only deflate those credits that require deflation and not deflate credits of the Government and of legitimate productive business, which ought not to be deflated.

The United States was compelled to expand its credits, and issued \$26,000,000,000 of war bonds. The war resulted in an increase of \$20,000,000,000 of bank deposits, a total increase of expanded credits of \$46,000,000,000. No substantial part of these credits should be deflated at this time. The only deflation of credit justified is the deflation of credits employed in speculative loans on investment securities, on real estate, and on commodities for hoarding by profiteers.

My dear governor, it seems to me that there is some serious misconception existing in the country with regard to what is inflation and what is not inflation. I am certainly opposed to inflation, but I am strongly in favor of the extension of busi-

ness, increasing production, and improving distribution by extending credits on a stable low-interest rate.

The expansion of credit for such purposes is justified, but, of course, the expansion of credit beyond the available resources, even for the most important of purposes, is not justified. The Bank of England, conducted by the wisest merchants in the world, has not hesitated to extend credits for productive purposes even when the gold reserve was thereby seriously diminished. As you very well know, they went to a very low gold reserve during the war without ever denying credits to their business men who were engaged in legitimate industry. The London merchants had $3\frac{1}{2}$ per cent acceptance rates all during the war, when the British Government paid 5 per cent.

If the people are frightened by the talk of industrial depression, by high interest rates, it has the effect of preventing production and putting the brakes on manufacture and on our entire industrial life.

I do not agree with Secretary Leffingwell that the present depression in Liberty bonds is due to the owners of Liberty bonds spending the bonds recklessly as spendthrifts. People who bought Liberty bonds do not deserve such a classification, although, of course, some individuals out of a very great number are spendthrifts. But the spendthrift quickly parts with his bonds to other people. The spendthrift theory does not explain the terrible depreciation.

If money was cheap and credits were available at low rates, it is perfectly obvious that these bonds would go to par, and just in degree that the banks of the country raise the rates to very high artificial figures to that degree the Liberty bonds and Victory bonds will assuredly fall in market value.

You advise me that the Liberty bonds "can not be brought back to par by artificial methods." They can be depressed by universal high rates of interest artificially fixed by the banks, and that is precisely what has happened and to which I earnestly object.

I do not say that the Federal reserve banks can restore these bonds to par by lending a part of their resources on these bonds at a low figure. What I do say is that the value of these bonds is depressed by the action of the Government in countenancing the scandalous interest rates on the New York Stock Exchange, the unreasonable interest rates by the member banks of the country, and the unfair interest rates by the reserve banks to the member banks.

You very justly say, my dear governor:

"There is a world-wide demand for capital, and the demand for bank credit in this country in agricultural, commercial, and industrial purposes is heavier than has ever been known before; investment demands for new construction, for the maintenance and equipment of railroads, and for the financing of our foreign trade are very great."

Are these just demands to be met by denying the credits, or are they to be repressed by raising the rates to prohibitive points, and thus retard enterprise and production, the employment of labor and capital in creating commodities?

You say the reserve banks would have been "overwhelmed with applications for loans" on Government securities if the

reserve banks had continued to offer a low discount rate on paper secured by Government obligation.

I am not advocating the reserve banks lending beyond their resources at any rates or on any securities. I am protesting against the reserve banks setting a bad example to the country by raising the rates of interest on legitimate business engaged in production and distribution. I am objecting, my dear governor, to the reserve board taking advantage of this condition and raising these rates merely because the demand is urgent, when the proper function of the Federal reserve bank is to stabilize the interest rate, keep it at a reasonably low figure, and set a wise and just example to the member banks.

The member banks pay from 2 to 4 per cent for deposits and normally let their money out at from 5 to 7 per cent, with a margin of about 3 per cent. The reserve banks pay no interest on deposits, and 3 per cent is a rate high enough to enable them to make all the money they are entitled to make out of the public. On a 4 per cent rate the Federal Reserve Bank of New York last year made 110 per cent, and I suppose on a 6 and 7 per cent rate they will make this year about 160 per cent. This is precisely what I am objecting to. The Federal reserve banks should not be put in the attitude of profiteering or of setting the example of profiteering to member banks. The powers of the Government are not being properly exerted to stop the scandalous rates of interest on the New York Stock Exchange.

I was advised that six months ago the New York banks had nineteen hundred million dollars loaned on investment securities and the commerce of the country was suffering for credit. I believe, with the board, that these credits on investment securities and speculative loans should be diverted, as far as practicable, to productive purposes, but to raise the rates to 6 and 7 per cent upon all banks alike does not accomplish this end. It merely penalizes all business of every kind and character, regardless of whether they are using their credits for speculative or productive purposes.

What I earnestly desire to call to the attention of the board is that credits ought to be extended at a low rate to the extent of the capacity of the reserve banks for productive purposes; that member banks should be urged to do the same thing, and that the powers of the Government should be exerted against the excessive, violently fluctuating rates on the New York Stock Exchange.

Hoping that the suggestions which I have the honor to make may be of some service to the deliberations of the board and to the country, I remain,

Very respectfully, yours,

ROBT. L. OWEN.

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