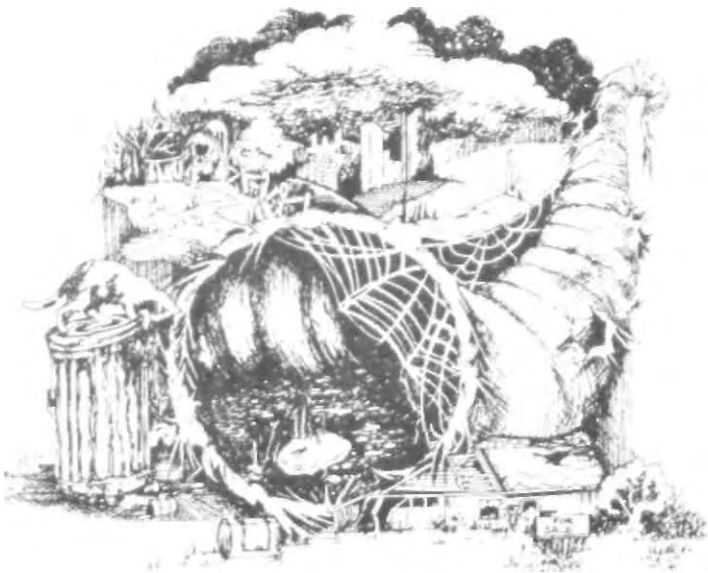


# "BANKONOMICS"

IN ONE

EASY LESSON



A Monetary Science Publication

# BANKERS OWN THE WORLD...

as explained by Sir Josiah Stamp, President of the Bank of England and the second richest man in the British Empire, in an informal talk to 150 University of Texas history, economics and social science professors, in the 1920's:

"Banking was conceived in iniquity and born in sin... Bankers own the world. Take it away from them, but leave them the power to create (bank) money... and with a flick of the pen, they will create enough (bank) money to buy it back again... Take this power away from bankers, and all great fortunes like mine will disappear, and they ought to disappear, because this would then be a better and a happier world to live in. ... But if you want to continue to be the slaves of bankers, and pay the cost of your own slavery, let them continue to create (and control your) money." (100:13)

## IN A NUTSHELL:

This book contains documented information — how the leading commercial bankers in the position of class "A" directors of the Federal Reserve banks — use the cultivated prestige of the federal reserve banks and the board of governors Office — as their whip of authority — to enforce compliance of the commercial banking industry to either inflate or deflate periodically the National Economy or to selectively nurture or destroy certain investors, business, industry, agriculture etc.

# "BANKONOMICS"

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EASY LESSON

EXPLAINED BY

THE CLASS "A" DIRECTORS

OF THE FEDERAL RESERVE BANKS

Peter Cook

1983

## BANKONOMICS DEFINED

"BANKONOMICS" is an economic system in which the "commercial" banking industry (which includes the federal reserve banks — which reserve banks' monetary policies are directly governed — not by the Board of Governors — but by the class "A" directors consisting of 36 top commercial banks' officialdom) directly and without any effective Government control, manufactures the checkbook (M-1) Money (via eclectically monetizing the borrowers' and investors' pledged collateral assets) for the National economy — and are in the position to, without warning, withdraw "their" checkbook (M-1) Money out of the commercial arena, by raising (without any public control) the primary interest rates and calling and cancelling loans — thus deflating the M-1 money supply and elusively spawning unemployment and forced liquidation of assets, business and industry — as you will discover in reading the Inside Story and the secret minutes of the so-called Federal Reserve Board Conference.

Such economy, commerce and Government "FRUSTRATING FORCES" were long suspected — but never clearly identified and defined as "BANKONOMICS".

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## THE BANKERS' MANIFESTO . . .

circulated only amongst the leading bankers in 1933; published in the January Civil Servants' Year Book "The Organizer", and in the "New American" of Feb. 1934.

"Capital (bankers) must protect itself (themselves) in every way, through combination (organization) and through legislation. Debts must be collected and loans and mortgages foreclosed as soon as possible. When through a process of law the common people have lost their homes, they will be more tractable (docile) and more easily governed by the strong arm of the law, applied by the central power of wealth, under control of leading financiers. People without homes will not quarrel with their leaders. This is well known among our principal men now engaged in forming an imperialism of capital (bankers) to govern the world. By dividing the people (into democrats, republicans, conservatives, liberals, socialists etc.) we can get them to expend their energies in fighting over questions of no importance to us except as teachers of the common herd. Thus by discreet action we can secure for ourselves what has been generally planned and (much) successfully accomplished". (30:67; 233:49)

# ANALYTICAL PREFACE

William Paterson founder of the Bank of England in 1694, and Sir Edward Holden founder of the Midland Bank in 1907, have both stated that: "The Bank hath benefit of interest on all moneys which it creates out of nothing."

The above quoted statement of the two great bankers is true, concise and profound. The above one sentence statement clearly states what the bottom line thrust of the Central and Commercial banking business is.

And, because of the bankonomics-indoctrinated fallacies about money and banking — the statement of the two bankers virtually completely escapes intellectual comprehension to the general public and the erudite academics alike.

The profound statement of the two bankers is not "correctly" understood, mainly, because — the banking, financial and academic media persists on using the terms 'credit, bank credit, extend credit etc.' in referring to the bank-created "Bank Money" — which speciously ambiguous terms throw the uninitiated, the unsuspecting and straight thinking mind of the general public into un-recognized confusion and erroneous understanding of the word "credit" and the variations of it.

To the general public the word credit generally means or implies: trust, credence, faith, confidence, reliance etc. — but to the "banks officialdom" the word credit means or refers to the "Bank Money" created by the bankers simply by the stroke of the banker's pen... to the credit of the bank clients' checking accounts — as the bank's paying,

lending and investing "Money" media. (14:102, 103; 71:17; 262:3)

Both bankers in their statements pointed out that: the bank specifically had benefit of/from "interest" on all the money the bank creates. The two bankers made no mention that they had any benefit from the "money" the bank created.

The reason the two renowned bankers made no mention of any benefit from the bank-created money is, — because, and for a concise explanation: if the bankers did loan their created Bank (checkbook) Money at no interest — the aggregate "loaned principal" amount in the economic arena would statistically always be 100% adequate to statistically discharge the aggregate "loan principal debt" to the banks — and therefore no artificial defaults and bankruptcies would be generated... and without the bank-money (bank-credit) borrowers' and investors' defaults — the commercial banking business would be reduced to an innocuous "non-intrinsic value assets exacting" bookkeeping and accounting business.

However, in the bankonomics-governed economy — as we have in the United States (and countries throughout the world) the commercial and central banks DO CHARGE INTEREST on their own created and loaned Bank (checkbook) Money.

And, since in the bankonomics-managed economy there is no supplemental non-interest bearing Bank Money entering the economic arena — the interest payments to banks must therefore come out of the entrepreneurs' aggregate borrowed (M-1) principal. And, since the interest payments to banks are thus relentlessly consuming the extant (M-1) principal of the economic arena entrepreneurs — the loan

(M-1) principal amount in the economic arena is always short by the interest-payments-consumed amounts.

The thus generated unrelenting shortage of the aggregate bank (M-1) Money Supply in the economic arena — mathematically emerges as the recondite force of the commercial banking industry — to entrap and systematically drive the un-suspecting elements of the productive society into defaults, liquidation and bankruptcies, and thus speciously and very legal-like bag the collateral assets of the productive society as the banks' ultimate intrinsic value assets earning or profits.

Once we intellectually recognize and understand bankonomics, that is, the bottom line thrust of the central (Federal Reserve) and commercial banking business — we can then clearly perceive why the banking industry needs periodic or cyclical "deflation and liquidation" — and also in later reading, the reader will understand the significance of Governor Harding's statement when he said: "we can restrict credit and expand production"... which statement is not as ridiculous to the bankers as it may appear to the non-bankers.

What kind of "production expanding" was Governor Harding really speaking of — when virtually in the same breath he was saying: ... "there is undoubtedly, however, a spirit of extravagance in this country which must be curbed." Undoubtedly He could not have been speaking of expanding production of consumer goods — fore, that would further add to the spirit of extravagance.

It therefore appears that Governor Harding was not suggesting the "expanding of consumer goods pro-

duction" — but was proposing "expanding the production of intrinsic value assets earnings" for the bankers through liquidation of the financially-squeezed bank clients' collateral assets.

Governor Harding re-enforces the above line of reasoning when he continues: ... "I refer to the lack of liquidation which we have experienced during the early months of the present year. "Commercial loans have expanded steadily... at a time when we ought to have liquidation, ... we have figures to show that the extravagant spirit has not yet been checked. "Liquidation of this kind is entirely natural and is necessary in order that the banks may strengthen their (intrinsic value assets earnings) resources...

At this point it is important to become aware of, that Governor Harding as a member of the Board of Governors — which is a United States Government Agency — supposedly representing the United States Government and the public — could not have been speaking for the U. S. Government point of interest — fore, the whole rhetoric of Governor Harding's speech is totally counter to the interest of the U. S. Government and the general U. S. public and commerce.

There is little doubt that Governor Harding was speaking for the bankers — fore, he himself reveals that: "We (the board of governors) have been very judiciously advised from time to time by the Federal Advisory Council (representing the federal reserve banks)... "but the present situation is such that we (the board of governors and the advisory council) felt it would be helpful if we could have with us not only the (12) members of the Advisory Council but also the (36) class "A" directors

of the federal reserve banks." (Reminder: Only 5 members of the Board of Governors which included Governor Harding were present at the May 18th, 1920 secret financial strategy meeting of the federal reserve banks' class "A" directors.)

Governor Harding really never implied or said that he was speaking for the U. S. Government interest — but did say that he was speaking on the "judicious advice" of the Federal Advisory Council representing the federal reserve banks — which advice apparently inspired Governor Harding to speak far beyond his (Board of Governors') authority with confidence — knowing that the class "A" directors of the federal reserve banks, through their (12) federal reserve bank Presidents — do have the power and banking facilities to pull off a general economic deflation and liquidation — which is something the Board of Governors could never command or do on their own — fore, they neither had nor have any direct monetary function nor any direct monetary policy powers, nor any banking facilities to pull off such dastardly economic crimes. (21:2, 3; 250:)

Nevertheless, Governor Harding was very honest when he said: "Liquidation of this kind (recommended by the May 18th, 1920 financial strategy meeting) is entirely natural" — natural in the sense that the liquidation of the bank Credit (bank Money) borrowers' pledged collateral assets — driven into default through bank Credit (bank Money) restrictions — is the traditional recondite, or we might say, cabal route to intrinsic value assets earnings for the commercial banking industry.

The perceptive will quickly recognize — that, if a bank can create the money it needs to spend, lend

and invest — it most certainly doesn't need to make a profit in interest earnings in the same type of money "it" itself can create or has created.

Nevertheless, the commercial banks collected interest (correctly identified as usury) from the bank Credit (bank Money) borrowers performs a very important function for the commercial banking industry.

The interest payments to commercial banks subtly and relentlessly consume a percentage of the economic arena entrepreneurs' aggregate-raised (M-1) Money Supply principal — thus rendering the aggregate extant (M-1) principal in the economic arena to always be short to statistically discharge the entrepreneurs' aggregate debt to the banks — and thus systematically driving a certain percentage of the entrepreneurs into default — and through the managed defaults into bank-liquidation — and through liquidation gravitate the entrepreneurs' pledged collateral assets into the possession of the banking industry, under the guise of settling the entrepreneurs' debts to the banks.

But read on, first: THE INSIDE STORY as revealed by a stenographic report obtained by the Manufacturers Record and published in the Manufacturers Record February 22, 1923; and printed in the CONGRESSIONAL RECORD — SENATE of February 28, 1923.

And, without fail read the secret minutes of the May 18th, 1920 federal reserve banks class "A" directors meeting — erroneously titled: FEDERAL RESERVE BOARD CONFERENCE — which minutes are reprinted in full as reported in the Senate Document #310 of February 24th, 1923.

By studious and comprehensive reading what is published in the Manufacturers Record and in the published secret minutes of the May 18th, 1920 meeting of the federal reserve banks' class "A" directors — the reader will get: "BANKONOMICS" In One Easy Lesson — explained by the class "A" directors of the federal reserve banks.

Peter Cook, M. Sc.



To make the Manufacturers Record INSIDE STORY better understood by the readers — the bankers' term "Credit" whenever it means or refers to Money — the word "Credit" will be accompanied, in parenthesis, with the letters B. M. or B.C.M., which letters are an abbreviation for Bank Money or Bank Checkbook Money.

The word "Credit" in the banking vocabulary is speciously deceptive to the non-bankers. The word "Credit" in the banking vocabulary means or refers to Bank Money specifically to Bank Checkbook Money — which Bank Checkbook Money the commercial banks manufacture by monetizing the borrowers' pledged collateral assets.

## BANK MONEY EXPLAINED

It is the tragedy of the ages — that money which is so universally used, is still so little understood.

The money used in the United States (and throughout the world) is "Bank Money" — but never so identified. Bank Money, which is the major component of the M-1 money supply, is always paraded as Government Money and thus protected by laws designed to protect the integrity of the Government or Treasury Money.

In the academic, banking and financial vocabulary and press — "Bank Money" is always referred to as "Credit" or "Bank Credit" — which terms speciously imply that the "commercial" banks lend or re-lend the savings depositors' money, based upon the good character attributes or credit of the borrowers — which implication is not true.

If the "commercial" banks did lend or re-lend only the savings depositors' money as the banks religiously publicize — their would be no growth in the Nation's M-1 money supply.

Bank Money, generally referred to as Credit or Bank Credit is checkbook money, manufactured exclusively by the commercial banking industry — in the process of monetizing the borrowers' and investors' collateral assets — and by simple book-keeping, crediting the monetized assets amounts, to the checking accounts of the borrowers and investors. The borrowers thus become indebted to the banks and lawfully obligated to pay a high interest on the "Bank Money" derived from their own monetized assets.

## THE INSIDE STORY. ..

An Amazing Revelation of a Secret Financial Meeting — on May 18th, 1920. Federal Reserve Meeting in Washington Discussed Deflation. Restriction of Credit. Breaking Down of Prices, and Higher Freight Rates. But Governor Harding Warned Those Present not to Divulge the Discussions of the Day — The Inside Story Revealed by a Stenographic Report Obtained by the Manufacturers Record.

"After one of the most fateful meetings in the financial history of the world, a meeting which no other organization, including the Interstate Commerce Commission or the Supreme Court of the United States, would ever have dared to hold in secret and withhold its conclusions from the public. Governor Harding of the Federal Reserve Board, in closing that meeting of the Federal Reserve Board, the Federal Advisory Council, and the class "A" directors of the Federal reserve banks said: 'I would suggest, gentleman, that you be careful not to give out anything about any discussion of discount rates. That is one thing there ought not to be any previous discussion about, because it disturbs everybody, and if people think rates are going to be advanced there will be an immediate rush to get into the banks before the rates are put up, and the policy of the reserve board is that that is one thing

we never discuss with a newspaper man. If he comes in and wants to know if the board has considered any rates or is likely to do anything about rates, some remark is made about the weather or something else and we tell him we can not discuss rates at all. And I think we are all agreed it would be very ill advised to give out any impression that any general overhauling of rates was discussed at this conference. We have discussed the general credit situation and your committee, which has been appointed with plenary powers, will prepare a statement which will be given to the press to-morrow morning and we will all see what it is. You can go back to your banks and of course tell your fellow directors as frankly as you choose what has happened here to-day, but caution them to avoid any premature discussion of rates as such. We have had an exceedingly interesting day, gentleman. The suggestions which have been made have been valuable and we have profited by your views. I wish to express on behalf of the board our appreciation of your coming here and to thank you for the unselfish and loyal interest you have taken in the Federal bank situation throughout the country in giving this matter the careful thought and consideration that you have. And I am sure that the spirit which has manifested itself at this meeting here to-day will spread throughout all the country, to the member and nonmember banks, and if it does we can look the future in the face with courage and confidence.'

These closing words of a fateful conference, it can be conservatively said, are the most damning indictment of the management of the Federal reserve system which could be penned by the worst enemies of that organization. The Manufacturers Record has shown since shortly after that meeting

was held some of its decisions, but it has never until within the last few days been able to get hold of a stenographic copy of the minutes. But with this stenographic report we are now able to give to our readers some details regarding that meeting which strengthened and confirmed the work of deflation which had already been inaugurated. After a long conference and full discussion, covering 37 pages of foolscap, closely typewritten, the statement that Governor Harding closed the meeting with was emphatic warning to those in attendance that the deliberations of that meeting should be held as strictly confidential except to fellow directors and that the public should not be allowed to know what had taken place and the newspapers should know only so much of the meeting as the carefully prepared statement would present.

As far back as July 3rd, 1919, the Manufacturers Record warned the Federal Reserve Board against some of the actions that were then being taken, and said: 'Not for a moment would we suggest that the members of the Federal Reserve Board were in any way financially interested in the stock market, but we can readily understand the limitless power of stock speculation and the manipulation of the stock market which would be available to anyone who knew a few hours in advance of such proposed action by the Reserve Board. It is entirely within the power of that board to break the stock or the cotton market or to bring about a big boom movement in cotton or stocks. The power is too great to rest in the hands of any seven men, even if they were angelic in character, for they might be succeeded by those who were not so angelic.'

(Please note: In the above paragraph the Manufacturers Record imputes the power to make or break

the stock market and the booms and busts to the Board of Governors — which is not a fact. Governor Harding before a Congressional Hearing in 1922 himself stated: ... "the powers of the Board of Governors have been grossly exaggerated. " (121:48) Only the commercial banks and their executive officialdom which includes the class "A" directors of the federal reserve banks — command facilities that can make or break the stock markets and manage the Nation's booms and busts. It must be recognized or remembered that the commercial banks had been creating and managing financial and economic booms and busts much before the Federal Reserve System was a dream.)

That editorial emphasized the control which big financial interests had held over the stock market to break it when it suited their convenience to buy in stock or to boom it when it suited their convenience to unload stocks, and we added: "It was hoped that the organization of the Federal Reserve Board would make this impossible; but the recent action of the board resulted in a very rapid break in the stock market, and it is within the power of the board to bring about a rapid advance whenever there is a change of policy and prevent the calling of loans or sharp advance in money."

In that editorial we quoted from the Boston News Bureau a very sharp arraignment of some of the methods of the Federal Reserve Board and closed with the statement from the news bureau:

"Before the Federal reserve system a money squeeze was one of the tricks of the trade to frighten the public out of their stocks. Are the administrators of the Federal reserve system going to countenance the same old game by allowing the

people who have the control of money to play with values on a discount basis, arresting advancement and prosperity?

When two years ago the Manufacturers Record urged that every important meeting of the Federal Reserve Board should be held in the open, with the right of the public to know what was taking place, so that no secret acts should be passed giving to the insiders limitless possibilities for money-making, we knew that we had thrown a bombshell into the camp of secrecy, but we did not at that time know that Governor Harding had so specifically and emphatically urged that that conference should regard its whole discussion as secret and to be withheld from the newspapers and from the public at large.

The human mind is somewhat staggered as it tries to outline the limitless possibilities for money-making on the part of every man who, having this secret information, knew exactly what would happen in the business world long in advance of what the general business public could even suspect, even if no man ever used this information to his own individual profit.

This conference, the closing statement of which we have quoted, was held on May 18th, 1920. Those in attendance were as follows:

Hon. Adolph C. Miller,  
member of the Federal Reserve Board.

Hon. Henry A. Mohlenpah,  
member of the Federal Reserve Board.

Hon. John Skelton Williams, Comptroller of the Currency and member ex officio of the Federal Reserve Board.

Hon. David F. Houston, Secretary of the Treasury

and member ex officio of the Federal Reserve Board.

George L. Harrison, "counsel" Federal Reserve Board.

Members of the Federal Advisory Council:

Philip Stockton, Federal Reserve district No. 1.

A. B. Hepburn, Federal Reserve district No. 2.

L. L. Rue, Federal Reserve district No. 3.

W. S. Rowe, Federal Reserve district No. 4.

J. G. Brown, Federal Reserve district No. 5.

Oscar Wells, Federal Reserve district No. 6

James B. Forgan, Federal Reserve district No. 7.

F. O. Watts, Federal Reserve district No. 8.

E. F. Swinney, Federal Reserve district No. 10.

R. L. Ball, Federal Reserve district No. 11.

A. L. Mills, Federal Reserve district No. 12.

Present also:

J.H. Puelicher, Marshall & Ilsley Bank  
of Milwaukee, Wisconsin

John Perrin, chairman of the board and Federal  
reserve agent of Federal Reserve Bank of San Fran-  
cisco.

Hon. Edmund Piatt, chairman of the Banking and  
Currency Committee, House of Representatives.

The class "A" directors  
of the Federal Reserve Banks:

BOSTON:

Thomas Beal, Edward S. Kennard,  
and Frederick S. Chamberlain.

NEW YORK:

James A. Alexander, R. H. Treman,  
Charles Smith and J.H. Sisson.

PHILADELPHIA:

Joseph Wayne, Jr., M.J. Murphy  
and Francis Douglas.

CLEVELAND:

O.N. Sams, Robert Wardrop,  
and Chess Lamberton.

RICHMOND:

John F. Bruton, Charles E. Rieman,  
and Edwin Mann.

ATLANTA:

J. K. Ottley, Oscar Newton,  
P. R. Kittles and W. H. Kettig.

CHICAGO:

George M. Reynolds, Charles H. McNider  
and E. L. Johnson.

ST. LOUIS:

J. C. Utterback and Sam A. Ziegler.

MINNEAPOLIS:

Wesley C. McDowell and E.W. Decker.

KANSAS CITY:

J.C. Mitchell, C.E. Burham and W.J. Bailey.

DALLAS:

John T. Scott, E.K. Smith and B.A. McKinney.

SAN FRANCISCO:

C.K. McIntosh, J.E. Fishburn  
and M.A. Buchan.

BOOM OF COUNTRY'S BUSINESS INTERESTS  
SOUNDED AT CONFERENCE  
COMPOSED EXCLUSIVELY OF BANKERS

It will be noted that those in attendance were pre-eminently bankers and that business men as such were not there, though the business men and not the bankers are the ones who create the business of the country, whether in agriculture, manufacture, or other lines of industry. Their doom was being settled in a conference composed exclusively of bankers.

In opening the proceedings Governor Harding refer-

ring to those in attendance, said: "The class "A" directors are the banker members of the boards of directors of the Federal reserve banks. They are not only directors, and as a rule very influential directors of Federal reserve banks but they are officials of member banks and thus they see both sides of the picture. So it seems to be peculiarly appropriate at a time when there is a banking situation to discuss to have bankers here to discuss it."

It is true that it might have been important to have bankers there to discuss the subjects up for consideration that day, but is it not also true that the manufacturers, the merchants, the farmers, and all others representing the producing and transportation interests of the country were just as vitally interested in a conference of this kind as those who were exclusively engaged in banking? In a rather lengthy opening speech Governor Harding said:

"Every effort should be made to stimulate necessary production, especially of food products and to avoid waste."

And having encouraged the farmers to the utmost extent during the spring of 1920 to carry forward their farming operations despite the high wages that were being paid labor, drastic deflation was put into effect, breaking down the prices of farm products to an extent that literally bankrupted hundreds of thousand of farmers.

"We can said Governor Harding, restrict credit and expand production, letting the expansion of production proceed at a greater rate than the restriction of credit, and we are then working along in the right direction. "

No human being has yet found a way to restrict the credit facilities essential for increasing production and at the same time bring about increased production. That statement is so rankly absurd on its face that it is an amazing thing that any man professing to be either a banker or a political economist could presume to suggest that restriction of credit and expansion of production could go hand in hand.

It is in striking contrast with the statement quoted from Hon. Reginald McKenna, formerly Chancellor of the Exchequer of Great Britain and one of the world's great banking authorities given elsewhere in this issue, in which Mr. McKenna said: "The continuance of a high rate or the adoption of any other method for the purpose of forcing down prices is bound to strangle trade and reduce output. We must not interfere with the natural flow of trade by any restriction of existing producing power but must seek a general increase of wealth through a more abundant output."

And as that day's meeting was devoted to a discussion of how to increase interest rates in order to lessen the volume of business, it is interesting to quote from a statement made by Comptroller Crisinger, recently nominated as governor of the Federal Reserve Board, in which he said: "Falling prices and high interest rates are never twin sisters of prosperity. I can not too emphatically say that I do not believe deflation in currency and credits can go hand in hand with a regime of high interest rates without imposing great and dangerous hardships upon the people."

"It is very clear, said Governor Harding, that if we find it impossible under the present circumstances to increase the volume of production of the

most essential articles, the only thing for us to do is to reduce consumption of those articles."

In other words, here was a definite plan to break down business and lessen consumption at a time when the American people and the world at large were buying freely of everything that could be produced.

This plan of forcing down prices and breaking down business had been secretly inaugurated long before the meeting whose records we now have before us and from which we have been quoting, for on February 12th, 1920, the Manufacturers Record published and extract from a letter from one of the foremost bankers of the country, in the course of which criticising this paper because we had denounced the efforts of banks through the pressure of the Federal reserve system to call all loans on Government bonds, he said:

"You can further see that if by any pressure these bonds can be turned out of the Federal reserve banks and passed over to the strong boxes of great institutions — savings banks, life-insurance companies, large estates, benevolent and philanthropic institutions — just to that extent the 12 banks would be in a position to extend additional facilities to merchants and business men generally. Of course it seems hard that anyone who for patriotic purposes should have invested in Government bonds should be practically called upon to part with say, a loss of from 8 to 9 per cent, but facts are stubborn things and conditions more important than theories."

That same banker wrote us that he would not lend money on any collateral of any kind, it mattered not how good it might be, and that there was too

much business in the country and it should be brought down to normal conditions.

That was the spirit which was being inculcated by the then management of the Federal reserve system. Stripped of all its useless verbiage, the meeting of May 18 was largely devoted to the discussion of how to lessen the activity which was prevailing throughout the country and bring on deflation of business and of credits.

Governor Harding said: "We should be careful, however, not to overdo this matter of liquidation, because too drastic a policy of deflation, which might result in crowding to the wall and throwing into bankruptcy legitimate enterprises, however unessential their operation may be, would have a tremendously bad effect and would defeat the purpose of the very policy which we are trying to have established. He added, a sensible and gradual liquidation will result in permanent improvement as we all know, but any attempt at radical or drastic deflation, merely for the sake of deflation, will result in very serious consequences, and such a policy should be avoided."

But drastic deflation is exactly what took place. Some of the men who went from that meeting went with the impression, and said so, that a policy of deflation and the breaking down of prices could be put into effect and that the Federal reserve management would have the power to stop this deflation and price breaking at any point when it might decide that it had gone far enough, not having financial ability sufficient to comprehend the fact that when they started business on the toboggan slide they would not be able to stop it until it collapsed at the bottom. Every man of ordinary intelligence ought to

have been able to see the inevitable result of the policies discussed and outlined in that campaign.

Over and over again during the process of deflation it was stated by Governor Harding and others that the banks of the country were guilty of misleading, even to the extent of practically lying to their customers by declining to make loans, alleging the opposition of the Federal Reserve Board, but in Governor Harding's speech he said:

"The directors of the Federal reserve banks are clearly within their rights when they say to any member bank, 'You have gone far enough; we are familiar with your condition; you have got more than your share and we want you to reduce. We can not let you have any more.' "They must exercise their discretion as to the proper course to pursue but they have the power and there are many cases where the rule ought to be laid down and a member bank ought to be made to understand that it can not use the resources of the Federal reserve banks for its own private advantage for profit."

At the close of his (Gov. Harding's) address Mr. Hepburn asked if any arrangement had been made to place Governor Harding's opening remarks before the public and to this Governor Harding said:

"I have a synopsis prepared which was given to the press on yesterday for release to-morrow morning. It is rather more abridged than the statement I made this morning, but it is the substance of it."

It is interesting to take this statement in connection with Governor Harding's closing remark at the end of the convention which we have already quoted and in which he insisted that the discussion of the

meeting should not be given to the press or to the people and the only thing which should be given to the press would be a summary prepared by the committee. Thus neither the press nor the public ever had any real information on what took place at that meeting.

## TRIFLING DISCUSSION

### BY FIRST DISTRICT OFFICIALS

After closing his address the meeting was opened by Governor Harding with an invitation to those in attendance to make reports as to conditions in their communities and in the Federal reserve banks with which they were connected. Mr. Thomas Beal, of the Federal Reserve Bank of Boston, said:

"We seem to have been able to have had some liquidation in our district."

And the public knew only too well that there has been a great deal of liquidation due to drastic deflation, not only Boston but elsewhere.

Mr. Chamberlain of the Boston bank, had nothing to say, but added:

"I am the baby director on the board and Mr. Beal is our spokesman."

Mr. Kennard of the same bank, said:

"I am a group 3 director of the first Federal district, and I want to say that we have a very healthy looking baby."

But whether he was referring to the bank as a healthy looking baby or to Mr. Chamberlin as the baby di-

rector we have no means of knowing, but the public can probably gain some light from the trifling discussion of the healthy looking baby and baby director from men who were facing one of the greatest financial problems that the world has ever had to meet. It was a time which called for real men, men who could think and who could say and did not plead the baby act or newness. However, Mr. Kennard, continuing, said:

"I also think that the rates for money should continue on a high level, with the hope of causing liquidation in commodities. Of course, liquidation would result in low prices and the easing up of business. I do not think this body should encourage any drastic measures of readjustment. I think the deflation should be gradual, and I think we should give more care to the commercial paper that is rediscounted at the Federal reserve banks."

That Mr. Kennard or anyone else has found out how high rates of money shall be forced upon a country without producing drastic liquidation in place of gradual deflation, he will have discovered something that no other human being has yet been able to discover. Mr. Kennard emphasized the congestion of the transportation facilities and the fact that the warehouses were congested because they did not have the shipping facilities, and this thought runs through a great many of the discussions of that day, and yet without shipping facilities merchants and manufacturers were told that they must ship their stuff in order to liquidate their accounts.

#### NEW YORK BANKERS FAVORED CURTAILMENT OF EXPANSION WHEREVER POSSIBLE

Mr. James A. Alexander of New York, said:

"We find to-day, I think a hesitation in business. Large users of credit are inquiring as to what the future has in store for them. I think now is the logical time to deal with this question, perhaps the best time that has occurred up to now, to bring this credit situation home to the users of credit. Although while this hesitation is on they will get some loans, prices are being reduced, but nevertheless, unless there is a very substantial contraction and a very definite and positive announcement made in some way, the users of credit (the users of Bank Money) in the country may become more hopeful again that the situation is not one to be feared, and they will feel justified in going ahead and making very substantial and large commitments for the future."

(PLEASE NOTE: The bankers' vocabulary and terminology is speciously misleading to the layman. The term "credit" in the above paragraph and elsewhere in this writing, does not mean or imply the bank's trust, faith or confidence in trusting the merchants with loans of the Savings Depositors money. The word "credit" or "credits" used by the bankers means or refers to the bankers' own created "Bank Money" specifically "commercial banks created checkbook money" which is to be withheld from the users of Bank (credit) Money.)

Following this Mr. Alexander suggested that the discount rate should be raised, not to 6 1/4 or 6 1/2 percent but to 7 per cent on commercial paper. In reply to a question from Governor Harding as to whether the raise in rate would penalize anybody who could not liquidate on account of transportation facilities, Mr. Alexander said:

"I am afraid somebody is bound to be penalized in

order to bring about "production". A percentage of 1 per cent is not a very heavy penalty in the way of an interest charge, but it is a very positive announcement that the credit (Bank Money) situation is such that further expansion must be prevented and that curtailment should be had wherever possible."

When asked as to the transportation situation in his district, Mr. Alexander said:

"There is almost no such thing there now, and he added: There is one thing, I think, to be feared, and that is that if the transportation facilities are improved and commodities moved freely and credits (Bank Money) are (is) thereby released it may make a temporary ease in the money market, and may encourage people to go ahead and expand. I believe now is the time to put the rates up and to keep them up."

From this one might interpret Mr. Alexander's statement as indicating that he did not desire to see transportation facilities improved and commodities moved freely, because that would release credits (Bank Money) and encourage the business people to go ahead. May Heaven save this Nation from a policy so narrow visioned and so amazing as that!

Mr. Treman also of the New York district said:

"I think Mr. Alexander has well expressed the general sentiment of the directors in our district, that there is a spirit of hesitation and uncertainty prevailing throughout the country, and that the business interest are looking to the Federal Reserve Board and the Federal reserve banks to indicate what is to be done. We have felt in New York that

it was advisable to advance the rate further than at present, because we got good results from the action which was taken in the winter. We believe the time is coming when there should be a further warning by the advancement of the rate throughout the country. Not that it would curtail business — that is, the advancement of a point or a half point in the commercial rate — but it would be a warning to a great many banks that will not be affected by the graduated or progressive rate that in dealing with their customers they should recognize what many of them apparently do not recognize yet, and that is that the credit (Bank Money) situation is a very strained one and should be dealt with now before the conflagration becomes too severe. As to the particular method to be employed, Mr. Alexander, I think, has correctly stated the position of the directors of the Federal Reserve Bank of New York — that is, that there should be an immediate raise in rate; second, that the position outlined by Governor Harding with regard to the process and methods of education should be carried out. \*\*\* I am in very close touch with certain of the distributing interests — jobbers in hardware and jewelry and other lines — and I am sure that they are disturbed and they are looking to the Federal Reserve Board and the Federal reserve banks to outline a remedy which will deal with the situation in a sound and sane way at the present time without causing undue alarm. We can do that if we begin and restrict within reason the granting of credit (Bank Money) through individual banks. You must do something more than send them requests not to do it. The way to do it is to bring them face to face with the officials of the Federal reserve banks in each district and have them understand the situation and have them in turn go back and deal with the commercial and business interests. We can in addition

to reaching the business organizations through their officials reach the agricultural societies and organizations through their officials, so that if there should be an effort to get in touch with the large interests in each district and merely point out the necessity for a reasonable curtailment of credit (of bank money) the same as we curtailed sugar and coal when there was a real need for it, it seems to me that by the raising of rates now, by the education of bankers individually and by these group meetings and by going on further and extending our suggestions to the business interests of the country, I believe that we can forestall any very serious disturbance in the fall."

