Agricultural credit in Nebraska during the depression of 1920-1923

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AGRICULTURAL CREDIT IN NEBRASKA DURING THE DEPRESSION OF 1920-1923

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PREFACE

The economic collapse of 1920 stunned the Nebraska farmer with its severity. Within a few months it had jolted him from the prosperity and comforts of the middle class into the ranks of the dispossessed. As the deflation ripened into chronic depression and debt became an increasing threat to his economic survival, the farmer was confronted with a credit emergency with few parallels in history.

This paper presents an overall view of the Nebraska farmer's credit needs and the response of the credit agencies, both commercial and governmental, to those needs. Other authors have covered the myriad political and social consequences of the depression, and as far as these things concerned the Nebraska farmer's credit situation, they are included within this work.

I am indebted to others who have done so much work on the subject of farm credit and the period of 1920-1925; to all those who helped me in the research of the paper; and to Professor William Petrowski for his direction. I especially wish to thank my family for their patience.
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CHAPTER I

AGRICULTURAL CREDIT IN NEBRASKA, 1910-1914

In 1910 Nebraska was overwhelmingly an agricultural state. Nearly four-fifths of its land was in farms or ranches and over 40 percent of its population was directly engaged in agriculture, forestry, or livestock production.\(^1\) The majority of those not directly employed in agriculture were involved in industries related to it, either through handling or processing of agricultural products or in performing services for agricultural producers.\(^2\)

Because the state lies as a Great Plains bridge between the central lowlands and the Rocky Mountains, its weather and topography vary from the richly productive lands of the eastern portion to the marginal rainfall areas of the west. In 1910 the state was divided into several diverse areas of production.\(^3\) The eastern one-third of the state


\(^3\)Harold Hedges and F. F. Elliott, Types of Farming in Nebraska (Experiment Station Bulletin 244; Lincoln, Nebraska: University of Nebraska, College of Agriculture, 1950), pp. 24-28. Hereafter cited as Types of Farming.
was best suited to corn production, livestock feeding, general farming, and dairy cattle. The northwestern portion was devoted primarily to cattle grazing, although there were pockets of irrigated land producing sugar beets, potatoes, and truck products. Wheat was the major product of the southwestern area. The south central region was suited to livestock feeding and the production of corn and cash crops. For the state as a whole the most important crop was corn, which was planted on 37 percent of the cultivated land. Oats and pasturage accounted for 42 percent, while barley, wheat, and hay accounted for the remainder. Most of the crops were directed to the livestock industry as feed.\(^4\)

During the first decade of the twentieth century farming in the state was well on its way to becoming a heavily capitalized industry. Free government lands had all but been taken up, and those lands that remained were in the semi-arid region that needed extensive capital investment to make them productive. A larger capital outlay was necessary to buy a farm, which had increased in value 178 percent during the period 1900-1910.\(^5\) The increase was due in part to the growth in the average size per farm by 13 percent, but more importantly to the 214 percent increase in land

\(^4\)Ibid.

\(^5\)Department of Commerce, Census, 1910, VII, 18.
values. The larger size farm made the use of additional labor or machinery necessary to carry on the progressively more intensive farming operations.

As capital requirements increased, credit became proportionately more important. Borrowed capital was often the catalyst necessary to bring the farmer's labor and land to productivity. The farmer borrowed for almost every conceivable business purpose: the purchase of land, equipment, buildings, fences, seed, as well as to meet the expenses of production and marketing. Because he also borrowed for his personal use, it was often difficult to distinguish production credit from personal credit since the farm was both home and business.

Nebraska in 1910 was in need of borrowed capital because as a relatively new area money had not yet accumulated as it had in older areas. The problem for Nebraska agriculture was to attract capital from outside the area and to induce the capital that accumulated within the state to

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6Ibid.


remain as investments. Although investment in Nebraska farms was highly remunerative, it was also very risky due to the vagaries of weather and market fluctuations.

