

## United States Senate,

COMMITTEE ON FIVE CIVILIZED TRIBES OF INDIANS.

332-18

October 21, 1920.

Honorable W. P. G. Harding,  
Governor of the Federal Reserve Board,  
Washington, D. C.

My dear Governor:

I do not wish to emphasize the distressing effect of the so-called "policy of deflation" adopted by the Board in its relation to the farmers, the manufacturers and the business men of the United States, because you have heard enough of this.

The need for the alleged policy of deflation rests on the premise that the entire country is suffering from inflation which is fundamentally untrue. Legitimate borrowing and lending for legitimate purposes is not "inflation."

I want now to emphasize upon your attention a remedy which may, to some extent, correct the terrible injury done the country by this unwise policy.

First, however, I wish to reiterate my opinion that there is no inflation when credits are extended to legitimate borrowers for production purposes and for legitimate distribution. These processes ought to go on unobstructed. When the New York bankers established the policy of deflation and raised the interest rates to twenty and thirty per cent on call loans, and the Federal Reserve Board supported the policy of high interest rates by raising the rate to six and seven per cent to Member Banks, thus exciting the banks to raise the rates to eight and ten per cent on the industries of the country, the Reserve Board became responsible to the country for the psychological effect of its action. The result of the action of the Board has been to destabilize the credits of America, and to assist in producing the industrial unrest and lack of confidence, necessarily checking production and breaking the commodity values below the point at which legitimate supply and demand would fix the price.

Last Saturday, in the town of Muskogee, where I live, I was advised that there were no buyers for cotton at any figure. This is temporary, but it illustrates the state of mind produced in the United States by the action of the New York bankers and the cooperative action of the Reserve Board.

It is still not entirely too late to correct the dangerous conditions engendered by this policy.

We have the greatest crop in the history of the country. The

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productive and machine power of American and its capacity for organization is greater than ever before in its history. The tremendous demand for credits is justified by these conditions, and the credits ought to be extended by the Reserve Banks and by the Member Banks.

The banks are exercising, naturally and properly, a discrimination against the speculator and the profiteer, but the man who produces and the man who distributes is entitled to credit against the value of the commodities which he handles.

The credits are available.

The purpose of the reserves in the Federal Reserve Banks is to provide credits in case of an exigency. That is what reserves are held for.

You will concede, I suppose, that the thirty-five per cent reserve against deposits in the Reserve Banks is of little, if any, value because the deposits under the statute cannot be withdrawn.

The reserve notes outstanding are three billions. The gold in hand to protect these notes is two billions. You have sixty-six per cent of reserves against reserve notes not counting the reserves against deposits. You have over forty per cent after deducting thirty-five per cent reserves against deposits.

You have the power under the Reserve Act to suspend the reserve requirements.

Without suspending the reserve requirements as to the reserve notes you could issue additional reserve notes equal to the amount outstanding without violating the statute. In other words you could increase the credits of the Reserve Banks and the Member Banks three billions immediately, not only without harm, but with the beneficial effect of immediately restoring the confidence of the country which has been impaired by the terrible policy of so-called deflation.

Will you reply that this is hazardous; that it might induce the reserve note holders to demand gold?

I remind you that every such note issued by you or by the Treasury Department is covered by the best security in the world, a commodity bill backed by actual goods, backed by private credit, backed by the credit of the local bank, and backed by the resources of all the reserve banks in the United States amounting to over thirty billions of dollars; that on top of this the notes are backed by the credit of the United States.

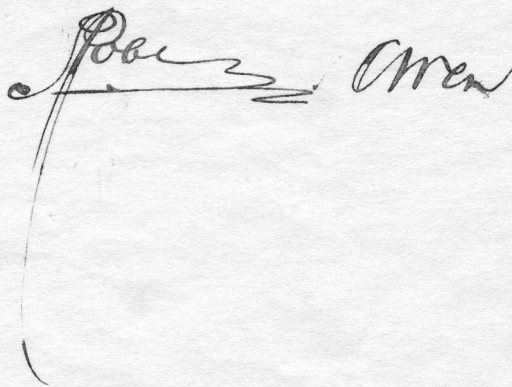
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I remind you that except for the two billions of Government loans held by the Reserve Banks as security, they would have immediately an expansion power for commerce of two billions more.

You have all the resources necessary to relieve this country. If you do not exercise your power to correct the harm which has been done, I shall be profoundly disappointed, and some unhappy consequences will occur to the country which you may not be able to remedy, and for which you will be held responsible.

Yours respectfully,

A handwritten signature in cursive script, appearing to read "Paul Owen". The signature is written in dark ink and is positioned to the right of the closing "Yours respectfully,". The signature is somewhat stylized, with a long, sweeping underline that extends downwards and to the left.