Mr. Alexander was asked by Mr. Ottley, referring to the suggested raise in rates to 7 per cent: 'In view of the basic line that is under consideration by the Federal reserve bank, would it be your idea, Mr. Alexander, to just make a flat rate of 7 per cent or start off the basic line at 6 per cent with a rising scale?' And to this Mr. Alexander replied:

"Make the basic rate 7 per cent. I am in hopes that there will be no plan of progressive rates put in effect in New York. Make the rate 7 per cent. I am speaking of commercial paper. \*\*\* Commercial paper is the thing that is being created in volume right now and we want to limit it as much as we possibly can limit the creation of commercial paper."

Mr. Charles Smith of New York said: "The entire board of our bank is in hearty accord with the advancement of rates as expressed by both Mr. Alexander and Mr. Treman."

Mr. John Skelton Williams said: "Before we leave

this question Mr. Alexander, as you suggest a 7 per cent rate, do you not think that one of the effects of a 7 per cent rate as a minimum rate for all banks would be to discharge essential industries? Six per cent is the maximum rate in New York except on bonds and certain other things. A small bank might have an application from an essential industry and it would realize that if it were to lend to that industry the accommodation that it needed it could only reimburse itself at the higher rate or at a loss. It would have to charge that essential industry 6 per cent and would have to pay 7 per cent and there would therefore be no inclination to extend the accommodation at a loss even to an essential industry."

(It appears from the above that Mr. Williams, ex-officio member of the Board of Governors is unaware that the commercial banks generally do not borrow funds from the federal reserve banks to re-lend to their customers (71:10). However, when a bank does borrow from its federal reserve bank [at 15% reserve requirements] the bank needs to borrow only about 15% of the bank [checkbook credits] money amount it created and loaned.

For an example: If a bank created \$1,000 of bank [checkbook credits] money and loaned it to a client at 6% interest — the bank will earn \$60. annually in interest. And, if the bank needed "required reserves" for the \$1,000 of the checkbook credits money it created — it needs to borrow from the federal reserve bank only \$150 at the 7% discount interest rate, which will cost the bank only \$10.50 — which still leaves the bank with a net profit of \$49.50 on money it created out of nothing [for documentation see 1:56]).

Mr. Williams continues: "On the other hand, if you put the rate at 7 per cent, that would not deter the profiteers who are making 70 per cent profit, 60 per cent or 50 per cent. My apprehension and wonder is whether a higher rate of interest would not in the long run discourage essential producers and at the same time have no effect at all upon the profiteers, upon the men who are making exorbitant and extortionate profits."

Mr. Alexander replied: "In the case of a corporation there can be a contract rate, whatever is agreed upon. But to this statement Mr. Williams replied:

"The farmers, for example are not corporations and a great many of the smaller transactions are not carried on with corporations." And to that Mr. Alexander replied:

"No, I am coming to that point. Between corporations there is a contract rate, but in smaller transactions, where you are dealing with individuals and with farmers, 6 per cent is the legal rate. I do not think it makes a particle of difference to any of these borrowers, certainly to none of those with whom we come in contact, whether they pay 5 per cent, 6 per cent or 7 per cent. The question is, 'Can we get the money?' That is the question to-day. They say, 'You lend us the money and we will pay the rate.' Now, there is the objection as stated by you (Mr. Williams) of charging 7 per cent to the member banks when they can only collect 6 per cent. I think that is a feature of the situation that must be met. In other words, I think the purpose to be served is so great and of such prime importance that these other matters must be considered of smaller importance. I think the bank

would have to stand in between the users of credit (bank money) for essential purposes if necessary, or they can have balances which will justify them in making a loan at 6 per cent, although they have to pay 7 per cent for the money".

Continuing the discussion, Mr. Alexander said:

"That is exactly what you would accomplish by making a profiteer understand that credit (bank money or specially bank checkbook money) is a luxury and difficult to get — and so a great New York banker holding the purse strings over hundreds of millions, we believe, wants to make it out that that credit (B. C. M.) is a luxury and it is difficult to get. In this particular case he was referring to the profiteer, but that spirit that credit (B.C.M) is a luxury and is difficult to get, in this particular, prevailed in too many banking rooms where a man was entitled to credit (B. M.) and should not have been made to feel that credit (B. M.) was a luxury.

Mr. Williams suggested that in dealing with a profiteer the purpose could be better accomplished by saying to him: 'We won't let you have the mney' than by letting him have the money even at 10 per cent.

Mr. Alexander agreed to this statement as true and added: "We could say that they could not have the money and we should see to it that the profiteer is cut out and that the essential industry is carried even at the expense of the bank."

NOTE: B. M. is an abbreviation for 'bank money', and B. C. M. for 'bank checkbook money'.

Referring to those who had engaged in what was called profiteering during the period of rising prices Mr. Alexander said:

"People of that kind will disappear rapidly. I think, under present conditions, because they will be forced out."

### THIRD DISTRICT

#### COOPERATED IN DEFLATION OF CREDIT

Mr. Joseph Wayne, of Philadelphia, said that he did not think the third district was unduly alarmed over the credit (B. M.) situation, but that they felt for some that it (B. M.) required rationing and the green signal had been out.

When the Government sold its bonds the Treasury Department and the banks of the country pledged to 20,000,000 buyers of these bonds that they could be carried through the banks until they could be paid for out of earnings. On the subject of liquidating these Government bonds, Mr. Wayne said:

"We may have been subject to criticism for not liquidating more promptly the obligations secured by Government bonds, but we more or less acted along the suggestion of the previous Secretary of the Treasury and the Federal Reserve Board at the time these loans were taken, and it now looks to us to be a pretty bad time to force these bonds on the market. They are being more or less liquidated. We have been endeavoring in our own bank in the last month to force Liberty bonds on the market, but they do not go on very comfortably. People who have to part with them and lose 13 points do not part with their money very gracefully.

When asked by Governor Harding if a 7 per cent rate in New York had forced the Philadelphia bank to put on a 7 per cent rate, Mr. Wayne said: "No, but you know the general custom is that when one bank raises its rate we usually get a suggestion from the Federal Reserve Board that they will approve a raising of rate for our district, and that usually goes through."

When asked as to transportation facilities, Mr. Wayne reported them as very poor and the freight blockade as serious, and that during the past few weeks the transportation situation had not shown any improvement.

Mr. Francis Douglas of the Philadelphia Reserve Bank reported that some banks were not cooperating to the fullest extent with the Federal reserve bank, and he suggested that a letter stating the actual conditions should be sent to the various banks, not only member banks but nonmember banks, throughout the country in a plan of education, and added: "It would be very beneficial and would help a great deal in the deflation of (B. M.) credit."

#### FOURTH DISTRICT OFFICIAL

#### FAVORED BREAKING DOWN BUSINESS

#### AND BUILDING UP FROM BOTTOM

Mr. Robert Wardrop of the Cleveland Reserve Bank said:

"I think a reasonable depression in business will be a good thing for the country, and he added: "I really think we would do better if we could get down to a lower basis, a different basis, and then from that we can work up again."

In other words, it would be a good thing according

to Mr. Wardrop, which was the view of a leading banker we have already quoted, that business should be broken down and then take a fresh start from the bottom. Millions of people who lost by that kind of teaching naturally question its wisdom.

Mr. Chess Lamberton of the Cleveland bank, one whom we have already quoted, also classes himself as a 'baby director' and declined to express any opinion on any of the subjects discussed.

#### NECESSITY FOR RAISING DISCOUNT RATE DOUBTED BY FIFTH DISTRICT REPRESENTATIVES

Notwithstanding the fact that the Richmond Federal Reserve Bank sent out a circular letter in August 1920, that it had been urging its member banks for more than 12 months to restrict (B. M.) credit. Mr. John F. Bruton of the Richmond bank, referring to the heavy demands of agricultural loans said:

"I hope it will not be necessary to increase the rate of interest, for fear that it might be construed as a reflection upon this great industry, which in the final analysis is doing the work of the country. Probably I am a little old-fashioned, but I have the impression that some positive relief could be had at the discount table of the Federal reserve bank by the discounting committee in drawing in on certain few banks in the district and limiting their borrowings, which would give to their banks the opportunity to make essential arrangements." When referring to some banks that he thought had been borrowing too heavily, Mr. Bruton said:

"Some of them have two feet in the trough already and it might be advisable to reduce on some of them."

The suggestion that any bankers trying to take care of their customers were hoggishly inserting two feet in the (B. M.) credit trough seems a little rough and perhaps Mr. Bruton spoke unadvisedly. Mr. Charles E. Rieman of Baltimore, a director of the Richmond bank said:

"I hardly see the necessity of increasing the rate at this time... With regard to the retail business, I have made a pretty close examination of it, and I do not think the shelves are overloaded."

Mr. Rieman was entirely correct in his position that there was no necessity of increasing the rate and that the country was not overstocked with goods.

#### PENALTIES IN SIXTH DISTRICT CERTAINLY BECAME STRONG

Mr. J. K. Ottley of the Atlanta Federal Reserve Bank, said:

"The condition of the farmers, merchants, and manufacturers in the sixth district, in large majority is good."

Contrast this good condition of farmers, merchants, and manufacturers in the latter part of May 1920, as reported by Mr. Ottley, with the chaotic condition of business in that district when by higher rates and curtailment of (B. M.) credit, business chaos was produced, not only in that immediate district but throughout the country generally. In further discussion of the matter Mr. Ottley said:

"I would not feel at this time, from an independent standpoint, that a raise in the rate was necessary other than to put in this basic line and make the

penalties very strong as they progress."

In view of the fact that penalties for higher rates were inflicted by the Atlanta bank on one Alabama bank, which was trying to protect its farmer customers, up to 87 1/2 per cent, the Atlanta bank evidently carried out the suggestion of making the penalties very strong.

## EMINENT CHICAGO BANKER

### SOUNDED WARNING NOTE

Mr. George M. Reynolds, of Chicago was evidently not in favor of breaking down business so as to get a new basis from which to start again, for he said:

"If we pass through this crisis successfully and maintain prosperity at anything like its present level, I think the first requisite necessary is the maintenance of confidence. Believing, furthermore, that confidence is to a considerable extent a state of mind, it seems to me that we people who are from the outside points here could do more for the state of mind along the line of trying to enable the members of the Federal Reserve Board to look through our glasses and get the focus of things as we see them at the other end of the line."

What a daggerlike thrust that was on the part of Mr. Reynolds against some members of the Federal Reserve Board when he as one of the greatest bankers of America, suggested that one of the most important things was to get the Federal Reserve Board to look at the situation from his standpoint.

What an infinite pity Mr. Reynolds was not able to bring about such a desirable change of vision. Further discussing the subject Mr. Reynolds said:

"I would not be honest with myself if I did not express my own frank opinion on some of the questions that have been raised here. I have not lost my belief in the theory that the yardstick is the interest rate, which is after all the best means of controlling the demand for (B.B.) money. \*\*\* I hope the Federal Reserve Board and the other people interested in this problem will not overlook this one principle.

"As I understand it reserves are kept and enmassed and impounded for the purpose of loans in times of emergency. \*\*\* Take the central reserve cities, and there are deposited in those banks, as you know, secondary reserve deposits, which since the organization of the system have been lying there dormant. In times like this when there is an emergency there is a shrinking first in deposits, and then many of these institutions come back to us for credit (B.M.) requirements which are not borrowed ordinarily. We have that situation in this crisis. \*\*\* In every institution in this country there is a large amount of paper which is not eligible for discount at the Federal reserve bank, but at the same time it represents the very cream of paper in so far as the question of safety is concerned. \*\*\* It may seem to you people here that under conditions which arise whereby there should be deflation rather than inflation the banks should stop loaning money. That is just as impossible without trouble as it is for us to fly out of this room. \*\*\* I have not one particle of fear about the outcome. It is just a question of using what we might call horse sense and not getting stampeded or excited or doing something under stress of excitement or going off, as we sometimes say in the country, half cocked."

Mr. Charles H. McNider said: "We feel there must

be reason, there must be sanity, that the essentials must be taken care of, that there can not be an extraordinary cutting down of credits (B. CM.) at this time because that would create disaster. \*\*\* We ought to deflate in a sane and reasonable manner."

Unfortunately, Mr. McNider's suggestions were not taken, for we deflated in an insane and extraordinary manner, and the result was world disaster.

Mr. E.L. Johnson, of the Chicago Reserve Bank said: "I believe that education and propaganda must be carried on with authority and with strength, carried on from this board and from these gentlemen here down to all the nonmember banks and on to the the small business man in the small factory"

Evidently the propaganda was carried on and carried on with authority and with strength, for bankers everywhere were warned fo curtail (B. CM.) credits and naturally any man who was not a fool from the top of his head to the bottom of his feet knew that that meant the breakdown of prices, the breakdown of business and the increase of unemployment, and therefore every man stopped buying raw materials or finished products of every kind.

Mr. Johnson added: "that Governor Harding's speech should be properly disseminated among them with the show of authority, even if you do not have it."

What an amazing statement for one of the directors of the Federal Reserve Bank of Chicago to make to the effect that Governor Harding's speech should be broadly disseminated among the banks with a show of authority, even if Governor Harding did not have such authority!

## MINNEAPOLIS BANKER WANTED TO STOP HIGH FINANCE IN POLITICS AND BUSINESS

Mr. Wesley C. McDowell of the Minneapolis Reserve Bank said: "I do not like this increase in rates. Out in our part of the country we have been going a little bit wrong on our thinking, so that we have established a bank of our own, called the State Bank of North Dakota. \*\*\* I think that any method that would raise the rate arbitrarily when the farmer has had four or five years of poor crops \*\*\* it looks to me like the institution they told us of when we started the Federal reserve system, that was going to take care of us and prevent panics, was now going to fall down and penalize them. \*\*\* It seems to me that now is a poor time to penalize the little fellow. \*\*\* The Federal Reserve Bank of Minneapolis is making \$10,000 a day. Is that profiteering when they have been using our money without any interest ever since it started? Is the Federal Reserve Board going to be put in the same class with the sugar profiteer and the manufacturer who has been making big money? \*\*\* So I say again, it does not seem to me that now is the proper time to increase our rate. We want to cure that unrest out there more than we do anything else. We want to stop some of this high finance in politics in business."

## DRASTIC REMEDIES OF TENTH DISTRICT MANAGERS PROVED FATAL TO VICTIMS

Mr. J. C. Mitchell of Denver, director of the Kansas City Federal Reserve Bank, referring to the condition in his district, said:

"In my opinion we corrected the trouble there by putting in the progressive interest rate; we felt we had to do something. We considered it a little bit drastic, but we thought we would try it, and we did try it."

"It looks like the directors of that bank were trying an experiment the end of which they could not see. Mr. Mitchell though it was a success. We venture to say that a million people in that territory though it was a dismal failure. It looks very much like the quack doctor called in to attend an ill child. The quack admitted that he could not diagnose the case, but, said: 'I am hell on fits, and I will throw the child into fits and cure the fits.'" Unfortunately, the child died, and many a farmer and many a business man in the Southwest died financially of the action of the Kansas City bank.

Mr. W. J. Bailey of the Kansas City Reserve Bank, said: "I am well convinced, gentlemen, that you will bring the Federal reserve system back to a reserve system rather than a commercial system if you will make it unprofitable for certain great banks to use the funds of other banks."

What a pity that Mr. Bailey did not mention by name the great banks against which he aimed this dart! Then he added: "I think the real remedy is in a graduated rate. Of course, make the basic line whatever you want and let us say you would raise the rate to 7 per cent. Now, the only complaint we have among our banks is that there ought to be a maximum rate. I do not believe that, gentlemen. I would put a danger signal here and another there and another up there — that is, death: and he will never go against the death signal. You have made the Kansas City Federal Reserve Bank a broker's shop; you have changed it from a reserve bank to a commercial bank and I want to get it back and that is the reason I am in favor of the graduated rate."

Mr. Forgan offered a resolution that a committee of five be appointed to prepare a resolution in regard

to the effect the transportation situation is having on the expanded condition of credit (of Bank Money) in the country, with a view to placing such a resolution before the Interstate Commerce Commission requesting them to do what in their power they can to relieve the situation by increasing freight rates or otherwise.

It has been reported that one of the thoughts expressed by some at that meeting was that one way to break down business in addition to restricting credit (restricting bank checkbook money) was to secure increased freight rates and thus lessen the volume of business, bringing business down to a point where the railroads and the banks without trouble could transport and finance the business then in operation.

That does not, however, appear in the resolution nor in the report of the meeting, but that was a current report in Washington at the time of the meeting as the intention of those who sought to persuade the Interstate Commerce Commission to raise rates.

GRADUAL DEFLATION FAVORED BY ELEVENTH DISTRICT MANAGER, WHO DOUBTED WISDOM OF PROPOSED RAISE IN RATES — WITH 100 PER CENT PROFIT, FEDERAL RESERVE BANKS WERE ALREADY CHARGED WITH PROFITEERING.

Mr. John T. Scott, of the Dallas bank said: "Speaking of the increased rates proposed by some of the districts, I can not find myself in agreement on that proposition. We have already increased the rate, and the increase of the rate is not going to correct the evil unless the member banks all cooperate.

"We might increase the rate from 7 to 8, 9 and 10 and the situation would still be uncorrected. I believe we ought to continue our efforts with our member banks throughout the country and induce them to curtail their loans as far as possible to only the legitimate needs of legitimate business and by that means we can bring about in a normal way the deflation of credit (reduction of Bank Money).

"We must remember that this inflation has not taken place over night; it has been going on from three to four years, and it is going to take some time to correct it. We can not hope to correct the situation in a day or a month or in six months.

"We have got to go at it in a sensible way, to bring it about in a gradual way rather than attempt to correct it within a short period of time. The Federal reserve banks have been charged with profiteering by reason of the rates they are now charging. We are making in the neighborhood of 100 per cent on our capital...

"The Federal Reserve Bank of Dallas has already adopted the progressive rate proposed to be put in wherever the executive committee finds it necessary to do so. ... We have sent out two letters within the last three months to the member banks. The last one was sent out at our last directors' meeting, under the order of the directors, to be sent under personal cover to the president of each member bank and by registered mail, so the letter would receive attention, and they were requested to read these letters at the next meeting of their boards.

With a registered letter to the president of each member bank and requirement that he read this

letter at the next meeting of his board of directors the Dallas bank was evidently following the suggestion of Mr. Johnson, of the Chicago bank, who suggested that the governor's speech should be disseminated among the bankers with a show of authority, even though the governor did not have the authority. The Dallas bank either had the authority or it took it, and at any rate the member banks that received that registered letter well knew they were taking their life in their hands if they failed to obey it.

Mr. B.A. McKinney, of the Dallas bank said: "From a study of the conditions of those banks I can say that throughout all districts they are in stronger condition to-day than they were a year ago.

That favorable condition, however, hardly held good after drastic deflation was put into effect.

#### WIELDING A CLUB ON FRIEND AND FOE ALIKE NOT APPROVED BY TWELFTH DISTRICT DIRECTOR

Mr. C.K. McIntosh of San Francisco, said: "We are thoroughly in accord with the resolution adopted and with the speech of Governor Harding outlining the methods that are desirable for us to proceed on. We can see the problem and we know fairly well some of the causes. We know that there is a demand that exceeds the supply of credit (supply of Bank checkbook Money); we know there must be discrimination, and we are ready to join in any proposition. ... I can hardly conceive that it is wise in the endeavor to keep out the undesirable feature, to permit it to be rocked, even though the rocker is willing to pay 7 per cent for the privilege. I find it hard to convince myself that it is the most intelligent restraint to wield a club on the heads of

friends and foes alike. A rate which applies beyond a certain arbitrary and calculated line has its effect but without regard to what the man on the other end of the line is doing it is something like running into a melee with a club in one's hand to assist in quelling it and making up your mind you are going to strike every fellow on the other side of the fence, whether he has his coat off helping to reduce the melee or whether he is one of the main instigators.

"It seems to me the character and not the amount of opposition should be the prevailing factor in penalties. ... We must have the assurance, or should have the assurance, that we may have the unqualified support of the Federal reserve banks in our district, because that is their job; also the reserves are not sacrosanct; they are not to be framed and hung on the wall. That given the purpose, given the fact that the real purpose is being served by the advance, the Federal reserve bank must help us, must help those who are doing that thing, and must decline when discrimination is practiced against those not doing that thing.

... If we can go to our people with the assurance that there is credit (Bank checkbook Money) available for the production of essential and quickly assimilable things and that as compensation for that use we must ask to refrain from the demand for credit (for B. C. M.) for those things not essential or for those which in our minds are not essential, we shall have gone a long way toward solving the difficulty as far as it is within our power to do so."

(NOTE: B.M. and B. C. M. abbreviations are synonymous and both terms mean or refer to commercial banks' checkbook money — which checkbook money the banks manufacture by monetizing the borrowers' pledged collateral assets.)

Unfortunately for the good of the country the reserves were regarded as sacrosanct and were not called upon to help out in the emergency — the very thing for which they were established — and the banks did not, with the cooperation of the Federal reserve system, guarantee to their customers credit for essential things.

CALLING LOANS AGGREGATING \$2,000,000,000. PROPOSED AS DESIRABLE WAY TO PREPARE FOR FALL BUSINESS.

Mr. John Perrin, of the Federal Reserve Bank of Chicago, said: "The way to meet that problem is to bring about in the next three or four months a definite amount of contraction which would permit us to expand correspondingly in the fall. If it were possible for every bank in the country to reduce its loans during the next three or four months to the extent, say, of 10 per cent, there would be a total expansion in the fall possible of approximately \$2,000,000,000.

Here is a definite suggestion as to calling loans amounting to \$2,000,000,000. in order that they might be reloaned in the fall, or, in other words, break down business in order to give it a fresh start a few months later!

Mr. Forgan said that the calling of the convention has stirred up sentiment throughout the country and there has been some thought, I think, or a good deal of misapprehension of what we were going to do when we got here. The fear got out that we were going to meet here and in some way were going to classify loans into essential and nonessentials and with that even send an order through the country that there were to be no loans on what we term nonessentials.

Mr. Forgan then presented some documents from the American Bankers' Association committee and other organizations which had been disturbed by the unrest already created throughout the country by the campaign of deflation which had been for some time under way by Federal reserve banks and by the fear that this convention would make still more drastic rulings. Letters were presented also from some leading business concerns along the same line. If any of these big business interests were tipped off in advance as to what was to be done prior to this information leaking out to the public they would have had an opportunity to make many millions of dollars. If, for instance, some corporation through some member of this meeting learned that deflation was to be continued it would have had a chance to unload before the break in prices came. It is hardly possible that, as 100 copies of the report from which we are quoting were printed for confidential circulation, so we are advised, and the type then destroyed, some people did not have an opportunity of learning what the public had not learned and thus of having the opportunity of utilizing this information in a way which might have made millions or saved millions.

Mr. F.O. Watts of Federal Reserve District No. 8, chairman of the committee on transportation, made a report for the committee reviewing the inadequate transportation facilities of the country, which were hampering business, and in the course of which it was said: "A striking necessity exists which can only be relieved through the upbuilding of the credit (money) of the railroads. This must come through adequate and prompt increase in freight rates. Every delay means the paying of greater cost, directly or indirectly, and places a burden on the credit (B. M.) system which in the approaching time

for seasonal expansion may cause abnormal strain. Even under the light of war inflation, high price level, and extravagances the bank reserves would probably be sufficient if quick transportation could be assured during the time of the greatest strain.

#### WERE INCREASED FREIGHT RATES SUGGESTED AS MEANS OF LESSENING VOLUME OF BUSINESS?

Mr. Watts offered the following resolution, which was unanimously adopted:

"Resolved, That this conference urge as the most important remedies that the Interstate Commerce Commission and the United States Shipping Board give increased rates and adequate facilities such immediate effect as may be warranted under their authority, and that a committee of five be appointed by the chair to present this resolution to the Interstate Commerce Commission and the United States Shipping Board with such verbal presentation as may seem appropriate to the committee.

What was the verbal presentation made by the committee to the Interstate Commerce Commission in behalf of increased freight rates? Was it as some have surmised, a suggestion that it would be better temporarily to lessen the volume of business of the country in order to enable the railroads and the banks to handle it? Some rumors to that effect were circulated at the time. Were they correct?

Mr. Wayne raised the question of graduated rates on borrowings or rediscounts and said: "I would like to know whether in the districts that have adopted this procedure there has been eliminated the question of borrowing on Government securities from calculations as to the line of credit (Federal Reserve Bank Money) granted to a bank?"

Governor Harding replied: "In the Kansas City district and the Dallas district, in their tentative plans they have eliminated entirely borrowing on Treasury certificates of indebtedness and on Liberty bonds actually owned on the 1st of April 1920.

Mr. Wayne then asked: "Have they made any reference to collateral notes of customers that have been discounted by the banks as a result of Liberty loan subscription?"

Mr. Bailey replied: "They have to belong to the bank on the first day of April. We have made that rule.

Mr. Scott said: "It is the same way in the Atlanta district.

Mr. Wells said: "He wants to know if customers' notes secured by Liberty bonds are exempt from the application of it; and Mr. Bailey said: "They are not.

When the Federal reserve system undertook to violate every promise made by the Government and by the banks in persuading people to buy Liberty bonds, promising to carry them and then calling loans on them in order to force them out of the banks, breaking them down from 12 to 15 points or more, the honor of the Government and the good faith of banks was trampled in the mire and millions of bonds bought in good faith by patriotic people to help the banks and help the Government were forced to be sold at a loss, and the National Government bought \$2,000,000,000. of its own dishonest promises to pay, and the Secretary of the Treasury boasted of the money that had been saved in doing so! And at these low prices hundreds of millions of bonds were bought in by big estates and

big institutions, with heavy losses to innocent original purchasers.

At the afternoon session it was proposed to appoint a committee of five, as that number would be more impressive to prepare some kind of a statement or memorandum to be submitted back to the conference, which we can use as a basis of a press statement and which you can all use as a basis of a statement to your own banks when you get back home touching the situation as you see it, and forestalling any more remarks such as were made in the Senate yesterday as to all kinds of trouble coming, and yet being careful not to stir up another bomb.

#### PRESS DENIED OPPORTUNITY OF GETTING FACTS OF MEETING

When the press is denied the right to learn for itself what is going on and must accept as law and gospel any prepared report, the public may rest assured that it is not getting the real facts, and yet such a prepared report was all that the press has heretofore ever been able to secure as to the discussions which took place in that meeting.

Mr. John Skelton Williams, discussing in the afternoon some of the things that had been said during the morning, said:

"I do not think myself that there is any ground for expecting a commercial cataclysm or crisis such as some people are predicting ... I see nothing in the situation to justify the fear of such a commercial crisis or financial catastrophe as we had either in 1873 or 1890 or in 1907. If anything of that kind comes it will be our fault, the fault of those who

are in charge of the banking and commercial interests of the country, and I do not believe they are going to bungle it."

Unfortunately those in charge of the banking interests of the country did bungle it and bungled it badly, as Mr. Williams has repeatedly said that they did, and proved by the figures which he has published showing how badly it was bungled.

Mr. Henry A. Mohlenpah, member of the Federal Reserve Board, and who, it is generally thought, joined Mr. Williams from time to time in vigorous opposition to the drastic deflation campaign carried out by Governor Harding and other members of the board, in following Mr. Williams address said:

"I think it to be right to say that there is no member of the board at this time that has been related to your problem so directly as perhaps I have been, because I have just come from the desk and I have during the past six months visualized the proposition you are up against, and I want to say right here, gentlemen, that I refuse to be a pessimist. I quite agree with the comptroller. That does not mean to say that I am an expansionist or an inflationist, but I do believe in the broad general proposition that we have just as much right to take stock of our assets and of our privileges and of our opportunities as we have of the darker phases of the question ... I believe out of this question will come a stronger, higher morale on the part of the bankers themselves." And referring further to the situation he said: "It is just exactly to my mind what this situation needs; not a contraction that is going to hurt; it needs the steady nerve of the bankers, just as they faced their problems in 1903, and 1907."

The situation did need, just as Mr. Mohlenpah said the kind of handling that would not produce a contraction to hurt business, but in place of that it got a contraction that well nigh destroyed business. Mr. Mohlenpah and Mr. Williams thought that the management of the Federal reserve system would not bungle the job, but the most disastrous commodity panic in the world's history and the most disastrous agricultural condition which this country has faced in its whole life proved that the job was badly bungled, unpardonably bungled. As one of the speakers said, it had taken three or four years of inflation to carry us to the top, and it should have been evident to every man that the only way to come down safely was to take as long in coming down from inflation as we had taken in climbing up. This, however, was made impossible by the urgent efforts of Federal reserve banks to cause member banks to restrict credit (B. M.) and with Federal Reserve Board carrying out its constant efforts to impress upon all banks the need of restricting credit (restricting B. M.) and curtailing business operations chaos was inevitable.

#### \$32,000,000,000. LOSSES AS RESULT OF RESERVE BOARD'S DEFLATION PROGRAM

As the Manufacturers Record showed a few weeks ago, the decline in the value of farm lands in 1920 and 1921 under deflation amounted to about \$18,000,000,000. and the decline in the value of farm products of these two years as compared with 1919 prices showed a decrease of over \$14,000,000,000. making a total loss to the farmers of upward of \$32,000,000,000. If to this we add the decrease in securities, stocks and bonds of railroads and industrial corporations and the losses in the decline of output in manufacturing and mineral industries, it

it will be found that under the system pursued of erroneous financing and financing directly contrary to the teachings of bankers as Reginald McKenna and others of his standing we wiped out about \$50,000,000,000. of values, a staggering loss which well nigh shocked the very life out of the country. Mr. Wayne referring to the proposed progressive discount rate, said:

"It does not appeal to me as a director of the Federal reserve bank at all, at least for operation in our district. I am afraid it will do just the opposite for which the Federal reserve act was enacted. In other words, the act was proposed to enable the banks to cater to commercial business. I know in the operation of our bank we were very often called upon to borrow quite heavily and we cut it down as fast as we could, but if we are going to accumulate a batch of commercial paper, either by direct transactions for customers or by purchases on the market, because our borrowings at the Federal reserve banks happen to go beyond a certain limit we are going to be heavily penalized, we are going to stop buying the paper, and we are going to invest our money in call loans on Wall Street, which is exactly what the Federal Reserve Board does not want the member banks to do. ... I think that you are going to defeat the very purpose of the act, which was to enable commercial banks of the country to do a safe commercial business. We will simply be driven into call loans on Wall Street for our surplus money if they are going to penalize us."

Mr. Scott, in discussing the matter, said: "We find that about 80 per cent of our members are small country banks, with a small capital and small deposits. ... They are the ones that we really need to help out in the farming communities. We had a complet

list made up of every borrowing bank, showing what its rate would be if they were under the Kansas City Plan, and we found that some of them ran up as high as 18 and 19 per cent. If that plan were applied it would mean the ruination of the agricultural districts."

That plan was put into effect and the agricultural districts were ruined, exactly as Mr. Scott had predicted. After considerable discussion in regard to the progressive rate and vigorous opposition on the part of a number, Mr. Mohlenpah said:

"Is it absolutely necessary in every transaction made in a Federal reserve bank that it has got to be made on a basis of profit to the Federal reserve bank, or is it not time that these reserve banks will have to forego their profit in this overplus of borrowing when the country banks have to move crops or other commodities?"

Judging by the 100 per cent profit that the Dallas bank was making, as one of its officers said, and the \$10,000. a day that the Minneapolis bank was making, it looks as though every Federal reserve bank did business only on the basis of a profit on each transaction, regardless of its effect upon the country at large.

#### UNHEEDED WARNINGS OF COMPTROLLER OF THE CURRENCY JOHN SKELTON WILLIAMS

As shown by letters from John Skelton Williams, then Comptroller of the Currency and a member of the Federal Reserve Board, Mr. Williams repeatedly warned the board of the danger that faced the country from its deflation campaign. In a speech before the Maine Bankers' Association at Bangor

June 26, 1920, Comptroller Williams called attention to the fact that the Federal reserve banks had an unused lending power at that time of about \$700,000,000. and that if the reserve requirements should be temporarily reduced by only 10 per cent the total unused lending power of the reserve system could be increased to two thousand million dollars.

Nevertheless the financial situation, under the reserve board influence, grew worse, and on July 31, 1920, Comptroller Williams gave a statement to the press showing that the unused lending power of the reserve banks was still \$750,000,000. Mr. Williams added in the statement: "Such figures as these ought to be sufficient to allay fears of pessimists as to the financial condition of the country at this time."

Mr. Williams' statement was resented by the chairman of the Federal Reserve Bank of New York, who promptly wrote a letter to the reserve board complaining that Mr. Williams' public statement was interfering with the plans for deflation.

On August 9, 1920, Mr. Williams called attention of the reserve board to the fact that certain banks in New York were using the funds of the reserve system for speculative ventures and were extorting grossly excessive interest rates from customers, so that business men and merchants needing funds for legitimate business were being required to pay exorbitant rates.

August 26, 1920, Comptroller Williams filed a memorandum with the board urging a reduction in rates which the reserve banks were exacting on Liberty bonds and for legitimate business transactions, and he also warned the board at that time

that the drastic liquidation which had already taken place in leading commodities, including cotton, corn, wheat, rice, silk, wool, leather, etc. had brought about a shrinkage in some cases amounting to over 50 per cent. He also showed the board that the pressure had been so great that the prices of Government bonds and other high-class investments securities had been broken down to the lowest level they had touched in half a century. At that time he told the board: "Such additional liquidation as is needed could be brought about without the exaction of interest rates as high as those which have prevailed."

On October 26, 1920, in a letter to the Secretary of the Treasury, remonstrating against the reserve board's policies and urging a revival of the War Finance Corporation, he said:

"The shrinkage in our leading commodities throughout the current year has ranged from 25 to 75 per cent from prices of less than a year ago. This shrinkage amounts not to millions or hundreds of millions but to billions of dollars. The strain upon the business fabric of the country is in some respect unparalleled, and I do feel that the time has come for the exercise of such salutary and constructive powers as may be at our command."

The reserve board's answer to Mr. Williams' protestation and remonstrances was to tighten the screws still further and to force a contraction or deflation in loans held by the reserve banks which amounted to one thousand million dollars in the succeeding 12 months, every month showing an actual contraction from the preceding month.

When Comptroller Williams a few weeks later offered a resolution in the board to require the banks

which had been exacting extortionate interest rates from member banks — as high as 50, 60, 70 and 85 per cent — to limit interest charged member banks to 6 per cent, the board voted down his resolution and when in February 1921 he offered another resolution to limit the interest rates charged member banks to 10 per cent they also voted that down.