Agricultural credit may be classified according to several methods: time for which the loan was extended, purpose of the loan, or security taken for the loan. These factors tend to overlap and make rigid classifications impossible. Long term loans were extended for periods of three to forty years and were usually used for fixed capital investments such as land purchases. Intermediate credit was extended for periods of six months to three years and was used for development and equipment expenses, such as the purchase of range cattle or heavy equipment such as tractors. In effect, however, there were very few loans made specifically for an intermediate term. Most of this length credit was obtained through long loans that were used for various purposes extending beyond the specific intermediate credit need or through short term loans that were continually renewed until the operation had been completed. Short term loans were for periods under six months and usually were extended for production and marketing purposes, such as cattle feeding or transportation costs.

All three types of loans were secured by mortgages: land being the security for long term and intermediate credit, and sometimes even for short term loans. Most short term loans were secured by personal notes (which in fact
were unsecured loans based on the farmer's promise to pay) or collateral security. It must be remembered however that the security given for the mortgage often had little relation to the actual use made of the capital. For instance, loans secured by land could be used for personal consumptive purposes. Repayments of interest and principal on long term loans were to be met by increased production and returns from it, while interest and principal on short term, or working capital, were to be met upon completion of the transaction for which the loan was secured.

Mortgage credit for farm land was the Nebraska farmer's largest need, comprising about two-thirds of his total debt. Private individuals, who held over 60 percent of the total mortgages in the state, were the largest source of mortgage credit. Most of these individuals were former owners who held either first or second mortgages as part of the selling price of their farms. Many other

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10 Although the figure was for 1917, it was typical of the entire period before the war. U.S., Department of Agriculture, Bureau of Agricultural Economics, *Farm-Mortgage Recordings, Nebraska* (Washington, D.C.: Government Printing Office, 1938), p. 2. ( Mimeographed). Hereafter cited as *Recordings, Nebraska*.

local investors also invested in farm mortgages because of the high returns and their familiarity with them as an investment. On the other hand, the lack of credit mobility due to the unfamiliarity of those in areas of capital accumulation with farming as an investment was a major problem.

Local commercial and savings banks held about 10 percent of farm mortgages but were instrumental in placing a far greater number of loans with other agencies, such as insurance companies and mortgage bankers in large cities.\textsuperscript{12} Banks extended loans on conditions similar to local investors because they too were relatively well acquainted with the local farm situation. That they did not hold greater amounts of mortgage debt was due to their need to maintain liquidity for their demand liabilities.\textsuperscript{13} They were also restricted by their small capitalizations and by a state law limiting the amount of real estate they could hold to 50 percent of their paid-up capital.\textsuperscript{14} Bank loans tended therefore to be of short duration. Only 30

\textsuperscript{12}Ibid., pp. 5-6.


percent of them were for periods of five years or longer\textsuperscript{15} and often the banks took the mortgages only as additional security for working capital loans.\textsuperscript{16}

Insurance companies held about 15 percent of farm mortgages in Nebraska.\textsuperscript{17} The cornbelt area of the state was especially well suited to the insurance companies' need for larger investments that could be made through relatively well standardized procedures.\textsuperscript{18} In 1910 the insurance companies were the greatest source of capital from outside the state. They extended loans up to the maximum of 50 percent of the value of the land and 20 percent of the value of permanent improvements, or 45 percent of the combined values, a standard evaluation followed by most credit agencies in determining maximum debt limits.\textsuperscript{19} The average length of mortgage was five years; only 15 to 20 percent of mortgages held by insurance companies were for periods of ten years or longer.\textsuperscript{20}

\textsuperscript{15}Olsen, et al., "Farm Credit," p. 215.
\textsuperscript{16}Department of Agriculture, Fatalities, pp. 9-10.
\textsuperscript{17}Department of Agriculture, Recordings, Nebraska, p. 2.
\textsuperscript{18}Department of Agriculture, Fatalities, p. 15.
\textsuperscript{19}Martha C. Weaver, Nebraska Farm Mortgages (Nebraska Studies in Business No. 50; Lincoln, Nebraska: University of Nebraska, 1932), p. 8.
\textsuperscript{20}Olsen, et al., "Farm Credit," p. 215.
Mortgage and investment companies held a relatively small amount of Nebraska mortgage debt. Although there were a few local agencies in the larger cities, most were established outside the state.\textsuperscript{21} They acted as brokers lending money to farmers and selling the mortgages to Eastern investors.\textsuperscript{22} Small amounts of farm mortgages were also held by trust companies, building and loan associations, and endowed institutions such as colleges, hospitals and libraries.\textsuperscript{23}

National banks were not as great a source of mortgage loans as the previous agencies because they were forbidden by law to lend directly or indirectly on farm mortgages as original security for loans. They could accept mortgages on real estate that was security for debts previously contracted or could purchase them at sales under judgment, but in no case could they hold mortgages for longer than five years.\textsuperscript{24}

Most small communities in Nebraska had no national bank due to the minimum capitalization requirements of

\textsuperscript{21}Valgren and Engelbert, \textit{Farm Mortgage Loans by Banks}, p. 5.

