

How the Federal Reserve Law Has Benefited the Farmers

A special Washington dispatch to the New York World, dated Sept. 25, says: W. P. G. Harding, southern member of the federal reserve board, says that the banking legislation enacted by the democratic congress is proving a great blessing to the farmers of the country.

"There are two distinct sections in the banking field—commercial banking and investment banking," said Mr. Harding. "An investment banker, as a rule, operates the funds belonging to himself and his associates, or to those who have placed funds with him for the specific purpose of investment. A commercial banker, on the other hand, receives deposits from all classes of people and holds them under agreement to repay them on demand, or upon comparatively short notice. It is necessary, therefore, that his investments should be of such a character as to enable them to be readily liquidated, and the bulk of his loans should have only a short time to run before maturity.

"The member banks of the federal reserve system are commercial banks, and their reserves are carried on deposit with the federal reserve banks. The wisdom of congress, therefore, in limiting the investments of these federal reserve banks which carry reserves of commercial banks to short time paper of a self-liquidating character, is beyond dispute, and it is clearly the duty of the federal reserve board and of the directors of the federal reserve banks to throw every possible safeguard around the operation of the federal reserve banks.

WHAT IT HAS DONE

"While the federal reserve act has not created a rural credit system, it has provided, as far as is consistent with safety under a system which carries the reserve of commercial banks, for the requirements of those engaged in agricultural pursuits. For instance, authority is given for the discount of notes, drafts and bills of exchange arising out of actual commercial transactions, which are defined as notes, drafts and bills of exchange issued or drawn for agricultural, industrial or commercial purposes. It is clearly stated that nothing in the act shall be construed as prohibiting notes, drafts and bills of exchange secured by staple agricultural products or other goods, wares or merchandise from being eligible for rediscount; but the rediscount of notes, drafts or bills covering merely investments or issued or drawn for the purpose of carrying on trade in stocks, bonds or other investment securities is forbidden, except bonds or notes of the government.

"While the notes and bills admitted to discount under the terms of section 13 must have a maturity at the time of discount of not more than ninety days, it is provided that notes, drafts and bills drawn or issued for agricultural purposes or based on live stock, and having a maturity not exceeding six months, may be discounted in an amount to be limited to such a percentage of the capital of the federal reserve bank as may be fixed by the federal reserve board, and the board has permitted the federal reserve banks in agricultural sections to rediscount paper of this kind to the extent of their capital stock, which appears to be the limit permitted under the act.

INTEREST RATES STABILIZED

"The three great agricultural staples are corn, cotton and wheat. In some states tobacco is also an important product. The producers of these commodities are vitally concerned in their orderly and effective marketing. Heretofore we have been accustomed to have a stringent money market with high interest rates in the fall of the year, when these crops are coming to market, and the actual producer has frequently been obliged to submit to forced sales at prices below the average in order to satisfy his creditors. Under the federal reserve system there are now twelve independent money centres. The interest rates have not only been stabilized, but they are approximately the same at all of these money centres.

"The banks in agricultural sections, particularly those in the south, are usually compelled to rediscount heavily at this season of the year in order to assist in the movement of crops. Heretofore, owing to rates of interest that the banks have had to pay on rediscounts, as well as to the

limitations upon the supply of funds available for such purposes, banks have been unable to any great extent to assist farmers in the orderly marketing of their products, so that producers having need for funds have been in the habit of selling their cotton, wheat or tobacco when ready for market, regardless of price. The result has been that the weight of these products upon the market has been such as to depress the price at the very time when the most needy producers were obliged to sell, so that without reference to the real demand and actual supply, the market has been such a one-sided affair that sellers had but little influence in fixing prices.

HELPFUL TO COTTON GROWERS

"It was evident two months ago that unless something was done to stimulate the holders and producers of cotton the market this fall would be altogether in favor of the buyers, regardless of the plethora of money held by the banks and the unusually low interest rates at which money could be obtained, and in spite of reports from cotton producing sections throughout the world which indicated that the available supply of cotton during the next twelve months would not be out of proportion to the world's requirements. The federal reserve board, therefore, appointed a committee to study the cotton situation and to report upon warehousing facilities throughout the southern states. It having been ascertained that the warehouse capacity was ample to provide for all cotton upon which loans are likely to be required, the board's next concern was to find some means of providing producers with necessary funds at reasonable interest rates.

"By reason of the very large number of individuals engaged in the production of agricultural staples throughout a vast expanse of territory, it is evident that the most effective means of reaching the producers is through local banks throughout the farming sections.