At the close of the meeting, in which only one day was given to this general discussion of the most tremendous financial problem that this country had ever faced, when days and days might well have been spent in a careful analysis of the situation, the meeting was closed with the statement by Governor Harding, which we have quoted in the opening paragraph, insisting that nothing should be given out by those in attendance in regard to the discussions that had taken place; and thus the public was to be kept in dense ignorance, knowing nothing except the official statement issued by the committee, and from which the public and the press could get no information worth having as to what was being done or would be done by Federal reserve banks.

We do not know what has become of the 100 copies of this stenographic report of the day's proceedings which were printed for donfidential distribution, but the Manufacturers' Record feels that in having secured one copy and in giving this summary of it to its readers it is rendering a service of inestimable value to the Nation.



# Deflation Policy

## Of The Federal Reserve Board

Mr. HEFLIN. Mr. President, the Senator from Idaho has had read into the Record a part of the great editorial written by Richard H. Edmonds, the editor of the Manufacturers' Record. That editorial ought to be read by every man and woman in the country. It is a masterful document, written by one of the ablest, cleverest, and most courageous editorial writers in the Republic. He was the first editor of a great magazine to set himself to the task of exposing the conspiracy to bring about destructive deflation in the United States. When hundreds of newspapers in the country were working in concert to prevent the truth of this thing from being known, when they were doing everything in their power to lull the people to sleep at home, suppressing news from the Capitol, and trying to hush up any discussion that would lead to the real truth in the case, Richard H. Edmonds was writing strong, powerful editorials demanding an investigation and bringing to the attention of the public just what he believed had transpired.

The first newspaper, Mr. President, to take up the fight was the Augusta Chronicle, the oldest newspaper in the South, which is ably edited by the brave and brilliant Tom Hamilton, of Augusta. I feel that these two men are entitled to have something of praise and commendation said of them in the closing hours of Congress to which they have given so much information and aid in disclosing the greatest conspiracy that was ever planned and consummated in the United States. These two men, Richard H. Edmonds and Tom Hamilton, deserve the praise of all the American people.

Mr. President, it is a difficult thing to have to combat the many influences which are working in the Government to suppress the truth and to cripple and break down those who are trying to disclose the truth to the country. I know what that is.

The Washington Post of last Monday morning had a column and more describing a cock fight over in the State of Maryland where a few boys and men had gathered to see some game cocks from Virginia and Maryland do battle. That article was on the front page of this great administration sheet on Monday last, and it devoted a little more than a column to describing a chicken fight. I remarked to one of my newspaper friends that the Washington Post had given more space to that cock fight in one day than it had given to my fight against the evils of deflation and the deflation crooks in the fight of two long years.

The Supreme Court of the United States rendered a decision months ago taking the Federal Reserve Board seriously to task, criticizing and condemning its conduct in its effort to destroy a little State bank out in Nebraska, and no news was ever sent out from the Capitol regarding that decision. If that decision had been against the State bank and had been favorable to the Federal Reserve Board and its criminal policies against that little bank, it would have been printed and sent broadcast through the country. I wonder what influence it was that kept that information from going out to the country.

Mr. President, I know that when I make a fight to have a fair deal for the people with the newspapers of the country I incur the displeasure of that portion of the press which is subsidized. I want to state again that a large portion of the press is not

subsidized; it is honest and clean; but there is a portion of it that is as corrupt as it is possible for a newspaper to be, and I know that I incur the displeasure of that rotten element of the press, but that does not deter me. I owe it to my constituents and I owe it to the country I am trying to serve to keep on fighting here until a fair deal is had for the people of the country. Somebody should tell the truth about it.

When a man subscribes for a newspaper, they usually tell him, "You want this paper so that you can keep up with the news. Congress will be in session soon, and you want the paper so that you can keep up with the news of Congress" and thousands of people subscribe to these papers for the purpose of getting the news about the great public questions that are being discussed, what the Members of the House are saying, and what the Members of the Senate are saying about the issues of the day and the conduct of the Government.

Mr. President, I have been engaged in the Senate for two years in a fight vital to 110,000,000 American people. But few newspapers have given me a fair deal. Scores of newspapers nestling about these regional reserve banks have attacked me, have written editorials criticizing and condemning me for the fight that I have made. They did not know anything about the fight I was making. They did not know the merits of the cause I was pleading. They were simply doing what they were told to do. They were simply told to fire upon me, to level their broadsides against me; that I was treading close to a dangerous thing, and and that if it should be disclosed it would hurt many of those who were enjoying a respectable status at that time; that if I was not stopped, the truth would be made known and these people would be discredited.

That was the effort that they made, but it did not deter me. Mr. President, I said on this floor time and time again that there was a conspiracy, a secret meeting held somewhere, I did not know where, to bring about deflation. I said that it did not come of its own accord; that it was prearranged. That statement was denied. These newspaper yelpers of the Federal Reserve Board said, "There is nothing in it." They said that it was a pipe dream; that it could not be substantiated; and I kept on saying that there was a conspiracy. When I was at the high tide of the battle against them in the Senate the Wall Street Journal was criticizing me, and the New Journal of Commerce was criticizing me; and when I saw the criticisms coming from that quarter I knew that I was right and that I was moving in the right direction. I knew that they knew that I was treading dangerously near something that they did not want disclosed.

What happened since Governor Harding went off this board? I have here a copy of the little journal that was kept of that conspiracy that they held. Here it is. It is entitled:

"Transcript of stenographic minutes of conference with the Federal Reserve Board of the Federal Advisory Council and the class A directors of the Federal reserve banks, held at Washington, May 18, 1920."

We never got hold of this little document until Governor Harding was driven from the Federal Reserve Board.

Mr. President, I did not have that document when I was making the fight here for nearly two years; but I told about what happened at this meeting without really knowing all of the inside facts. Those

who will take the time to read this document and read the charges and the argument I made will see how closely I tracked what occurred. I said that they agreed not to tell what had happened. I said that there was a secret arrangement. I said that those present were to go home and whisper the word around.

Mr. President, Governor Harding in closing that meeting cautioned them all to be exceedingly careful and discreet, and to say nothing about anything that was said regarding rediscount rates. That was the vital question. They had agreed to raise the rediscount rate. They knew what effect that would have upon the business of the country; and they agreed in secret conclave not to let the American people, who were to be vitally affected by the change, know anything about what had happened or what was going to happen.

After that parting injunction of Governor Harding these gentlemen dispersed. The country did not know that it was sleeping over a volcano. The country did not know that within 30 days there would be serious trouble in the financial world over here. The country did not know that the Liberty bonds, which the Government had plighted its faith to hold at par to the people who bought them out of patriotic motives, were to tumble down, and that the people who had them and who were trying to hold them would be forced to throw them upon the market and that the bond sharks of Wall Street would feast and fatten upon them at the cost and expense of the American people who bought them to help their country in the hour of its peril.

Mr. President, at that meeting Mr. Treman, the acting governor of the Federal Reserve Bank of

New York, in advocating that the reserve banks begin to restrict the granting of credit (of B. M.) through individual banks, said:

'You must do something more than send them requests not to do it. That is, not to make loans. The way to do it is to bring them face to face with the officials of the Federal reserve bank in each district and have them understand the situation and have them in turn go back and deal with the commercial and business interests.'

Mr. President, on the floor of the Senate I called attention to one of these meetings where these bankers were brought face to face with the Federal reserve agent out in southern California. I can understand it all now. All this sort of business was discussed and agreed upon. It was agreed in that secret meeting to hoist the black flag; but the people to be slaughtered did not know it. Out in southern California the bankers' convention was in session. Judge Swing, Congressman from that State, was there and a friend of his said, "Come and go into the convention and sit with me." The officials, it seems, did not know that any man was in the convention who was not a banker, and this Federal reserve agent got up and said to these bankers:

"You must not loan any more money on farm paper, agricultural products, live stock" and so forth and dozens of bankers sprang to their feet and said: "We do business with the farmers and cattle people. We loan money to them. Our business is tied up with their business. They need money, and we must let them have money." Then this agent made this significant statement: "If you loan them money, we will not rediscount your paper."

That was the first open and bald act, so far as I know, carrying out the secret instructions given at the secret conference held here in the city of Washington May 18, 1920. What was it doing? Striking dead the agricultural business and the cattle business of the West.

What happened here in the Senate on the same day? The Senator from Illinois [Mr. McCormick] introduced a resolution in a way suggesting deflation, calling upon the board to know what it was going to do about deflation. I have said here a dozen times that there must have been some understanding that that action should be taken here in the Senate the same day this advisory council was in oathbound secret session in Washington.

That resolution was passed through this body, and the Senator from Oklahoma [Mr. Owen] made a speech in the Senate in which he said that that resolution was a nucleus around which they hoped to hang deflation, and he was a prophet. Just what he said would happen did happen, and he said that he could easily understand how the financial interests of New York, and the financial interests of Chicago the home of the Senator from Illinois [Mr. McCormick] would be interested in having this decision brought about.

That resolution passed, and Governor Harding immediately wrote a reply to the Senate, and in it promised to use every power at his command to do what was suggested in the Senate resolution.

Mr. President, I knew they had not given the country any notice, but I did not know that they actually Promised in this secret meeting that no notice would be given to the various business interests of the

country. I did not know that I would find on printed page somewhere that Governor Harding had actually said such a thing and that some of the things said had been taken down so that it could be read and preserved, but speaking upon this subject one day I said that it was a secret arrangement, and that no notice was given to the country; that nobody had notice as to what was going to happen so that he could prepare himself or herself and be ready for the crash when it came.

I referred to a man from the Northwest, a Republican himself a wealthy man, now a Senator in this body, telling me that they sent him word that they were going to deflate, and telling him to act accordingly and get in out of the weather and he said, "I can not get in. My business is in such shape that if you do deflate, it is going to cost me thousands of dollars." and he said, "It did cost me thousands of dollars."

I likened that situation to people sitting in a theater, hundreds of men, women and children looking at the stage and laughing and being entertained, happy at what was transpiring there, when some one slipped down the aisle and went over to a box and whispered to the distinguished personages there that a bomb was being planted under the building, and that in 15 minutes it would go off; for them to get out while the getting was good; that they gathered up their wraps and coats and hats, and silently stole away; that they had gone hardly a couple of blocks before the bomb went off, the roar was heard for miles, the groans of the dying were heard, and hundreds of people were murdered in the crash.

I said that was what happened under the deflation drive. They deliberately planted this bomb under

the business of seventy-odd million people in America, and they touched it off without giving them a moment's notice. The little man, the one-horse farmer, the ten-horse farmer, the blacksmith, the crossroads merchant, the village merchant, the town merchant, the country banker, men in all kinds of business in the common walks of life, were literally slaughtered by that cruel deflation drive, and not a moment's warning was given to any of them. That is precisely what the Federal Reserve Board did.

The Senator from Idaho [Mr. Gooding] has introduced a resolution calling upon the President to have this thing investigated. The President has held the same Federal Reserve Board in office. Governor Harding did not go off the board until his term expired by law August 9. He held on two years after President Harding went into office. He held on during all the time some of us were condemning deflation here in the Senate. I said repeatedly that the President ought to remove him, that unless he condoned what he did and indorsed his policy he ought to get rid of him; but he did not get rid of him. He did not get rid of him until his term expired under the law and it was disclosed that he could not be confirmed by the Senate if he had been reappointed. The other members are still on the board.

I do not know just how vigorous and thorough the investigation would be if the President should conduct it. I had rather have a congressional investigation. I may seek to get one next fall, when we come back, unless good results come from this investigation, if such an investigation is ordered, because I want a real investigation. I would like to interrogate these gentlemen myself. I have already

convicted Governor Harding of a grave national crime. I would like to ask them about certain things and go a little more into detail as to what occurred in that secret conference.

I would like to ask them if the spokesman for the New York bank did not protest, as this secret record shows he did, against having this progressive interest rate applied to New York, and I would like to ask them why it was they never did apply that rate to New York. I would like to ask them if the governor of the bank which serves my State, Governor Wellborn, of the Atlanta bank, and the governor of the bank of Dallas did not ask them not to apply the progressive rate down there, and why it was that it was applied at those two banks and not to New York. There are several questions I would like to propound to these gentlemen in this connection.

I have contended all along that deflation was cruel, criminal, inexcusable and indefensible. I still contend that. It was a cut and dried plan to pillage and plunder the American people. God only knows how much money they made out of that steal. Think of it, these men sitting behind closed doors, playing with billions and billions of wealth, and agreeing amongst themselves that they would go out and strike a blow that would cause the destruction of property values by the billions, and nobody but themselves and those in the inner circle was to know anything about it.

Do you know, Mr. President, there are men in this Republic who speculate who would have given \$50,000,000 for that information that night. If they could have been told, and I suppose they got the tip, that this thing was going to happen, they would

have gone upon the stock exchanges and sold and sold and sold. Senators, when men sell on these exchanges, the lower the price goes, the more money they make, and they would take no risk whatever in selling, Because they knew that what was going to happen by the derection of Governor Harding and his board would tumble prices down and down, and they would gather up their profits by millions. That is what the conspirators did.

President Wilson was very ill at that time. If I had been President, that deflation policy should never have been pulled off. If I had been President and I had known they intended to pull it off, I would have in a quiet way tried to stop it, and if I could not have stopped it that way, I would have employed sterner means and have been tempted to do as Old Hickory Jackson did in the case of old Biddle. You know what he told him, do you not? Biddle went to Jackson and wanted to have Congress couple some of his speculative measures with a Government measure and told Jackson that they ought to be put through together. Jackson would not agree to it. Then Biddle said to Jackson, "I will not let your bill pass." Jackson told him that he could not prevent its passage. Biddle said that he could. Then Jackson said to him that was too much power for one man or one concern to have, and he would take it from him; and he did. Then what did old Biddle tell Jackson? He said: "I will contract the currency and produce a panic." And Old Hickory Jackson said to Biddle, "If you do, damn you, I will hang you." He ought to have been hanged for such a crime. Biddle's panic did not come. The men who inspired and pulled this deflation conspiracy in 1920 were criminals. They destroyed property values by the billions. They swept away in thousands of instances the accumulations of a lifetime. They deserved to be hanged.

Mr. President, that deflation policy drove men mad. Hundreds were driven to death by their own hands. They were good men struggling for an honest livelihood, struggling to support their wives and children, and yet this deflation was produced through the conspiracy held here in Washington, and it brought this crash upon the country, and it dazed and stunned hundreds of these men and drove them mad, and I have said drove them to kill themselves. Why not hang half a dozen conscienceless criminals rather than permit hundreds of men to be driven to death by their own hands or into the insane asylums of the country.

The reason they wanted to suppress me was because I was on a hot trail and they feared that I would disclose to the public the truth of their cruel and criminal conduct and I was interfering with their false theories regarding panics. They were spreading their propaganda over the country in an effort to educate the people that panics could not be prevented, that they would just come anyhow every 5 or 10 years. I knew that that was not true and I said so. It is a falsehood as black as midnight. There is no excuse for a panic in a great Government like ours under the Federal reserve system and our other banking institutions if they are honestly administered. They must be honestly administered. A few Senators in this body, who have the courage to speak their minds and who have the sense to study the problems presented from time to time, can do a great deal toward keeping the Federal Reserve Board on the right road.

We can get the news to the bankers and to business generally through the Congressional Record. I have received hundreds of letters saying something like this: "I have been reading your speeches about this

deflation policy. I agree with you. We only get this information through the Record. The newspapers do not give it to us."

Mr. President, I want to mention another thing just here. I would like to know why the nomination of Mr. Crissinger has not been favorably reported to the Senate. He was appointed governor of the Federal Reserve Board several weeks ago. Why is he being held up? What does this delay in reporting his name mean? Why can we not have the opportunity to vote on his confirmation? There would be no question about his confirmation. Why does the majority of the Banking and Currency Committee hold back the report? Do they want to give Mr. Crissinger a recess appointment? Do they want him to go without confirmation until next December? Do they want these vultures to have an opportunity to pick at him and peck at him for nine months? Why is it they do not bring his name into this Chamber? He is a good man, I repeat, and an honest man. He favored a reduction of the rediscount rate when I was making a fight for it here for months; he incurred the displeasure of Wall Street by saying it ought to be reduced. Why does not the Banking and Currency Committee bring his name into this Chamber and let us vote on him before adjournment Sunday?

I am going to insist on his confirmation. He must be confirmed before we adjourn or the people must know the reason why. I want to read here what the Manufacturers' Record says on this subject:

#### WHAT ARE THE FORCES FIGHTING CONFIRMATION OF MR. CRISSINGER AS GOVERNOR OF RESERVE BOARD?

The question may be well asked. Why should the

confirmation of Mr. Crissinger be held up on account of the fight on Mr. McNary?

Are they the ones which two years ago were declaring that the office of the comptroller ought to be abolished? (And we presume that the chief reason for desiring to abolish the office was the great fight of the then comptroller, who was actively antagonizing the deflation campaign of the Federal Reserve Board.)

Now these influences are saying that the comptrolership is so important that Mr. Crissinger must not be confirmed until his successor is in office.

This apparently is a trick to prevent the confirmation of Crissinger and compel him to accept a recess appointment and thus have held over his head a possible failure of the next Congress to confirm his appointment.

His failure to be confirmed would in many respects be a calamity to the country. Senators who have the true interest of the country at heart and who want to make certain that no such policy of secrecy, fatal to the management of the Federal Reserve Board shall prevail in the future should demand that Mr. Crissinger be confirmed immediately, whether the Committee on Banking acts or doesn't and in this way administer a much-needed rebuke to the forces of reaction which have subtly endeavored by indirection to prevent a vote on his nomination to the governorship of the Federal Reserve Board.

The expose in the Manufacturers' Record of last week of the amazing methods adopted to prevent the public and the press from getting information about the actions of the reserve board and the secrecy

enjoined upon those in attendance should awaken the Senate and the country to the supreme necessity of confirming Mr. Crissinger immediately, despite the quiet but determined efforts of the forces which seek to continue their control over the Federal reserve system.

That is a strong and timely editorial from the Manufacturers' Record of February 28, 1923.

Oh, Mr. President, the people are getting tired, they are getting exceedingly weary of making a football of this great Federal banking institution and playing politics with it. We want it administered fairly and honestly. I have never criticized the system. I am proud of it. I helped to create it. I said all the time that deflation was not the fault of the system, that they perverted it from the end of its institution, that they maladministered it and turned it over to the control of the Wall Street financiers.

I said a moment ago that the deflation was enexcusable and indefensible. I want to read in support of that statement, Governor Harding's own words in the report of the board for 1920. Here is what he said:

"The Federal reserve system has met the requirements of war and readjustment by expanding, without, however, encroaching upon its legal reserves. It is capable, if need be, of expanding still further without having recourse to the emergency provisions of the act, and very much further by availing itself of these provisions."

Why did we create the reserve system? We created it for the purpose of resorting to the reserves in a crisis. We created it for the purpose of cal-

ling upon the reserve if the hour came when it was necessary to do so. We had no pride in merely providing a reserve and nursing it as a plaything and permitting a crash to come throughout the country, destroying the business of the people. The business of the people was not created for the purpose of supporting the Federal reserve banks. The Federal reserve system was created for the purpose of aiding and supplying the needs of the business interests of the country. Now what happened ?

Mr. President, John Skelton Williams was at that meeting here in Washington. He made a statement to the board that if this thing was to be done at all, it should be done in a sane manner, gradually, so as not to seriously disturb business. He said, in substance, "If a crash comes, you will be responsible." speaking to the members of the Federal Reserve Board, "for that crash," because the sound condition of the Federal reserve system was such, he said, that any serious business disturbance would be wholly unjustifiable.

Mr. President, wherever they have had their hired agents — I mean the crooked, subsidized press — they have distorted what I have said. They have circulated in my own State newspaper articles from other States which have been reproduced in one or two papers in Alabama to the effect that "Senator Heflin renewed his attack on the Federal reserve system again today," and so forth, or "Senator Heflin made another speech attacking the Federal reserve." I challenge anybody to read the speeches I have made and find one word where I have ever criticized the Federal reserve system. I have always praised it. I have criticized the conduct of those who betrayed it, of those who entered into a conspiracy to destroy business and produce a panic,

and that is what they planned to do in this secret meeting held here in Washington.

There are several of these quotations from this little pamphlet, with comments thereon from a former member of the Federal Reserve Board and the Comptroller of the Currency, that I want to print in the Record. I shall not take the time to read them, but I ask permission to readjust them and print them in the Record.

The PRESIDING OFFICER. Without objection, the request is granted. (See Appendix 1.)

Mr. HEFLIN. I shall not detain the Senate much longer. In view of the fact that some of the newspapers have printed articles that misrepresent my position upon the question, I ask unanimous consent to print in connection with my speech some of the letters I have received complimentary to my work against the Federal Reserve Board's deflation policy.

The VICE PRESIDENT. Is there objection? The Chair hears none, and it is so ordered. (See appendix 2.)

Mr. HEFLIN. Mr. President, I shall conclude, because I do not want to detain Senators at this time. I shall have something to say on various occasions on the subject. God being my helper, I am going to fight to prevent the recurrence of such a crime. Under this deflation drive I saw the agricultural masses of the South and West swept down, pillaged and plundered by the speculators and gamblers of the country. I saw 7,000,000 men driven out of employment. I saw industries stand idle. I saw stagnation in business in my country, while a

few men flourished in evil doing and clipped their coupons by the million as a result of this conspiracy held in Washington May 18, 1920.

Mr. President, in order that I may get in form for circulating purposes a statement, I propose to put something in the Record regarding the subsidized press that has undertaken to hamper me and misrepresent me in this work.

Mr. President, the man who winks at and condones a thing that he believes is wrong, a thing that he believes is fraught with danger to his country, is not the right kind of a citizen; but the one who dares to do what he believes is right, and condemns wrong whenever he finds it — in the strong as well as in the weak — he is a good citizen, valuable in many ways to his day and generation.

The press, like the public servant, owes a duty to the people. Both should ever be on guard, striving at all times to do that which will promote the common weal and best serve the cause of humanity. Predatory interests can work no injury to the country as long as the press is free and fearless and the public servant is honest and faithful. But a corrupt and venal press like a corrupt and crooked public official, becomes a constant menace and danger to the life of the State and Nation. Neither one should have the respect or support of patriotic, self-respecting people anywhere. An incorruptible press and an incorruptible public official are essential to the prosperity and happiness of people, and absolutely necessary to the preservation of our free institutions. Then it is true, of course, that a corrupt press and corrupt public official are the enemies of all that is clean and wholesome in our Government, and they should both be pointed out and treated as arch enemies to the country.

When the criminal agencies of greed and avarice go out to gather where they have not planted, to reap where they have not sown, to deprive others of the fruits of their toil, they seek first to corruptly control certain newspapers and then they seek to elect to office men who have no courage or convictions — men who will do what they want done without regard to the principles of right and justice. While a large portion of the American press is still free, the number of subsidized and corrupt newspapers are increasing to an alarming degree. The successful effort is being made by certain selfish and sinister interests to buy control of certain newspapers. They have in mind two things in doing that; one is to prevent the paper in question from antagonizing their propaganda and putting the people wise to just what they are trying to do, and the other is to make the paper their own enthusiastic agent or handy instrument in deceiving and misleading the people. In buying over secretly and corruptly controlling one of these papers in some communities they frequently leave the people without a single paper that will give the truth regarding matters that vitally affect the welfare of the community.

The Bible tells us that the truth is the light, and yet subsidized newspapers suppress the truth and spread the darkness of deception and falsehood where God's sunlight of truth should ever shine. Thank God there are newspapers in America — many of them — that stand foursquare to every wind that blows. Some of them are country weeklies published far from the hustle and stir of the city. Such papers, daily and weekly, year in and year out advocate what they conscientiously believe is right and best for the country. They are serving their day and generations well, and contributing to the strength and glory of the Republic. They are

mighty factors in the preservation of American ideals, and they are contributing in a superb and powerful way to the perpetuity of American institutions. All hail to them! Long live the courageous and unbridled press of our country! May their tribe increase.

No honest man has any right to contribute a dollar in subscription, or in any other way, to the support of a newspaper that belongs soul and body to predatory interests. What do people do when they discover that a public official they have been voting for has become the tool of their enemies and is being used to misrepresent and rob them? Why, they quit voting for him and he is retired to private life.

What would happen to the corrupt newspaper, the bribed agent of the corrupt interests, if the people who subscribe to it would write to the editor or manager and simply say: My dear sir, your paper editorially is antagonistic to the principles of fair play and justice. You traduce and slander the public officials who advocate measures that are good for the masses of the people. You seem to represent those who are diametrically opposed to my interest, and if I continue to subscribe to your paper I am aiding you to destroy those who are fighting for me and mine. I therefore request you to stop sending your paper to me." What would happen if that should be done? Why, these papers would be put out of business. The big advertisements, for which they get big money, are given to them because of the large subscription list that they have amongst the people. Cut down the subscription list, reduce it to a low figure, and the advertisements would immediately fall off and the corrupt sheet would die. When the citizen subscribes to and helps to support a corrupt and venal newspaper

he becomes responsible in part for the wicked work of such a paper. He not only permits the vile and venomous sheet to carry its scurrilous slime into his home, but he is helping to make it possible for such a sheet to continue its rotten and infamous existence.

I want to see the rank and file of our citizens, men and women everywhere, wake up to a full realization of their duty and responsibility in the matter of fighting, not supporting, but fighting, that part of the press which has no principle, no conviction, but is corrupt and venal, and therefore dangerously harmful to the best interest of the American people.

On the other hand, the newspaper that cries out against a dangerous policy and gives the truth to the people, in spite of the greed and wealth of those back of that policy, is the kind of newspaper that must continue if the Republic is to live. Such a paper is entitled to the confidence and support of patriotic people everywhere. I have in mind several such newspapers. I am going to mention one of them now. In 1920, when the Republican leaders and the big speculators and financiers of Wall Street conspired to bring on deflation and produce a panic, the effort was made by the conspirators to keep the truth from the people. The propaganda was started in New York and Washington, and spread rapidly over the country, to the effect that the business distress and financial disaster that had come upon us in all their fury could not be helped, but just came of their own accord from somewhere. Many people, dazed and stunned by the blow that came with the destruction of property values and the utter collapse of business of every kind, accepted the theory or the deflation propagandists as they gazed despond-

ently upon the ruin that deflation had wrought. The big criminals of the biggest financial crime of the century were busy fooling the people, covering up their tracks, hiding the proof of their guilt, as they gathered in the rich fruits of their crime. Then it was that Tom Hamilton, the brave and brilliant editor of the oldest Newspaper in the South, the Augusta Chronicle commenced to lay the blame for deflation upon the Federal Reserve Board and its fellow conspirators. His was the first daily paper in the country that dared to lay at the door of the Federal Reserve Board the charge that deflation was deliberately planned and brought about for the purpose of enriching the few at the expense of the many. It required courage of a high order to do that. While some other papers took up the fight and rendered valuable service later on the Augusta Chronicle and the Manufacturers' Record were first and foremost in the great battle against the deflation conspirators.

I wonder what would happen if they could drive out, scare out, and buy out all the courage and moral stamina left in our public men. Time was when the public man who condemned the wrong and cried out against crooks in high places had the support of most of the press of the country. But the time has come when some newspapers will openly and brazenly attack, vilify, and slander the public man who dares to condemn the conduct of the man or set of men that they have been hired to boost, protect, and defend.

The question is, Shall devotion to duty, courage, and love of fair play and justice in our public men be encouraged and upheld as things to be prized in the land that we love, or shall the corrupt newspapers be permitted the use of the mails and come

into our homes in order to peddle out their bartered poison against clean and courageous public men?

Mr. President, because of the unfair treatment of me by certain newspapers in other parts of the country and one or two in my own State, I feel it my duty to print excerpts from some of the letters that I have received regarding my work in the Senate. Those who read them will understand that I am placing them in the Congressional Record so that the people who have read the criticisms and perversions of the truth regarding my service may read what others, unbribed and unafraid, have voluntarily written to me upon the subject.

Appendix 1.

Central Bureau of the Central Verein,  
St. Louis, Mo., August 16, 1922.

Hon. J. Thomas Heflin,  
United States Senate, Senate Office Building,  
Washington, D. C.

Hon. Dear Sir: The St. Louis Globe-Democrat of August 3, contained a short report regarding statements made by you on the previous day in the Senate. We clipped this item and compared it with the stenographic report as printed in the Congressional Record, and thereby discovered how misleading the newspaper report is.

We concluded to bring this matter to the attention of our people and have done so in our Press Bulletin of August 9, which we are sending you herewith. Sincerely yours,  
Central Bureau of the Central Verein,  
F. P. Kenkel, Director.

[From Press Bulletin of the Central Bureau of the Central Verein, Vol. 10, August 9, 1922, No. 10]

NOT SUPPRESSED BUT GROSSLY DISTORTED —  
SENATOR HEFLIN'S SERIOUS CHARGE OF EXTORTION  
AGAINST FEDERAL RESERVE BOARD —  
PRESS ITEM COMPARED WITH REPORT IN CON-  
GRESSIONAL RECORD.

The manner in which the reading public is being misled by the news vendors — that is, the parties responsible for the information distributed to the dailies — is well illustrated by the following observation: Papers of August 3 contained an account from Washington saying that Senator Heflin, of Alabama, in opposing the reappointment of Governor Harding, of the Federal Reserve Board, had declared that interest of 87 1/2 per cent had been charged a small bank in his State by the Atlanta Federal Reserve Bank in 1920. Senator Smoot, of Utah, thus the item continues, said he could not understand how Senator Heflin's statement could be true, or how a bank could pay such interest rate and survive.

Senator Heflin's response to the doubt the Utah Senator cast on his remarks is quoted in the newspaper report, but in a manner that seems intended to mislead the reading public. "Senator Heflin," thus runs his reply, as contained in the item from Wahington, "insisting he had documents to prove his statements, said the Alabama bank barely managed to live but that its business and customers were destroyed."

Now, the fact that Senator Heflin is simply "insisting he had the documents" and not producing them would naturally lead skeptical newspaper readers, or those who favor the present banking system, to doubt, as Senator Smoot did, the possibility of so preposterous

an interest charge as the one Senator Heflin alleged an Alabama bank to have paid. But what did Senator Heflin really say? Turning to the Congressional Record No. 196, issue of August 2, 1922, we find on page 11871, that, having charged the governor of the Federal Reserve Board, Mr. Harding, with having applied the progressive interest rate to the agricultural sections of the South and West, but not at all to the other sections of the country, the Senator continued: "I hold in my hand a letter, written by the governor of the Federal Reserve Bank of Atlanta, in which he acknowledges that they charged a bank in my State 87 1/2 per cent interest.

Now, this is evidently something entirely different from what Senator Heflin was reported in the daily papers as having said. Furthermore, he added weight to what we have quoted from his address in the Senate by informing his colleagues that this valuable document had been furnished him by the former Comptroller of the Currency, Williams. "I made that charge," Senator Heflin continued, "on this floor for more than a year, and I could get no information on the subject from either the board or the bank of Atlanta as to the correctness or incorrectness of my charge. In the meantime the governor of the Federal Reserve Board was proclaiming that agriculture was in no way being discriminated against. He declared that agriculture had been aided in every way possible, when the real facts show that agriculture was stricken down and practically destroyed by the deflation policy conduct of Governor Harding."

At this point Senator Robinson, of Arkansas, interjected a question regarding the object of imposing such a rate. Senator Heflin, answering the interrogation, said: "The object was to shut off loans,

to prevent agriculture from getting money, to force the farmer to sell regardless of market conditions because the edict had gone out, in a quiet way, to stop loaning money on cotton and live stock and other farm products." Moreover, Senator Heflin made it absolutely clear that this rate was actually collected. "I criticized the Federal Reserve Board," he stated furthermore, "for its brutal and inhuman conduct in this matter, until I, with John Skelton Williams, forced the policy to be changed and the money to be refunded. The injury had been done, however, before the money was refunded.

To the question now put to him by Senator Robinson: "How could a bank continue in business and pay that exorbitant rate?" the Senator from Alabama replied: "It practically had to quit, barely lived through that trying time." And while a bank in the South, the dependence of agriculturists, had financial thumbscrews applied to it in such a manner, "a bank in New York borrowed many, many times more than its capital, and they never applied the progressive interest rate to it at all." In other words, as Senator Heflin so trenchantly put it: "Six per cent in New York, and an interest rate of 87 1/2 per cent in Alabama."

Let anyone compare the item regarding Senator Heflin's accusation, as it appeared in the papers of August 3, with the stenographer's report printed in the Congressional Record, and the result must be the conviction that the public was kept entirely in the dark regarding the serious indictment against the Federal Reserve Board pronounced by the Alabama Senator. And it is difficult to believe that the misleading newspaper report was due to the incompetence of some reporter. The account, as it was given to the papers, impresses one as studied,

inasmuch as the writer can not be accused of having suppressed the fact of the charge, while only a comparison of his item and the report printed in the Congressional Record would prove that in reality Senator Heflin's damaging statements had been falsified.

Central Bureau of The Central Verein.

August 22

Mr. F. P. Kenkel,

Director Central Bureau of the Central Verein,  
3835 Westminster Place, St. Louis, MO.

My Dear Sir: Your letter inclosing a copy of press bulletin of the Central Bureau of the Central Verein has been received and noted. I have read with keen interest and appreciation your bulletin, in which you show how unfairly my speech was reported on the date mentioned.

I am receiving letters from all over the country indorsing my position on the destructive deflation policy conducted by the Federal Reserve Board. Wherever the Congressional Record goes and the people can get the truth I have received letters strongly indorsing my stand in this matter. I have never seen one report sent out from Washington on a speech that I made upon this subject that gave a fair report of what I said in discussing the subject. Some strange influence has been at work to keep the facts that I have given from time to time from reaching the public.

Again thanking you for your interest and kindness in this matter, I am, with best wishes,

Yours sincerely,  
J. Thos. Heflin.

## APPENDIX 2.

Mr. HEFLIN. Here is a copy of an interesting letter, written by Hon. John Skelton Williams to the editor of the Manufacturers' Record, Hon. Richard H. Edmonds, of Baltimore:

March 3, 1923

Dear Mr. Edmonds: I thank you for sending me a copy of the letter addressed to you by Acting Governor Platt, of the Federal Reserve Board, in which he pretends to set forth, but really misrepresents, my position at the conference of May 18, 1920, at which I was present during a part of the proceedings.

