

partook of a surfeit last year. The gain in prices may have been fantastic and largely on paper, but the loss, coming so swiftly, produces very real distress for hosts of good people, including women and children. We can not cure or palliate destitution by philosophizing or explaining or proving that it comes obedient to the laws of political economy."

Warnings and Remonstrances, Given Time and Again, Pass Unheeded by Board, With Direful Consequences.

FOURTEEN MONTHS have elapsed since my letter to the board of January 28, 1920, with reference to which, in a letter to the governor of the board of February 19, 1921, concerning the unequal distribution of the funds of the system and the large loans which were being extended to certain favored member institutions, I had said:

"I pointed out to you that the New York Reserve Bank was, AT THAT TIME (January, 1920), lending an amount nearly six times its own capital, that is to say, SIX TIMES THE CAPITAL OF THE Reserve Bank of New York to * * ONE member institution, and I showed you that the money which the New York Reserve Bank had loaned to * * one borrower on December 31, 1919, amounted to nearly TWICE AS MUCH as the aggregate amount of loans and discounts which the Federal Reserve Bank of DALLAS was lending at that time to ALL of its member banks in that great district, embracing the entire state of Texas and part of the states of Louisiana, Oklahoma, New Mexico and Arizona.

"It appears that in order to make these huge loans to those institutions the New York Federal Reserve Bank had found it desirable to re-discount or borrow about the time of my letter to you of January 28, 1920, over \$118,000,000 from SEVEN other Federal Reserve Banks, including among others, the Reserve Banks of DALLAS, CHICAGO and ATLANTA, WHOSE RESOURCES AVAILABLE FOR THEIR OWN MEMBER BANKS WERE TO THAT EXTENT LESSENER."

SIX MONTHS have now passed since I took the liberty of giving my warning of October last to the Secretary of the Treasury and to the board, and of urging so earnestly a revision of policies.

FOUR MONTHS have gone since I supplemented that warning in an earnest and elaborate presentation of the situation. The suffering throughout the country had meanwhile become greatly intensified. In that subsequent letter I had advocated reduction of interest rates and increased extension of credit for urgent business needs to the limits consistent with prudence and the equitable distribution of our available resources.

Instances illustrative of the widespread distress in the west and south, and in the east as well, and argument for such a policy of forbearance and consideration for borrowing banks, as would enable them to give like treatment to individuals, was drawn as strong as my ability-permitted. It seemed to me something was wrong somewhere and somehow, when with an actual shrinkage in values of our commodities within a year of twelve to eighteen billion dollars, FOUR OR FIVE favored member banks in New York City were borrowing from the government's reservoir of money and credit as much as FOUR OR FIVE THOUSAND member banks in the west and south were borrowing from five Federal Reserve Banks, embracing in their respective districts twenty-one great states.

"Average" Rates Charged Are Declusive, Some Gorged, Others Starved.

The board, with its knowledge of these huge loans to certain New York city banks, claims there was, "ON AN AVERAGE," no restriction of credit, etc.; but again it must be pointed out that it is a poor consolation to starving families to be assured that taking into consideration food wasted in riotous living and luxury, the "AVERAGE" amount consumed in their community is fair. Of such "AVERAGES" as these we may well exclaim, "What crimes are committed in thy name!" The purpose of the Federal Reserve Act is not to secure satisfactory "AVERAGES"—we already had tolerably good "averages"—but to secure A FAIR DISTRIBUTION AND EQUITABLE ALLOTMENTS TO EACH AND EVERY ONE.

\$500,000,000 From Other Sections, Enticed by Fancy Interest Rates, for Loans in Wall Street.

I was further painfully impressed by the evidence of the official records that at the beginning of August, 1920, in crop moving time, the national banks in New York city were lend-

ing for correspondents on so-called Wall Street" loans for stock speculations and operations, more than \$500,000,000 COAXED FROM BANKS EVERYWHERE IN THE COUNTRY by the high rates speculators would pay. This was more than the Federal Reserve Banks of Minneapolis, St. Louis, Kansas City, Dallas and Atlanta were lending to their 4,000 or more member banks.

This document, my letter of December 28, 1920, to the board, was long, elaborate, carefully prepared. I tried to make the statements of conditions, as I saw them from my inside view, vivid and energetic and the suggestions for improvement clear. The reaction I got, after forty-four days, was that I had written something, not to be acted upon but to be reported on—when the board knew how many persons had seen my letter, and what their names were. The board was to determine, not how to DO something, but, perhaps, how to formulate reasons for NOT doing it. "Whatever was required to be done," says Dickens, "The CIRCUMLOCUTION OFFICE was beforehand with all the public departments in the art of perceiving how NOT to do it."

Board Says Shrinkage in Values "Somewhat Analogous to Puncturing Balloon To Let Out Gas." Comptroller Replies Sensible men Bring Down Balloon by Careful Handling of Valve Ropes and Ballast.

After a preliminary incubation of two weeks, the governor of the board had also written me in a general way on January 13th, some comments on my letter of December 28th, defensive of board policies and the status quo, but without acting upon the recommendations in my letter, and he stated that the views expressed in his letter were also those of other members of the board. He impressed me as being rather more intent on rasping me, if possible, than on acting to meet the unhappy conditions existing, but did remark that the process of deflation was "somewhat analogous" to what takes place "when a balloon is punctured and the gas escapes." Taking this as a text, I urged that sensible men bring down balloons by careful handling of valve ropes and ballast, not by driving a hole in the bag and precipitating collapse and destruction. That had been the gist of my entire complaint and plea. It was impossible so far as my experience went, to fasten the minds of the board on that point. I NEVER HAVE, TO THIS DAY, SECURED A DEFINITE DENIAL OF ANY MATERIAL STATEMENTS I HAVE MADE OR A SOLID REASON FOR OPPOSING ANY OF THE SUGGESTIONS OR RECOMMENDATIONS I VENTURED TO OFFER.

