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## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO  
 FEDERAL RESERVE BOARD

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 R. G. EMERSON, ASSISTANT SECRETARY  
 W. M. IMLAY, FISCAL AGENT

November 24, 1920.

X-2070

Subject: Extension of Credit to Farmers.

Dear Sir:

The Board has received several telegrams recently from individuals and Boards of Trade in towns located in Northeastern Nebraska, South Dakota, and North Dakota, all couched in substantially the same words and phrases, urging the Federal Reserve Board "to declare that an emergency now exists and to arrange for credit extension to farmers".

For your information, a copy of one of these telegrams is sent to you herewith, together with a copy of the Board's reply.

Very truly yours,

Enclosures.

Governor.

To Chairmen of all F.R. Banks.

X-2070 a

## COPY OF TELEGRAM

Hon. W.P.G. Harding,  
Governor, Federal Reserve Board, Washington, D.C.

Our country is full of corn, oats, immature pigs and partly fatted cattle. Your Board is insisting that farmers sell these products to reduce existing indebtedness. The only salable produce is corn at 40 cents and oats at 33 cents per bushel. A sale at this price will not pay the cost of raising the crop and will not liquidate any indebtedness but will simply force the crops into the hands of speculators and a very large part of the farmers into bankruptcy and at a time when the consumer is able to pay a fair price. This means that general bankruptcy will follow. We earnestly urge your Board to declare that an emergency now exists and to arrange for credit extension to farmers so that some of the existing indebtedness can be paid out of the proceeds of the present crop. Your Board outlined a policy last spring to bring down prices and in so far as prices of farm products are concerned you have certainly more than accomplished your purpose. If your Board would bring pressure to make a decent market our farmers would gladly sell their products.

X-2070 b

November 24, 1920.

Dear Sir:

A telegram dated November 22nd, signed by yourself and in behalf of one hundred and eighty-five others, has been received and duly considered by the Federal Reserve Board.

Our information is that the price conditions of which you complain are due in part to the difficulty of maintaining a large volume of exports because of the credit situation abroad, in part to the unusually large crops which have been produced this year, and in part to the fact that the farmers, for one reason or another, carried over a larger amount than usual of last year's crops. The fall of prices has also been accelerated because of greater economy on the part of consumers and their reluctance to pay the prices which prevailed some months ago.

The Federal Reserve Board regrets the embarrassments which are attendant upon the commerce, business and agriculture of the country, but desires to state most positively that these conditions have not been brought about by any acts or policies of the Federal Reserve Board or the Federal Reserve System. On the other hand, the Board confidently asserts that but for the precautionary measures taken several months ago conditions would have been far worse today than they are and the prospects of stabilization and recovery much more remote. The Federal Reserve Board has not insisted that farmers sacrifice their products or that they adopt any particular policy. The Federal Reserve Banks do not deal directly with the public but are permitted by law to rediscount for member banks paper defined by the Federal Reserve Act as eligible.

There has been no reduction in the volume of credit extended by the Federal Reserve Banks during the past year, for the volume of paper rediscounted by Federal Reserve Banks and the amount of Federal Reserve notes outstanding are each higher by several hundred millions of dollars than a year ago. Member banks have rediscounted with Federal Reserve Banks a much larger proportion of their total loans and discounts than they have ever done before - an amount about ten times greater than normal. The Federal Reserve Banks in the agricultural districts have discounted for their member banks amounts so large that in many cases their own reserves would have been reduced to less than one-half the legal minimum but for the fact that they were permitted by the Federal Reserve Board to rediscount with other Federal Reserve Banks. The total volume of these inter-bank rediscounts which have gone for the larger part to member banks in farming sections has at times been in excess of \$250,000,000. This represents a sum more than eight times as great as the maximum deposits ever made by the United States Treasury with national banks to aid in crop moving operations.

The Federal Reserve Board is advised by the Federal Reserve Bank in your district that credit facilities are not being denied to your member banks, although many of them have under discount amounts far in excess of what would be regarded as a normal and reasonable line. The Federal Reserve Bank has merely insisted that as notes which have been rediscounted with it are paid the borrowing member bank apply the proceeds to the reduction of its indebtedness to the Federal Reserve Bank.

Neither the Federal Reserve Board nor the Federal Reserve Banks undertake to direct the credit policy of member banks; this rests with the directors of each such institution, and, of course, the Federal Reserve System has no control whatever over the credits of non-member banks. No doubt many banks feel that they are unduly extended and are endeavoring to secure liquidation or reduction of loans at maturity, but any direct pressure brought to bear upon the farmer to sell his products is exerted by the member and non-member banks and not by the Federal Reserve Board.

Numerous telegrams have been received during the past two days, couched in substantially the same words and terms as yours, from individuals and trade bodies in your section indicating organized effort to bring pressure to bear upon the Federal Reserve Board. In each of these telegrams the Board is urged "to declare that an emergency now exists and to arrange for credit extension to farmers". Such a declaration by the Board would be liable to cause a real emergency and would accentuate the distress instead of relieving it. An extension of loans to farmers can be granted only by the banks with which the farmers deal or to which they are indebted. The Federal Reserve Board has been a consistent advocate of orderly marketing of crops, but as has been pointed out by members of the Board in public addresses, orderly marketing does not mean the tying up of bank credits and the withholding of entire crops from the market by means of additional credits from banks, but means gradual sales. The application of the proceeds of these sales to existing indebtedness would place the individual farmer, the merchant and the local bank in stronger position and would make it possible for the local bank to do more for the farmer than it can do if crops are withheld entirely. I am sending you a copy of an address which I made several weeks ago before the Chamber of Commerce, at Cleveland, Ohio, and would invite your attention particularly to those paragraphs which have been marked.

In conclusion I would say that the Federal Reserve Board recognizes the fact that agriculture is a basic and vital industry. The Board has always assumed a sympathetic attitude towards all matters relating to agriculture and it has done, is doing and will continue to do all it can in a legitimate and proper way to assist the farmer in his credit problems. It will not, however, be forced into the adoption of policies which in its judgment would be unwise and ruinous, and which would eventually involve the farmer, as well as others, in disaster.

Very truly yours,

W. P. G. HARDING,

Governor.