After the well-merited excoriation which Judge Brand, of Georgia, publicly administered to this self-same Platt on the floor of the House of Representatives a year or so ago, he "ran to cover" and nothing was heard from him for some time. As you probably know, he is the particular member of the board to whom I referred in my speech before the Georgia Press Association on July 14, 1921, when I said:

"Upon another occasion when certain policies were being discussed in the Federal Reserve Board, which were being opposed on the ground that they might result in forcing the failure or retirement from business of many small State banks throughout the country, a certain member of the board, who has never been conspicuous for a knowledge of banking or an adequate comprehension of the difficulties which the country has had to face in the past year, spoke up and said, in effect, 'If this plan means the failure of the small State banks, that need not stop it; in fact, if we can't get rid of the small State banks by any other method, it might

be as well to get rid of them that way' — that is to say, by their failure. It was the same statesman and member of the board who a few weeks later condoned the action of a large bank in a big city which had been discovered to have charged a valued customer the equivalent of about 200 per cent per annum interest on a loan of several hundred thousand dollars for about six months, with the remark that 'all banks charge those rates, more or less.'

Mr. Piatt's statement to the effect that all banks charge such unconscionable rates as those which I was at the time condemning was of course untrue, for there are thousands of decent and self-respecting banks throughout the country who have never charged or countenanced those unscrupulous rates.

If Platt denies now the above statement which I made publicly more than 18 months ago, and was never denied as far as I have ever heard, he will only furnish additional evidence of his reckless mendacity. The speech in which I made those charges was made by me openly before the Joint Commission on Agricultural Inquiry of the United States Senate and House of Representatives on August 2, 1921, in the presence of several members of the Reserve Board, and they did not dare to question or deny them. It is too late now for them to try to do so.

In his speech before the May 18 conference, in admitting his ignorance of banking matters, Mr. Platt said to the assembly:

'I feel a little bit of trepidation before an audience made up exclusively of bankers, because I think I may be subject to a little criticism for not having had a great deal of banking experience. In fact,

my actual banking experience is confined chiefly to acting as teller at a few bank elections."

His whole conduct on the board impresses me as confirmatory of that confession. Piatt's letter to you is so ill-tempered, so undignified, and so full of misstatements that I doubt whether you will think it worthy of a reply.

I note that he has the impudence to say to you:

"If persons who took part in the discussion decide to prosecute the Manufacturers' Record for libel, as I shall urge them to do, it would be natural to expect Mr. Williams to join in the prosecution, because his own attitude is as grossly misrepresented as anyone's."

As your editorial was a plain, dignified, and forceful statement of facts and contained no misrepresentation of anyone, as far as I can see, Platt may be right in saying that my attitude was subject to the same degree of misrepresentation as anyone's when no one's was misrepresented; but if I should undertake to "join in a prosecution" it would not be of the Manufacturers' Record, which has so courageously exposed and turned the light of publicity upon the proceedings of the May 18 conference, for Platt knows well enough the intense and bitter feeling which exists against the men who have been described on the floor of the Senate and elsewhere as "conspirators," who, after the soothing assurances which they gave as to the orderly, intelligent, and and considerate manner with which a reasonable degree of deflation was to be brought about, cut the props from under the country's prosperity and precipitated, artificially, and as many believe designedly, the most ruinous and drastic deflation and

contraction of credits (of bank checkbook money credits) which the commercial, industrial, and agricultural interest of the world ever experienced.

In his letter to you he has the effrontery to say that I —

"First. Agreed to the conclusions of the meeting.

"Second. Voted for the resolution adopted.

"Third. Advocated deflation in express terms, and was practically the only person taking part in the discussion who did so."

Those brief extracts from his letter contains three false and misleading statements.

I did not agree to the conclusions of the meeting as put into practice.

I did not vote for the resolution adopted.

I was not practically the only person taking part in the discussion who advocated deflation in express terms.

Platt doubtless knows well enough that at conferences and hearings of that character the members of the board present who are conducting the hearing do not vote on the questions brought up; at least they did not when I was a member of the board. Such meetings and conferences go on record by the passage of resolutions, and their resolutions are taken up subsequently at meetings of the board in executive session for consideration and action if desirable.

Platt admits a little later in his letter, however, that what I advocated was a "proper and reasonable degree of contraction" — "a reasonable degree of deflation."

When, in the meeting of May 18, 1920, I had unsuspectingly commended Governor Harding's opening address, in which he had given those positive assurances that whatever liquidation was to be brought about was to be "gradual" and "sensible" and that great care was to be taken "not to overdo this matter of liquidation." I never imagined that a majority of the Reserve Board could sympathize or agree with the views of the chairman of one of the Federal reserve banks who got up during the meeting and actually suggested that the reserve system should "without disturbance" bring about a contraction of loans during the ensuing three or four months of two or three billions of dollars, or 10 per cent of all outstanding loans, which he stated to the meeting was the kind of liquidation that had been "spoken of in the Federal reserve system as orderly liquidation."

I can not conceive how any sane and intelligent man could regard such ruinous deflation as would naturally follow the calling in of two or three billions of loans in three or four months as indicative of the "wise and discriminating judgment" which Governor Harding had assured those present at the meeting was to be exercised in this supremely important matter. If any such program had been adopted openly at that time the country would have been stunned but would have revolted immediately and would have prevented the cataclysm.

Mr. Platt says in his letter to you that I "wanted contraction at once," and that I criticized a colleague for going no further than "to desire and hope that we would not inflate any further."

Mr. Platt knows that his statement is a perversion of my consistent position throughout that whole

period. I was in favor of curbing and restraining profiteers and speculators, but I urged that the fullest consideration should be given to the country's legitimate business and commerce agricultural interests and essential industries. To quote my exact words in this connection, at that meeting I said:

"It seems to me the greatest factor would be to restrict arbitrarily the granting of credit (granting of bank checkbook money) to nonessential industries or those concerns that are making inordinate profits, especially on products that are not most needed."

A few weeks later, on August 26, 1920, I urged upon the board a moderation of its contraction policies, and filed a memorandum with the board in order that the record might be clear, I said in the note:

"Mr. Williams called attention to the drastic liquidation which has already taken place in the past six or eight months in leading commodities, including cotton, wheat, corn, rice, silk, wool, leather, and so forth, the shrinkage in some cases amounting to over 50 per cent. He also stated that prices of standard securities, including United States Government bonds, high-class railroad bonds and shares, and other securities, had this summer reached the lowest level they had touched in half a century, and expressed the view that such additional liquidation as is needed could be brought about without the exaction of interest rates as high as those which have prevailed.

In a communication to the governor of the board on January 28, 1920, I had remonstrated against the reckless manner with which the funds of the Federal reserve system were being withdrawn from the

legitimate channels of trade and commerce to feed the fires of speculation in New York. I pointed out in that letter that the Reserve Bank of New York was lending to a certain conspicuous banking institution in that city an amount equal to nearly six times the capital of the Federal Reserve Bank of New York, or an amount in excess of the total loans and discounts made about that time to all of their member banks by either the Federal Reserve Banks of St. Louis, Minneapolis, Kansas City, Richmond, or Atlanta, and I showed that the amount which was being loaned to that one particular trust company was about twice as much as the aggregate of all loans and discounts and purchased paper held at that time by the Federal Reserve Bank of Dallas.

I registered my protest against such an abuse of the aims and purposes of the reserve system in the following language in a letter to the governor of the board. I said:

"This is a concentration of the funds of the system with one debtor bank conspicuous for its speculative operations and promotions, which in my judgment is not only not justified but distinctly dangerous, and I feel it my duty to register my strong dissent from a continuance of such conditions as these by writing you, as I am doing, as an ex officio member of the board. ... With such facts before us ... as I have here undertaken to bring to your attention, our responsibility becomes serious and very real."

My recommendations at that time, however, were unfortunately disregarded, and the concern referred to continued its speculative operations and promotions and its absorption of Federal reserve funds, and about 18 months later the bankers of New York City were hurriedly called together to provide from

\$75,000,000. to \$100,000,000. to prevent a disastrous failure.

Like so many others, I was also misled for a while by Governor Harding's specious promises and protestations as to the "gradual" and "sensible" manner in which "reasonable" deflation was to be brought about. The stenographic record shows that I said to the conference:

"I see nothing in the situation to justify the fear of such a commercial crisis or financial catastrophe as we had either in 1873, 1890, or 1907."

That was perfectly true. There was no justification or excuse for the cataclysm which was subsequently precipitated. It is clear now that I had greater confidence in the "wisdom," "discriminating judgment," and real intentions of a majority of my colleagues on the board than was justified. I realized their tremendous power for evil as well as for good, but I did not think that it was the power for evil that was to be exercised rather than the power for good; but I did warn the conference, in referring to the commercial crises of 1873, 1890, and 1907, that "if anything of that kind comes, it will be our fault — the fault of those who are in charge of the banking and commercial interests of the country, and I do not believe they are going to bungle it."

In commenting upon that statement by me you say, very properly, in your editorial:

"Unfortunately those in charge of the banking interests of the country did bungle it, and bungled it badly, as Mr. Williams has repeatedly said that they did, and proved by the figures which he has published showing how badly it was bungled."

The clear and unmistakable written record of those times shows how I urged and implored the Federal Reserve Board, when I realized the dangers of the drastic deflation and contraction which they were bringing about and the annihilation in commodity values of all kinds which was taking place — not the "proper and reasonable degree of contraction" of which I had spoken — to put on the brakes and save the situation from such ruthless deflation before it should be too late.

Governor Harding's reply to one of my communications was to the effect that the paralysing collapse in values which was taking place was merely the puncturing of a balloon and letting out hot air, to which I replied that intelligent men in charge of the management of a balloon were not expected to "puncture" it and bring it crashing in ruin to earth, but to effect a safe landing by the intelligent use of valves, ropes, and ballast.

Did you notice Mr. Platt declares in his letter that in your article "it is stated that 100 copies of the report of this meeting 'were printed for confidential circulation' at the time and the type destroyed"? His statement is plainly false. You did not say in the article from which Platt intends to quote that the 100 copies were printed "at the time." The words "at the time" were simply inserted by Platt without warrant. For aught we know, however, 100 or more copies may also have been distributed "at the time" of the meeting as well as later. It would quite naturally have caused a shudder throughout the country if the board had foretold the ruinous deflation plans which it put into execution in the ensuing months.

The Manufacturers' Record did not misrepresent

my position in the least degree; but I do resent very thoroughly the "gross perversion and falsification" of my recorded position which Mr. Platt attempts to make in his letter to you.

By the way, I notice that your long editorial of 18,000 words was considered to be of so much importance to the whole country that two United States Senators, from North Dakota and from Idaho, in the past few days have each had the entire editorial inserted in the Congressional Record as a part of their speeches in the Senate. And on February 28, as your editorial was being commended by Senator Gooding, Senator McNary obtained the floor to say that "the article referred to by the able Senator from Idaho is a splendid one and I should like to have it read from the desk."

Senator Dial of South Carolina, arose and said: "Let us have the whole article read. It is very interesting.

The clerk of the Senate then read your 18,000-word editorial throughout. Upon the conclusion of the reading, Senator Gooding said to the Senate: "I think the people of this country owe a debt of gratitude to the Manufacturers' Record, of Baltimore, for having the courage to publish the story of this conspiracy, as it was formed here in this city on May 18, 1920.

I again congratulate you upon the manner in which you have brought this important subject before the country.

Yours very truly,

John Skelton Williams.



## IF ALL BANK LOANS WERE REPAID. . .

"If all bank loans were paid (off), no one would have a bank deposit, and there would not be a dollar of currency or coin in circulation. This is a staggering thought. We are completely dependent on the commercial banks. Someone has to borrow every dollar we have in circulation, cash or (checkbook) credit(s). If the banks create ample synthetic (checkbook bank) money, we are prosperous; if not, we starve. We are absolutely without a permanent monetary system. When one gets a complete grasp upon the picture, the tragic absurdity of our hopeless position is almost incredible — but there it is. It (the synthetic bank money) is the most important subject intelligent persons can investigate and reflect upon. It is so important that our present civilization may collapse unless it is (more) widely understood and the defects remedied very soon."

(By Robert H. Hemphill, 8 years Credit Manager of the Federal Reserve Bank of Atlanta.) 14:102

# FEDERAL RESERVE BOARD CONFERENCE

(Official Secret)

## MINUTES

OF

CONFERENCE WITH THE FEDERAL RESERVE  
BOARD OF THE FEDERAL ADVISORY COUNCIL  
AND THE CLASS A DIRECTORS OF THE  
FEDERAL RESERVE BANKS

HELD AT WASHINGTON, D. C.  
MAY 18, 1920



PRESENTED BY MR. GLASS  
FEBRUARY 24, 1923.—Ordered to be printed

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BEFORE THE FEDERAL, RESERVE BOARD.

CONFERENCE WITH THE FEDERAL RESERVE BOARD OF THE  
FEDERAL ADVISORY COUNCIL AND THE CLASS A DIRECTORS  
OF THE FEDERAL RESERVE BANKS.

WASHINGTON, D. C, Tuesday, May 18, 1920.

The conference convened at the offices of Governor Harding, Treasury Building, Washington, D. C, on Tuesday, May 18, 1920, at 10.30 o'clock a. m., Hon. W. P. G. Harding, Governor of the Federal Reserve Board, presiding.

Appearances:

Hon. Adolph C. Miller, member of the Federal Reserve Board.

Hon. Henry A. Mohlenpah, member of the Federal Reserve Board.

Hon. John Skelton Williams, Comptroller of the Currency and member ex-officio of the Federal Reserve Board.

Hon. David F. Houston, Secretary of the Treasury and member ex-officio of the Federal Reserve Board.

George L. Harrison, counsel, Federal Reserve Board. Also the members of the Federal Advisory Council:

Philip Stockton, Federal reserve district No. 1.

A. B. Hepburn, Federal reserve district No. 2.

L. L. Rue, Federal reserve district No. 3.

W. S. Rowe, Federal reserve district No. 4.

J. G. Brown, Federal reserve district No. 5.

Oscar Wells, Federal reserve district No. 6.

James B. Forgan, Federal reserve district No. 7.

F. O. Watts, Federal reserve district No. 8.

E. F. Swinney, Federal reserve district No. 10.

R. L. Ball, Federal reserve district No. 11.

A. L. Mills. Federal reserve district No. 12. Present also:

J. H. Puelicher, Marshall & Ilsley Bank, Milwaukee, Wis.

John Perrin, chairman of the board and Federal reserve agent, Federal Reserve Bank of San Francisco.

Hon. Edmund Platt, chairman of the Banking and Currency Committee, House of Representatives.

Also the following class A directors of the Federal reserve banks:

Boston: Thomas Beal, Edward S. Kennard, and Frederick S. Chamberlain.

New York: James A. Alexander, R. H. Treman, Charles Smith, and J. H. Risson.

Philadelphia: Joseph Wayne, jr., M. J. Murphy, and Francis Douglas.

Cleveland: O. N. Sams, Robert Wardrop, and Chess Lamberton.  
Richmond: John F. Bruton, Charles E. Rieman, and Edwin Mann.  
Atlanta: J. K. Ottley, Oscar Newton, P. R. Kittles, and W. H. Kettig.  
Chicago: George M. Reynolds, Charles H. McNider, and E. L. Johnson.  
St. Louis: J. C. Utterbaek and Sam A. Ziegler.  
Minneapolis: Wesley C. McDowell and E. W. Decker.  
Kansas City: J. C. Mitchell, C. E. Burnham, and W. J. Bailey.  
Dallas: John T. Scott, E. K. Smith, and B. A. McKinney.  
San Francisco: C. K. McIntosh, J. E. Fishburn, and M. A. Buchan.

#### PROCEEDINGS.

Governor HARDING. Gentlemen, the board desires me to welcome you to Washington and to express its appreciation of your consideration in leaving your business and coming here to this conference.

We have been very judiciously advised from time to time by the Federal Advisory Council, which body has always held its four statutory meetings a year, and at times its executive committee has come on by request for a special meeting; but the present situation is such that we felt it would be helpful if we could have with us not only the Advisory Council but also the class A directors of the Federal reserve banks. We should have liked to have had all of the directors, but we could not ask them all to come to Washington at one time, for it is necessary that a quorum of directors be left at home to attend to the business of the Federal reserve banks.

The class A directors are the banker members of the boards of directors of Federal reserve banks. They have a dual relationship. They are not only directors and, as a rule, very influential directors of Federal reserve banks, but they are officials of member banks and thus they see both sides of the picture. So it seems to be peculiarly appropriate, at a time when there is a banking situation to discuss, to have bankers here to discuss it.

As you are busy men it will be our purpose to detain you for as short a time as possible, and if it is agreeable to the members of the conference, we will try to finish our discussion by half past 1 or 2 o'clock so that you can then be free to take afternoon trains home, if you wish, or to devote your time, if you stay in Washington, to such other engagements as you may have.

Of course, we all realize that the credit position is extended and very considerably extended. There is no occasion, though, to be unduly disturbed over the situation. We want to look at the facts as they are and not deceive ourselves in any particular. Having diagnosed the case, then we want to determine what is the proper policy to pursue. We have had an analysis made of the general banking: credit expansion in this country, and, without going into details, I am going to save time by stating the result.

After allowing for the normal credit expansion in a growing country, we find that since the 30th of June, 1914, the expansion of bank credit in this country has amounted to about \$11,000,000,000. At the same time the expansion in the volume of currency in circulation, deducting from our starting point the currency held in

the Treasury, and deducting from the present figures the amount held in the Treasury and in the Federal reserve banks, has been about \$1,900,000,000. When we remember that during the last three years the Government has floated \$26,000,000,000 of securities to take care of its own war requirements, and to enable it to make advances to Governments associated with us in the war, this expansion of bank credit does not seem to be excessive or disturbing, when looked at purely from the standpoint of war necessity, but the situation that we want to discuss particularly to-day, and which seems to be disquieting, is the expansion that has taken place in the last twelve or fourteen months. From the 1st of April, 1919, to the 1st of April, 1920, the expansion of bank credit was about 25 per cent. This has been in spite of the very large reduction of the amount of Government obligations outstanding. The reduction in Government obligations has all been absorbed by commercial credits, with the net result of expansion of bank credits of about 25 per cent. During the same time there has been an advance in commodity prices of about 25 per cent. This has been accompanied by a decrease in production of essential articles.

Assuming for the year 1918 an index number of 100 in each of 10 principal articles of everyday use and necessity—not necessarily production figures, but distribution and consumption figures, such commodities as grain, live stock, wool, copper, cotton, petroleum, pig iron, steel bars—putting them at 100 for the year 1918 we get an index number for the year 1919, on the average of the 10 commodities, of 89.07. While these figures can not be accepted as indicating a positive decline in production, they do indicate a decided trend in that direction, a certain trend toward a reduction in the distribution of those products; so to all intents and purposes we may assume that there was a decline in essential production during the year 1919 of about 10 per cent.

It is this tendency of production to decline, particularly in some essential lines, which constitutes a very unsatisfactory element in the present outlook. It is evident that the country can not continue to advance prices and wages, to curtail production, to expand credits and to attempt to enrich itself by nonproductive and uneconomic operations without fostering discontent and radicalism, and that such a course, if persisted in, will eventually bring on a real crisis.

There is a world-wide lack of capital, and with calls upon the investment market which can not be met there is an unprecedented demand for bank credits. The fact must be recognized that however desirable on general principles continued expansion of trade and industry may be, such developments must accommodate themselves to the actual supply of capital and credit available.

Official bank rates now in force in the leading countries are higher than at any time during the present century, except during the war panic week at the beginning of August, 1914. Only within the last few weeks the official rate in Italy has been raised from 5 to 5 1/2, the Bank of France rate from 5 1/2 to 6, and the Bank of England rate from 6 to 7 per cent.

Every effort should be made to stimulate necessary production, especially of food products, and to avoid waste. Planting operations in many sections have been delayed because of adverse weather conditions, and should there be an inadequate yield of crops this year

the net essity for conservation and conservatism will be accentuated War waste and war financing result inevitably in diminished supplies of goods and increased volume of credits.

Now I assume, looking at the matter from the standpoint of the economist, that the trouble with the general situation throughout the world, and in this country, is the disruption of the proper proportion or relationship between the volume of credit and the volume of goods. Whenever that phenomenon occurs, there are two remedies which suggest themselves: First, a reduction in the volume of credit, credit contraction. That is a drastic remedy, it is unpleasant medicine, but it may be necessary at times to take medicine of that kind. The other and better method is to restore the proper equilibrium by building up production; in other words, letting the country catch up with itself. We can approximate this result in two ways. We can restrict credit and expand production, letting the expansion of production proceed at a greater rate than the restriction of credit, and we are then working along in the right direction. This is our essential problem to-day, the formulation of some constructive policy to be adopted by the Federal reserve banks which will build up essential production and at the same time preserve the solvency or other concerns which may not be essential per se but which are highly essential as part of the general situation, because there is no chain which is stronger than its weakest link.

Now, there is undoubtedly, however, a spirit of extravagance in this country which must be curbed. There are some indications that the people are waking up to what the consequences will be if this wild orgy of extravagance and waste should be continued indefinitely. It may be that some real personal sacrifices must be made for the general economic good. But it is very clear if we find it impossible under the present circumstances to increase the volume of production of the most essential articles, the only thing for us to do is to reduce consumption of those articles.

Now, we might as well look at the situation as it is. A prudent man never lives for the day alone. He always looks to the morrow and the months to come. That is the situation in regard to the output of the mines and of the farms in particular? What has been done to get normal output and production at the present time and to provide proper means of distribution of the output in order that there may be no acute shortage in the fundamental necessities of life next winter? In this connection, I might call attention to one circumstance which has caused a good deal of uneasiness. It may not prove as bad upon analysis as it appears at first blush, but I refer to the lack of liquidation which we have experienced during the early months of the present year.

We all know that normally, after the fall trade is over and the crops have been harvested and distributed, there is a marked easing of money accompanied by the liquidation of debts. This occurs usually in January and February and up to the middle of March of each year. Liquidation of this kind is entirely natural and is necessary in order that the banks may strengthen their resources in order to meet the demands which will be made on them later in the year as the crops are in the process of making or harvesting. This year we have had no such liquidation. Commercial loans have expanded

steadily, and, while there has been some reduction up to the last week or so in loans secured by Government obligations, it is noticeable in the last few days that those loans have been increased. It would appear that this means an anticipation on the part of the American people for their requirements for bank credit which they usually make later on in the year. We may well inquire that, as we have had this demand at a time when we ought to have had liquidation, what is our situation going to be in the later months, when we are going to have the demands which we have been accustomed to having? Now, I hope that the answer to this is—and if this is correct it is the reassuring feature of the situation—that the demands which have been made in the past few months, when we should have had liquidation, are due, at least in part, to the fact that essential commodities have been held back by lack of transportation facilities. Then our problem is directed to opening up the transportation facilities in order that these goods may flow to market. This done, we will get some liquidation which ought to be sufficient to offset the demands which will be made upon the "banks for essential purposes later on in the year.

But we have figures to show that the extravagant spirit has not yet been checked. There are some indications that the peak has been reached and that people are coming to more realizing sense of the situation and that they will pursue a sounder and a saner course. There ought to be a recrudescence of our old war-time spirit, of doing something that is worth while, and we should get down to work and solid business. There should be a general spirit of cooperation on the part of the Federal reserve banks, the member banks, the non-member banks, and the public to work out a policy which will result in greater production, less unnecessary consumption, and greater economy; all unnecessary borrowings for the purpose of pleasure and luxury should be restricted as far as possible and the liquidation of long-standing, nonessential loans should proceed.

We should be careful, however, not to overdo this matter of liquidation, because too drastic a policy of deflation, which might result in crowding to the wall and throwing into bankruptcy legitimate enterprises, however unessential their operations may be, would have a tremendously bad effect and would defeat the purpose of the very policy which we are trying to have established. There must always be a wise and discriminating judgment used.

A sensible and gradual liquidation will result in permanent improvement, as we all know, but any attempt at radical or drastic deflation merely for the sake of deflation will result in very serious consequences, and such a policy should be avoided.

It will be helpful for us to discuss and to understand the parts which must be played by the Federal Reserve Board, the Federal reserve banks, and the member and the nonmember banks in solving the financial and economic problems that confront us.

Our problems are interrelated, but they are distinctive. The Federal Reserve Board is a governmental body, sitting here in Washington. It does not come, except indirectly, in contact with the member banks, and it can not be expected to have any intimate knowledge of the details of your business. And it ought not to attempt to interfere with the details of your business. The function of the Federal "Reserve Board is to deal with general conditions and principles

and to keep away from the mass of details which it is impossible for any board sitting here in Washington to digest.

The Federal reserve banks do come in direct relationship and contact with their member banks. They have an intimate knowledge of the credit policy and of the borrowings of the member banks; they are kept fully informed from day to day of the change of position of the member banks, and through their contact with the Federal Reserve Board, as the coordinating and supervising body, they keep informed as to the board's general policy, and they transmit to the board such specific and general information as may be of assistance in determining these policies. But the primary banking business of this country is transacted by the member and the nonmember banks. Those are the banks which come in contact with the public, which are the custodians of the funds of the public, put with them on deposit, and they are the media through which commercial loans are made.

We have heard a great deal about the necessity of discriminating between an essential and a less essential and a nonessential loan. The discount operations of the Federal reserve banks and their powers to make investments are all clearly defined in sections 13 and 14 of the Federal reserve act. Those sections are permissive and not mandatory. A Federal reserve bank is not required to make any particular loan or any particular investment. The Federal Reserve Board may define eligible paper, but all rulings and regulations of the board must be in strict conformity with the terms of the Federal reserve act. The Federal Reserve Board has no legislative powers whatever. It can merely interpret by regulation or rule the enactment of Congress.

Now, without discussing any power that the Federal Reserve Board may have to define essential and nonessential loans, I wish to point out that section 13 provides, in a general way, that any paper maturing within the prescribed time, the proceeds of which have been used or are to be used for commercial, industrial, or agricultural purposes, is eligible. There is no specific condition imposed as to whether or not, in the judgment of any man or body of men, any particular loan is an essential loan for the well-being of the community or the country at large.

The board has reached the conclusion that there is no occasion now, whatever may be necessary later on, for it to attempt by any general rule of a country-wide application to define essential and nonessential paper. You remember the difficulties that were experienced in making such a definition during the war, when we had the War Trade Board, the War Industries Board, the Capital Issues Committee, and other temporary boards here passing upon all these matters. At that time the problem was simpler than it would be now, because there was a general underlying principle that anything essential must be something that was necessary or contributory to the conduct of the war. Now we have no war. The temporary boards have all dissolved and gone. The Federal Reserve Board is not a temporary board. It is a permanent organization and it must conduct its business in strict accordance with the terms of the Federal reserve act. Therefore, I think we are all agreed that there is no occasion at the present time, if ever, for the Federal Reserve Board to attempt to define, by regulation of country-wide applica-

tion, what is an essential and what is a nonessential loan. A Federal reserve bank is in much better position to undertake this than is the Federal Reserve Board.

But even here there are difficulties in the way. Some of the Federal reserve districts cover very large areas. A rule adopted by one Federal reserve bank may not be susceptible of adaptation in another Federal reserve district, because what seems to be essential or necessary in one place may not be in another. While there is no particular objection to a Federal reserve bank, in the wisdom of its directors, undertaking to make a general discrimination between loans plainly unnecessary, plainly nonessential, and those which are less essential or more essential, it seems to the board that that whole question of discrimination might very properly be left for solution at the source, as a matter between the individual banker and his own customer, because the individual banker, particularly at times like the present, has a very close, confidential relationship with a borrowing customer. They can talk matters over with the utmost frankness. The individual banker is in position to give advice. He can accustom his customer to come to him, in advance of seeking a loan, or of making any commitment involved, to discuss the situation with him before the commitment is made. The individual banker in many cases—of course this may not be possible in the larger cities—but the great mass of banks all over the country that do mostly a local business can very largely anticipate the legitimate and necessary credit demands which are going to be made upon them; they can estimate the fluctuation in the volume of their deposits, and they are better qualified than anyone else to give advice to a borrowing customer. They can often restrict the amount of a loan before it is made and can persuade a customer in very many cases that he really does not need the money after all.

Then, again, the individual banker can determine, not so much the essential nature of a loan from an elementary standpoint, as to whether the loan is going to produce something that is absolutely needed, but he can decide better than anyone else whether the loan is essential or necessary for the public good in his particular locality, not only as a means of producing something that ought to be produced, and which is needed for consumption, but as a means of preserving the solvency of his community. We all know that if the bankers in any community, large or small, were to clasp the screws on tight, they could bring disaster to the community, which might spread to other communities.

Of course, there may be cases, and there have been cases, doubtless, probably in all of the districts, where some of the banks have overdone the matter of extending credits, but there is one very encouraging feature of the present situation, and that is such cases are comparatively few. The majority of all the member banks in each of the Federal reserve districts are not borrowers from the Federal reserve banks, and the number of member banks which are borrowing from the Federal reserve banks in an amount exceeding their own capital stock is not large in proportion to the total membership. Every banker knows, or he ought to know, what reasonable line of credit he can get from his Federal reserve bank, and I want to call your atteD-

tion to the power that the directors of the Federal reserve banks have to limit their loans.

I referred a moment ago to the fact that there is no mandatory provision in the Federal reserve act requiring that any particular loan be made. The nearest approach to compulsion in the matter of loans that you will find anywhere in the act is that provision which permits, and upon the affirmative vote of five members of the Federal Reserve Board, requires a Federal reserve bank to rediscount for another Federal reserve bank. With this exception there is no other mandatory provision relating to loans in the Federal reserve act. While sections 13 and 14 are permissive, there is, however, a strict injunction laid upon the directors of the Federal reserve banks in that part of section 4 which requires the directors of a Federal reserve bank to administer its affairs without favor or discrimination for or against any member bank, and in making loans, discounts, and advancements, which in their opinion may be safely and reasonably made, to pay due regard to the wants and requirements of other member banks. Thus the directors of Federal reserve banks are clearly within their rights when they say to any member bank, " You have gone far enough; we are familiar with your condition; you have got more than you share, and we want you to reduce; we can not let you have any more." They must exercise their discretion as to the proper course to pursue, but they have the power, and there are many cases where the rule ought to be laid down and a member bank ought to be made to understand that it can not use the resources of the Federal reserve banks for its own private advantage for profit; that it must not abuse the rediscount privilege of the Federal reserve system.

When a banker understands, just as he did in the old days before we had the Federal reserve banks, that there is a limit to his borrowing—and you will remember in the old days no national bank was permitted to become indebted for borrowed money in an amount exceeding its capital stock—when a banker realizes that if he wants to expand his business he must do it more and more out of his own resources and not lean so heavily upon the Federal reserve bank, when he understands that limitations and penalties may be imposed upon his borrowings, then if I know anything about the psychology of banking I know that the banker may be depended upon to use a wiser discretion in the matter of granting credit.

The recent amendment to paragraph (d), section 14, which empowers the Federal reserve bank, for itself and without regard to any other Federal reserve bank, to establish a normal or basic line of credit upon some principle applicable to all member banks in its district alike, and to impose a graduated or penalty rate upon excessive borrowings, does not repeal, amend, or modify in any particular the provisions of section 4 or section 13, and a Federal reserve bank is still, even though it adopts the progressive or penalty rate, entirely within its rights in declining to take undesirable paper at any rate. The progressive or penalty rate I will not discuss at this time, because we will have an open discussion a little later on and we will take it up then.

It may be argued that the volume of credit must necessarily be greater now than was the case a few years ago on account of the higher prices and higher wages which are prevailing, so that any

given transaction requires a greater number of dollars to finance it than was formerly the case. That is true, but I believe that I can present figures to you that will convince you that if there could be a freer flow of goods and credit—in other words, a greater velocity in the turnover of credit—the resources of the banks of this country are abundantly able to finance all essential enterprises and a good many of the nonessential as well. The fundamental trouble with the situation to-day is that there is a large volume of essential goods and commodities held back from the markets and kept out of the channels of distribution, either for speculative purposes, being held with the idea of getting higher prices later on, or where they are held back of necessity on account of lack of facilities to transport them to market. In the latter case it is a wise and proper policy to ease the situation along, to assist the people who are thus compelled to hold and not throw any obstacles in their way, provided there is a genuine and sincere disposition to put the stuff in process of distribution as soon as transportation can be had. But in the case of the hoarder, who for selfish and profiteering purposes wishes to hold back from the mouths of hungry people essential articles of food and clothing, every good banker should exert every influence within his power to force people of that kind to turn loose their hoards. Here is an opportunity for wise discrimination, and this discrimination can be exercised more intelligently and effectively by the individual banker himself than by any governmental board.

We find instances also which always occur when there is a constantly advancing tendency in the market, where merchants have stocked up. There are many cases where mercantile loans are too large and ought to be reduced. There are merchants everywhere who ought to be reasoned with and who ought to be encouraged to push their stocks out and get rid of the high-priced stuff, because some of these days, it may be sooner rather than later, the reign of reason is going to be restored and the man in the street is no longer going to want to pay \$25 to \$30 for a silk shirt or \$20 for a pair of shoes or \$1 for 4 pounds of sugar, and lower prices will be demanded, and trade will fall off unless lower prices prevail. It seems to me, from the standpoint of good merchandizing and good banking, that the merchants should be encouraged to reduce their stocks and not tempt the passer-by by extravagant display in the windows at high prices, which under the abnormal state of mind which has prevailed may themselves help to sell the goods, because you all know cases where a customer would pass by with contempt a two or three dollar article and turn his attention to something at \$25, although it may not be one whit better suited to his purposes.

In order to bring about a correct tendency and to lead to a permanent cure of our present situation, a campaign of education must be begun and continued. Here, again, there is no agency so well qualified as the banker, who receives on deposit the money of the public and makes loans to the public, to give advice, so thus there should be a concerted effort all over this country on the part of the bankers to arouse in the public a spirit of common sense. Let us take our heads out of the clouds and get down to business, and let us save, produce, and let each do his part in a constructive and productive way for the community, to add to the volume of goods and facilitate distribution, thereby doing something to cure the dis-

crepancy, the bad relationship which has existed between the volume of goods and the volume of credit and money.

In any circumstances, you all know that the Federal reserve banks and the Federal Reserve Board will do their part to cooperate with the sound, sensible, and reasonable member banks. In order that we may accomplish any real results and effect any permanent good, there must be cooperation on the part of the public with the banks, and on their part with the Federal reserve banks and the Federal Reserve Board. We must all pull together for sound, economic, and financial principles. We should do all in our power, and we can do a great deal to check the false ideas which have gained circulation and inculcate in the minds of the people a sense of the importance of steady, everyday production and distribution, and to encourage the avoidance of waste and the elimination of extravagance.

