

Federal Reserve and the Farmer

NOW that the National Agricultural Conference has come to a close without condemning the policy of the Federal Reserve system during the past few years and without more than passing mention of the Board, it is fair to assume that the danger of a drastic assault upon the Board and its members is pretty well over. Nowhere in the numerous recommendations and resolutions of that Conference can one find any really condemnatory utterance. This will come as a surprise to those who had supposed that the perfervid utterances of certain Senators and the flamboyant accusations of John Skelton Williams represented the opinion of the agricultural regions.

Early in the summer of 1921 representatives of the farm interests appeared before the Commission of Agricultural Inquiry at Washington and charged openly that the Board had forced the banks to withdraw credit from the agricultural districts and had put it at the disposal of the financial centres. They insisted that the action of the Federal Reserve Board had resulted in a greater contraction of loans in agriculture than in any other line of business, and challenged anyone to produce figures to the contrary. According to these spokesmen for the farmers, the quantity theory of money had worked perfectly and quickly. The contraction assumed to have taken place in the country had brought about an enforced marketing of products which in turn had broken the prices of the things which the farmer produced. According to them the power of the Federal Reserve System had been directed against the farmer for the benefit of the speculator in securities and commodities.

Then Mr. Williams, the former Comptroller of the Currency, made a speech down in Georgia. His powers of flamboyant utterance, which are never deficient, were at their best. His Augusta speech was fully up to the previous high standards which he had set for himself in his annual report for 1918, where, in commenting upon the usury discovered among the national banks, he burst into this bit of eloquence: "Yet in some parts of this country we were in a worse condition in this respect than were the people of fifty centuries ago, and men and women in the United States in the twentieth century were bitten more deeply than were the ancient Hebrews; were destroyed and enslaved more grievously than were the Canaanites, declared enemies of God's chosen people.

American citizens were in the position of the poor of Rome under the oppression of the usurers.

No fire when Tiber freezes,
No air in Summer's heat;
But stores of rods for freeborn backs,
And stocks for freeborn feet."

He charged that under the policies pursued by the Reserve Board credit became stiff and inelastic where it should have been liberal, dangerously lenient where it should have been oppressive. An Alabama bank was made to pay four percent a month for rediscounts with the Atlanta Federal Reserve Bank. "In fact, the rate charged for a portion of that money was actually 84½ percent per annum." "While small banks in the farming districts were being taxed in this manner, great banks in New York were being supplied with practically unlimited amounts of money at five, six, and seven percent." In the opinion of Mr. Williams nothing except the fact that the United States is the richest and strongest country ever known keeps us from facing today "disaster by comparison with which the disaster following the explosion of the South Sea Bubble would appear trivial."

The cumulative effect of these criticisms, which were presently echoed in Congress, was too much for members of the Federal Reserve Board. The former Comptroller was heard by the Joint Congressional Commission, and the members of the Board answered him. Most of the isolated cases which he cited proved to be misleading. The small bank in Alabama had been charged exorbitant rates by its reserve bank without the knowledge of the Federal Reserve Board. As soon as that body discovered what had happened, it ordered that all interest charged this bank and other banks in excess of twelve percent under the progressive rate be refunded.

It turned out, too, that the large advances to New York banks were necessitated by the fact that the interior bankers withdrew their money from New York, as they have done in every period immediately preceding a financial depression. In January, 1920, the balances of interior banks with New York banks amounted to \$838,000,000; by June, 1921, they had fallen to \$537,000,000. In addition these interior banks withdrew almost \$300,000,000 which they had loaned upon the New York Stock Exchange. It was inevitable that the New York Federal Reserve Bank should be called upon to help its member banks meet this withdrawal of funds.

