

## Ruinous Effect of "Deflation" Policies

Richmond, Virginia, March 2nd, 1922.

Editor The Commoner:

Dear Sir: I take the liberty of handing you with this a Chart prepared to show the relation of the great collapse in the prices of products and commodities of all kinds which has occurred since May, 1920, to the enforcement of the "deflation" policies of the Federal Reserve Board in the same period.

It is believed that the facts and figures presented in this Chart are of vital interest to every bank, banker and business man in our country.

The tables show clearly that the ruinous and unprecedented collapse in values took place BETWEEN THE MONTHS OF MAY, 1920, AND AUGUST, 1921, and that it was in precisely that period that the twelve Federal Reserve Banks in carrying out the Board's "deflation" policies CONTRACTED their outstanding credits from \$2,928,031,000 in May, 1920, to \$1,527,255,000 in August, 1921, the actual shrinkage in that time being \$1,410,776,000.

The following figures are condensed from the complete tables shown on the Chart, and give the average prices of sixteen leading commodities for May, 1920, and August, 1921, and the shrinkage brought about in each.

	Average Prices	Percentage of Shrinkage	
	May, 1920	Aug. 1921	
Corn	1.98	.55	72%
Cotton	.403	.129	67%
Sugar	.224	.058	74%
Wheat	2.97	1.23	58%
Cattle	12.60	8.77	30%
Hides	.35	.14	60%
Hogs	14.75	10.39	30%
Wool	1.16	.49	57%
Cotton Yarns	.76	.25	67%
Leather	.57	.34	40%
Steel	60.00	29.60	51%
Copper	.19	.117	39%
Lead	.085	.044	49%
Pig Iron	43.75	18.20	58%
Yellow Pine fl'g.	160.00	92.00	42%
Petroleum	6.10	2.25	63%

From August 31, 1921, to January 25, 1922, there was a further actual contraction of \$594,373,000 in the amount of credits extended by the Federal Reserve System, and during those five months there was also a further decline in prices of many products; although in some instances, responding to a partial relaxation, in certain sections, of the Board's "deflation" policies, other products began to react and improve in value.

I believe it has become clear to all who know the facts that the fault was NOT with our Federal Reserve System itself, but with the administration of that System by men who have so plainly demonstrated their unfitness for the great responsibilities committed to them.

In an address before the Board of Commerce and Georgia Press Association, at Augusta, Ga., July 14th, 1921, I said:

"The Federal Reserve Act is the finest tool for commercial protection and construction ever put in the hands of a government and people. I believe that by awkward and inefficient handling it has been used to injure where it was intended to guard and to encourage and protect what it should have restrained and prevented. \* \* \* I expressed my views as strongly and clearly as I could put them into words, both orally and in writing during the past eighteen months or more, and I believe that if my remonstrances had been heeded and my admonitions given the consideration to which I considered them entitled, coming from a member of the Reserve Board, untold loss and suffering might have been avoided." \* \* \*

The annihilation of values which has followed the enforcement of the Federal Reserve Board's deflation policies is estimated at tens of billions of dollars, or far in excess of the total cost, in money, to this country of the great war.

The unsympathetic—not to say the heartless—attitude of a majority of the members of the Reserve Board towards the crushing losses, devastation and ruin which came with the carrying out of its unwise policies is suggested in the Reserve Board's letter of January 13, 1921, replying to my remonstrances against the course which was being pursued. In that letter they said:

"We hold that the shrinkage which has taken place is somewhat analogous to that which

takes place when a balloon is punctured and the gas escapes."

In reply to that observation, I said:

"Instead of driving a hole in the bag and crashing to earth in wreck and ruin, we should handle the valve rope and ballast with anxious and ever alert care and effect a landing on good and solid ground."

On July 31, 1920, when prices had begun to tumble and the Federal Reserve authorities were increasing the pressure in various directions, I gave to the press, as Comptroller of the Currency, a statement in which, in trying to alleviate the growing anxiety in business and financial circles, I directed attention to the fact that the Federal Reserve System had then an UNUSED LENDING POWER of 750 million dollars, or seven times as much as all the national banks of the country had ever borrowed at any one time prior to 1913. If it had been desirable to provide a still greater fund this amount could have been increased to two and a half billion dollars by reducing, temporarily, by 10 per cent, the reserve required on deposits and notes. After my publication of that statement both the Reserve Board at Washington and the Chairman of the New York Reserve Bank in written communications expostulated against my reassuring statements on the ground that they interfered with their well-laid schemes and policies, which we now see have proved so fatal. Their letters are matters of record.