\textsuperscript{22}Olsen, et al., "Farm Credit," p. 197; also Weaver, \textit{Nebraska Farm Mortgages}, p. 18.

\textsuperscript{23}Department of Agriculture, \textit{Recordings, Nebraska}, p. 2.

$100,000. When this was amended in 1900 to allow the organization of national banks in communities of 6,000 or less at $50,000 and 3,000 or less at $25,000, more national banks were established in Nebraska. Their loans, however, were still small since they could lend no more than 10 percent of their capital to any single customer.  

The national banks became a more important source of mortgage credit in 1913 when the newly created Federal Reserve liberalized its restrictions. Although the System was established primarily to offset the panics resulting from the inelasticity of the currency, it also influenced the mortgage market. Under its provisions, a national bank (if not a central reserve city bank and there were none in Nebraska) could lend up to 25 percent of its capital or surplus or one-third of its time deposits on first mortgages on farm land or real estate within its Federal Reserve district. Loans were limited to the five year term and 50 percent evaluation of land. The Federal Reserve bank

25 U.S., Congress, XXXI, Statutes at Large, 48.
26 Eliot, Farmer's Campaign, p. 95.
28 XXXVIII, Statutes at Large, 273.
29 Ibid.
did not lend directly to the farmer but rediscounted the agricultural paper of member banks.

It was difficult to determine the extent of the System's influence on mortgage credit in the state because membership was very limited. Many state banks did not join the System because their small capitalizations made them ineligible while many eligible banks did not join because they saw few advantages to membership and many disadvantages. They opposed the System because it paid no interest on the reserves the member banks were required to hold at the district bank, whereas as state banks they could deposit their reserves at their corresponding bank and earn interest. They were also reticent to join because they were angry at the System's attempts to collect checks at par and feared that the System would not pay dividends on the stock member banks had to buy in the district bank. No less a deterrent was their fear of the detailed statements and examinations by the comptroller of the currency. Finally, many declined to join because as members they

30 Nebraska was included in the Tenth Federal Reserve district with the northern twelve counties of New Mexico, sixty-nine counties of Oklahoma, a narrow strip of western Missouri, and the states of Wyoming, Colorado, and Kansas. District headquarters was established at Kansas City, Missouri (Underhill, Kansas City District, p. 13).

would be more restricted in the amount of highly profitable real estate loans they could extend.

In Nebraska the major reason for the low rate of membership was the existence of the state Depositor Guarantee Fund, which had much less rigid requirements than the Federal Reserve. Established in 1911, it provided funds to pay depositors in failed banks that lacked sufficient assets to cover their deposits. The initial capital for the Fund was raised by assessing the member banks at 1 percent of their average daily deposits; thereafter the assessment was reduced to 1/20 of 1 percent. The banks found the assessments small compared to the benefits they derived from membership. The security offered by the Fund was a most effective attraction for depositors, even for those outside the state. The benefits seemed so much more appealing than those of the Federal Reserve system that many national banks actually transferred their charters to be included in the state Fund.

Determining the Federal Reserve's influence is complicated still further by the fact that many non-member


33. National banks in the state decreased from 233 in 1914 to 189 in 1920. H. C. Filley, Effects of Inflation and Deflation Upon Nebraska Agriculture, 1914-1932 (Research Bulletin 71; Lincoln, Nebraska: Nebraska Agricultural Station, 1934), p. 92. Hereafter cited as Effects of Inflation and Deflation. See also Underhill, Kansas City District, p. 73.
banks corresponded with the member banks and therefore indirectly received benefits from the System. However, no clearly defined conclusion can be reached because often the member banks discounted only the more convenient commercial paper while the borrowing bank used the funds for mortgage loans.