While in the earlier period the board was very helpful in facilitating an orderly decline, its subsequent obtuse refusal to recognize changed conditions, and to revise its policies accordingly though fully warned and urged to do so, has in my opinion, to use the board governor's simile been "somewhat analogous" to puncturing a balloon and producing a ruinous and needless crash, which wise management could have averted. This was no fault of the Federal Reserve Act, but of its administration, for without the Federal Reserve System conditions would be infinitely worse than they are, despite its faulty administration. The most perfect machine which genius can invent, or ingenuity construct, may be ruined by ignorance and mismanagement.

Wise Exercise of Powers by Reserve Board Could Have Made Shrinkage More Uniform and Gradual and Saved Country "From Much of the Distress and Ruin Through which We Have Been Dragged."

All this has been cited to illustrate the need of some action by congress in the interest of farmers, of the laboring men, and the business men of the whole country, to make the vastly important Federal Reserve Board a more elastic, more initiative, sympathetic and responsive body than it is; to put it in more direct contact with the public, and to fix its responsibility. There is no time or need here to consider details of such legislation. Among our 532 members of congress there is brain power enough to devise simple remedies for an obvious situation. I believe firmly that the BOARD BY ITS POWER TO REGULATE AND INCREASE OR REDUCE THE SUPPLIES OF FUNDS AND THE INTEREST CHARGES FOR MONEY COULD HAVE SAVED US FROM A FALL SO PRECIPITATE AND SMASHING, AND FROM MUCH OF THE DISTRESS AND RUIN THROUGH WHICH WE HAVE BEEN DRAGGED. IT COULD HAVE MADE THE SHRINKAGE OF VALUES MORE GRADUAL AND UNIFORM INSTEAD OF VIOLENT AND SPORADIC. COULD HAVE HELPED STRONGLY TO KEEP THE CIRCULATING

CURRENTS OF COMMERCE AT MORE EVEN FLOW, SO THAT THE LOSSES OF EACH PRODUCER MIGHT BE OFFSET BY REASONABLE REDUCTION IN THE COST OF WHAT HE MUST CONSUME.

Lord Leverhulme Declares "Too Rapid Deflation" Has Brought Stagnation and Unemployment.

These views and apprehensions, which I expressed in urging the board, during the past six months, to constructive action and to a revision of its policy of contraction before it was too late, were shared by able and clear-thinking men far and wide. The fatal consequences of its folly or inertia, or both, have been far-reaching. Lord Leverhulme, one of the largest and most successful manufacturers in the British Empire, a man of broad vision whose interests are worldwide, recently declared in an interview, as reported in our newspapers, that: "THE PROCESS OF TOO RAPID DEFLATION IS UNDOUBTEDLY THE CAUSE OF THE PRESENT UNEMPLOYMENT AND TRADE STAGNATION."

Continuing the interviewer said: "The prices of commodities rose to the extreme limit during the war, and their reduction was a prime necessity, but the fall has been too sudden for adjustment. The deflation has been accomplished through the banks calling in loans which were used to finance stocks at high prices, and the effect of the forced realization of these stocks has been to drive down prices of commodities below the cost of production.

"Under these circumstances, manufacturers are not likely to go on producing at a loss, and have consequently been compelled to shut down their factories."

Our country being now the principal creditor nation of the world, its financial policies, as is clearly recognized, have a world-wide effect.

Need For Wise Counsel, Experience, Knowledge of Business, Courage and Sympathy with Public Needs.

We learn by experience, and should provide that the Federal Reserve Board of the future shall have less of the characteristics of the automatic bureau and more of the activities and spirit of the wide-awake business man. I believe it desirable from the standpoint of the public, and of the commercial interests of the country that the membership of the board should include at least one man of wide business experience, outside of banking. The six members at the time of my resignation included, in addition to the Comptroller of the Currency, two college professors, two bankers, a lawyer and a newspaper man from Poughkeepsie. A Chicago business man of signal ability and exemplary character whose counsel would have been of great value, especially in our recent experiences, was refused by the Senate when nominated by the President several years ago.

Enlightened Statesmanship Shown by Bank of France in Lessening Violence of Crisis.

The enlightened statesmanship with which the management of the great Bank of France met this world crisis and tempered its strain and shock for its people may be judged by a statement made by the governor of the Bank of France in his recently published annual report. In referring to the existing financial and commercial crisis, he said:

"We have welcomed, whether by means of rediscount or by direct discount; all paper whose creation responded to the legitimate needs of commerce and production. By this liberal policy, to which we have remained and always will remain faithful, we expect to support with all power the activities of widely varying business enterprises which in France are needed to lessen the violence of the crisis."

In striking contrast was the plan discussed by an "important official" of the Federal Reserve bank of New York, with a heartlessness which even amazed Wall Street, and of which I shall speak again presently, which called for "PUTTING ON STILL MORE PRESSURE. THUS CLEANING UP THE AFTER-WAR MESS IN A HURRY AND GETTING IT OVER," though it should involve "many forced failures"; but the "important official" referred to complacently concluded that it seemed best to stick to the present set course without increasing or reducing pressure, "despite the criticism" which it was admitted was "heard FROM ALL QUARTERS FOR LOWER INTEREST RATES AND WITHDRAWAL OF PRESSURE TO FORCE PAYMENT OF OUTSTANDING LOANS."

As is natural and proper, I offer my suggestions of what congress should do chiefly within

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