Nor were the demands of the interior banks limited to the withdrawal of a large part of their deposits and loans. Those interior banks which are not members of the Federal Reserve system sought aid from the New York banks to tide them over this crisis. Of the 30,812 banks in the United States, less than ten thousand are members of the system. The remaining twenty thousand look largely to New York to lend them money, as they have done in every previous crisis. The member banks of New York City were obliged, therefore, to share the responsibility of acting as reserve agencies for the banks of the country. At the beginning of 1920 the deposits which the interior banks carried with the New York Clearing House banks were approximately equal to the reserves which all the member banks of the system carried with the twelve Federal Reserve Banks. Single banks in New York lost more than one hundred million dollars in country bank deposits, and were in addition asked to loan large amounts to their non-member correspondents. It was inevitable that such an institution should borrow heavily from the New York Federal Reserve Bank.

Nor is it true that the contraction of bank loans in the agricultural districts exceeded that in the financial centres. The chain of causation which was supposed to begin with a policy of restriction on the part of the Federal Reserve Board and a resulting decrease in bank loans, and which ran thence to a forced marketing of farm products culminating in lower prices, has a beautiful logical consistency. But evidently the crucial link in the chain is the supposed decrease in bank loans. Anyone who takes the trouble to compare the rate of growth in bank loans in the various sections from 1914 to 1920 will find that while the country as a whole increased by 103 percent, the New England States increased by only 65 percent. New York increased by 104 percent. The Middle States increased 105 percent; the Southern States by 139 percent; and the Western States by 163 percent. It appears, therefore, that the expansion of bank credit was relatively greatest in those sections which are devoted to agriculture. A closer analysis of the figures of loans shows that the growth in these agricultural states was especially rapid after the signing of the armistice.

The Comptroller of the Currency has just issued his report for 1921, in which he shows the loans of all banks, state and national, as of June 30, 1921. The shrinkage in loans for the entire country is less than 7 percent. New England, which expanded only 65 percent, has contracted only 3 percent. New York State, which had increased at about the average rate for the whole country, has contracted 11 percent. The Middle States, which contain manufacturing and commer-

cial centres like Chicago, Cleveland, and Detroit, have contracted almost 7 percent. The Southern States, which had expanded 139 percent, have contracted a trifle more than 9 percent; while the Western States, which had increased 165 percent, have contracted 12. When we examine the loans in cities like New York, Detroit, or Kansas City, we find that their rate of contraction has been much greater than that of the country districts in which they are located.

The Comptroller's report shows also that of the total contraction for all banks in the United States, amounting to \$2,187,000,000 between June, 1920, and June, 1921, the national banks accounted for \$1,842,000,000. This leaves only \$345,000,000 as the contraction in the 22,658 state banks and trust companies, although their loans comprise 60 percent of the total loans of all banks. These are the banks which are located in large part in the agricultural districts; their contraction is only a trifle over 2 percent.

Other and more detailed investigations which have been made recently all confirm the erroneous nature of the assumption that the agricultural districts have had a more rapid contraction than have the financial centres. The chain of causation running from a policy of loan restriction to reduction in the prices of farm products breaks, therefore, at its crucial link.

Without doubt the Federal Reserve system has made minor mistakes in policy during the past two years. The Board has admitted as much and has pointed out specific things which it would do differently in the light of experience. But we must remember that the system was only five years old when it became apparent that the succession of boom, crisis, and depression was at hand. At this crucial time the Board found itself hampered by the political necessities of war finance, as well as by a lack of experience concerning the exact effect of interest rates and bank contraction upon prices and productive activity. It averted a money crisis in the autumn of 1920. It minimized the number of business failures. It could not restrain the people from acting foolishly in the matter of contracting debts at unheard-of prices. People who were determined to buy land in Nebraska "on the basis of a value of \$300 per acre when the banks refused to lend money on a basis higher than \$155 per acre" are embarrassed despite the policies of the Federal Reserve Board, rather than because of them.

Whatever accusations may finally be brought against the Board, it cannot fairly be charged that it reduced agricultural prices by a conscious policy of credit contraction in the rural districts. Judging from the attitude of the Agricultural Conference at Washington, the rural community has come to realize this fact.

DAVID FRIDAY.