Although not major sources of long term credit, the national and state banks, including both member and non-member banks of the Federal Reserve system, were the most important sources of short term credit, which amounted to about one-third the farmers' total credit.\textsuperscript{34} There were few restrictions on the state banks' short term loans. The members of the Federal Reserve system were restricted to making loans for non-permanent agricultural investments, which excluded any long term improvements such as buildings, but they were allowed to lend for short term improvements which included even personal consumptive purposes.\textsuperscript{35} Under the System agricultural paper received a preference of discount up to six months' maturity whereas commercial paper could be discounted for only three months.\textsuperscript{36}

\textsuperscript{34} Olsen, \textit{et al.}, "Farm Credit," p. 219.


\textsuperscript{36} XXXVIII, \textit{Statutes at Large}, 264.
Commercial banks also handled many livestock loans. The financial needs of livestock producers could be separated into three classes: those who bred and raised cattle, whether to fatten or to sell as stockers and feeders, those who bought and fattened feeder cattle, and the hog producer. Because of the short time, risky nature of the hog industry, the hog producer was financed by local agencies, who were quite willing to take the paper because of its short term nature. The cattle feeder also found the banks very accommodating because the cattle were so near market that the feeder rarely called upon the bank for an extension. After 1913 cattle feeding loans were even more attractive because they were eligible for rediscount at the reserve banks.

Because they needed loans for longer periods, often up to three years, those ranchers who bred and raised cattle


for sale as stockers or feeders found the commercial banks less willing to lend. Consequently, loan companies developed in the state to specialize in financing the range cattle industry. The cattle loan companies developed around the stockyards as livestock commission firms and were often affiliated with banks or packing houses. The companies acted as brokers between eastern investors and Nebraska cattlemen. Some contracts were sold directly to investors, but the larger loans were retained as security for notes or bonds that were issued by the company in marketable amounts. The loans were usually secured by chattel mortgages on the cattle. Due to the greater risk in the range cattle production, interest rates were very high.

Short and intermediate loans were also supplied by merchants and implement manufacturers who allowed "time" payments. Because these "time" sales usually meant high interest rates and higher purchase prices than for cash

41 Ibid., p. 275.
42 Sparks, History and Theory, p. 374.
45 Sparks, History and Theory, p. 374.
most farmers in Nebraska sought out lower priced commercial bank loans to replace them. But, interest rates charged by banks for short and intermediate loans were also relatively high. Interest for Nebraska short term loans in 1914 was estimated at 8-9 percent. Because the farmer often had to renew the loans to meet his need for intermediate length credit, the rate actually charged was higher than stated because of renewal charges. In 1910 the renewal charge was estimated to be 0.8 percent of the loan.

The existing credit agencies did not fulfill the farmers' peculiar need for intermediate credit. The cash crop farmer often needed credit for at least one year, while the livestock producer needed loans up to three years. Much of the credit of the commercial banks was also extended to tenants who in 1910 made up over 30 percent of all the farmers in Nebraska. As tenants they lacked the land to

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47 Underhill, Kansas City District, pp. 100-101.


use as collateral for longer mortgage loans; therefore, they as well as the land owners gave their personal notes or chattel mortgages on equipment for short term loans. Although state banks were the greatest source of the intermediate length loans, only 20 percent of their loans were for periods of two, three, or four years, and 50 percent were for periods of less than one year. The farmer often had to accept loans that would come due before the transaction for which he took the loan could be completed, a situation which placed him at the mercy of his creditor.

Long term credit through mortgages was also often unsuited to the farmers' needs. The term of the average mortgage was five years, usually an impossibly short time in which to repay the entire mortgage. The farmer was faced with foreclosure if he were unable to pay. A more common inconvenience of the too short mortgage was the addition of renewal and commission charges, which ranged as high as 10 percent of the loan. When added to the already high interest rates, which ranged from 7 percent in eastern Nebraska to 12 percent on the western ranges, the extra costs forced the farmer into paying high rates.