I have here some charts, which will be distributed among you, which show the movement of principal asset and liability items of each Federal reserve bank and of the system, of the 12 banks combined. These figures are taken from July 3, 1919, to April 30, 1920. They show the gold reserves, the total cash reserves, the member banks' reserve deposits, the Federal reserve notes in circulation, the acceptances bought, paper secured by Government war obligations, divided into the headings, secured by Liberty bonds, secured by Victory notes, and secured by Treasury certificates, and the total discounted paper on hand. Then there is another table which shows the volume of bankers' acceptances purchased from other Federal reserve banks and the volume of bankers' acceptances sold to other Federal reserve banks, figures at the close of business on each Friday from July 3, 1919, to April 30, 1920.

Now, gentlemen, I declare the meeting open for general discussion.

Mr. HEPBURN. I would like to inquire if any arrangement has been made to place your opening remarks before the public, Governor Harding, because, if not, I think that should be done and that they should be given the widest distribution.

Governor HARDING. I have a synopsis prepared which was given to the press on yesterday for release to-morrow morning. It is rather more abridged than the statement I made this morning, but it is the substance of it.

Now, gentlemen, I want to introduce our member designate, the Hon. Edmund Platt, who is at present chairman of the Banking and Currency Committee of the House of Representatives.

The Federal Reserve Board is greatly indebted to Mr. Platt for cooperation during all these years, especially more recently since he has been chairman of the committee, and for the assistance he has given the board in all matters of legislation. It is with a great deal of pleasure that the members of the board are going to welcome him as a member, and I want you to know him.

I have the pleasure of introducing to you Mr. Platt. [Applause.]

Mr. PLATT. Mr. Chairman and gentlemen, it is a great pleasure for me to be here. I feel a little bit of trepidation before an audience made up exclusively of bankers, because I think I may be subject to a little criticism for not having had a great deal of banking experience. In fact, I think my actual banking experience is confined chiefly to acting as teller at a few bank elections. But I have

been interested in banking for a good many years, and, upon coming to the Banking and Currency Committee in the House in the year 1913, when the Federal reserve act was under consideration, I was not entirely unprepared.

I have had the great privilege of serving on the committee under Mr. Glass and in taking part in the preparation of the Federal reserve act. I think there are three or four words in it that I wrote myself, very unimportant words; also, in the farm loan act. I have got to leave in a minute or two, because the bill of which I am in charge, under a special rule, comes up just after the opening of the House to-day, a bill to help out the farm loan system, which, as you know, is in rather a serious condition because of the failure of the Supreme Court of the United States to decide on the question of the constitutionality of the act.

The Supreme Court, on April 26, instead of deciding one way or the other on that question, asked a reargument of the case, and at the same time stated that they would hear no more arguments after April 30, so that the earliest possible date at which a reargument can be made will be October 11, and in the meantime it is practically impossible to sell any more farm loan bonds. We are forced to adopt the expedient which was adopted as a war measure of allowing the Treasury to buy more bonds, and I think the Secretary of the Treasury does not hanker after that sort of an investment just now. But apparently there is no help for it, and the best thing we can do is to hold the thing down so that it won't be open too wide and so that the bond issues will only be commitments already made before the Farm Loan Board shut down on further loans. I am hopeful of getting the bill through without any very serious amendments. In the meantime I think the program of legislation for the Federal reserve system is pretty nearly complete for the session. We have one or two bills that are not of very much importance that we would like to get through this year, but everything that the board has suggested, or that anybody else has suggested, which seemed to have merit enough to make it worth while to put through, has already been dealt with.

I thank you very much, gentlemen.

Governor HARDING. We will go ahead with the regular routine. We have a rule of calling on the different districts, and we would like to hear from at least one director from each district, or from all three, if all three would like to say something. We will dispose of one district at a time, and as the director arises, in order that his name may appear in the record properly, I request that he give his name, so that the secretary may get it.

We will call first upon the Federal reserve district of Boston.

Mr. BEAL. Mr. Chairman and gentlemen, it is an unusual honor thrust upon me to be made the senior director of district No. 1. Just at present I think district No. 1 is in quite a fortunate position. Through the active work of our governor and of our Federal reserve agent we have been able to reduce our liability so that at present, with the exception of the Cleveland district, I think the Federal reserve bank of district No. 1 is at the top of the reserve list. We seem to have been able to have had some liquidation in our district, which possibly is due to the fact that while last autumn we were low and borrowing largely, it was chiefly, I think, for the purchase of cotton

and of wheat. All the gentlemen here know that we have large cotton mills in our section of the country and that our section is a very large user of raw cotton. That cotton, of course, has now been turned into goods and payments have been made for those goods. As a result, our bank, as I have already stated, and as the figures show, is in quite a liquid condition.

Governor HARDING. Are there any questions any members of the conference desire to ask Mr. Beal? It would be well, as we go along, to have a pretty thorough understanding of the problems of each district. The Federal Reserve Bank of Boston a few months ago was a heavy borrowing bank and discounting with other Federal reserve banks, and now it is one of the strongest in the system and one of the three banks which is extending accommodations to the 11 other banks. Is there another director of the Federal Reserve Bank of Boston who will favor us with some remarks?

Mr. CHAMBERLAIN. I have nothing new to say. I am the baby director on the board and Mr. Beal is our spokesman.

Mr. KENNARD. I am a group 3 director of the first Federal district, and I want to say that we have a very healthy looking baby. I think I am rather optimistic on this question. I do not think we should have any undue alarm over it, because I think the question of supply and demand will finally properly adjust itself. I think the people of this country are becoming more and more enlightened with regard to economic conditions. I also think that the rates for money should continue on a high level with the hope of causing liquidation in commodities. Of course, liquidation would result in low prices and the easing up of business. I do not think this body should encourage any drastic measures of readjustment. I think the deflation should be gradual, and I think we should give more care to the commercial paper that is rediscounted at the Federal reserve banks. I have an open mind on whether bankers' acceptances should be included in rediscounts in computing a member bank's line of credit. I think that that is a rather difficult thing to manage, but I think it would be a good idea for the Federal Reserve Board to allot a certain amount of Federal reserve notes for each district, and that they have some responsibility in that matter. I thank you, gentlemen-

Mr. KENNARD. The transportation facilities are congested. At the district, Mr. Kennard?

Mr. KENNARD. The transportation facilities are congested. At the present time the warehouses are congested and they haven't the shipping facilities. I noticed on coming here, in passing through the New England States, that there were several hundred cars on the siding waiting to be shipped. A railroad man told me a short time ago that he had 47 cars billed for New York which he was unable to ship, and that he was obliged to sidetrack that long train 50 miles east of Portland. The condition in New England is as bad as it is in any part of the country, I think.

Governor HARDING. District No. 2, the Federal Reserve Bank of New York.

Mr. ALEXANDER. I take it, Governor Harding, that your address is to be the keynote of the discussion here this morning. Probably the facts in the case are well known and your presentation of them will be quite generally accepted as correct.

I take it we are to give consideration here to what remedies, if any, can be devised which will be constructive and not disastrous in their consequences.

In our district we have to deal with two rather distinct problems, the one being the problem of the smaller banks in the communities and the other being the problem of the large banks whose business is not only country-wide but world-wide.

The banks that are borrowing most heavily in the second Federal reserve district are the larger banks, the banks that are doing very largely a commercial business. As we know, there are upward of 30,000 banks in the country, and those banks are not all doing the same character of business. Many of those institutions will pass through this entire period without borrowing a dollar from the Federal reserve bank.

When we consider the matter of rationing credit, figuring perhaps what the Federal reserve bank can lend from its resources, we are holding, at the disposal of institutions that will never want to rediscount, a very considerable amount of credit. In handling the affairs of a commercial bank, we are obligated, if not expressly there is certainly an implied obligation, to lend to customers some percentage of the amount, or rather some multiple of the amount, of their balance. It may be five times, but we all very well know that if all the customers should want five times the amount of the money they have at one time, they wouldn't get it. Experience has shown that the careful lending bank, the bank that keeps itself in a liquid condition, has been able to meet the requirements of its customers on that basis. Therefore it seems to me that the Federal reserve banks have resources that are ample to take care of the situation.

A good deal of effort has been made to educate the banks, perhaps on the part of the Federal Reserve Board, and to educate the member banks on the part of the Federal reserve banks. However, the users of credit are not the member banks. The users of credit are the manufacturers and the merchants of the country; the speculators of the country, if you please. Therefore, it seems to me to be of prime importance that these credits should be widely distributed, not by the banks exclusively but in such a way that they will get into the hands of the people who are using the money in business enterprises. During the war, when we put the country on rations as to the price of coal and other essentials, we could go to the users of these commodities and say to them " You must restrict yourself," we did not rely upon the hotels and restaurants exclusively and say to them that they could serve only such and such a thing, but we approached the actual source of the demand.

It is largely a matter of education. We find to-day, I think, a hesitation in business. Large users of credit are inquiring as to what the future has in store for them. I think now is the logical time to deal with this question, perhaps the best time that has occurred up to now, to bring this credit situation home to the users of credit, although while this hesitation is on they will get some loans, prices are being reduced, but nevertheless unless there is a very substantial contraction and a very definite and positive announcement made in some way to users of credit in the country, they may become more hopeful again that the situation is not one to be feared and they

will feel justified in going ahead and making very substantial and enlarged commitments for the future.

Speaking for myself—and I think I voice the sentiment of the entire board of the Federal reserve district of New York—we think that at the present time the commercial rate, the discount rate, should be raised; that it should not be raised to 6 1/4 or 6 1/2 per cent as a measure of our treatment of the situation, but that the rate should be 7 per cent on commercial paper.

Governor HARDING. May I ask if that raise of rate would penalize anybody who could not liquidate on account of lack of transportation facilities, or would it encourage the liquidation and distribution of goods?

Mr. ALEXANDER. Well, I am afraid somebody is bound to be penalized in order to bring about production. A percentage of 1 per cent is not a very heavy penalty in the way of an interest charge, but it is a very positive announcement that the credit situation is such that further expansion must be prevented and that curtailment should be had wherever possible.

I do not think we need to consider that question unduly, Governor Harding, any more than we need to unduly consider the position of these people who bought Government bonds and who have seen them fall to 85.

Governor HARDING. I think it would be well for each director, as he arises, to give his views on the discount rate in his respective district. That is one of the things that we want to take into consideration. And may I ask you about the transportation situation in your district, how it looks to you?

Mr. ALEXANDER. There is almost no such thing there now -----

Governor HARDING. Everybody is on strike?

Mr. ALEXANDER. All tied up. As soon as one strike is settled another group goes out, and it is a very serious question. There is one thing, I think, to be feared, and that is that if the transportation facilities are improved and commodities move freely, and credits are thereby released, it may make a temporary ease in the money market and may encourage people to go ahead and expand. I believe now is the time to put the rates up and to keep them up.

Governor HARDING. Does any other director from district No. 2 desire to make a statement?

Mr. TREMAN. I think Mr. Alexander has well expressed the general sentiment of the directors in our district, that there is a spirit of hesitation and uncertainty prevailing throughout the country, and that the business interests are looking to the Federal Reserve Board and the Federal reserve banks to indicate what is to be done.

We have felt in New York that it was advisable to advance the rate further than at present because we got good results from the action which was taken in the winter. We believe the time is coming when there should be a further warning by the advancement of the rate throughout the country. Not that it would curtail business, that is, the advancement of a point or half a point in the commercial rate, but it would be a warning to a great many banks that will not be affected by the graduated or progressive rate, that in dealing with their customers they should recognize what many of them apparently do not recognize yet, and that is that the credit situa-

tion is a very strained one and should be dealt with now before the conflagration becomes too severe.

As to the particular method to be employed, Mr. Alexander, I think, has correctly stated the position of the directors of the Federal Reserve Bank of New York; that is, that there should be an immediate raise in rate; second, that the position outlined by Governor Harding with regard to the process and methods of education should be carried out. We have held many conferences in the New York district with the bankers of our district, asking a certain number, generally from 35 to 40, located at different points in the district, to come in to New York and have a conference. Personally, I believe that that is one of the most helpful ways in which we can bring the exact situation before the bankers; that is, by getting together in a room, as we are here, and exchanging views, and by having pointed out to them by the officials of the bank the exact situation, and receiving from them an exchange of views as to conditions in their district. To my mind the difficulty at the present time is that there is no realization of the strained credit position except in certain districts. I am in very close touch with certain of the distributing interests, jobbers in hardware and jewelry and other lines. I sat last week for two days with a group in Atlantic City discussing the situation in different parts of the country, and I am sure that they are disturbed and that they are looking to the Federal Reserve Board and the Federal reserve banks to outline a remedy which will deal with the situation in a sound and sane way at the present time without causing undue alarm. We can do that if we begin and restrict, within reason, the granting of credit through individual banks. You must do something more than send them requests not to do it. The way to do it is to bring them face to face with the officials of the Federal reserve banks in each district and have them understand the situation and have them in turn go back and deal with the commercial and business interests.

We can, in addition to reaching the business organizations through their officials, reach the agricultural societies and organizations through their officials. So that if there should be an effort to get in touch with the large interests in each district and merely point out the necessity for a reasonable curtailment of credit, the same as we curtailed sugar and coal when there was a real need for it, it seems to me that by the raising of rates now, by the education of bankers individually and by these group meetings, and by going on further and extending our suggestions to the business interests of the country, I believe that we can forestall any very serious disturbance in the fall. If no action is taken, I should think that we are moving in the direction of what may prove to be quite a serious situation.

Mr. OTTLEY. Mr. Alexander has suggested a raise in rate from 6 to 7 per cent. In view of the basic line that is under consideration by the Federal reserve bank, would it be your idea, Mr. Alexander, to just make a flat rate of 7 per cent, or start off the basic line at 6 per cent, with a rising scale?

Mr. ALEXANDER. Make the basic rate 7 per cent. I am in hopes that there will be no plan of progressive rates put in effect in New York. Make the rate 7 per cent. I am speaking of commercial

paper. You will probably want a differential in favor of obligations secured by Government bonds, and the present rate is 5 1/2 per cent, and perhaps you would want the rate on certificates of indebtedness 5\$ per cent, but the commercial paper rate is the important thing. The commercial paper is the thing that is being created in volume right now, and we want to limit it as much as we possibly can, limit the creation of commercial paper.

Mr. CHARLES SMITH. Mr. Chairman, I represent on our board more particularly the banks in the rural communities in the second district. I do not come in quite as close contact with the larger banks, but I wish to say in passing that the entire board of our bank is in hearty accord with an advancement of rate, as expressed by both Mr. Alexander and Mr. Treman.

In representing the smaller banks in the rural communities, we possibly come in closer touch with our people than in the larger banks. I find in coming in contact with all of our people in our vicinity and throughout the various sections of the State that they are all in hearty accord with the idea that the loans should be reduced and brought down to a reasonable business basis. The farmers with whom I have talked are in thorough accord with this. They accept the situation very gracefully.

The greatest problem that is confronting the farmer to-day, and the farmer is the original producer to-day, is the labor proposition. That is a thing in which we are trying to assist him in the rural districts throughout the State.

Mr. WILLIAMS. Before we leave this question, Mr. Alexander, as you suggest a 7 per cent rate, do you not think that one of the effects of a 7 per cent rate, as a minimum rate for all banks, would be to discourage essential industries? Six per cent is the maximum rate in New York except on bonds and certain other things. A small bank might have an application from an essential industry, and it would realize that if it were to lend to that industry the accommodation that is needed, it could only reimburse itself at a higher rate or at a loss. It would have to charge that essential industry 6 per cent and would have to pay 7 per cent, and there would therefore be no inclination to extend the accommodation at a loss, even to an essential industry. On the other hand, if you put the rate at 7 per cent, that would not deter the profiteers who are making 70 per cent profit, 20 per cent or 50 per cent. My apprehension and wonder is whether a higher rate of interest would not in the long run discourage the essential producers and at the same time have no effect at all upon the profiteers, upon the men who are making exorbitant and extortionate profits.

Mr. ALEXANDER. In the case of a corporation there can be a contract rate, whatever is agreed upon-----

Mr. WILLIAMS. But the farmers, for example, are not corporations, and a great many of the smaller transactions are not carried on with corporations-----

Mr. ALEXANDER. No, I am coming to that point. Between corporations there is a contract rate, but in smaller transactions, where you are dealing with individuals and with farmers, 6 per cent is the legal rate. I do not think it makes a particle of difference to any of those borrowers, certainly none of those with whom we come in

contact, whether they pay 5 per cent, 6 per cent or 7 per cent. The question is, " Can we get the money? " That is the question to-day. They say, " You lend us the money and we will pay the rate."

Now, there is the objection, as stated by you, of charging 7 per cent to the member banks when they can only collect 6 per cent. I think that is a feature of the situation that must be met. In other words, I think the purpose to be served is so great and of such prime importance that these other matters must be considered of smaller importance. I think the bank would have to stand in between with the users of credit for essential purposes, if necessary, or they can have balances which will justify them in making a loan at 6 per cent, although they have to pay 7 per cent for the money.

Mr. WILLIAMS. It seems to me that you will have no effect upon the profiteer with any rate of interest you elect to charge as long as he can make the enormous profits which we know are being realized in certain directions and have been for many months past. It seems to me the greatest factor would be to restrict arbitrarily the granting of credit to nonessential industries or those concerns that are making inordinate profits, especially on products that are not most needed.

Mr. ALEXANDER. That is exactly what you would accomplish by making a profiteer understand that credit is a luxury and difficult to get.

Mr. WILLIAMS. But you can do that better by saying, " We won't let you have the money " than by letting them have the money, even at 10 per cent.

Mr. ALEXANDER. True. We could say that they couldn't have the money, and we should see to it that the profiteer is cut out and that the essential industry is carried even at the expense of the bank.

We all know, as has been pointed out by Governor Harding, that during this period of constantly rising prices a great many intermediaries have injected themselves into the situation. There is one case in point, and I could name another, but this case was a case of profiteering in silks. A man bought a certain amount of silks, and later bought them back in the open market at twice what he had sold them for. He traced that silk and found that the transaction had passed through the hands of nine dealers, not one of whom had been in business before this period of rising prices, and none of whom will stay in business when prices remain stationary or are inclined to fall. People of that kind will disappear rapidly, I think, under present conditions, because they will be forced out. It will prove unprofitable. The profiteer and user of money for speculative purposes will disappear from the situation when he finds that there is no profit in buying commodities to be held, dealing in commodities when prices are not rising steadily, but are subject to the usual fluctuations. That man is going to protect himself by not using credit, and in my judgment, he ought to be encouraged not to use it.

Governor HARDING. We will now hear from the Philadelphia district, district No. 3.

Mr. WAYNE. I do not think we are unduly alarmed in the third district over the credit situation. We have felt for some time that it required rationing; the green signal has been out and I think the bankers generally have been conducting their banking operations along proper lines.

I know that the third district Federal reserve bank has been more or less criticized for its apparent condition during the past year or 18 months, due to the fact that we have been borrowers or re-discounters with other Federal reserve banks. We feel, however, that our bank has been in a very sane and solvent condition, and the mere fact that we have been borrowing from other Federal reserve banks has not been due to any overtrading on the part of the merchants of our district. If there has been any overtrading on the part of the people of the third district, it has been on the Government financial side.

The statistics of our banks show, I think, that we have less commercial loans in the Philadelphia Federal Reserve Bank than in any other reserve bank in the system, and a very much heavier proportion of Government-secured obligations. We may have been subject to criticism for not liquidating more promptly the obligations secured by Government bonds, but we more or less acted along the suggestion of the previous Secretary of the Treasury and the Federal Reserve Board at the time those loans were taken, and it now looks to us to be a pretty bad time to force those bonds on the market. They are being more or less liquidated. We have been endeavoring in our own bank in the last month to force Liberty bonds on the market, but they do not go on very comfortably. People who have to part with them and lose 13 points do not part with their money very gracefully. But as to the district, I think we are in a very comfortable position, because if anything should turn up and we would have to sell our Liberty bonds we have a margin to go on.

I can not say that I agree with the representative New York bank on the discount rate. The Pennsylvania district is strictly a 6 per cent district. We have a legal rate of 6 per cent in Pennsylvania and we can not make it any higher, by contract or otherwise. There is practically no profit in borrowing money from the Federal reserve bank to-day and loaning it to customers. It is an accommodation to them. I can not see how anything is going to be gained by raising the rate unless it is absolutely necessary. I do not see how it will accomplish anything. If it is necessary to borrow money, the money is going to be borrowed anyway, whether the rate is 7 per cent or not. In our operations we are simply lending the money necessary for legitimate business, putting our indorsement on the paper, without a profit. Of course, if there is an advantage in making the rate 7 per cent, we will stick to it, because we intend in every way to cooperate with the Federal Reserve Board in doing what they think is necessary.

Governor HARDING. May I ask if a 7 per cent rate in New York would force your bank to put in a 7 per cent rate also?

Mr. WAYNE. NO; but you know the general custom is that when one bank raises its rate we usually get a suggestion from the Federal Reserve Board that they will approve a raising of rate for our district, and that usually goes through.

Governor HABDINO. Not a suggestion, but a mere categorical statement of fact—

Mr. WAYNE. We have the privilege, of course, of acting on our own best judgment when it comes to making rates, and that is the way I understand it.

Governor HARDING. Would a 7 per cent rate in New York impose upon your bank the necessity of following suit?

Mr. WAYNE. I would not think so, but probably we would make the rate 7 per cent if New York made it, because we are pretty close to each other and it is remarkable how they will switch over from one district to the other. Everybody thinks that Philadelphia is a very rich town. When you find money at 6 per cent in Philadelphia and higher in New York, Chicago, Boston, and other places, the merchants will come down to Philadelphia because the rate is lower than it is elsewhere. Being upon the 6 per cent rate in Philadelphia you get your money at 6 per cent or you don't get it, and very frequently lately they haven't got it at all, although we have taken care of the legitimate business and will continue to do so. We are not unduly alarmed over the situation, but it requires action.

Governor HARDING. How about transportation facilities with you?

Mr. WAYNE. Very poor. The freight blockade is serious. I do not think during the past few weeks that the transportation situation has shown any improvement.

Governor HARDING. IS there any other director from the Philadelphia district who desires to be heard?

Mr. DOUGLAS. Mr. Chairman, Mr. Wayne has covered the ground very well so far as our district is concerned, but I would like to say that it seems to me that what we need most to-day is the co-operation of all the banks in this country with the Federal reserve bank. At the present time I do not think they are having the fullest cooperation. Some of the banks, of course, are cooperating to the fullest extent, while other banks I do not think are cooperating. They are a little half-hearted in it, not, I think, because they are antagonistic, although there are some banks that are antagonistic. But it seems to me that if a letter stating the actual conditions that are prevailing at the present time in the country were sent to the various banks, not only member banks but other banks throughout the country, in the way of a plan of education, showing the banks the exact condition, that it would be very beneficial and would help a great deal in the deflation of credit. I think that a great many of the country bankers, if they understood the situation thoroughly, would cooperate to a greater extent with the Federal reserve banks.

Governor HARDING. IS there anyone else from the Philadelphia district?

Mr. MURPHY. I think that the Philadelphia situation has been pretty clearly set forth. There has been some criticism of the district because we have been rediscounting, but I think your records here will show that before the war Philadelphia had perhaps as strong a reserve position as any other district in the system. There was a combination of peculiar factors that entered into it. There were a great many war contracts that were canceled in the district; there was an oversubscription of Liberty loans, and a very large borrowing coming in from other districts; but all that is being corrected; the borrowings are going down and production is being kept up, and it seems to me that the situation will solve itself, so far as our district, is concerned, without any further increase in the rediscount rates.

Governor HARDING. We will hear now from the Cleveland district  
No.4.

Mr. WARDROP. Mr. Chairman and gentlemen, fortunately or unfortunately we have never had any trouble in maintaining our 40 per cent in our district. As to the question of an increase in rate, if we were to take only our own district into account I would say, "No, it is not necessary to increase the rates"; but we must consider what is best for the entire country, and after heaving what the other gentlemen have to say who are going to speak I may change my mind and think that it is necessary to have an increase in rate to-day.

What we lack to-day in this country, as Governor Harding has said, is efficiency in labor and economy and transportation. I think that these three things are bound to cause some depression in business; in fact, it has already set in. I think a reasonable depression in business will be a good thing for the country. I think it can be so handled that it will not be serious. I think the Federal reserve banks can prevent any serious condition arising; but I think we must get down to a lower level. There is lots of business in this country, and I think good times are ahead of us. I really think we would do better if we could get down to a lower basis, a different basis, and then from that we can work up again.

Now, on the question of rates, and how they should be controlled, I think that is a matter that must start at the bank counters. Each bank must decide, the bankers must decide in their particular banks with their own customers, as to what loans are essential and as to what they shall do about them. I think that is the place to start. As to the question of certain banks that may be overborrowing, I think that is a matter, of course, that would have to be determined by the Federal reserve bank and possibly by the Federal Reserve Board; but as to the local situation, as I see it, I think there is no serious danger ahead of us. I think if we just keep our heads and are careful in restricting improper credit that the situation is perfectly sound.

Governor HARDING. Does anyone else from the Cleveland district wish to be heard?

Mr. SAMS. I agree with Mr. Wayne in his view that the question resolves itself, in the last analysis, to the work of the individual bankers over their own counters. We are fortunate, probably, in having a district that is very symmetrical in its activities, in industry, commerce, and agriculture. As a group 3 member, I can speak more particularly for the farmers. The farmers are just at this moment borrowing more money than they have done in several months, but that is due to two causes—first, a seasonal cause, the planting of crops for this year, and, secondly, because of the jam in transportation. That is not permitting them to market their live stock and their products as promptly as they otherwise would do.

Governor HARDING. Is there anyone else who desires to be heard from the Cleveland district?

Mr. LAMBERTON. I am only the baby director, Mr. Harding. Mr. Wayne and Mr. Sams have expressed the feeling of the directors of our district and I will not take up any more of your time.

Governor HARDING. We will now hear from district No. 5, the Richmond district.

Mr. BRUTON. Mr. Chairman, I think you will agree with me when I say that Richmond feels very comfortable, sitting in the same row of seats with Cleveland. Just at this time we are specially interested

in agricultural demands, and the farmers are getting more loans now to take care of that than formerly, on account of the large expense of making the crops. We hope it will not be necessary to increase the rate of interest for fear that it might be construed as a reflection upon this great industry, which, in the final analysis, is doing the work of the country. Probably I am a little old-fashioned, but I have the impression that some positive relief could be had at the discount table of the Federal Reserve bank, by the discounting committee, in drawing in on a certain few banks in the district and limiting their borrowings, which would give to their banks the opportunity to make essential arrangements.

I did not want to go into this progressive-rate proposition. The more I study it the more it gets to be like the study of real property that I had to study when I was reading law, rather complex and complicated; but if we could say to our overborrowing banks that we would make an appreciable increase in the discounts on them, say five times the formula that has been set forth, and begin to cut at the top., it would give some of the smaller banks an opportunity of borrowing for their needs during the season. We hope that the rate will not be increased. We feel that it would be a mistake in our district, and I think the relief can be had at the discount table, if necessary, by increasing the rate against those banks that are borrowing too much money. Some of them have two feet in the trough already and it might be advisable to reduce on some of them.

Governor HARDING. Does anyone else from the Richmond district desire to make a statement?

Mr. MANN. This is a meeting of bankers to discuss banking questions. I am from the coal fields, and I have made a study of the situation in West Virginia, and the difficulty with us is the question of transportation. The operator is getting out about 50 per cent of his production—I mean he is getting cars for only 50 per cent of his production, and he could produce twice as much if he had the cars ready to transport his material.

Mr. RIEMAN. Mr. Chairman and gentlemen, the situation of Baltimore is somewhat like that of Philadelphia and New York, only on a smaller scale. Some of our large banks are large borrowers, but chiefly because of their commercial business. There has been some curtailment with us lately by reason of the 6 per cent rate. I do not think in our locality we have had the full benefit of that increase in rate yet. By that I mean that in another month's time there will be more loans paid off, by the merchants, on account of the rate. I hardly see the necessity for increasing the rate at this time. The transportation situation is bad, particularly in the sections where the ocean steamers go out. Agricultural conditions in Maryland are rather bad on account of lack of labor.

With regard to the Retail business, I have made a pretty close examination of it and I do not think the shelves are overloaded.

Governor HARDING. We will hear from the Atlanta district, No. 6.

Mr. OTTLEY. Mr. Chairman and gentlemen, the condition of the farmers, merchants, and manufacturers in the sixth district is generally good. The condition of the banks throughout the district, in large majority, is good. The borrowings in excess from the Federal reserve bank by the banks of the district are confined to a very few banks, and through the officers and the board of our bank the

matter has been taken up directly with all of the borrowing banks, particularly with a few that are excess borrowers, and they have been told in polite but positive terms that there were others who had to be accommodated later on and that they must get their houses in order.

Governor HARDING. HOW do you account for the very large borrowing at your New Orleans branch?

Mr. OTTLEY. Well, I am able to give you some late information on that. The Atlanta board met with the New Orleans branch officers last Friday and Saturday, and Doctor Saunders, who is well known to you, got up and made an explanation in behalf of the New Orleans banks and explained that they were caring for the cotton from Mississippi, Oklahoma, Arkansas, and even as far out as California, which was being shipped into that port.

Governor HARDING. Was it shipped there to be shipped out? Is there any sale in prospect, or just being brought in there on speculation?

Mr. OTTLEY. They claim that the transportation problem is a serious factor in their very large holdings. They lay great stress on the transportation problem, and said that strikes had been in progress in New Orleans, from one class of labor or another, since last fall. They seem to think that the situation is better now. They stated, for illustration, that four ships, which had contracted to bring in sugar, if I remember correctly, in January, February, March, and April, all had landed there just a few days ago and dumped their cargoes, which, of course, had to be cared for.

I will just answer one question that you asked Mr. Wayne. Speaking from a 6 per cent district, we would not feel at this time, from an independent standpoint, that a raise in the rate was necessary, other than to put in this basic line and make the penalties very strong as they progressed. I think that would take care of the excess borrowing of banks, but the large operators all carry accounts in New York and Atlanta, and if the rate was raised in New York it would necessarily cause us to raise the rate in the sixth district, to protect ourselves, or otherwise we would be swamped.

Governor HARDING. Does any other director from the Atlanta district desire to be heard?

Mr. NEWTON. I come from the agricultural and lumber section of our district, and one of the sections, the agricultural section, is moving along in good shape. The crops are in fairly good shape so far. There is considerable congestion in the movement of lumber and the shortage of cars has interfered very much with the outgoing lumber. As Mr. Ottley stated with regard to New Orleans, the grain, sugar, lumber, and cotton situation has caused these banks to do a great deal of borrowing.

Governor HARDING. Is there anyone else from Atlanta?

Mr. KITTLES. The Group 3 banks in the sixth district are in very good condition.

Governor HARDING. District No. 7, Chicago?

Mr. REYNOLDS. Governor Harding and gentlemen of the board, believing as I do that if we pass through this crisis successfully and maintain prosperity in anything like its present level, I think the first requisite necessary is the maintenance of confidence. Believ-

ing, furthermore, that confidence is to a considerable extent a state of mind, it seems to me that we people who are from the outside points here could do more for the state of mind, along the line of trying to enable the members of the Federal Reserve Board to look through our glasses and get the focus of things as we see them at the other end of the line. Those pictures, of course, are all helpful, and they are necessary, in the last analysis, to the reaching of a conclusion as to what is necessary to be done.

It seems to me that in the present situation a campaign of education is the best means calculated to reach a great many people and do a world of good. You must not overlook this fact, that ever since the first agitation of the currency and banking legislation, stress has been laid upon the system and its ability, and every speech made by every man everywhere throughout the country has been to that effect, and the public has come to believe that there is no limit to the amount of credit which the Federal reserve banks can extend.

Now, in the Chicago district, when we found business rather overextended, we began to ask these people to reduce their loans, and they rather thought that we were joking with them. There was a question as to whether or not we were really serious and whether or not there was a real necessity for our asking them to cooperate with us.

It is my personal belief that we ought to approach, this whole thing from a broader and wider angle. I say it is an aftermath of the war. It is one of the conditions that grew out of the war, and before the war, and during the war itself, there was not a man anywhere in the country, that stood for anything, that did not offer his resources and himself to do everything in the world he could for the accomplishment of the purpose of the Government in the winning of the war. I think if we can follow out the same plan in a campaign of education that it will be very helpful, if we impress upon the people of this country that this is a war problem and that there must be cooperation now the same as before, that they must have the same patriotic spirit in meeting and in solving this problem that we had in meeting and solving our other problems.

For myself, I think we are making splendid progress in our district. The history of the Chicago bank and the record of the Chicago bank is one of which its directors may well be proud. I know that for three years prior to the 1st of March, or the 1st of April, at any rate, the Federal Reserve Bank of Chicago carried large amounts of rediscounts with other Federal reserve banks in the country, and it did it with pleasure and pride; it carried amounts varying anywhere from thirty to a hundred million dollars, approximately, and we did that because we thought it was our duty to do it. Yet, when conditions obtained, resulting from the war, which made it necessary for our bank to rediscount a few million dollars, our governor became a little discouraged. He thought that was putting the shoe upon the other foot. However that may be, I think the Chicago bank rediscounted perhaps up to \$55,000,000, and the statement of yesterday morning shows that it has been brought down to \$10,000,000, indicating that we are in very good condition.

I might say that so far as I am concerned, I am ready and willing to do anything and everything necessary to help correct the situation. If it is necessary to have penalties, to take a loss of profits, or to put Government restriction upon business, anything necessary to do, I am ready to do my part, and I think I have always been ready to do it. But I would not be honest with myself if I did not express my own frank opinion on some of the questions that have been raised here. I have not lost my belief in the theory that the yardstick is the interest rate, which is after all the best means for controlling demand for money. If these conditions are such that it is necessary to raise the rate to 7 per cent, let us raise it to 7 per cent, and in our district we will be perfectly willing to do whatever is necessary.