FARMERS WERE APPREHENSIVE

"Bankers as a class are not lacking in patriotism and are as liberal and public spirited as those who are engaged in any other business or profession, but they are to some extent creatures of habit. Having been accustomed to charge high rates of interest in the days when they themselves were compelled to pay high rates of discount for accommodation, it was feared that there would not be any unanimity of action on the part of the country bankers in giving producers the benefit of lower rates. It was believed that the farmers, as a rule, would be discouraged and would be disposed to sacrifice their products unless they were given the stimulus of low rates for loans on such commodities as they might desire to hold. It was the opinion of the board's committee that in order to establish fair market conditions the financial ability of the seller to hold must be approximately equal to the power of the producer to buy, and that if this equilibrium could be established the market would develop along true economic lines, based upon actual demand and supply.

"The committee therefore decided to recommend to the board that a regulation be issued authorizing preferential rates on what is termed 'commodity paper'—that is, loans secured by warehouse receipts for staple commodities of a non-perishable character properly insured. The committee felt that the federal reserve banks in the agricultural districts, while fairly well loaned up in some cases, could easily take care of the situation, either by the issue of federal reserve notes or by rediscounts, as permitted under the law, with federal reserve banks in other districts.

SECRETARY M'ADOO'S ACTION

"The committee had begun work on the commodity regulation when it was advised by the secretary of the treasury that he had decided to deposit \$30,000,000, if necessary, in the three districts where the heaviest demand was anticipated, either with federal reserve banks or with national banks, to be used in assisting crop holders.

"After considering the matter, the secretary decided not to make deposits with individual banks, but with federal reserve banks only, and he has made initial deposits of \$5,000,000 each with the federal reserve banks of Richmond, Atlanta, and Dallas. He has also communicated

with the officials of the federal reserve banks of Kansas City and Minneapolis, which serve the great corn and wheat producing districts, and offered to make deposits with those institutions also if they were desired, but he was informed that the deposits were not needed, as those banks have ample funds available. The secretary has also announced that he is prepared to make deposits at any time with any other federal reserve bank where such deposits would prove beneficial.

"Meanwhile the board has adopted the commodity regulation, practically as proposed by the committee, and in order to make sure that producers get the benefit of the preferential rates provided the regulation imposes as a condition of the rediscount of commodity paper as such, and at the preferential rates, that the loan must have been made by the rediscounting bank to the maker of the note at a rate of interest or discount, including commissions, not exceeding 6 per cent per annum.

FAVORABLE RESULT

"The federal reserve banks of Richmond, Atlanta, Dallas and St. Louis, which cover practically all of the cotton producing section, have fixed a rate of 3 per cent for this commodity paper, so that any country member bank desiring to make a loan to a farmer or merchant against warehouse receipts for cotton may, provided it has taken the loan at a 6 per cent rate, indorse it over at once to the federal reserve bank of its district and receive credit, less discount, at the rate of 3 per cent per annum. For example, the National Bank of Cotton Town can discount the note of Farmer Jones having ninety days to run for, let us say, \$500, the note being secured by warehouse receipts for fourteen bales of cotton, deducting interest at the rate of 6 per cent per annum. Farmer Jones would receive from the bank \$492.50, while the bank can at once send the note with trust receipt for collateral, to the federal reserve bank of its district and receive credit for \$496.25. It was believed that the nature of the transaction would appeal to the banker and make it easy for him to reduce his usual interest charge, and it is thought that there are many farmers who will this fall experience for the first time the sensation of getting money as low as 6 per cent.

"The comptroller of the currency has information from sworn reports to his office regarding the maximum and average interest rates charged by national banks throughout the United States. From the report of June 23, 1915, it appears that there are five national banks in Alabama whose maximum rates of interest average 26 per cent, the rate in one case being 60 per cent, and in another 34 per cent. The average rate of interest which one of these banks was charging on all of its loans amounted to 12 per cent; another 10 per cent. In Arkansas one national bank admitted making a loan at a rate as high as 120 per cent, another one at 50 per cent, another at 60 and another at 25.

"In Georgia there were eleven banks where the average maximum rate of interest was about 30 per cent. The maximum rate charged by one of these banks was 40 per cent, and the average on all loans was 15 per cent.

"No bank in South Carolina admitted charging more than 15 per cent.

"In Texas a number of banks reported rates in excess of 100 per cent, and many of them stated that their average rates on all loans were 1 per cent per month or more.

"These high rates, however, are not confined exclusively to the south, for the reports show occasional rates of 50 per cent in the east and north, as well as in the far west and south.

"Twelve per cent seems to be regarded still as not extraordinary by the country bankers of Minnesota, Wyoming, Kentucky and California."

Congressman Mann, republican house leader, in a recent speech, said that the first thing the republican party would do when it got into power would be to enact a protective tariff, after which it would appoint a tariff commission. In other words, Mr. Mann would give the manufacturers what they want first and then try to find out afterwards whether they should have had it. Mr. Mann's program is not one calculated to appeal to the popular imagination.

The democratic administration continues to be fortunate. The most active candidates for the republican nomination—the proof of the candidacy lying in the fact that the gentlemen have started in to woo the west—are Senator Weeks of Massachusetts, Former President Taft and Late Ambassador Herrick.