51 Olsen, et al., "Farm Credit," Figure 27, p. 215. Thirty percent of bank loans were for periods of five years.

In 1910, nevertheless, the Nebraska farmer was not overly concerned with the credit situation. Since the turn of the century he had enjoyed relative prosperity. Prices of wheat, corn, and livestock products had doubled their 1900 values. The farmer used his profits to repay his mortgages and to finance new expansion. The number of farms mortgaged in the state decreased from over one-half in 1890 to less than two-fifths in 1910. 53 Although it was true that mortgage debt by itself could not be used as a complete gauge of agricultural conditions, when considered along with the rising selling prices and increased land productivity of the decade, it indicated agricultural prosperity. 54

During these years the value of Nebraska farms had increased far greater than the mortgage debt in the state. 55 When it is recalled that the standard maximum

53 Department of Commerce, Census, 1910, VII, 20. Data regarding the amount of mortgage debt was not secured directly in the 1900 Census. The statistics were estimated on the supposition that all farms in the state were mortgaged in the same proportion as owner-operated farms.

54 Mortgage debt by itself could signify either prosperity or distress. For instance, increased mortgage debt showed prosperity when farmers expanded operations but distress when they borrowed to survive periods of low income. On the other hand, reduced mortgage debt could represent prosperity when farmers repaid their previous debts but distress when they lost their farms through foreclosure. To be used as an index of agricultural prosperity, mortgage debt must be considered in its relation to land productivity and selling prices (Eliot, Farmer's Campaign, pp. 54-56).

ratio of mortgage debt to the combined values of land and improvements was 45 percent, it will be evident that Nebraska's ratio of 21.8 percent, although significant, was not burdensome.56

During the years 1910-1914 the Nebraska farmer enjoyed even greater prosperity. Prices of Nebraska farm products rose steadily with minimal fluctuations at a more rapid pace than did the farmer's costs of production.57 The farmer moved up into the middle class and began to enjoy some of its newly acquired comforts. These were truly the "Golden Years" of Nebraska agriculture.


57 The favorable cost-price relationship during this period would later be used to measure the farmers' relative prosperity through the parity ratio.
CHAPTER II
THE WORLD WAR

The outbreak of the World War soon disrupted the stability of gradually rising prices that the farmers had come to take for granted. Long standing patterns of world trade were reversed when the European demand for goods caused a shift in the balance of payments, which changed the United States from a debtor to a creditor nation.\(^1\) The huge amounts of European gold flowing into the U.S. Treasury and the competition of the U.S. government and the Allies for American supplies caused farm prices to mount rapidly. The rise was accelerated by a food shortage in 1917 caused by poor crop yields, especially in wheat.\(^2\) The farmer saw the price of wheat soar from $0.92 a bushel in May, 1916, to a high of $2.54 a bushel in May, 1917, and that of corn from $0.72 in August, 1916, to $1.81 the following year.\(^3\) The

\(^1\)Clarence Alton Wiley, *Agriculture and the Business Cycle* (University of Wisconsin Studies No. 15; Madison: University of Wisconsin, 1930), p. 188. Hereafter cited as *Agriculture and the Business Cycle*.


\(^3\)Nebraska, Department of Agriculture and Inspection cooperating with the U.S. Department of Agriculture, assembled by Thelma M. Mahr, *Nebraska Agricultural Statistics: Historical Record, 1866–1954* (Lincoln, Nebraska, 1956).
following chart illustrates the index of prices received by Nebraska farmers.

When the United States entered the war in 1917, the Government directed its every effort to effecting a domestic policy that would insure a military victory. It passed legislation to stabilize prices, stimulate production and distribute supplies. Minimum price levels were established on wheat and hogs, and prices became relatively stable at the new high levels. The Food Administration was also established to encourage the farmer to produce the “food to win the war.” Food Administrator Herbert Hoover and Secretary of Agriculture David F. Houston seemed to be of the opinion that practically unlimited food production was needed. They encouraged the wheat farmer especially to increase his production, even if it meant borrowing capital to break up his pastures, to clear his land, and to buy additional machinery.


Figure 1.—Index of prices received by Nebraska farmers, 1910-1925.