I ask attention to the following statements contained in an able and powerful speech recently delivered in the United States, by Senator Heflin, of Alabama, on the "Deflation Policies of the Federal Reserve Board," and published in the Congressional Record of February 28, 1922:

"I defend the system. Mr. President, I think it is the greatest banking system ever devised by the genius of man, and I do not intend that anybody shall pervert and twist and confuse my indorsement of the system with my criticism and condemnation of the policy of the Federal Reserve Board. The great ocean steamer that has many times carried American passengers back and forth across the sea is not to be condemned because an incompetent or criminal pilot steers it upon the rocks. I am not condemning the Federal Reserve Banking System. I am condemning those who abused and violated the trust reposed in them and used that system to hurt rather than help American business in the time of great distress." \* \* \*

"Under the deflation policy of 1920 I saw that power employed, not to uphold and sustain legitimate business, but to strike it down and destroy it. I saw it hoarding the nation's money supply and withholding credits from business when the government's Comptroller of the Currency, John Skelton Williams, declared that the Federal Reserve Board could issue and put into circulation \$2,000,000,000 of currency and prevent distress among millions of people." \* \*

The developments of the past year or so furnish an overwhelming vindication of my position throughout; are a justification of my warnings, and a fulfillment of all my predictions in connection with this vitally important subject.

I will be obliged if you will acknowledge the receipt of the Chart which is enclosed.

Yours very truly,  
JOHN SKELTON WILLIAMS.

### APPRECIATES THE COMMONER

E. B. Stebbins, Mich.—Enclosed find check for \$2.00, for which extend my subscription two years. I have been a subscriber to your valuable paper since the first issue, and have read every issue since that time. I desire to express my appreciation of the great good Mr. Bryan is doing throughout the world. His great prophetic vision has placed him in the ranks of the reformer, and like other reformers, he had to endure criticism. So many of his reforms have been adopted, all must admit that he ranks high in statesmanship. Mr. Bryan's championship of the gospel of Jesus Christ is touching the hearts of the people and leading them to a higher civilization. No one is doing more to advance the cause of Christianity. Mr. Bryan's efforts for world peace are bearing fruit. His attack upon the evil of war and its crushing tax burdens will be victorious. The people are listening to his council as never before.

### CONVENTION TO HEAR MR. BRYAN

A Columbus, O., dispatch, dated April 26, says: Reissuance of an invitation to William Jennings Bryan to speak at the international Sunday school convention at Kansas City next June was decided upon here today at a meeting of the convention program committee. Withdrawal recently of an invitation brought numerous protests and today's action was the result.

## Facts About Prohibition

By Charles Scanlon

The propaganda of the liquor to create the impression that prohibition is a failure has influenced a few good people to ask if prohibition is really successful. Let us meet this issue squarely.

One of the most frequent arguments to prove that prohibition is a failure is the statement that more liquor is consumed and that it is easier to procure than before we had prohibition. If that be true, why should the liquor people not be satisfied, and why should they continually urge the repeal or modification of the present law? If they can secure all the liquor they desire, what becomes of the arguments they made against prohibition before its enactment, or why do they insist now that it robs the people of their rights?

Who believes that it is easier to secure liquor now than before, and who believes that the little stills hidden in stumps or stoves or cellars or in little gulleys in the mountains produce more than the smallest fraction of the amount formerly produced by the 600 or more distilleries in the United States, or that the improvised means of making home brew equals the millions of barrels of beer turned out by the 1,300 breweries, or that the liquor smuggled over the border from Canada and Mexico constitute more than a modicum of that transported by the trainload in refrigerator cars owned and labeled by the great breweries of the country?

Because our newspapers are so largely filled with accounts of crime, are we to conclude that the majority of the people are criminals? The outlaws get notice because their acts are exceptional. The millions of law abiding people who sleep and rise and work get no mention, because their lives are honorable and normal. It is the abnormal and the criminal which attract attention. So it is with the millions of people who never violate the Eighteenth Amendment. It is the few who break this law whose names appear in the public press, and the liquor people encourage the publication of these acts of lawlessness to create the impression that "everybody is doing it," and that there is little or no sentiment in favor of prohibition, whereas the very contrary is true.

What constitutes failure? No plan or work or institution of man is perfect. His endeavors are relative and not absolute in their approximation of the ideal. What law is 100 per cent obeyed? Because a doctor does not save the lives of 100 per cent of his patients, or the lawyer does not win 100 per cent of his cases, or the teacher does not succeed with 100 per cent of her pupils, or because ministers do not win 100 per cent of their congregations, are they failures? Because marriage, one of the most holy and sacred of our institutions, is broken more than 100,000 times a year in this country by divorce, is marriage a failure? Because murder, the most heinous of crimes, is committed thousands of times each year, is the law against this offense a failure? Because more than 500,000 people annually break some law and are committed to our penal and correctional institutions, is all law a failure? Because so many people are killed in automobile accidents, train wrecks or the fall of a ship, are these inventions failures? Because goods are smuggled into this country on shipboard and over the Canadian and Mexican borders, are our tariff laws a failure? Because money is counterfeited is the law against counterfeiting to be repealed? There are hundreds of thousands of automobiles stolen every year but who advocates the repeal of the law against their offense? Because no form of government is satisfactory to, or respected by all people, does that prove that all government is a failure and should be abolished?

If there were no law, of course there could be no law violation. The argument made against prohibition is that because it is sometimes violated it ought to be repealed. Why not follow the logic we use with reference to other crimes and vindicate the law by punishing those who break it.

Let us consider a few facts. It cost about \$6,250,000 to enforce the prohibition law in 1921. The taxes, fines, confiscations and other penalties imposed upon those who endeavored to violate the law amounted to more than \$63,000,000. All of this amount was not collected but was assessed and what could not be collected was held as a deterrent over the heads of.

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