Now, on this question of graduated rates of interest for loans by Federal reserve banks, I hope the Federal Reserve Board and the other people interested in this problem will not overlook this one principle: As I understand it, reserves are kept and amassed and impounded for the purpose of loans in times of emergency. Now we all know that the country banker that is not borrowing now is in the little restricted districts where there is no occasion for it, but when you talk about the New York situation, as expressed by Mr. Alexander, they are operating world-wide; they are dealing not only in their own States, but almost over the entire world, and it stands to reason that they are the strictly commercial institutions that must bear the brunt of this burden. Take the central reserve cities and there are deposits in those banks, as you know, secondary reserve deposits, which since the organization of the system have been lying there dormant. In times like this, when there is an emergency, there is a shrinkage first in deposits, and then many of these institutions come back on us for credit requirements which are not borrowers ordinarily. We have that situation in this crisis. Many of the large banks, metropolitan institutions in their communities, have come to us for help, and we have had to give them help because they have had reserve balances. We regard it as our duty to help those banks and to prevent failure. They come to us and say frankly, "We have got to have help; we admit it from the beginning, and we can not give you paper that is eligible."

That is the principal trouble, and it is the trouble with all the big institutions in other cities all over this country. A man will come to us and want a million dollars. He has had a large balance with us, and we talk to him and ask him to get along with as little as he can. We say to him, "Don't take all this money now; take a little of it and come back a little later, and if you need it we will try to help you through with it" In every institution in this country there is a large amount of paper which is not eligible for rediscount at the Federal reserve bank, but at the same time it represents the very cream of paper in so far as the question of safety is concerned—I do not say liquidity—but in so far as safety is concerned. At times like this of course that is a burden on the banks, and it is those conditions with which we have had to contend. We have been for three or four weeks past holding the loans down; in other words, there has been no increase, but there has been a little diminution in the loans, and we think that is making splendid progress.

Now, it may seem to you people here that under conditions which arise whereby there should be deflation rather than inflation, that

the banks should stop loaning money. That is just as impossible, without trouble, as it is for us to fly out of this room, but I think the banks in the seventh district and the bankers in the other parts of the country, so far as I know, are doing their utmost to cooperate with each other in this matter, and I haven't one particle of fear about the outcome. It is just a question of using what we might call horse sense and not getting stampeded, of excited, doing something under stress of excitement, or going off, as we sometimes say in the country, half-cocked.

I think we are making progress. I am not worrying about what the fall demands for money are going to be. Let us go ahead and correct this condition. I think we will find that the fall condition will adjust itself along with these other things.

With regard to Mr. Williams's question to Mr. Alexander, I want to say one thing on that, and I think I can say it without fear of successful contradiction, and that is that profiteering is not confined to the small operations, but if you will look at the books and records of a great many of the high-class institutions you will find there that they are making enormous amounts of money, and you have got to reach them somehow.

Mr. WILLIAMS. I agree with you fully.

Mr. REYNOLDS. That is the situation. Those are the people we have got to get after, too. We have an illustration of that condition in the sugar situation. I heard of a case in the Northwest the other day where the sugar was passed around and yielded a profit to half a dozen middlemen-----

Mr. WILLIAMS. Before the consumer got it?

Mr. REYNOLDS. Yes; before the consumer got it. When I came home from my vacation in California I found there were rediscounts higher than they should be, and in one instance I was given an explanation.

They said to me, "Mr. Reynolds, we had to loan between \$25,000,-000 and \$30,000,000, approximately, to take care of the tax requirements of our customers. I said, "You do not have to pay the taxes of your customers." He said, " We realize that is an obligation of the public to the Government; we know the Government is having its difficulties in financing; we know the Secretary of the Treasury put out Treasury certificates last May and wanted us to carry them, and the Federal reserve banks heretofore had been carrying them; therefore, we thought we were serving the general condition." That is the situation. The great majority of big corporations to-day who had to pay a large amount of taxes had to borrow a very large amount of money. How we are going to pay the next tax which comes due in June is not bothering me just now. I bring these things to your notice because I believe this meeting ought to be one that will enable us to give a viewpoint of things we get at the other end of the line.

I said to a banker the other morning, " How do you like being a banker nowadays? " He said, "Sherman said, 'War is hell;' " but, he said, "I would rather be in the trenches on the other side than loaning to the banks these days." That illustrates the state of mind toward the people and in our institutions in Chicago, and I think in all institutions we do not go down so deep to analyze to any great extent as to whether this is a nonessential or an essential, but we take

it right by the scruff of the neck and try to determine whether that fellow must have that money, and if he does not have to have it, even though it is essential, we put him on the waiting list. That is my theory, of the way to correct this situation, and I give you my observations, thinking after all this whole thing is very largely a matter of sentiment and very largely a matter of determination on the part of the bankers to cooperate with the board and of the board to cooperate with the banks, and if that could be done we will sail through automatically, and we will have a little demobilization in business without any apparent damage to any particular class of business. It is a case where you can not get "George " to do it; everybody has got to do his part if a reduction of the loans is to be brought about.

I thank you, gentlemen. [Applause.]

Governor HARDING. Is there any other Chicago director to be heard?

Mr. MCNIDER. We heartily concur in Mr. Reynolds's statement I want to say further we are pleased more than I can say at the attitude of the Governor of the Federal Reserve Board. Your talk, Mr. Governor, is one which should be in the hands of every banker in America. You have reflected the sentiment as it should go to every bank. The good sense, the intelligence, and the courage of that talk should be distributed. It is educational in its way and should reach everybody.

The mid-West is not disturbed materially. We are suffering, as other districts are, by lack of railroad facilities. Iowa, for example, has a lot of live stock and grain that is unmoved, and it will come in as the railroads are able to handle the situation.

We believe that the Federal Reserve Bank of Chicago has been handled with sanity and courage; that they have taken care of the conditions as the conditions arose; that they have not been fearful of the things that come up, and we believe we have in our organization a lot of brains, a lot of banking courage, and a lot of banking ability, and out of that we expect that the position of the Chicago banks will be one that will meet with the approbation of almost everyone. We are agricultural largely. Our principal industry in the seventh district is agriculture. What we need more than anything else is a statement to the people that they maybe educated along the right lines of what the real conditions are. When we have that you may rely upon the sanity, the courage, and the reason of the seventh district to do its part.

Doctor MILLER. What would Chicago suggest as the method of educating the people to an appreciation of the existing emergency?

Mr. MCNIDER. In Iowa just now we are holding a series of group meetings, 11 groups in the State, and in those meetings talks are being made to the bankers of the entire State, 2,000 in number, along the lines Governor Harding so well advocated this morning. We feel there must be reason, there must be sanity, that the essentials must be taken care of, that there can not be an extraordinary cutting down of credits at this time, because that would create disaster, but we feel it must lie in the judgment of the banks themselves as to how they may extend their lines and how to curtail them. The banker at his counter must meet the individual cases as presented to him.

In general the governor's line is one we firmly believe in. We believe there should be reduction; that there is too much inflation, but that we ought to deflate in a sane and reasonable manner.

Governor HARDING. IS there any other Chicago director to be heard?

Mr. JOHNSON. Gentlemen, I do not know that there is any more to be said than what has been said, but the governor in his speech has gone right to the point, and I believe it should be distributed and it should be emphasized in part. You said, sir, there were 300 banks that were exceeding their capital and surplus probably in their rediscounts and there are 7,500 other member banks not doing that, and 23,000 nonmember banks not bound at all by the system. Now, it would seem to a good many that the proper thing to do would be to put our finger on the sore spot and press it until we cured it, but I do not think that possible. I believe that education and propaganda must be carried on, with authority and with strength, carried on from this board and from these gentlemen here down to all the nonmember banks on to the small business man in the small factory.

The assets of the nonmember banks, with which I am acquainted, are very largely in nonessentials. The borrowing was done for the purpose of carrying property and not for the purpose of producing anything except speculative profits.

One great thing we need is leadership. I think that our chairman, in pointing out what the Federal Reserve Bank of New York is doing with its people, pointed out the way to develop leadership for the banks. Every one of them is more or less of a leader in his own community, and that leadership should be developed, and through them the education carried out, because it has brought us to the situation where we are—that may have been diminished, but we are still operating, and whatever we may do the possibilities are that in six months we will be in no better position than we are now. The reserves are exhausted; they must be restored; they can only be restored from the bottom; the top is doing the best it can; the man in charge of the important bank is struggling with the situation and doing his best and doing it successfully, but there is a glacial movement underneath which has got to be controlled; it has got to be controlled through this board and these banks and through these gentlemen and their associates reaching down to the bottom, I believe, and I believe, Mr. Chairman, that your speech, properly disseminated among them, with the show of authority, even if you do not have it, will bring it about.

Now, as to discount rates, of course with 300 banks borrowing above the limit and 7,500 not, the remedy is obvious, but I agree with Mr. Alexander that the psychological effect of the raising of the base rates to 7 per cent would be—it was suggested at 8 per cent from the Federal Reserve Bank of St. Louis.

Governor HARDING. Is there somebody here from the eighth district, St. Louis?

Mr. ZIEGLER. The eighth district is unfortunately not being represented by Mr. Walker, of St. Louis. However, I should be glad to have you hear Mr. J. C. Utterback, of Kentucky.

Governor HARDING. Mr. Utterback.

Mr. UTTERBACK. Mr. Chairman and gentlemen, it seems the peak of this credit expansion has moved in circles, starting at Dallas coming on over to Richmond, Boston, New York, Philadelphia, until at present it seems to be resting at St. Louis, and I believe that we are bearing the burden at this time. The St. Louis district, its directors, and its officers are bending every energy to meet this situation, and I have no apprehension but what they are going to meet it successfully and very quickly.

We have a varied commerce to deal with, agriculture and lumber, jobbing and manufacturing, and tobacco. In the western part of Kentucky, from where I come, the tobacco situation has been most serious and most appalling, due to the foreign exchange situation.

I presume that we have west of the Tennessee River—we do not reach into Tennessee—\$20,000,000 to \$25,000,000 worth of tobacco that has not yet moved. I would hate to see the discount rate raised, for the reason that in Kentucky we are limited to 6 per cent, and we can not pass it on to the borrower.

I believe that large borrowers in the Federal reserve bank system to-day should receive the most earnest consideration of the directors of those banks. If you will take the large banks of Louisville, and in Memphis, and in St. Louis they have a world of country correspondents that are not members of the Federal reserve system, although those banks are carrying the burdens of the country banks, which in turn are carrying the burdens of commerce and of trade and of production, and I believe that when a bank gets over its bank line it should not be arbitrarily dealt with, but it should be dealt with in the most exacting way, in a way that will enlighten the directors of that bank as to just the exact cause of that situation.

I believe that St. Louis will in a very short time begin to build its reserve up and be out of discounting with other Federal reserve banks.

Governor HARDING. District No. 9, the Federal Reserve Bank of Minneapolis.

Mr. MCDOWELL of North Dakota. Mr. Chairman and gentlemen, it is just like going to school to me to be at a Federal Reserve Board meeting of this kind, because I live in a little country town of 300 people, where I farm 90 per cent of the time and run a bank mornings and evenings. Mr. Decker is here from Minneapolis and he will give you the classic talk on banking, the same as Messrs. Alexander and Reynolds have done for New York and Chicago.

I just want to say to you that I do not like this increase in rates. Out in our part of the country we have been going a little bit wrong in our thinking, so much so that we have established a bank of our own, called the "State Bank of North Dakota," and the farmers, seven-ninths of them pay all the taxes in our State, and they are looking for something with which to shoot it into the big business and into the banker, and I think that any method that would raise the rate arbitrarily when he has had four or five years of poor crops—any of the 700 or 800 small bankers over that State, whose average deposits probably do not exceed \$200,000; when he is compelled, after the stress of those four poor crops; when it costs \$15 to \$20 an acre to plant an acre of wheat up in our State; when hay is \$25 to \$30 a ton; when oats are \$1.25 a bushel; when it costs \$5 an

acre to sow an acre of wheat; when barley is \$1.75 a bushel; when farm labor is \$100 to \$125 a month; when those conditions prevail it looks to me like the institution that they told us when we started the Federal reserve system that was going to take care of us and prevent panics was now going to fall down and penalize them just the moment that the Giver of All Good Things had failed to give us our share of prosperity during this war.

It seems to me that now is a poor time to penalize the little fellow, and I am afraid we are just going to create a little more unrest out in the Northwest, where socialism has got such a strong foothold now, if we do not look at this thing not from any other standpoint except that of safety. The Federal Reserve Bank of Minneapolis is making \$10,000 a day. Is that profiteering when they have been using our money without any interest ever since it started? Is the Federal Reserve Board going to be put in the same class as the sugar profiteer and the manufacturer who has been making big money?

Only just the other day down in Chicago a Federal judge took judicial notice of the fact that the Federal bank employees were too lowly paid and let a man go who was charged with an offense because he had not been getting money enough.

Governor Harding, if your address could be published over North Dakota in substance and in detail just as you have delivered it this morning I know of nothing better to cure the conditions up there and get people to understand. We have been accustomed to read the reports and interviews of the New York Wall Street people; our people have become surfeited with them and have revolted against it; we have had the opinions of railroad kings and big men down there, but your bank is known over our country as a Government institution in which the people have something to say about its management, and out in our country to-day the men whose sayings are read the most now, since the passing of that great man, J. J. Hill, who was a bigger business man than even a railroad man—the men whose interviews are read the most are the interviews of men like Mr. Decker and Mr. Rich of the Federal reserve bank.

So I say again that it does not seem to me that now is the proper time to increase our rate. We want to cure that unrest out there more than we do anything else. We want to stop some of this high finance in politics, in business. We want to do as Mr. Reynolds so well said, we want to learn to stand together now in times of stress, the same as we did in times of war, and I think we should move very, very slowly in that regard. [Applause.]

Governor HARDING. IS there any other director from the Minneapolis district to be heard? District No. 10, Federal Reserve Bank of Kansas City.

Mr. MITCHELL, of Denver. Mr. Chairman and gentlemen, I happen to be a class A director of the Kansas City district, representing group 1. About a month ago in our meeting there in Kansas City we thought we were rapidly reaching the danger line; our reserves were very, very low; I think on that day they were below 40 per cent. We felt that it was necessary to rediscount, and we did rediscount to the extent of \$15,000,000.

I was in Kansas City on last Thursday; I found that our rediscounts had been paid off to the extent of \$10,000,000 and our loans

had been reduced to about that same amount, while our reserve was pretty well maintained; I think it was about 47 per cent. Gentlemen, in my opinion we corrected the trouble there by putting in the progressive interest rate; we felt that we had to do something. We considered it a little bit drastic, but we thought we would try it, and we did try it. On last Thursday in Kansas City—we heard nothing but words of commendation even from the banks; they were paying a good, high and stiff rate of interest; but I heard nothing but commendation of that policy, so I believe it is one of the remedies.

Our situation in Colorado, I think, is very much better than almost any other portion of the tenth district. We are not large borrowers in Colorado. Our Denver banks are, I believe, only borrowing about \$7,000,000, with over \$100,000,000 of deposits. The entire State, I think, is borrowing something like \$8,000,000, or the entire district the Denver branch represents borrowing about \$8,000,000, so that it is pretty light.

Conditions in Colorado are very good. So far as the water situation is concerned it looks as though we would have an absolutely full reservoir, every reservoir in the State. We have never had so much moisture. Conditions are a little bit backward; we are about 30 days behind. We never have had anywhere near approaching the acreage which will be planted for sugar beets. The Great Western Sugar Co. alone has over 300,000 acres contracted.

The situation in Wyoming and in Montana, which is not in my district but we are closely in touch with them, the cattle situation there is very bad on account of the drought last year. The stockmen have lost millions of dollars by death and by having to ship these cattle out before they were mature for the market, and the consequence is the herds there are very much depleted and they have got to have some relief from some quarter or other and it means, in my opinion, we have got to finance them and take a good many chances on their being good.

Governor Bailey is here and Mr. Burnham.

Governor HARDING. Governor Bailey.

Mr. BAILEY. Governor Harding and gentlemen: I would be just reiterating what Mr. Mitchell has said in regard to conditions in Kansas City. First, I want to say that if we had ample railroad facilities to relieve our situation in Kansas City, speaking for my own State alone, our agricultural report is that we have got 27,000,000 bushels of wheat in the elevators and in the bins adjacent to the railroads ready to go. I think it is nearer 40,000,000 bushels of wheat that could go to market at once if we could get railroad facilities.

I will give a little concrete example of my own case. I loaned a man \$25,000 in October on wheat at a station only 60 miles from the Missouri River, for 30 days. No note was ever given in better faith or was contemplated to be paid at the end of 30 days on the theory that he would ship the wheat. I have renewed that note for him consistently every 30 days since and it is still unpaid and the wheat is still in the elevator. We are soon going to have two crops of wheat in Kansas, and I have discovered this situation: A little banker, that lives north of me, to whom I loaned money, went up to Falls City, which is the headquarters of the officer of the Missouri Pacific who distributes cars for that division, and he begged him for some cars. He said, "I would be glad to do it, but I have just come

back from the East and they have taken 200 box cars off of my division and sent them to Minneapolis." I do not know who told him to do this, I did not learn then, but he said he had been East and somebody had told him to do it, but I should like to have somebody analyze to me the philosophy of sending 200 box cars to Minneapolis when their harvest is three weeks shorter than ours, and we have got two crops of wheat in Kansas to go pretty soon.

I just want to emphasize this railroad situation, gentlemen, because that would solve very largely the financial stress of the Missouri River.

As Mr. Mitchell said we are the initial bank of this graduated rate. We have been talking deflation to every one of the men who have borrowed more than their capital and surplus that was the old basis we figured on—and you can take it from me that you may talk patriotism and conservation to a man who can make money until you are black in the face, and you have got to make it unprofitable for him to stop it, and when we had put that progressive rate in a couple of days I went through the banks of Kansas City, and when I would go in they would say, "Governor, we do not know what this is going to mean to us, but we want to tell you that our bank is in fine shape," and tell me how much automobile paper and how much wheat paper, and I do not know how much other paper, and they had discovered it within five days from the time we put this rate in. It means also that they have gone through their portfolio and made a difference between essentials and nonessentials and reduced discounts in those banks a great many million dollars to the detriment of nobody.

I am well convinced, gentlemen, that you will bring the Federal reserve bank system back to a reserve system rather than a commercial system if you will make it unprofitable for certain great banks to use the funds of other banks.

I run a country bank, with about \$3,000,000 average deposits. I do not use the Federal reserve bank. I am one of the kind that George Reynolds says lives in a provincial community where they do not do anything, but we have got a pretty good community up there all the same. But I have got the fear of God in my heart, and I went out in the highways and byways and listened to the siren who brought big business to me, and I thought it was fine business when he will deposit his great volumes of money and laid this obligation of credit. I have not got him on my hands to a very large extent, but I am running on the lower reserve on the theory that I have down there \$500,000 credit in the Federal reserve bank, if somebody does not use it when I want it, and if I did not have that, instead of going on 20 per cent reserve I would be running on a 50 per cent reserve, but if I should go down there some day and find out that Brother Smithy—if they were all the same kind of banks he has got we would have no trouble—but if the men who have abused that privilege, having used all the funds and taken the resources out of the bank, I am confident that I, with every other conservative banker in the tenth district would feel aggrieved, and justly so.

So I say, gentlemen, I think the real remedy is in a graduated rate. Of course, make the basis line whatever you want, and let us say you would raise the rate to 7 per cent. Now, the only complaint we have among our banks is, there ought to be a maximum rate. I

do not believe that, gentlemen. I would put a danger signal here, and another there, and another up here—that is, death; and he will never go against the death signal. You have made the Federal Reserve Bank of Kansas City a broker shop, you have changed it from a reserve bank to a commercial bank, and I want to get it back, and that is the reason I am in favor of the graduated rate. [Applause.]

Governor HARDING. Mr. Burnham, of Kansas City.

Mr. BURNHAM. Mr. Chairman and gentlemen, I simply want to repeat what Governor Bailey has said representing the group 3 banks; and living in Nebraska I can probably be accused of being one of the main offenders Nebraska has in the overextension, but that, gentlemen, has been owing to the transportation conditions.

Possibly Governor Bailey's story of the banker up there who went out in the sand hills and solicited business was true at the time that that was done. He has learned a lesson and he has not been a very pronounced offender during the last year. The offenses that have come from Nebraska have been by reason of six weeks of the very worst roads that ever were thought of in the history of the State. It has been an impossibility to market any grain or to move any live-stock. The northern part of the State has been inundated; railroads have been washed out; in fact at the present time the Northwestern System has got no service west of Long Pine and does not expect to be able to establish a connected service for the next two or three weeks. Tracks have been washed out for two and three miles, and the bridges over the Cheyenne and the White Rivers have been lost. On the main line, from Omaha west, we have had at one time not one bridge in 80 miles across the Elkhorn River that was passable.

Now, we have got in the neighborhood of twenty-five to thirty million bushels of corn yet to be marketed. That will not be consumed by feeders, but will actually go upon the market. We have got what is estimated to be four to five thousand cars of live stock. Now, if we can be given the privilege of marketing our stuff, Nebraska, from being an offender for having overextended, will be collected very rapidly, and we do not have any fear, if we are not restricted at the present time with regard to the live stock in the western part of the State going onto the pastures.

The very necessity under this graduated form of interest rates has restricted loans out of Omaha. We find that it is almost an impossibility to get money for the purpose of purchasing cattle to go in onto the pastures and ranges. If we could have some assurance at the present time for that essential purpose I am confident that we would go by in a very short time; in fact, with decent road conditions 30 to 60 days will see us, as far as we are concerned, in a very much healthier and more satisfactory condition.

I thank you. [Applause.]

Governor HARDING. May I say right here that at the recent conference of governors of Federal reserve banks in outlining the financial requirements for the present season they all expressed the opinion that come what may the reserves of the Federal reserve banks ought to be kept approximately equal, that they should go up and down together. Now the Federal Reserve Board is not particularly concerned as to the source of the reserve so long as the

situation is properly and wisely handled, and it seems to me that in this live-stock situation, which is a very serious situation from all we have been able to hear, and it is an important matter, it ought to be taken care of; that those banks which are most familiar with the industry, the districts in which that industry is domiciled, should be expected to do everything reasonable to take care of it, and that if by reason of a Federal reserve bank in a particular district taking care of the banks which are discounting for live stock men, their own reserves are depleted, why then they should be expected to rediscount with some other Federal reserve banks who are going to get the benefit of the live-stock product later on, and then those banks in turn may have to rediscount with others, just as we have seen the situation shift—there are only two banks in this system which have never rediscounted. We have had all other banks, including New York and Boston, as heavy rediscounters with the South and West; then we have the present situation when New York, Boston, and Cleveland are rediscounting for the other seven reserve banks.

There is one thing, though, I want to get out of your heads. We have observed situations here pretty closely; we have heard what the Secretary of the Treasury has said and there is not any prospect whatever of any Treasury funds being deposited in the cattle districts. The Secretary has very strong reasons for that and I think they would be convincing to most people. The Government itself is a borrower now at 5 1/2 per cent; it has no funds, and he takes the view that the Federal reserve banks of cattle districts should take care of the live-stock situation in that district out of its own resources as far as possible, that if it needs any assistance, should rediscount with some other district.

Before we hear from Dallas and San Francisco, and in order to save time, I understand that there is a resolution to be introduced. It is very evident from what has been said here to-day that the tie-up in transportation facilities is a very important factor in the present financial situation, and I understand that a resolution is going to be introduced relating to that subject. You might consider that resolution, or those resolutions and then go on and near from Dallas and San Francisco. Does anyone present wish to offer a resolution regarding, or submit a memorandum regarding anything?

Mr. PUELICHER. Governor Harding, I desire to offer a resolution, but not on the subject suggested.

Governor HARDING. Suppose we dispose of the transportation situation first.

Mr. FOROAN. Mr. Chairman, I move you should appoint a committee of five to prepare a resolution in regard to the effect that the present transportation situation is having on the expanded condition of credit in the country, with a view to placing such a resolution before the Interstate Commerce Commission, requesting them to do what in their power they can to relieve the situation by increased freight rates, or otherwise; also, that it should be put before the Shipping Board, so that they can provide, as far as they can, vessels at the principal shipping ports to relieve the congestion there. I move that such a committee be appointed by the Chair, and that

they be requested to retire and prepare their resolution, and when they have it ready, offer it.

(The motion was duly seconded and agreed to.)

There were appointed by the chairman the following members of said committee: F. O. Watts, chairman; W. J. Bailey, George M. Reynolds, R. H. Treman, and E. W. Decker.

The Chairman. Is there anything else on that?

Mr. PUELICHER. I was going to hold this resolution until all districts had been heard from, but inasmuch as there has been a general approval of the spirit of your address, Mr. Chairman, I should like to offer it now.

Resolved, That the bankers here assembled in their capacity as members of the Federal Advisory Council, in their capacity as directors of the Federal reserve banks of the country, in their capacity as members of the orderly deflation committee of the American Bankers' Association, and in their capacity as officers and directors of banks doing business in the various cities of the country, approve the sentiments expressed in the very able address of Governor Harding as representing the views of the Federal Reserve Board, and

Resolved, further, That they believe that the widest publicity should be given the address, and, further, that they hereby agree to abide by the spirit of the address in their own affairs, and that they will encourage its general adoption by bankers and people of our country.

I move the adoption of the resolution.

(The motion was duly seconded.)

The motion was put by Mr. Puelicher and unanimously agreed to.

Governor HARDING. Gentlemen, I am gratified that our views meet with your approval.

Are there any other resolutions? If not, we will hear from district No. 11, Federal Reserve Bank of Dallas.

Mr. SCOTT. Governor Harding and gentlemen, the hour is growing late and I will detain you only a moment. The situation has already been very fully covered, it seems to me, Governor, by some able addresses here, your own, for instance, and others following.

I wish to say for the Federal Reserve Bank of Dallas, eleventh district, as the board knows and as perhaps the members of other banks here also know, that that district is in a very large live-stock and agricultural country. The district furnishes approximately 30 per cent of the cotton that is raised in this country and exported, 85 per cent of which is sent abroad; that forms a very material part of the credit balances that we get from the other side. Naturally, there are times in the year when our bank must borrow from the system. It is also true that when our crops begin to move that we can pay back our borrowed money and then assist financing in other districts. Perhaps six months in the past year we not only were not borrowers, but we were assisting in lending money in other districts.

We have recently begun to borrow again by reason of the fact that our farmers are needing money with which to make the crops; also a great deal of our cotton has not yet moved out, approximately a million bales of cotton being carried in Texas to-day, one half of which is for sale, but there seems to be no immediate market for it; we simply have to wait until the market abroad will absorb it. A great deal of cotton has been sold for future deliveries, and within the next 90 days a considerable portion if it will move out.

I do not believe that it will be necessary for us to borrow unduly in the eleventh district. It will be necessary to rely upon the Federal

Reserve Board, and through it upon some of the other banks to assist us in the next four months.

Speaking of the increased rates proposed by some of the districts, I can not find myself in agreement on that proposition. We have already increased the rate, and the mere increasing of the rate is not going to correct the evil unless the member banks all cooperate. We might increase the rate to seven, and then to eight, nine, and ten, and the situation would still be uncorrected.

I believe we ought to continue our efforts with our member banks throughout the country and induce them to curtail their loans as far as possible to only the legitimate needs of legitimate business, and by that means we can bring about in a normal way deflation of credits. We must remember that this inflation has not taken place overnight; it has been going on for three or four years and it is going to take some time to correct it. We can not hope to correct this situation in a day or a month or six months; we have got to go at it in a sensible way to bring it about in a gradual way, rather than to attempt to correct it within a short period of time. The Federal reserve banks have been charged with profiteering by reason of the rates they are now charging. We are making in the neighborhood of 100 per cent on our capital. We know that any increase in the rates is passed on to the consumer and has a great deal to do with adding to the burdens of the high cost of living, so that I say a great deal more good can be accomplished by educating the business man and the people than by simply putting in higher rates.

The Federal Reserve Bank of Dallas has already adopted the progressive rate proposition to be put in whenever the executive committee finds it necessary to do so, even pending or before our next meeting. We have a few banks in our district that are borrowing unduly, out if their situation should be examined into you will find that they are carrying a great many of the country banks, small banks who have not the proper eligible paper to offer the reserve banks, a great many nonmember banks, and they are in a measure extending the help to the communities which would come ordinarily through the Federal Reserve Bank of Dallas, but those cases are very few. We have a great many banks in our district that are not borrowing at all, and perhaps will not find it necessary to borrow this year. They had good crops in their districts last year and were able to take care of their customers out of their own funds.

I think our situation is sound and we are all cooperating. We have sent out two letters within the last three months to the member banks; the last one was sent out at our last directors' meeting, under the order of the board of directors to be sent under personal cover to the president of each member bank and by registered mail, so that the letter would receive attention, and they were requested to read these letters at the next meetings of their board.

We find that our member banks have fully awakened to the situation and they are going about this thing in a sensible way and we look for early relief in that direction. [Applause.]

Governor HARDING. Mr. McKinney.

Mr. MCKINNEY. I would only stress Mr. Scott's reference to the fact that by reason of cotton being our chief crop that our business ebbs and flows once in 12 months. So it was in last August, as he referred, we were rediscounting with other Federal reserve banks to the extent of \$30,000,000, perhaps \$35,000,000. In three months from that date we paid all that back by reason of liquidations that ensued from sales of cotton, principally, and then got on the other side of the proposition, and I think perhaps we have rediscounted to other Federal reserve banks about \$20,000,000.

It has been my honor to represent the Group 3 banks from the Dallas district ever since the organization of the Federal reserve banks, and from a study of the condition of those banks I can say that throughout all the district they are in stronger condition to-day than they were a year ago. Of course those banks are in communities that have nothing but stock raising and crops; there are no manufacturing industries of any consequence, and the one point that I would like to make with reference to those communities is the extent to which labor is being drawn from the farms to come to town to engage in carpenter work and other labor of that character. In our communities down in northern Texas and southern Oklahoma it is one of the most serious problems that confronts us. I was talking to the cashier of a bank in a county seat town in northern Texas the other day, who told me it was his sincere judgment that one-sixth of the tillable land of his county would lie out this year by reason of the lack of farm hands. It is a wheat-growing county, and he went on to explain that they failed by reason of wet weather to get their wheat crops in, but that same situation has happened in times when labor was more plentiful and the fields that were reserved for wheat were put into other crops.

I thank you. [Applause.]

Governor HARDING. The Federal Reserve Bank of San Francisco, district 12.

Mr. MCINTOSH. Mr. Chairman and gentlemen, we are not so far removed as to be immune from the same conditions developing in other situations. We are thoroughly in accord with the resolution adopted and with the speech of Governor Harding outlining the methods that are desirable for us to proceed upon. We can see the problem and we know fairly well some of the causes. We know that there is a demand that exceeds the supply of credit; we know there must be discrimination, and we are ready to join in any proposition.

We can not quite agree to the theory that the question of rate is the most essential one, although we are not unmindful that in former times, under all normal conditions, when production is normal, that that is an effective method, but while the statement of taxes, which are levied upon profits which are upon the books and not in the books is a factor, and while transportation is a very important factor, with one of those we can do nothing, with the other we can assist by the stimulation of production, which would tend to obviate or to relieve the situation which causes us to be in the position that it takes \$2 and \$3 and \$4 of credit to do the former dollar's unit of merchandise traffic; that we can do, and that is part of our job to help.

We can stimulate our assistance to production. We can do that

by the discriminatory extension of credits, yes, but inasmuch as the credit shortage is inevitable and is there, if we have good credit without regard to the character of the enterprise we would find it impossible for us to stimulate production or to use the means at our disposal in the most intelligent way.

I can hardly conceive that it is wise in the endeavor to keep out the undesirable feature to permit it to be rocked, even though the rocker is willing to pay 7 per cent for the privilege. I find it hard to convince myself that it is the most intelligent restraint to wield a club on the heads of friends and foe alike. A rate which applies beyond a certain arbitrary and calculated line has its effect, yes, but without regard to what the man on the other side of the line is doing. It may well be that my neighbor is bearing his share of the load, struggling under his attempt to bear his share of the community burden, and I am sitting pointing smugly to a large reserve and not doing my share. My neighbor will be punished if he carries out his full share of the line and goes above that line.

It is something like running into a melee with a club in one's hand to assist in quelling it, and making up your mind you are going to strike every fellow on the other side of the fence whether he has his coat off helping you reduce the melee or whether he is one of the main instigators. It seems to me the character and not the amount of opposition should be the prevailing factor in penalties.

I realize the difficulty of the Federal reserve banks going into the minute detail of inquiry in every case, but the work must be done, it seems to me, by ourselves as bankers with our clients and with our bank connections in the smaller centers—that we can do. We can pass on our own transactions with inevitableness, reasonably so; we can not compile a list of essentials and nonessentials, it would not be wise to do so, but we can tell, as Mr. Scott has said a moment ago, and the necessity of loans that are asked for us, and we can restrain, as far as may be, those things which are not a necessity, but there is one other factor which must be a corollary to that, and that is that in our help and in our aid and protection of the essential and quickly assimilable products we must have the assurance, or should have the assurance that we may have the unqualified support of the Federal reserve banks in our district, because that is their job also; the reserves are not sacrosanct. They are not to be framed and hung on the wall, that given the purpose, given the fact that the real purpose is being served by the advance of the Federal reserve bank must help us, must help those who are doing that thing, and must decline when discrimination is practiced against those not doing that thing. The fact that it is sent to the larger center means nothing, and the fact that New York—I use that as an illustration and not in any other way—is bearing a large burden, does not disabuse our minds of the knowledge that a large portion of that work is ours that they are bearing.

That is a misfortune in one way, but it is our burden and our duty too, and that is so of the banks and larger centers as compared with those in smaller centers, and if we can go to our people with the assurance that there is credit available for the protection of essential and quickly assimilable things, and that as compensation for that use we must ask them to refrain from the demand for credit for those things not essential, or for those which in our minds are not essen-

tial, we shall have gone a long way toward solving the difficulty as far as it is within our power to do so. [Applause.]

The CHAIRMAN. Is there any other director from San Francisco to be heard?

Mr. PERRIN. Mr. Chairman and gentlemen, there are just two points I should like to touch on very briefly. It seems to me it is not clearly enough expressed by a number of those who have spoken that the Federal reserve banks are really reserve banks. Penalties are referred to for our loans made at high rates by Federal reserve banks. When the vault reserves were formally invaded, it was not expected that that condition would be free from penalty. Governor Bailey, I think it was, who referred to making Federal reserve banks commercial banks, and I think it should be clearly borne in mind that they will not be classed in the same category as commercial banks, but that their organization has brought into existence a large new supply of currently loanable funds, that when we do invade the reserve held by Federal reserve banks it is only for meeting peak loads.

You all know, doubtless, that the total of vault cash and the deposits in Federal reserve banks combined represent a less percentage of deposits than the vault cash alone did in October, 1914.