(1910-1914=100)

Index
Prices

Year:
1910 1911 1912 1913 1914 1915 1916 1917 1918 1919 1920 1921 1922 1923 1924 1925

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*Source:* Nebraska Department of Agriculture, Agricultural Statistics, pp. 129, 130, 135.
The Nebraska farmer responded to the call and the high prices by increasing the wheat acreage in the state by over one million acres.\textsuperscript{7} Hog production was increased sharply and reached the unprecedented number of four million head in 1918 while cattle production peaked at over three and one-half million.\textsuperscript{8} The farmer also increased his productivity by buying expensive equipment to compensate for the labor shortage. Livestock producers purchased high priced stock to improve their breeding or dairy herds,\textsuperscript{9} while farmers in the marginal rainfall areas irrigated 56 percent more land than the pre-war area.\textsuperscript{10}

The farmer was aided in his expansion by the federal government's provision for additional agricultural credit. In September, 1916, the Federal Reserve Act was amended to allow member banks to make mortgage loans within a hundred mile radius regardless of district lines.\textsuperscript{11} Only a few weeks before, the Government had provided farmers a long desired system of mortgage credit. The Federal Farm Loan

\textsuperscript{7}Nebraska Department of Agriculture, \textit{Agricultural Statistics}, p. 15.

\textsuperscript{8}\textit{Ibid.}, pp. 78, 80.


\textsuperscript{10}Department of Agriculture, \textit{Yearbook of Agriculture}, 1924, Table 690, p. 1104.

\textsuperscript{11}XXXIX, \textit{Statutes at Large}, 754–55.
Act had been passed to provide long term rural credit by standardizing farm mortgages to make them marketable for investors outside the farm community. The Act set up two types of agencies: the Federal Land banks and the joint stock land banks.

The Federal Land banks were to be capitalized through tax free debentures and subscriptions by borrowers with heavy emphasis being placed on the cooperative features of the measure.\textsuperscript{12} They could make loans up to 50 percent of the value of the land and 20 percent of improvements up to $10,000. In addition to the advantage of a maximum rate of 6 percent, the System also provided for repayment by amortization, that is repayment of both interest and principal in installments of equal fixed amounts rather than the previous method of lump sum repayment. The System's provision for loans up to forty years also was of great advantage to the farmer by freeing him of the fear of foreclosure under a too short mortgage.\textsuperscript{13}

Omaha was designated as the location for the Eighth District of the Federal Land Bank, which included the states of Nebraska, Iowa, South Dakota, and Wyoming. By 1918 the System had lent over $6 million in Nebraska;

\textsuperscript{12}Ibid., pp. 368-84.
\textsuperscript{13}Ibid.
about 1 percent of the total mortgage debt in the state. 14
In 1919, however, the System ground to a halt because of a
suit brought against it contesting the legality of the tax
exempt feature of its debentures. 15

The second system established by the Federal Farm
Loan Act provided for joint stock land banks organized for
private profit. They were capitalized by private subscrip-
tions and bond issues. Loans were to be made on the same
valuations as the Land banks; but the limit on single loans
was greater; amounts up to 15 percent of the bank's capital
to a maximum of $50,000 could be lent. 16

The joint stock land banks were not an important
source of farm credit in Nebraska. Only two were organized 17
and they held on the average only 1 percent of the state's
mortgages during the years 1918 to 1921. 18 The major cause
of their small operation was the competition from the insurance

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14 Department of Agriculture, Recordings, Nebraska, p. 2.

15 The Kansas City Title and Trust Company brought
suit against the Federal Farm Loan banks of Chicago and
Wichita in August, 1919 (Eliot, The Farmer's Campaign,
pp. 69-72).

16 U.S., Federal Farm Loan Board, The Third Annual

17 Federal Farm Loan Board, Annual Report, 1923;
p. 16.

18 Department of Agriculture, Recordings, Nebraska,
p. 2.
companies, which preempted the business that was handled by the joint stock banks in other states.\textsuperscript{19}

In accordance with its policy of aiding the farmer by increasing credit facilities, the Government also made provision for additional short and intermediate term credit. The Federal Reserve discount policy was amended to allow a preferential commodity rate of 5 percent on notes secured by nonperishable, marketable staples stored in warehouses.\textsuperscript{20} When it was discovered that the provision was largely unused because there was a lack of adequate storage, the Government provided for a system of warehouses in which commodities could be stored. Negotiable receipts that could be used as collateral for bank loans were then issued on the commodities.\textsuperscript{21} Although the system offered the advantages of standardized storage and marketing, as well as additional credit, it was not used extensively in Nebraska because there was little surplus and few bankers in the state were familiar with it.\textsuperscript{22}

\textsuperscript{19} Department of Agriculture, \textit{Facilities}, p. 13.