The Ether Will Now Oblige

THE taxi driver at 181st Street wasn't at all sure he could find the place. It was a dark night, and the streets out that way were bein' fixed. We coaxed him to try, crossed the river on a high bridge, and slid up and down several dark lanes, before we reached the spot we were seeking, a long and narrow brick shed with one lighted doorway in the middle.

In at the doorway, down a long passage, up a flight of stairs into a room with that curious atmosphere of a place intended for day-time business and used instead at night. Desks and chairs; a huge phonograph horn coming out of the wall at one end at a height of six feet from the floor; and across the corner by it a large white marble switchboard standing out a little as a pier-glass might be placed. The face of this board was cluttered with instruments—dials, handles and, dominating the rest, several hooded electric lights in glass tubes, which reminded one visitor immediately—so much stronger is literature than life—of the ray and its vigilant slave in Mr. Kipling's *With the Night Mail*.

A phonograph and some men completed the furnishings of the room. The phonograph, one of those ornate cabinet affairs, stood near the switchboard, and the men were clustered about it. They were properly dressed as business men, yet you saw at once, or imagined you did, that they belonged to that extraordinary group which dedicates itself to Machines and is never truly happy unless attired in overalls and a wad of cotton waste.

All ready for the demonstration? Right! One of the gentlemen steps forward and picks up a telephone which is connected with the switchboard (there are also several sets of telephone head-dresses such as operators wear, lying on a neat little mahogany box with a black metal front into which their cords are plugged). A switch is pushed home on the white board; remotely under our feet somewhere the sound of machinery in agitation is heard; the bright tubes of light are brighter and steadier; without so much as a "by your leave" our gentleman is speaking into his telephone. "Hello hello hello hello hello," he says in a voice just a little above an ordinary speaking tone. "This is station KLG. Stand by for a little music on the phony-graph."

He drops the telephone, and puts a record on the machine. We hear, very faintly as though it might be several doors down the street, the Sextette from Lucia.

"There are probably five or six thousand people

hearing that record," says our gentleman, leaning gracefully against the instrument. "Might be twenty or twenty-five thousand; you never can tell. The amateurs all listen in about this time of evening."

It sounds incredible, yet it is undoubtedly so. In hundreds and hundreds of homes, all over New York City, New Jersey, Long Island and up through New York State, in apartments, suburban villas, farm houses, the amateurs are sitting beside their boxes twirling the knobs on top, listening with the "head-set" over their ears, while the Sextette wings its way through the ether in three hundred and sixty meter waves. They listen, not because they love the music—which would sound much better played on the phonographs which doubtless stand silent in their own homes—but because they love the magic of the radio-telephone.

"Want to hear it?" says our own high priest of the mystery. Before we can murmur that we are already hearing it and don't much care for it, another of the group is at the mahogany chest, twisting knobs like Jimmy Valentine opening a safe. From the huge phonograph horn above our heads comes a sudden shrill whistle which rises and falls, a terrific volume of noise battering at our ears, which is, no doubt, made by some far-off world as it flees shrieking in agony across the firmament.

Friend No. 2 continues his knob-twirling and in a moment this celestial caterwauling is shouldered aside, so to speak, by the Sextette, being sung in our very ears and evidently by giants a hundred feet tall and on the point of bursting all their blood-vessels. It is much too loud; even the radio zealots perceive this, and they choke it down with the knobs until it sounds no noisier than Sousa's band does to Sousa. Behind the music one still hears a wailing of winds lost somewhere in the universe and very unhappy about it. Still, science has conquered; the music is there, and more than recognizable. From the phonograph it has been tossed off into the limitless ether which it fills for hundreds of miles in every direction; the ethereal waves have been caught again by the antennae on our roof, brought down and hurled upon us from the horn.

Would we care to listen to the broadcasting going on from some other station? By all means; we are determined to make a night of it, even though it means hearing the Sextette eleven times. Perhaps we would like to use headpieces, as most of the amateurs do, instead of the more sophisticated horn? The receivers are adjusted to our ears; the knobs are twirled again. The genius of the place explains, as a noise like the crackle of