If a definite program is outlined, it is always easier to work to that than to an indefinite one. Mr. Jacobson was good enough to make some studies for me yesterday of the changes in loans of national banks. There is not much light to be obtained taking the low point, the midsummer point of the five years before the war, and the peak point in the fall. Beginning with 1915 and running through the successive years, this may not be uninteresting, that from June, the peak in June, 1915, there was an increase in loans of \$697,000,000 of national banks in 1916; that increase was \$666,000,000 from June to the peak time, with an additional amount of funds delivered from rediscounting amounting to \$48,000,000, making something over \$700,000,000 in 1917, \$247,00,000 from discounts in 1918, \$476,000,000 with \$629,000,000 from rediscounts, that is 1919, and \$211,000,000 with \$973,000,000 of discounts. That makes something over \$2,000,000,000 difference between the low point last year, that is the midsummer point last year, and the peak in the fall, and at the peak there were \$11,700,000,000 of loans, that represents an increase of considerably more than 10 per cent. Mr. Reynolds spoke of not letting George do it, but each one to do his own share, 8, 10, or 12 per cent.

It would seem to me the concrete problem now is to determine whether our present condition is approximately the extent of expansion that we would like to have this fall rather than a more or less acute condition. If so, the way to meet that problem is to bring about in the next three or four months a definite amount of contraction, which would permit us to expand correspondingly in the fall. If it were possible for every bank in the country to reduce its loans during the next three or four months to the extent, say, of 10 per cent, there would be a total expansion in the fall possibly of approximately \$2,000,000,000. In other words, if, without disturbance, we could prevail upon each bank, or upon the average have the banks reduce their loans 10 per cent within the next three

or four months, and that is what we have spoken of in the Federal reserve system as orderly liquidation, we could then make all reasonable expansion that would be required to meet the situation in the fall, which is bound to come, and yet not create any greater stringency than we now have.

If transportation difficulties are rectified somewhat obviously there will be a good deal of liquidation from that source, which would make possible a considerable reduction of loans. It occurs to me if a definite program of that sort were undertaken, and I do not suggest 10 per cent, but whatever per cent might be thought adequate, that the smaller as well as the larger bank does not need to go into the analysis of economic aspects and the economic relations of all those things, but they simply have one definite problem to work to and are more apt to do something than if they are left to try to digest and to try to understand the larger aspects of the thing.

Recurring for a moment to the matter of reserve banks being reserve holding institutions, I agree with what Mr. McIntosh has so well said in regard to this whole situation. I do not find myself, however, in agreement with the idea of not advancing the rate. I find my own inclination toward establishing a 7 per cent rate for commercial business. [Applause.]

Governor HARDING. We have a committee here from the American Bankers' Association and would like to hear from any representative of that committee.

Mr. FORGAN. I am chairman of that committee, Mr. Chairman. I would like an opportunity to say, Governor and gentlemen of the Reserve Board and delegates of this convention, that the convention has stirred up a good deal of sentiment through the country, and there has been some thought, I think, of a misapprehension of what we were going to do when we got here. The fear got out that we were going to meet here and in some way were going to classify loans into essentials and nonessentials, and with that even send an order through the country that there were to be no loans made on what we would term nonessentials. In your speech, sir, you have covered that already, and there is no use saying anything more about it.

I have several documents that have been sent to me here, I do not know in what capacity, whether as chairman of the American Bankers' committee or whether as chairman of the Federal Advisory Council; at any rate I have been getting these, and I should like to read them to you, because I feel in duty bound that you should know what the borrowers are thinking.

The National Implement & Vehicle Association had a convention in Chicago last week, and they appointed a committee to interview me so that I would come posted to this convention as to what they thought about it, and I said "Put it in writing," and the committee got busy and wrote me this letter:

NATIONAL IMPLEMENT & VEHICLE ASSOCIATION,  
Chicago, Ill., May 14, 1920.

Hon. J. B. FORGAN, Chicago, Ill.

DEAR SIX: Reports that have reached this association within the last few days regarding the difficulty experienced by farm implement dealers in financing the movement of agricultural machinery from the manufacturer to the farmer

led to the calling of a meeting of the executive committee yesterday, May 13, and the appointment of an emergency committee, specially charged with the duty of directing attention to the seriousness of the situation thus created with respect to the country's food supply in the immediate future.

The difficulty appears to be that in many rural communities bankers are falling to extend adequate credit to implement dealers to enable them to secure the prompt delivery of machinery which is essential to the production of our crops. This action on the part of the bankers is perhaps due to a recent rumor that Federal reserve banks would not rediscount paper given either by farmers or dealers for farm machinery. In one or two Federal reserve districts, we are informed, this erroneous impression has been officially corrected. We are not advised as to the extent to which it prevails in other districts.

It is scarcely necessary to point out that anything which interrupts the supplying of agricultural implements to the farmers is a menace to the Nation's food supply. The situation to-day is particularly acute because of the abnormal shortage of farm labor and the present extraordinary congestion of freight traffic. Further, there has been extreme difficulty in obtaining the materials needed for the manufacture of farm machinery and all manufacturers are working on so close a schedule that if there is any delay in financing delivery of machines they will reach the farmers too late for use this season.

Most manufacturers are at this time so heavily burdened by the large investment resulting from the high cost of material and labor that they find themselves unable to extend to customers the credits that have heretofore prevailed. Both manufacturer and dealer must, therefore, depend upon the banks—and particularly local banks—to a greater extent than ever for aid in marketing farm machinery.

The shortage of farm labor has reached a point this year where the farmers' need of labor-saving machinery is imperative. Only by adding to their mechanical equipment, and particularly their power machinery, can the farmers of the country maintain production in the face of a falling supply of man power.

Without an adequate supply of farm machinery, there can not be an adequate supply of food. Farm implements and food products should receive equal consideration. This committee feels it would be most helpful in the present situation if the banks of the country would give to the movement of farm machinery the same consideration which is given to the movement of farm products.

If it should now or later become necessary to establish any order of preference among industries, we respectfully call your attention to the fact that during the war the United States War Industries Board placed farm machinery in one of its most essential classifications, at one time even placing it on a parity with food supplies and ahead of railroad transportation.

We earnestly request that this subject may receive your special attention, and hope that we may have your cooperation in our effort to secure adequate financing for the distribution of these essential machines.

The members of the emergency committee are: H. M. Wallis, Racine, Wis., president of J. I. Case Plow Works; George A. Ranney, Chicago, secretary and treasurer, International Harvester Co.; F. R. Todd, Moline, Ill., vice president, Deere & Co.; G. N. Peek, Moline, Ill., president Moline Plow Co.; C. S. Brantingham, Rockford, Ill., president, Emerson-Brantingham Co.; W. H. Stackhouse, Springfield, Ohio, French & Hecht Co.

Very respectfully yours,

H. M. WALLIS, Chairman.

The next is from the National Federation of Constructive Industry. They write a letter and they give the following reasons for the high cost of commodities: Underproduction, particularly of necessities; overproduction, particularly of luxuries; inefficiency of labor while on duty; part time work by labor; strikes; greed; profiteering in some lines of business; excess profits taxes as such.

Then, I have here from the Studebaker Corporation and from the General Motors Corporation statements indicating that what they produce, namely, automobiles, have been mentioned as luxuries, and they say they are not luxuries, but are necessities.

I then received this telegram since coming here, from Indianapolis, Ind. This is addressed to me as chairman of the advisory council of the Federal reserve system:

In considering restrictions of extensions of credit to nonessential industries, please remember the manufacture of tires for cars already in operation would appear highly essential industry because old tires can only be replaced by new ones.

That is signed by the Majestic Tire & Rubber Co., of Indianapolis, Ind.

Mr. SCOTT. There are no letters from consumers there, but all from manufacturers?

Mr. FORGAN. All from manufacturers; yes.

Governor HARDING. I will place in the record at this point the following telegrams:

CHICAGO, ILL., May 27, 1920.

Governor HARDING,  
Federal Reserve Bank, Washington, D. C.  
Credit situation as affecting live stock is critical. Movement of wool is slow from car shortage and bear tactics of buyers, and steers can not be marketed until next fall. Last year Governor Calkins, twelfth district, wisely advocated by circular letter July 15 that banks extend credits to breeders of live stock that production may be sustained and increased. Cattle and sheep paper is necessarily, especially on breeding stock, long term, as sale periods of products only occur yearly and expense accounts accumulate and must be carried for long periods. Merchants and certain manufacturers can curtail stocks or operations, but live-stock breeder can not, without disaster, market his product until conditions are right. We bespeak from you and your associates of Federal reserve banks unusual consideration at this time.

F. J. HAGENBETH

PHOENIX, ABIE., May 18, 1920.

Hon. DAVID F. HOUSTON,

Secretary of the Treasury, Washington, D. C.:  
The prevailing financial stringency has resulted in stopping movement of our young steers from these breeding grounds to pastures where they are matured for beef. These cattle were contracted early by Texas, Colorado, and northern pasture men and advance payments made. Now they are being forced to sacrifice advance payments owing to their inability to secure funds regardless of collateral rate of interest or amount of margin in steers, the Federal reserve board having stopped loans on cattle security. This spring movement of young steers is not speculative but occurs every year, and heretofore has been financed without difficulty. To stop it will not only throw many in Arizona out of business but will certainly bring about eventually an upheaval in beef conditions generally. It is just as important to the Nation as the movement of any crop. Our breeding ranges are stocked to capacity and the breeders can not finance this, but on the contrary need money badly for operating expenses. Can not this disaster be forestalled by some provision allowing member banks to accept enough well-secured cattle paper to permit tills normal movement of steers to pastures from whence they go to market one or two years hence? Your interest and assistance greatly needed and will be deeply appreciated.

ARIZONA CATTLE GROWERS' ASSOCIATION,  
CHAS. P. MULLEN, President.

CHICAGO, May 17, 1920.

Mr. W. P. G. HARDING,

Governor of the Federal Reserve Board, Washington, D. C.:

Firmly believing that the Federal Reserve Board has more power than any other commercial element to correct the evil of high prices and stabilize necessities, we respectfully suggest that if all loans to profiteers and speculators in the essentials of living made on warehouse receipts were called it would without doubt force an emptying of the cold-storage houses and amply meet

the necessities of the consumer at reasonable prices without injury to any legitimate industry. This was recently done with the lumber speculators on the Pacific coast and resulted in a decline of from ten to thirty dollars per thousand feet in the price of lumber within 60 days. Speculators find it all too easy to borrow money at low rates on warehouse receipts and hoard the necessities of life at a profit of one to three hundred per cent and if this borrowing were made impossible by you commodities would immediately begin to tumble and conditions rapidly head toward normal.

FRANK J. SHEAD,  
President Shead Lumber Association.

Gentlemen, are you ready to hear the report of the committee on the transportation situation?

Mr. WATTS. The unanimous report of your committee is as follows:

The whole country is suffering from inflation of prices with the consequent inflation of credit. From reports made by the members of this conference representing every section of the country it is obvious that great sums are tied up in products which, if marketed, would relieve necessity, tend to reduce the price level and relieve the strain on our credit system.

The congestion of freight is found in practically all of the large railroad centers and shipping ports. It arises chiefly from inadequate transportation facilities available at this time and is seriously crippling business. We are informed that the per ton mile of freight increased in three years—1916, 1917, and 1918—47 per cent, while the freight cars in service during the same period increased 1.9 per cent.

A striking necessity exists which can only be relieved through the upbuilding of the credit of the railroads. This must come through adequate and prompt increase in freight rates. Any delay means the paying of greater cost directly and indirectly and places a burden on the credit system which in the approaching time for seasonal expansion may cause abnormal strain. Even under the load of war inflation, high price level, and extravagances the bank reserves would probably be sufficient if quick transportation could be assured during the time of the greatest strain: Therefore

Be it resolved, That this conference urge as the most Important remedies that the Interstate Commerce Commission and the United States Shipping Board give increased rates and adequate facilities such immediate effect as may be warranted under their authority, and that a committee of five be appointed by the chair to present this resolution to the Interstate Commerce Commission and the United States Shipping Board with such verbal presentation as may seem appropriate to the committee.

Mr. SCOTT. Just for my information, who is going to pay us for all these goods moved to market?

Mr. WATTS. Some of the commodities there is no market for. There is some short-staple cotton and colored cotton, but nevertheless there is a great quantity of goods that is held which requires bank credit. That would be a subject that would take a great deal of time to cover, Mr. Scott.

Mr. SCOTT. Are our neighbors on the other side prepared to pay us for it?

Mr. WATTS. Well, I should say they are not, but they are not the only customers for those commodities. We can get just as near our own circle, I presume, as we want, for that. For instance, I know a wholesale grocery man who is accustomed at this season of the year to not be in the bank at all, except for small sums, and he practically has his entire line of credit, which is due entirely to domestic business and is not foreign business at all. It is due to the fact that he has paid for those goods and that the goods are somewhere between the point of production and his warehouse. He has orders for those goods and requires bank credit.

Mr. SCOTT. I am sure that would tend to relieve the situation, but I doubt whether it would go all the way and bring the relief that perhaps is called for.

Mr. WATTS. My judgment is that in the St. Louis district, to use that as an example—St. Louis is a point which produces much more than it consumes. I am not talking about the city of St. Louis, but I am speaking of the Federal reserve district, and I refer to the manufacture of shoes and different products of every kind. Now there has been such a congestion in the transportation facilities in that district that it has caused the St. Louis district to-day to be the largest, or rather to have the lowest adjusted reserve of any of the Federal reserve districts, which is not a natural condition. Take the cotton, tobacco, and rice, or any of the products of that district. It is quite true that of this cotton there is probably 80 per cent that is short staple or colored cotton and the remaining 20 per cent probably has been sold, but can not find its way to the purchaser and therefore must be carried by the banks. Probably a part of the short cotton has been sold now. The St. Louis banks in the district and the reserve banks must carry that credit pending restoration of transportation facilities. That is true of the wheat section. Mr. Decker referred to the fact that in the Northwest there was possibly \$200,000,000 in grain products tied up for lack of transportation.

Governor HARDING. IS there a second to the adoption or the resolution?

(The resolution, being duly seconded, was unanimously adopted.)

Governor HARDING. Does the conference wish to do anything with the suggestion offered by Mr. Perrin, which, as I understood it, was that there be a program laid down that every bank be requested to have its loans reduced by a certain percentage?

Mr. SCOTT. I think there is a different problem in each district, Governor Harding.

Governor HARDING. There is no motion before the meeting. I was just wondering if Mr. Perrin wanted to make a motion. He has come a long way to attend this meeting, and I merely want to call attention to the fact that he has made the suggestion.

Is there any other business that any member of the conference wants to bring up?

Mr. WAYNE. The question of graduated rates on borrowings or rediscounts has been touched on, and I would like to know whether in the districts that have adopted this procedure they have eliminated the question of borrowing on Government securities from calculations as to the line of credit granted to a bank.

Governor HARDING. In the Kansas City district, and the Dallas district, in their tentative plans, they have eliminated entirely borrowing on Treasury certificates of indebtedness and on Liberty bonds actually owned on the 1st of April, 1920.

Mr. WAYNE. Owned by the bank or by the customer?

Governor HARDING. AS I understand it, by the bank.

Mr. WAYNE. Have they made any reference to collateral notes of customers that have been discounted by the banks as a result of Liberty loan subscriptions?

Mr. BAILEY. They have to belong to the bank on the 1st day of April. We have made that rule.

Mr. SCOTT. It is the same way in the Atlanta district.

Mr. WELLS. He wants to know if customers' notes secured by Liberty bonds are exempt from the application of it.

Mr. BAILEY. They are not.

Mr. WELLS. They come the same as commercial paper ?

Mr. BAILEY. Yes.

Governor HARDING. If there is nothing else to bring up, I presume the advisory council will finish its session this afternoon. I am informed by Mr. Forgan that the council has finished its work.

Mr. FORGAN. Unless the board desires to consult with the council.

Mr. WILLIAMS. Mr. Chairman, it is a little past lunch time and I suggest we take an adjournment of an hour and a half and meet again at half past 3. We have had some very interesting talks from bankers from all over the country. It has been very instructive, and I think if we come back after lunch, after we have had an opportunity to think over what has been said, that some additional ideas may be suggested of a constructive character. This is an exceedingly important conference and I would dislike to see it adjourn sine die at this moment. These gentlemen have come from all over the country, and I move you that we adjourn at this time and have another session this afternoon for the purpose of taking up any new matters that any member may desire to bring up after he has an opportunity to think over what has been brought out at the conference this morning.

(The motion, having been duly seconded, was carried and the conference adjourned at 2 o'clock p. m. until 3 o'clock p. m. of the same day.)

AFTER RECESS.

The conference reassembled at 3.15 o'clock p. m. pursuant to recess.

Governor HARDING. Yesterday, in the Senate, Senator McCormick, of Illinois, moved that the Senate take up Resolution 363, which reads as follows:

Resolved, That the Federal Reserve Board be directed to advise the Senate what steps it purposes to take or to recommend to the member banks of the Federal reserve system to meet the existing inflation of currency and credits and consequent high prices, and what further steps it purposes to take or recommend to mobilize credits in order to move the 1920 crop.

The discussion is rather brief and I will take the liberty of reading it from the Record.

(The discussion on the Senate floor was thereupon read by Governor Harding.)

I presume in answering that resolution the board can take as a basis remarks made here this morning, and with reference to the transportation it can incorporate the resolutions which were adopted about the tie-up of the railroads. I think it would be well to have a committee of three appointed to wait on the Interstate Commerce Commission and formally present those resolutions to-morrow, and as I have been given the names of some of the gentlemen that will remain over to-morrow in any event, if the conference wishes I suggest that they authorize me to appoint a committee of three to present this matter.

Mr. WATTS. A committee of five has been authorized by resolution. We might change that to three.

The CHAIRMAN. Five would be more impressive. I had in mind asking Mr. Decker to serve as the chairman of that committee, and Governor Bailey of Kansas and Mr. Ball of Texas, Mr. McNider, Mr. Rieman, and Mr. Perrin to compose that committee.

I would also suggest that a committee of three be appointed from this conference to prepare some kind of a statement or memorandum to be submitted back to the conference, which we can use as a basis of a press statement, and which you can all use as a basis of a statement of your own banks when you get back home touching the situation as you see it, and forstalling any more remarks such as were made in the Senate yesterday as to all kinds of trouble coming, yet being careful not to stir up another bomb.

Doctor Miller suggests a committee of five, with definitive powers, to draft a memorandum and resolution and transmit it to the board, then we can make them public and send each Federal reserve bank a copy.

Mr. DECKER. I should like to amend that by suggesting that the Governor of the Federal Reserve Board be an ex-officio member of that committee. I think it is conferring rather broad powers to put into the hands of the committee a commitment of this whole conference on perhaps the most important matter of all.

(The proposed amendment was accepted.)

Governor HARDING. I would be very glad to sit with the committee.

Mr. PUELICHER. Governor Harding, do you want to be chairman of that committee?

Governor HARDING. No; I do not want to be a member.

Mr. PUELICHER. I move you that we appoint a committee of five, and that the governor of the board be asked to sit on the committee in an ex-officio capacity.

Governor HARDING. Had you not better ask one of the other members of the board to sit with that committee?

Mr. DECKER. All of them, for that matter.

Governor HARDING. The chair would like to have some suggestions as to the membership of that committee. I think it would be well if nominations for that committee be made from the floor.

(The following named members were selected as members of said committee: Mr. Joseph Wayne, Jr., Philadelphia; Mr. Beale, Boston; Mr. Perrin of San Francisco; Mr. Forgan of Chicago, and Mr. Treman, New York.)

Governor HARDING. It has been suggested by Doctor Miller that before the committee retire we would better have them have the benefit of the general discussion here for a few minutes so they may have the advantage of various views that may be expressed. The conference is now open for informal discussion. We would like to hear from anybody who wishes to talk.

Mr. WATTS. We have heard discussion from members, and now perhaps other members of the board would like to say something following the discussion by the delegates from the various districts. I think we would like to hear from Doctor Miller.

Doctor MILLER. I think the morning's conference has pretty well developed the things that bulk largely in our estimation of the general situation, and anything that any of us could say beyond

that would be little more than repetition, or perhaps give only added emphasis by a personal word.

I think it is clear what is wrong in the situation, but it is not quite so clear as to what is going to be the most effective method of addressing the united power of the board and the reserve banks and the member banks of the country toward any improvement of the situation.

A good deal has been said about rates, and New York has rather taken the position that that has got to be the main reliance in bringing about both a reduction in the rate of growth of credit—I do not say a reduction in the total volume. I do not expect that, but at any rate the diminished rate of increase, and also they seem to think that that will prove to be if not in itself, at any rate the first step toward the exercise of greater discrimination by member banks either in opening new credits or in the renewal of existing credits. The latter seems to me to be the more important problem and the more difficult one, and the one upon which bankers throughout the country need to get all the light and leading that they can from this conference, and that also is the question I think upon which the borrowing public of the country will be most eager to get information.

I was left at the close of our conference this morning with the impression that the majority of the men that spoke were inclined to take a more optimistic view of the problem with which we are confronted than I think conditions actually warrant. I was also led to the impression that we were in danger of going away feeling that having discussed the situation and interchanged views, and having enlightened ourselves, we had done our duty and for the rest we could safely trust in God. I think the problem is one that requires not only understanding of what we are going to do, but delicacy of discrimination in undertaking to apply a test to the legitimacy of credit demands, energy in developing and carrying out a policy, but patience in awaiting fruition of results.

Credit is the most delicate institution in the world—"opinion," as Alexander Hamilton put it in one of his great reports, "is the soul of credit"; you can very easily injure it; on the other hand, by proper treatment, you can very easily support and maintain a good condition of mind.

I think the analogies of other countries and other times do not furnish us very much guidance for the present. This is a very unique situation. As was said three or four times here this morning it is really a condition of mind we have got to address ourselves to in this country. Our morale, economic, psychological, and political, is pretty low. We do not want to run it still lower by any intemperate attacks or any assault upon either the business or the credit of the country; on the other hand, we want to maintain a very serious attitude of mind as to what we may expect unless we address ourselves pretty seriously to the immediate improvement of the situation.

Sometimes on occasions of this kind you want a word or a phrase upon which to hang things, and I was struck in the course of deliberations this morning with the frequent occurrence of the word "discrimination." I think the country will accept that as on the whole indicating a temperate and responsible attitude on the part

of the Federal reserve system and member banks of the country in dealing with this problem, and on the whole that is the one thing that would seem to me worth specifying as a general objective in any report a committee of this conference might make in the way of a recommendation to the Federal Reserve Board as to what in its opinion must be done to handle conditions successfully in this country so as not to dampen the ardor of enterprise, not to throw any chill over industry, but also with the constant suggestion that banks are to use such influence as they have to restrain the unproductive use of credit, applying the test of unproductiveness under existing conditions and not under normal conditions, and to restrain the reign of extravagance.

I have no hesitation in saying for myself that I do not feel at all optimistic about the outlook. I do not for a moment expect that we are going to deflate in this country, and I think we are only deceiving ourselves if we talk about deflation. We must, however, arrest the rate of growth of credit and we must expect that with the swell in the productive activities of the country that come with the approaching crop season there will be a natural swell in the volume of credit, which need not alarm us. I am not at all worried if our Federal reserve bank liabilities run up and our nominal reserve position appears to be weakened, provided we have the assurance and the right to feel the assurance that such credit as is being extended by the member banks and immediately supplied to them by the reserve banks is credit that rightly functions in industry in the production of things' that in a reasonable view are wanted at the present time, and in a minimum degree in supplying extensions in industries which, at the present time, are contributing nothing toward the essential processes of economic recuperation.

As I see it, beyond that the problem is to present this in such a way to the bankers of the country as will secure their cooperation, and with their aid also to present it to the user of credit. After all, credit is given only as somebody wants credit, and to a certain extent our problem is to restrict the appetite for credit, and it is not the banker that borrows credit, or if he borrows it from the reserve banks he borrows it only as the first step in the process of lending credit to somebody else. Eventually, it is the user of credit that has got to be brought into a more or less responsive and acquiescent attitude in this policy of control. There is no use attempting to evade the fact that control, if it is anything more than a process of self-deception means actual control; that somebody has got to go without the credit he thinks he is entitled to or the credit he would like to get. But it would, I think, be a mistake to treat this simply as a quantitative problem instead of, as I think it is primarily a qualitative one. I would not be at all alarmed at the growth of credit in this country if we had the assurance that credit was only going to the users of credit contributing to the production of those things the country badly needs at the present juncture.

I come back, therefore, to the word "discrimination" in the extension of credit, as on the whole pointing the way toward the road that we have got to travel, and perhaps in some parts of the country even blaze, in order to get back to the situation that the governor

very happily described this morning as the restoring of a more normal relationship between the total volume of credit in existence and the total volume of production. I would amend it only in one particular, the production of those things that people who care for the country, who are sensitive to the requirements of the times and who are willing to cooperate in a great national endeavor will not quarrel with, the production of things that immediately are more important, and the postponement of things that for the moment are less important. [Applause.]

Governor HARDING. Mr. Comptroller.

Mr. WILLIAMS. Mr. Chairman and gentlemen, I do not know that I have anything special to add to the very excellent presentation of the whole subject which you gave this morning, which was supplemented by the various speakers who have preceded me.

There are one or two aspects of the situation, however, to which I think I would like to direct your attention especially. You have been speaking of extravagance and the production of nonessentials and luxuries. It seems to me it would be very helpful if every bank in the country should constitute itself a missionary for thrift and saving and try to urge upon the workers, upon the laboring people, and upon those whose incomes have been swollen, the importance of laying up for the rainy day and for old age. It seems to me that with the large wages that are being paid now in industrial establishments that it offers a splendid opportunity for you to increase and build up the savings deposits in your banks. I was very much disgusted the other day to hear of my chauffeur buying about three silk shirts at \$10 a piece. I made that the text of a little lecture.

Governor HARDING. He must have got a cut price.

Mr. WILLIAMS. That is going on on all sides. I think that if when these individual cases of extravagance and luxury come to our attention, if we would call the attention of the spendthrifts to the importance of starting a savings account, that it would be helpful. It seems to me that the banks could very well afford to do some little additional advertising in behalf of thrift and saving, and appeal to the laborers, who are getting more now in their daily wages than they ever dreamed of in the years gone by.

One difficulty of the present situation is that the conditions of which we complain in this country are world wide. We have not simply to remedy things within our four borders, but they are overlapping in all the civilized and uncivilized countries. I was reading an extract from a Japanese paper the other day that the cost of living on the Yantze Kiang River in China had, gone up about 300 per cent in four or five years; I also noted recently, as illustrating the extravagance of impoverished France, that there was one store in Paris which last year sold 1,100,000 pair of silk stockings at an average of 30 francs per pair. They seem to be returning to sanity over in Paris, though, to some extent; there are beginnings of it, as perhaps a reflex of the overall campaign, I see they have started the cotton stocking association in Paris to remedy the extravagant use of silk. I think it would be very well if we should adopt that over here.

As illustrating the embarrassments against which we have been working, I would call your attention to the enormous cost in this

country at the ports. I have a national-bank examiner who is in Europe at the present time, and in a letter received from him within the past few days he calls my attention to the very sharp comparison between the cost of transferring cargo in New York, or some of our other ports, as compared with Antwerp. At Antwerp they have a wonderful harbor; about 6 miles of piers, and a railroad track lying between the great warehouses which line the harbor and the pier itself, and the cost of transferring freight in New York, I understand, is more than 1,000 per cent above the cost of transferring freight per ton in Antwerp. Those are symptoms of commercial extravagance which we have got to correct when we get down again, as we will in the course of time, to hardpan and begin to strictly compete with the other countries.

Some one asked me the other day what I thought of the outlook, and I told him that I could best express it in the language used by Cato in his soliloquy, in which he said, "The wide, unbounded prospect lies before me, but shadows, doubts, and darkness rest upon it." Now, unquestionably, there are shadows, doubts, and darkness that rest upon the prospect, but those shadows, doubts, and darkness can be blown away, and they should be blown away; they should be remedied.

I do not think myself that there is any ground for expecting a commercial cataclysm or crisis such as some people are predicting; particularly a very well-informed and responsible man expressed the opinion not long ago that we may have such a crisis between now and election, or if we did not have it before the election we would have it worse afterwards. I do not think those fears are justified. I see nothing in the situation to justify the fear of such a commercial crisis or financial catastrophe as we had either in 1873 or in 1890, or in 1907. If anything of that sort comes, it will be our fault, the fault of those who are in charge of the banking and commercial interests of the country, and I do not believe they are going to bungle it.

I do think it is tremendously important that every individual bank, besides being a missionary for thrift, should each admonish and warn and hold the strings of their moneybags with a very discriminating hand, and should bring about a proper and reasonable degree of contraction. I think my friend, Doctor Miller, expressed the view of the meeting yesterday, that he was not very hopeful of our ability to bring about much contraction—about as far as he went was to desire and hope that we would not inflate any further. I think, though, that we should go further; I think we should, and must, bring about a reasonable degree of deflation or contraction.

I do not think that the inflation is as grave as some experienced people think it is. I will give you now some figures, which I think are rather reassuring, at least for the time. Speaking of the elasticity of bank credit, it is a fact, whether you have noticed it or not, that in the first 50 years of the National banking system the maximum play, as expressed by notes, rediscount and bills payable of the national banks, the borrowings from other banks, was only about \$100,000,000. That represented the largest amount, or practically the largest amount that the National banks of the country ever borrowed at any time on their bills payable or rediscounts up to the panic of 1907. There was no elasticity; we were in a strait-jacket.

That perhaps represented an expansion of 1 per cent of our total resources.

In 1914 the notes rediscounted in the national banks and their bills payable increased in the emergency created by the European war to about \$150,000,000, which was the maximum up to the opening of the Federal reserve system. Since the beginning of the Federal reserve system the maximum of notes, rediscounts, and bills payable of all the national banks has amounted to about \$2,000,000,000, or about 20 times as much as their total borrowings up to 1907, and I believe that the amount at the present time stands at about \$2,000,000,000. But a very significant feature of that situation is that, that if we should deduct from the—or if the national banks should be reimbursed the money which they have invested in Victory bonds and Liberty bonds and loaned on Liberty and Victory notes they would be able to pay off their entire indebtedness to the Federal reserve banks, and to all other banks.

To my mind those are very hopeful figures and indicative of a pretty solid situation. In other words, if the banks should be reimbursed the money that they now have in the war issues they could pay off every dollar they owe to the reserve banks or to any member banks. Of course we are not expecting them to be reimbursed for those bonds and loans immediately, but in the course of time they will be liquidated; the Liberty bonds and Liberty notes will find their way to investors and the banks will have got back their capital in liquid shape.

I personally have no doubt in my own mind that the next two or three years will probably find our Liberty bonds and Victory notes at a premium. You all remember very well that it was not more than 20 years ago. when your Government 4 per cent bond sold above 140; while they carried circulation privileges they had no Federal reserve system where they could be used as collateral either.

My parting words is to urge that the member banks keep themselves in solid condition and lean as little as possible upon the Federal reserve banks, and that the member banks do not undertake to make their loans year in and year out, or month in and month out. except on unusual calls and in emergency cases, from the Federal reserve system. I am reminded, in conclusion, of the hopeful and reassuring lines of the old hymn:

Ye fearful saints fresh courage take;  
The clouds ye so much dread  
Are rich in mercies and shall fall  
In blessings on your head.

I think the time will come, and soon, when these clouds will pass away and we will get down to the solid foundation we desire—Governor HARDING. Following our comptroller's suggestion that the banks of the country are making an intensive campaign to keep up their savings department especially, I wish to call attention of the members of the conference to the fact that the Federal reserve note issues outstanding are nearly \$3,100,000,000, and that in endeavoring to locate the whereabouts of those notes we failed to see where there can be more than about \$1,750,000,000 of them held in the vaults of the banks of the country, so that leaves about \$2,300,000,000 in the pockets of the people, or in circulation somewhere. We all

know the habit that has grown up in the last two or three years on the part of people carrying large amounts of notes upon their persons, and it gives you a very good idea of the possibilities of a campaign to increase your deposits if you can induce people who carry money around with them, or who have it stuck around the house somewhere, to come around and deposit it with the banks. It will increase your deposits and will be a very large reduction in the amount -----

Mr. WILLIAMS. A small bank in Michigan recently reported to my office about \$4,000,000 in the vicinity of this small town which was carried in old stockings or in safety deposit boxes; that there was being hoarded \$4,000,000 in the vicinity of that one small place.

Governor HARDING. Mr. Mohlenpah, will you make some remarks?

Mr. MOHLENPAH. Mr. Chairman and gentlemen, I am sure no man in this conference would expect anything from the newest member of the board. I think it would be right to say that there is no member of the board at this time that has been related to your problem so directly as perhaps I have been, because I have just come from the desk and I have, during the past six months, visualized the proposition you were up against, and I want to say right here, gentlemen, that I refuse to be a pessimist. I quite agree with the comptroller. That does not mean that I am an expansionist or an inflationist, but I do believe in the broad, general proposition that we have just as much right to take stock of our assets and of our privileges and of our opportunities as we have of the darker phases of the question. [Applause.]

Now, gentlemen, I believe out of this situation will come a stronger, higher morale on the part of the bankers themselves. We saw our people at the highest point during the war. We have a right to expect the business men, particularly the bankers, will come to their highest point now in this financial war. I believe the bankers will clean house; I believe in this trial or strain or stress they will become better, safer custodians of the people's money.

May I illustrate just what came to me from one of your men yesterday? He said, "I believe that our bank will be a better bank; that our men will be better bankers in handling the people's money." He said, "For years in our bank we carried a loan of \$30,000 for one very wealthy person in our city. When this strain came on I called her in. She was a very wealthy real estate owner, and I told her frankly our problem. She said, 'I'm very glad you told me this; I will gladly and willingly make a mortgage upon my property so that your needs over the counter will be more liquid and that you will be relieved of that much.'"

I am only indicating that as just a suggestion of what will happen over the counters one way or another during the next six months of 30,000 banks and bankers relating themselves to their business. That is to be desired. I believe the bankers, if this educational propaganda you are talking about is put out, will become something better than bankers; you will become community leaders and not just community advisers, but you will become community directors. The very nature of your business in discriminating upon your loans will make you that, and that is a good thing. It is just exactly, to my mind, what this situation needs; not a contraction that is going to

hurt; it needs the steady nerve of the bankers just as they faced their problems in 1903 and 1907.