To provide an agency for intermediate credit, the Government in April, 1918, established the War Finance Corporation (WFC) to extend credit for any agricultural production that was destined for export. For example, the WFC could rediscount bills offered by banks, trust companies, or cooperative associations that lent to producers of exportable commodities or to any one abroad who intended to purchase goods in the United States. The initial rediscount was for a one year period but renewal privileges extended up to three years. Although the maximum amount of WFC loans was set at $1 billion, because of the preemption of the field by other government and private agencies, it lent only $113,500. Nevertheless, the agency was significant as the first action taken by the Government in recognition of the farmers' special needs for intermediate credit.

No less intent on insuring victory, the Federal Reserve Board of Governors subordinated the System's primary function as a central bank to the needs of the nation's Treasury for low cost financing. To help the Treasury

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bridge the huge gap between Government war expenditures and national savings, the Board instructed the district banks to act as brokers for the Government's issues of Treasury certificates, Thrift Stamps, and assured the placement of other Government securities by lending to member banks at a rate below the bond rate. In effect this insured the banks a margin of profit by allowing them to rediscout their paper backed by bonds at a lower rate than the yield on the bonds. The result was a tremendous increase in the amount of credit extended by banks to their customers and by the district banks to member banks. The Treasury's needs for cheap financing were met, but at the cost of great inflation in credit.

The Federal Reserve Board also encouraged greater lending by its members by lowering reserve requirements.

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III, Part 2, p. 11; hereafter cited as Joint Commission, Report; also Underhill, Kansas City District, p. 82.

26 Underhill, Kansas City District, p. 82.


30 Ibid., p. 253; also Chandler, Benjamin Strong, p. 63.
which effected the release of still more funds for loans. The lowered requirements coupled with the preferential rate on Government paper and the tremendous influx of gold from Europe inflated prices to unprecedented heights.

Only apprehension about postwar conditions brought a temporary halt to the inflation. Throughout the winter of 1918 and spring of 1919 the public feared that the soldiers' return and the end of Government war contracts would cause unemployment and lower prices. Anticipating the price drop, the public postponed purchases which caused merchants to cancel their orders and to postpone payments to their creditors, the banks. The banks, in turn, hesitated to make new loans. The nation slipped into a recession.\(^3\)

However, the announcement by the Federal Reserve Board in the spring that it intended to continue its policy of preferential rates on Government bonds reversed the deflationary trend. Once again the Treasury convinced the Board that if the Victory Loan were not placed at a low yielding rate, the public would demand the funding of previous issues at higher interest rates.\(^3\) Just as

\(^{31}\) Joint Commission, Report, III, Part 2, 41.

\(^{32}\) Ibid., III, Part 2, p. 11; see also Wicker, FR Monetary Policy, Ch. II, "Postwar Financial Policy: The Inflation Phase, 1918-1920," pp. 25-45. The Nebraska Legislature aided the Treasury's efforts by allowing the state banks to hold two-fifths of their reserves in Government bonds (Hald, "State Bank Failures," p. 28).
during the war, the preferential rate was successful in inducing banks to purchase the bonds and to lend on them to their customers. The bonds when used as bank reserves allowed for a maximum tenfold expansion in the amount of credit. As a result the recessive trend was reversed and the inflationary spiral began anew.

Other agencies of the Government became alarmed at the inflation and as a hedge against certain price advances began to buy up supplies. For these reasons and because of their favorable exchange positions, European nations also bought up American goods far in excess of their current needs. Speculators in foreign trade, agricultural commodities, and stocks and bonds won their gamble that prices would continue to climb.

The easy money policy of the Federal Reserve Board had a similarly stimulating effect on production and consumption in the Tenth Federal Reserve District. The Bulletin of the District reported that the public, believing that prices were permanently stabilized at the new levels, never

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32 Bechard, Discount Policy, pp. 257-59; also Shaw, "Bank Credit."