May I remind you gentlemen again that we have reason to be thankful for our position as a Nation at this time as over against any other period in the history of the world? And I would not want to see the bankers as a fraternity, privileged to lead the people as you are, to go out and take a backward step to hurt our people as they try to relate themselves to their business in this most wonderful country of ours.

And right here, as we think of this community program and community interest; as we see the banks of the industrial centers like Boston and New York and Cleveland at this time; as the great agricultural districts of our country are now about to go at a new season, the seed going in the ground, that you are in a position now to help—if I would say one thing above another it would be this: That we lay stress upon the first prime importance of seeing to it that we produce all those things related to food and clothing, the fundamental need not only of our own country and every other economic interest of our country, manufacturing and everything else so intimately related to that of the program of the agriculturist, but because of the need of the world. And I appreciate, gentlemen, the suggestions that I have heard and the things you have said here to-day, and it would be my privilege and pleasure and in any way I can, in any small way I am able, to assist. Let us be optimistic and not altogether pessimistic. [Applause.]

Governor HARDING. I wish to convey to the gentlemen of the conference the greeting of our absent member, Governor Hamlin. He left about three weeks ago to go to a hospital near Boston, where he underwent quite a painful operation. I am glad to say it was entirely successful and he is now out of danger. He will be convalescing several weeks, perhaps, before he will be back with us, but he assures me when he does come back he will come entirely restored to health. I am sure that all miss him to-day, and I am sure all will be glad to hear he is past the danger point and will be restored to us for many years of usefulness.

Mr. JOHNSON. May I ask a question? The comptroller spoke in regard to this matter. Upon this last page of the chart it would show that the borrowing for commercial purposes by the Federal reserve banks through all the member banks from July to about September ran along about \$250,000,000, and from that point on there was a steady expansion until now the borrowing for commercial purposes is about \$1,000,000,000, and this chart does not indicate there is to be any diminution of that increase. Now, as a practical question, where is that going to lead us? I would like to ask the comptroller what he thinks about it.

Governor HARDING. That means there must be some liquidation of commodities held up.

Mr. JOHNSON. As a country banker my observation is that the mass of borrowers in the country banks do not have much to do with commodity product.

Mr. WILLIAMS. The figures I gave referred more to the national banks and did not refer to the other member banks. Of the total borrowings of national banks of \$2,000,000,000, bills rediscounted and bills payable of all kinds, if there should be a conversion of a

thousand millions in Liberty bonds, or if they should sell them to savings banks and to investors, that would pay off one billion. If the borrowers with the banks should pay off the billion which they are borrowing on war issues, that would pay off the other billion.

Mr. JOHNSON. That is not quite the point. The expansion for commercial purposes, as shown by this chart, from last summer until now, is from two hundred and fifty million to one thousand million dollars for commercial purposes.

Mr. WILLIAMS. To which chart do you refer?

Mr. JOHNSON. That expansion is still continuing, so far as this chart shows, and if it continues during the summer as it has been continuing during the spring it seems to me it will put us in quite an extended position.

Mr. WILLIAMS. Which of the charts are you looking at, Mr. Johnson?

Mr. JOHNSON. The last one, the bottom chart on the last page, showing the condition of all the Federal reserve banks.

Governor HARDING. You mean the total discounted paper on hand?

Mr. JOHNSON. The bottom chart on the last page, showing all the Federal reserve banks together.

Mr. WILLIAMS. The total discounted paper on hand.

Mr. JOHNSON. The total discounted paper on hand is \$2,500,000,000, of which \$1,500,000,000 represents Government securities and \$1,000,000,000 represents commercial paper apparently, as I read the chart.

Governor HARDING. Last September it was about \$1,560,000,000.

Mr. JOHNSON. The difference between the two top lines on the bottom of the chart is what I am getting at. Last September it was \$260,000,000 difference, but now the difference is \$1,000,000,000.

Governor HARDING. Has anyone any suggestions to make to the committee which is going to draft a report?

Mr. OTTLEY. There was one point that was taken up this morning and discussed by several of the directors. As I understand it, when we get back from this conference the vital question is going to be what action if any this conference is going to take on the question of rates under the graduated scale. I would like to ask at this juncture whether or not this committee is going to make a report to the conference touching that point?

Governor HARDING. I should not think so. The rate making power in its initiative rests with the directors of each of the reserve banks independent of any other Federal reserve bank. The amendment which authorizes a normal credit line and a progressive rate distinctly says that each bank for itself may determine this without reference to any other Federal reserve bank. I do not believe that any Federal reserve bank would care to lose its autonomy to the extent of putting its policies in the hands of a committee representing all of the Federal reserve banks, but I think they would prefer to stand on their own basis and carry out the intent of the act, solving their own problems on their own responsibility.

Mr. WILLIAMS. In answering Mr. Scott's question as to the increase of seven or eight millions in the loans and discounts of the banks, there was a suggestion made this morning by some one that the banks might be asked to reduce their loans and discounts by 10 per cent. That would come pretty nearly wiping out the whole busi-

ness; 15 per cent would almost wipe it out I would suppose that the loans and discounts resources of all the banks, national and State, are about \$45,000,000,000. I suppose that the loans and discounts are somewhere between thirty, and forty billion, so that an 8 or 10 per cent reduction in loans or 5 per cent would cause the payment of an immense amount of paper.

Mr. Scott. How many banks have established a progressive rate thus far?

Governor HARDING. Kansas City established it and has it in effect, and Dallas has paved the way for the establishment of it.

Mr. SCOTT. Those are the only two ?

Governor HARDING. Yes; those are the only two. They have not put it into effect, but all preliminaries have been carried out. I understand the Federal Reserve Bank of Atlanta has the matter under consideration. Is that right, Mr. Ottley ?

Mr. OTTLEY. Yes. At the last meeting of the board, it was the consensus of opinion of the board that a progressive rate was correct in principle. I feel sure that it would have been put into effect at the last meeting of our board in New Orleans, except for this conference here. It was postponed because of this conference. But it is proposed to put it in in order to be in line with the various Federal reserve banks, particularly with the St. Louis bank and the Dallas bank.

Governor HARDING. Would you object to saying, after you have heard this discussion here to-day, what your attitude, as a director of your bank, will be toward the establishment of the progressive rate? What will your advice be when you go back?

Mr. OTTLEY. I would not hesitate to say that my recommendation will be to put in the progressive rate. On the question outlined by Mr. Alexander—that is, a 7 per cent rate as a flat rate—I do not believe that would be in the interest of the system. From the information we have in the sixth district, and I believe this applies in the other districts, the overborrowing by banks, regardless of any basic lines, is confined to a small number of banks and I think it would be in the interest of the system to put in a schedule of progressive rates as applying to those particular banks but not to raise the rate and just make it a flat rate. As I said before I believe, as a result of this conference, so far as I am concerned, that my opinion would be that it would be good business at this time to do that, so far as the Atlanta bank is concerned.

Mr. SCOTT. You would not favor leaving your rate at 7 per cent for the normal line and then penalizing excessive borrowings -----

Mr. OTTLEY. Absolutely not.

Mr. SCOTT. I am in favor of the present rate.

Mr. WAYNE. I would like to say a word on this progressive discount rate. It does not appeal to me as a director of the Federal reserve bank at all, at least for operation in our district. I am afraid it will do just the opposite for which the Federal reserve act was enacted. In other words, the act was proposed to enable the banks to cater to commercial business. I know in the operation of our own bank we were very often called upon to borrow quite heavily and we cut it down as fast as we could, but if we are going to accumulate a batch of commercial paper, either by direct transactions for

customers or by purchase on the market, because our borrowings at the Federal reserve banks happen to go beyond a certain limit, we are going to be heavily penalized, we are going to stop buying the paper, and we are going to invest our money in call loans on Wall Street, which is exactly what the Federal Reserve Board does not want the member banks to do. We are not going to be penalized, but we are going to put our so-called surplus moneys in investments that we can readily realize on without being penalized. I think the situation can be handled, at least in our district, without recourse to the imposition of the penalties that have been proposed. I think when a member bank over borrows that it is up to the officers of the Federal reserve bank to find out the reason for it, and I think in 9 cases out of 10 it can be corrected. I think that you are going to defeat the very purpose of the act, which was to enable commercial banks of the country to do a safe commercial business. We will simply be driven into call loans on Wall Street for our surplus money if they are going to penalize us.

Governor HARDING. There is another important question, gentlemen, and that is the question of bankers' acceptances. It might be of value to have a brief discussion of that here this afternoon; that is as to whether or not there should be a differential in the rate in favor of acceptances in consideration of the fact that commissions are charged for the acceptances. Then the question as to whether or not acceptances purchased are taken over by a Federal reserve bank from a member bank should be charged as a part of the discount loan of the accepting bank, or whether it should be kept entirely separate. The directors of the Federal reserve banks of New York and Boston I think are particularly interested in that question and it may be of advantage to have the discussion opened by Mr. Treman.

Mr. TREMAN. I think the sentiment in New York is not in favor of having acceptances charged against the individual bank. I think it is quite a unanimous sentiment there that that would be a mistake.

Mr. FORGAN. Do you mean charge against the accepting bank?

Governor HARDING. Charged against the selling bank.

Mr. FORGAN. The indorsing bank.

Governor HARDING. Yes.

Mr. FORGAN. The accepting bank has nothing to do with it

Governor HARDING. I meant the indorsing bank.

Mr. TREMAN. With regard to the development of acceptances we have always favored in New York the encouragement of the acceptance market on the theory that it was a right and proper development of a credit line; and while it has been abused in certain cases we do not think it has been abused to such an extent that it should be discriminated against.

The acceptance market is growing very rapidly. We have found that whereas only a few of the banks in the New York district are buying acceptances as means of investing their funds for short periods that the country banks are coming in in quite large numbers. We have now I should think something like a hundred banks out of 740 banks in the New York district that are buying acceptances as a means of investing their short-time funds. There are also coming into the New York market a great many acceptances that are initiated in other districts and they gradually find their way to the New

York market because it is practically the only open market at the present time. I am sure that our directors feel that we should encourage, within a reasonable degree the development of the acceptance business in this country.

Mr. BEAL. In the matter of acceptances I think I quote our directors correctly in saying that they should not be counted against any line of discounted paper allowed to member banks and that a preferential rate of discount for acceptances should not be allowed.

Governor HARDING. I think you have a preferential rate, but it has not been availed of to any great extent.

Mr. Beal Very little.

Mr. FORGAN. In Chicago we are developing some market for acceptances. Our country banks are buying them and learning to rely upon them in that way. They think they are the best secondary reserve that they can have in their portfolio and the reason for that is that they can be readily disposed of. The same of course applies to commercial paper. There was supposed to be some difference, but they were found to be more convertible, and should be more readily convertible, than commercial paper. An acceptance is more strictly a document that represents a transaction that is to be liquidated at its own maturity, much more so than even our commercial paper. We know that the operators in commercial paper put their paper in a broker's hands and raise money to meet that paper as it matures; but an acceptance is more along the line of a special transaction representing goods that are to be either exported or moved from one part of the country to another, and that the goods will be sold and the acceptances will be paid promptly at maturity.

I say this because it is a good argument why the acceptance, if it is to be considered the best kind of secondary reserve, should have no restrictions of any kind put around the ability to get rid of it, especially if you adopt this plan of graduating the rates above a specified line of discount. When a bank gets up to its nominal line it might have quite a line of acceptances and it might have to convert at a rate as high as they were paying out in Kansas City.

Governor HARDING. AVhat is your view of the rate at which Federal reserve banks should buy acceptances?

Mr. FORGAN. I think just at the current rates.

Governor HARDING. You mean the current rates for commercial paper?

Mr. FORGAN. For commercial paper; yes.

Governor HARDING. What is your view of that, Mr. Treman?

Mr. TREMAN. I would say the same.

Governor HARDING. Mr. Bailey, is that your view of it?

Mr. BAILEY. Yes.

Governor HARDING. We sent out a questionnaire two or three weeks ago to some of the acceptance houses, dealers in acceptances, asking a good many leading questions on the whole subject, not only as to rates but as to whether the acceptance was really what it purported to be, whether it was actually a self-liquidating instrument. We want to find out particularly whether an acceptance against export, for example, was really paid by the importer on the other side, actually liquidated, or whether at the end of the life of the acceptance, at its maturity, the form of the credit was changed, that it became a fixed loan in the hands of some member bank in

this country. The replies are coming in. They are going to be tabulated in the next day or two and we will have some further information on it.

The domestic acceptance particularly seems to have been abused in some cases. It is being used as a method of granting credit in excess of the limitations of section 5200. Acceptances have been made against warehouse receipts where there was no intention of sale or no prospect of sale.

I have here, gentlemen, a rather severe arraignment of the progressive rate plan if you would like to hear it. It is written by the governor of one of the banks which was opposed to putting the idea in.

That amendment was drawn in order to meet that objection and counsel says that it does meet it. If a bank agreed to make a rule that any bank should be exempt at one and the same time from the operation of the progressive rate that they could make that exemption, that all banks in their district must be treated alike. That is the only requirement. It does not seem practicable to give the member bank the option of picking out what time of the year it desired to be exempt, but if the Federal reserve bank wished to put in a normal credit line with a progressive rate and the rate put in, say, during the month of September or October or November, the normal line would be extended to a larger amount, or the whole plan should be held in abeyance during those three months, it would be entirely competent for the directors to do so.

Mr. SCOTT. We find that about 80 per cent of our members are small country banks with a small capital and small deposits and that therefore, figuring on the Kansas City plan, their normal line would be almost negligible. A great many banks having \$100,000 capital would have a normal line of only \$12,000 or \$15,000 under the Kansas City plan. They are the ones that we really need to help out, in the farming communities. We had a complete list made up of every borrowing bank, showing what its rates would be if they were under the Kansas City plan, and we found that some of them ran up as high as 18 and 19 per cent. If that plan were applied it would mean the ruination of the agricultural districts.

Governor HARDING. Governor Wellborn, of Atlanta, told me that he had reached the same conclusion.

Mr. SCOTT. We find our plan works to the detriment of the larger banks because the larger banks, which are about 15 per cent in number, could get a larger line under the Kansas City plan than they could under the plan we finally adopted, but the line that we adopted was for the benefit of the largest number of banks, and we consequently adopted it.

Mr. UTTERBACK. What is your plan, capital and surplus?

Mr. SCOTT. Capital and surplus. That would be the normal credit line and every 25 per cent over that 1 1/2 per cent.

Mr. MOHLENPAH. I would like to ask Governor Bailey if in his judgment the banks that are not using the Kansas City plan at all for rediscount have, because of this progressive rate, anticipated at this time their full needs? Do they do that in any way?

Mr. BAILEY. I think they will. We have discovered since this rate was put in that the bank—in the first place, the Kansas City bank people have gone out through the country and said to him—they

have had this long time relation with them and have taken their rediscount paper. The Kansas City banker calls at a meeting of these country bankers and says to them, "Just forget that, we will take care of you; bring your paper down here." They have done that and now the Kansas City bank finds itself loaded up with it. Then the country bankers come to town and they say to him, "John, you have not used your rate at the Federal reserve bank," and he will say "no," and they will say, "You will confer a great favor on us if you will just do that and relieve us this time."

Now, we have figured in Kansas City that the member bank was entitled to take from the Kansas City bank just the proportion that it had contributed to the Kansas City bank. That Kansas City bank has to keep 35 per cent of that as dead money. That is its reserve. They take the reserve that each member bank carries there and add to that the capital stock and take 35 per cent of that as reserve. It seems to us that it is a fair proposition that the member bank should be entitled to its just proportion of what it had contributed to the Federal reserve bank in Kansas City and that if it took any more and used it that they ought to pay a penalty for it. I have been forced to that conclusion, gentlemen. Perhaps our conditions are different than they are in the East. Perhaps they are not any different from those in St. Louis and Dallas, but my goodness alive, those fellows out in Kansas, Oklahoma, and around there would pass the buck in a minute and we would never get any deflation or any contraction. You have to put up the danger signal big enough so that it means danger if you keep going and won't slow down. I have been around to these various bankers' conventions and meetings and have talked to them personally, and every one of them will take the attitude, when we tell them that we must not expand, of "letting George do it," and would go on making money just as long as we would let him. But as soon as he discovers that it is going to become unprofitable for him to do it, he finds right away that he can get along without making so many loans. At a meeting not long ago I was asked the question, "Do you think we are loaning this money for providence?" and I said, "I don't know how to answer that question as to what you are doing now, but consciously and unconsciously you have been doing it for the last two or three years while you have had this opportunity to do it."

Now, when these fellows come in to make big deposits and you accept them, every time you accept a big deposit there is with it an obligation to make a loan. I happen to know of one bank in Kansas City that accepted a \$500,000 deposit of the General Motors Co. and they thought it was fine business. They carried it for six months at a low rate of interest, and right during the time of stress the \$500,000 was called for and they asked for a \$500,000 loan. It was just that kind of condition that was brought about there, and they bring the stuff over to us to rediscount.

Mr. DECKER. I think this is a matter that differs in different sections. In Minneapolis I have found no sentiment whatever in favor of the graduated interest rate, for the reason that our big strain comes almost at once, during the crop-moving season. For instance, a year ago last fall the rediscounts of the Federal Reserve Bank or

Minneapolis for its member banks were \$97,000,000 in the middle of September and they were down to \$3,000,000 by the middle of December.

Now, we think it would be a very great mistake to say to the member banks, who are financing these crops and against whom any charges made will naturally sooner or later go back and then to the producer of the crops, to say to the bank for nine months of the year they shall pay a certain rate and then when they come in to move the grain of the country and borrow a large amount of money that we will stick them 12 per cent. It would not work in our district at all. It would work just exactly the other way. I agree entirely with what Mr. Reynolds said this morning. I do not think that a bank that is located in a district where they never have to borrow any money is entitled to any more credit than a bank that is located in a district where they have at times to borrow their heads off. One is just as much a necessary part of the commerce of this country as the other. Therefore, I do not think we should say to some little bank in the State of Minnesota, for instance, where they have no demand for money at all, but just enough to take care of their own deposits, that because they have never been a borrower and possibly never will be, that we must forever leave the reserve there for them because they are entitled to it, when a bank in Minneapolis or St. Paul, at certain seasons of the year has to extend its loans tremendously in order to furnish food for the people of the world. We must look after those things, it seems to me, and care for the conditions in the district. In the Minneapolis district I find no sentiment in favor of it at all. We may reach a point where it may be necessary; and if that point should be reached, I would not hesitate for a moment to put it into effect.

If you want to restrict the borrower of a certain sort, do not penalize the seasonal borrower who has need of a large line for a small time. For instance, assume a bank with a normal line of \$50,000. If that bank borrows nothing for, say, 10 months in the year, then for 2 months in the year it borrows \$250,000, you could establish a rule where the penalty rate did not apply to that \$250,000 of seasonal two months borrowing. If, on the other hand, you had a bank whose normal line was \$50,000 and carried \$125,000 or \$150,000 all of the year through, it would apply to that bank. In other words, you give the benefit of the exemptions you see of the freedom from loans to the peak of the load.

Mr. FORGAN. I should like to suggest just one question. I put the question to the Dallas representative. My recollection is that some time during the winter, when the Dallas district got to the height of its season on cotton and was carrying cotton, it practically used up every dollar of reserves it had. If it had not borrowed from other banks in other districts it would not have had any reserve at all, which means, of course, it could not have done what it did do, take care of the cotton situation. Was it general? Were all the banks in the district borrowing to create the need, or were there only a few of the larger banks in the centers, in Dallas?

Governor HARDING. Comparatively few of the larger banks are responsible for that.

Mr. SCOTT. Yet a great number of interior banks were borrowing too. I suppose one-fourth of the banks were borrowing at that time.

Mr. FORGAN. But a few large banks that went under that load.

Mr. SCOTT. Yes.

Mr. FORGAN. Now, then, do you contemplate taking advantage of what Governor Harding has drawn attention to? When that situation arises again, are you going to let these large banks do the same thing again and waive your regulation in regard to the progressive rate, or how are you going to get through? If the big banks are not allowed to get this big rediscount, how are you going to carry that cotton? You can not expect them to do it at 7 per cent and pay you 15.

Mr. SCOTT. We are going to let the larger banks pay the progressive rate.

Mr. FORGAN. How can they do it?

Mr. SCOTT. That is not such a grave penalty.

Mr. FORGAN. The progressive rate?

Mr. SCOTT. NO.

Mr. FORGAN. They are paying 15 per cent in Kansas, though.

Mr. SCOTT. Under the Kansas City rate they would, but not under ours.

Mr. FORGAN. Where do you get the limit?

Mr. WATTS. YOU reduce the lines to your big bank?

Mr. SCOTT. Here we take a bank that under the Kansas City plan might have three and a half million normal line, but using the capital and surplus have got a line of two and a half million, if the present rate continues, that is, at 6 per cent. Now, on every 25 per cent increase the rate goes up one-half of 1 per cent, so that by the time that bank has \$5,000,000 borrowed money it is paying 8 per cent on the last 25 per cent, or an average of 7 per cent on the five million. I do not contemplate any bank in our district, whose normal line is two and a half million, that is going to borrow to exceed five million. We have never had, and I do not presume we will have, so that our progressive rate after all would not be any higher than the basic rate that Mr. Alexander proposed this morning to put it for the New York district, the 7 per cent rate.

Mr. MOHLENPAH. Might not this be true, that the little banks would be borrowing through the central bank, getting their lines there at a higher rate of interest, and the city banks rediscounting at the Federal reserve bank at a lower rate of interest, would that not be true in a large number of small banks in the Texas district?

Mr. SCOTT. In the Texas district, under the plan we propose to put in, the country banker might be borrowing money cheaper than the city banker; in other words, he has got a line of \$75,000 in his capital and surplus, and he is getting that at the current rate, which is 6 per cent. Of course, if a city banker is borrowing double his amount he is paying 8 per cent on some of his money, so it will tend to encourage the country banker by the persuasive method that was suggested coming from the city banker to borrow as much as possible direct from the bank and to leave the city bank's line open for local business.

Mr. MOHLENPAH. I had had the complaint from several country banks in different districts that the city banker was raising his rate

up on them. For instance, the commercial rate made at the Federal reserve bank to Kansas City, Chicago, and St. Louis, that raised the rate to 6 1/2 to 7 per cent on the country banker; that is, it is rather an automatic proceeding.

Mr. SCOTT. We have not got a bank loan in our portfolio giving over 6 per cent.

Mr. MOHLENPAH. I am not talking about the city banker.

Mr. SCOTT. Ours is the city banker.

Mr. WATTS. That is absolutely true, the city banker is raising the rate.

Mr. MOHLENPAH. I had one man tell me he put up \$500,000 Liberty bonds and charged 6 1/2 at the city bank, as security, and the excuse he said was given to him, the reason, rather, was they had to pay a higher rate for the Federal reserve bank. The point I would like to make, is it absolutely necessary in every transaction made in a Federal reserve bank that it has got to be made on the basis of profit to the Federal reserve bank, or is it not time that these reserve banks will have to forego their profit in this overplus of borrowing when the country banks have to move crops or other commodities?

Mr. SCOTT. I said a moment ago we did not have a loan on our portfolio—I meant of the banks. Of course, individuals are getting a little higher rate, 6 1/2 per cent instead of 7 per cent.

Mr. BAILEY. IS it good business to raise the rate in New York to 7 per cent? The fellows doing the mischief are the fellows that are extending the credit all over the country. If you do not raise the rate of interest to him, how are you going to get this effect of slowing down?

Mr. MOHLENPAH. I am not contending against it. I am trying to show up the modus operandi, how this thing increases there as it is related to the country banker who is taking care of the man who is raising the crop.

Mr. BAILEY. I want to give a concrete illustration. I had a merchant, a good man; he had been getting a rate of 6 per cent as long as I remember, and he came in and we said "We are going to charge you 7 per cent; we have raised on all of them." He said, "My God, are you going to charge 7 per cent? I won't pay it. I can stand 6 per cent. I can get along with less money." And he just up and paid his note, all in good nature.

Governor HARDING. Gentlemen, is there anything more the conference wishes to discuss?

Mr. UTTERBACK. I should like to ask one question in regard to rates. If New York should put on a 7 per cent rate, do not all rates have to finally be approved by the Federal Reserve Board?

Governor HARDING. Oh, yes.

Mr. UTTERBACK. IS it not the policy of the Federal Reserve Board to make all rates uniform in the district?

Governor HARDING. Not necessarily. All in a district?

Mr. UTTERBACK. I mean over the system?

Governor HARDING. Not necessarily. There is no obligation on the part of any district to have uniform rates.

Mr. BAILEY. Would not this obtain? Suppose I carry a balance in New York City and expect to rediscount on it and they put the

rate to 7 per cent and Philadelphia is kept at 6, would I not probably transfer my balance to Philadelphia?

Mr. SCOTT. They would not raise them to 7, would they!

Mr. BAILEY. I do not know.

Mr. SCOTT. If they did raise it, they would reduce it quite shortly.

Governor HARDING. I would suggest, gentlemen, that you be careful not to give out anything about any discussion of discount rates. That is one thing there ought not to be any previous discussion about, because it disturbs everybody, and if people think rates are going to be advanced, there will be an immediate rush to get into the banks before the rates are put up, and the policy of the Reserve Board is that that is one thing we never discuss with the newspaper man. If he comes in and wants to know if the board has considered any rates, or is likely to do anything about any rates, some remark is made about the weather, or something else, and we tell him we can not discuss rates at all, and I think we are all agreed it would be very ill-advised to give out any impression that any general overruling of rates was discussed at this conference.

We have discussed the general credit situation, and your committee, which has been appointed with plenary powers, will prepare a statement which will be given out to the press to-morrow morning, and we will all see what it is. You can go back to your banks and of course tell your fellow directors as frankly as you choose what happened here to-day. but caution them to avoid any premature discussion of rates as such.

"We have had an exceedingly interesting day, gentlemen. The suggestions which have been made have been valuable and we have profited by your visit here. I wish to express on behalf of the board our appreciation of your coming here and to thank you for the unselfish and loyal interest you have taken in the Federal reserve bank situation throughout the country in giving this matter the careful thought and consideration that you have, and I am sure that the spirit which has manifested itself at this meeting here to-day will spread throughout all the country to the member and nonmember banks, and if it does, we can look the future in the face with courage and confidence.

(Thereupon, at 5.03 p. m., the conference adjourned.)

## THERE IS A WAY OUT. . .

It has been suspected for some time — that the so-called Fed is NOT owned or operated by some mysterious international bankers — as so many are led to believe. The popularly propagated myth, that some distant and mysterious band of international bankers own and operate the Federal Reserve — effectively functions, either by coincidence or design, to deflect the attention from the real owners and operators — who really are our own domestic commercial bankers residing practically in our own back yards.

Each of the 12 Federal Reserve Banks has been incorporated May 18th, 1914 by five commercial banks. And, according to corporate law, the incorporators are the owners of the corporation. The Federal Reserve Bank of San Francisco, in an ad in the Computerworld of July 16th, 1979 boldly states: "Some people still think we're a branch of the Government. We're not. We're the banks' Bank".

Paul M. Warburg, the reputed author and engineer of the Federal Reserve Act and System, in a speech way back in October 12th, 1915, in St. Paul, Minn., before the members of the Twin City Bankers' Club, entreated the bankers: "The Federal reserve bank is the member banks'; it is your bank, your fire engine, constructed for your greater protection. You have paid for it and you are operating it". (Emphasis added.)

There you have the whole mystery of the Federal Reserve banks and System in a nut shell — that the federal reserve banks are the "commercial" bankers' banks; run, managed and directed by the commercial banks through the class "A" directors, elected by the member "commercial" banks' officialdom.

The above is often debated as to who owns or controls the federal reserve banks — but the INSIDE STORY of the Manufacturer's Record editorial, and SENATE DOC-

UMENT No. 310 (erroneously titled: Federal Reserve Board Conference) clearly reveal and demonstrate that it was the class "A" directors — which are generally presidents and board chairmen of commercial banks — which directors with full authority planned, managed and executed the 1918 - 1920 deflation, and of business, industry and agriculture breakdown.

There is no other entity, business or organization including the National Government, other than the "commercial banking industry" that has the "required" check clearing and transferring facilities — that could subtly, secretly, esoterically and arbitrarily deflate the National Economy either selectively or collectively.

The "commercial banking industry" can inflate or deflate the national economy with or without the Federal Reserve System. The 1873, 1884, 1903 and 1907 panics were all brought about without the federal reserve banks, without the federal reserve open market committee and without the federal reserve board of governors.

Therefore, repealing only the Federal Reserve Act does not stop the "commercial banking industry" from inflating or deflating the National Economy. Repealing the Federal Reserve Act also does not stop the "fractional reserve banking" practices of the commercial banks.

Saying the above in academic and media terms: Repealing the Federal Reserve Act does not stop the commercial banks from creating, expanding and contracting (extinguishing) checkbook "deposit credits" — which capability of the commercial banks is the foundation for controlling the so-called M-1 Bank Money supply.

The elusive "fractional reserve" or "checkbook deposit credits" expanding and contracting technique — is ensconced in the commercial banking industry's "check clearing and transferring" mechanism.

In very simple terms: It is the commercial banks' "access" to injecting new "checking account" deposit credits into "their own-managed" check clearing and transferring system — which makes it possible for the commercial banking industry to practice the fractional reserve technique of lending and investing Bank checkbook Money.

For a simplified example: If an individual should have access to the banks' check clearing and transferring facilities — he could then write hot checks in payment for goods and services. When the hot checks came back to the bank for payment, having access to the check clearing and transferring facilities — he would simply increase the respective vendor's checking account deposit credits by the amounts of his hot checks payment amounts. Once the hot checks payment amounts are credited to the respective vendor's checking accounts — the hot checks payment amounts systematically become a component part of the so-called M-1 Bank Money supply. Once in the M-1 bank money supply stream, the hot check credits completely lose their "hot check credits" identity, and by means of checks then circulate in the commercial arena as the public's and government's checkbook money.

The above simplified example may sound outright ridiculous and criminal. Nevertheless, the simplified example procedure and access to "self-managed" check clearing and transferring — is the esoteric foundation of the fractional reserve bank checkbook money creation — and practiced by the commercial banking industry every day.

Therefore, any Money and Banking Reform Bill or Legislation that does not take the check clearing and transferring mechanism out of the banking industry's control — is doomed to be no better than the federal reserve act of 1913.

The "KEY" to establishing a successful and an equitable Money and Banking System, according to Article 1, Section 8, Clause 5 of the United States Constitution — the Nation's check clearing and transferring procedure must be clearly defined and locked into law — and be supervised and operated by the United States Treasury System — thus outlawing and out-maneuvering all opportunity to the banking industry, or to anyone else, to ever begin to practice the fractional reserve checkbook money creating, lending and investing.

Throughout the history of the United States, and mainly now in the 20th century — many Money and Banking reform bills have been contemplated and introduced. However, non of the bills, even bills drawn up by seasoned legislators — have ever taken into account the importance of the check clearing mechanism — which mechanism if not understood and not procedurally controlled — can nullify and ruin the "best-intentioned" Money and Banking bill.

The first Money and Banking System Reform Bill that does take into account the check clearing and spells out how the check clearing and transferring procedure should be carried out through the United States Treasury and sub-treasury System — is published in a book titled: DECLARATION OF FINANCIAL INDEPENDENCE, published by Monetary Science Publishing, Box 86, Wickliffe, Ohio 44092.

The Treasury Money Bill titled: TAX AND FINANCIAL LIBERATION DECLARATION — in Section 24 and its sub-sections completely and in detail defines how the check clearing and transferring procedure should be operated and supervised — to completely take away the power and opportunity of the commercial and federal reserve banks to inflate and deflate and break down business and industry at and for their own pleasure or profit — as alluded to in: THE INSIDE STORY.

Order a copy of the DECLARATION OF FINANCIAL INDEPENDENCE book today!

Help and educate others how a Treasury Money System can roll back taxes and bring back iobs and profits and financial independence — once enjoyed by our great Nation and Economy.

Send a copy of the Declaration of Financial Independence book to your congressman and senator. Demand that they introduce and promote the passage of the Tax and Financial Liberation Declaration bill — which is the "key" bill to rolling back taxes and bringing back jobs and profits without inflation.

Peter Cook,  
M.Sc.  
March 12th,  
1983

## DOCUMENTATION REFERENCES

In the ANALYTICAL PREFACE you will find document reference numbers such as 14:102, 103; 71:17 etc. The first numbers before the colon are the book or publication identifying numbers, and the numbers behind the colon are the reference-book or publication page numbers. Thus, 71:17 would refer to book number 71 and page 17.

### 14: NATIONAL ECONOMY AND THE BANKING SYSTEM OF THE UNITED STATES

Senate Document No. 23

By Robert L. Owen, former Chairman, Committee on Banking and Currency,

United States Senate — presented by Mr. Logan [legislative day, Jan. 17] for

printing January 24th, 1939. (Available in U.S. Government Document Depository libraries.)

### 21: THE FEDERAL RESERVE AFTER FIFTY YEARS

Letter of transmittal August 20, 1964 by Congressman Wright Patman, Chairman,

Banking and Currency Committee. Printed for the use of the House of Representatives

Committee on Banking and Currency. (Available in U. S. Government Document

Depository libraries.)

### 30: LIGHTNING OVER THE TREASURY BUILDING

By John R. Elsom, Published by Omni Publications, Hawthorne, CA 90250

Available from Monetary Science Publishing, Box 86, Wickliffe, Ohio 44092

71- PUTTING IT SIMPLY... THE FEDERAL RESERVE  
(1977 printing)

By~Roger T. Johnson. Published by: Federal Reserve Bank of  
Boston, Boston, MA 02106

100: THE LEGALIZED CRIME OF BANKING

By"Silas Walter Adams. Published by: Omni Publications,  
Hawthorne, CA 90250; available  
from: Monetary Science Publishing, Box 86, Wickliffe,  
Ohio 44092

233: THE GREEN MAGICIANS

By"Thomas Porter. Published by Omni Publications,  
Hawthorne, CA 90250: available from:  
Monetary Science Publishing, Box 86, Wickliffe, Ohio  
44092

250- FEDERAL RESERVE BULLETIN, August, 1921,  
pages 895 through 899.

The' Federal Reserve Bulletin is distributed by the Board of  
Governors of the Federal  
Reserve System, Washington, D.C. 20551. (August 1921 copy  
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262: THE STORY OF BANKS

Published in 1982 by the Federal Reserve Bank of New York,  
33 Liberty Street, New York, N. Y. 10045