34 European currencies were pegged at rates above their true value, that is, they could buy more goods in the United States than they could at home (Wiley, Agriculture and the Business Cycle, p. 187).
again to descend to pre-war levels, went on an "... orgy of extravagant buying of non-essentials and a riot of wild speculation." The public's hoarding in addition to the Government's created artificial shortages that induced merchants to duplicate their orders to better their chances of receiving any goods at all. The huge avalanche of future orders swamped the industry and mercantile business in the District. The inflation also seemed to bring prosperity to labor, who through a rash of strikes in the District were gaining the increased wages they had been denied during the war. The Omaha Chamber of Commerce proudly pointed out that Omaha was the hub of all the business activity and prosperity. It reported that although the city was thirty-fourth nationally in population, it was sixteenth in bank clearings and fourteenth in the amount of new building—all of which made it the fastest growing city of its size in the nation.

The post-war inflation plus the patriotic appeals of such Government spokesmen as Secretary of Agriculture Edwin Meredith that the farmers produce more food for the

37 Ibid.
38 Omaha Chamber of Commerce, Omaha Chamber of Commerce Journal, October 15, 1921, cover. Hereafter cited as Journal.
39 Ibid., July 24, 1920, p. 2; September 4, 1920, p. 15.
starving European nations\(^{40}\) encouraged Nebraska farmers to continue farming war time acreages and to buy additional machinery. During the ten year period ending in 1920 the value of farm implements on Nebraska farms had more than tripled.\(^{41}\) According to Garey and Hecht the greatest surge occurred in the years 1919 and 1920 when the farmers made unusually heavy expenditures for machinery; they estimated the average expenditure in 1919 at \$810\) and in 1920 at \$644, as compared to the 1914-1918 average of \$198.\(^{42}\)

Many farmers increased their operations by using the equity they had built up in their farms to buy additional acreages or even another farm. Tenants used their savings, accumulated during high war time prices, as a down payment on a farm of their own while many hired men moved up to become tenants.\(^{43}\) As a result, the average acreage of the Nebraska farm increased 11 percent during the period 1910-1920.\(^{44}\)

\(^{40}\)Meredith, "The Secretary's Report, 1919," p. 10.

\(^{41}\)Department of Agriculture, Yearbook of Agriculture, 1922, Table 548, p. 1007.

\(^{42}\)L. F. Garey and R. W. Hecht, The Relation of Size of Farm to Tax, Labor, Improvement and Other Farm Expenses in Nebraska (Experiment Station Bulletin 306; Lincoln, Nebraska: University of Nebraska College of Agriculture, 1937), p. 8. Hereafter cited as Relation of Size.

\(^{43}\)Warren and Pearson, Agricultural Situation, p. 41.

\(^{44}\)Department of Agriculture, Yearbook of Agriculture, 1923, Table 691, p. 1157.
Not only did the average size of the Nebraska farm increase, but during the "boom" years of 1919 and 1920, the price of land had almost doubled from its pre-war level.\(^4^5\) The following chart gives the estimated prices per acre of farm real estate. The increase was unevenly distributed throughout the state with the greatest percentage increase occurring in the western edge of the state as shown in Figure 3. Although the acreage increase was no more than in the previous decade, it involved a very high proportion of marginal land. The result of the rise in land prices was an increase in the average value per farm from $16,038 in 1910 to $33,771 in 1920,\(^4^6\) while rent paid by tenants, because it was calculated at the same rate as land prices, increased proportionately.

The rise in land values led to greater than normal transfers of farms. Just how much of the expansion was speculative adventure is impossible to determine.\(^4^7\) Most sources contend that the scale of speculation was small and

\(^4^5\) *Ibid.*, Table 67, p. 650.


\(^4^7\) Several partial studies of the amount of speculation have been made, the best being that by Eleanor H. Hinman and J. O. Rankin, *History of Farm Land Prices in Eleven Nebraska Counties, 1873-1933* (Research Bulletin 72; Lincoln, Nebraska: Nebraska Agricultural Station, 1934). Hereafter cited as *History of Farm Land Prices*. Filley made extensive use of their work in his *Effects of Inflation and Deflation*. 
Figure 2.—Index of estimated price per acre of farm real estate in Nebraska, 1912-1925.

\[(1912-1914=100)\]

Index Prices

Source: Frank Miller and H. Clyde Filley, Land Prices (Bulletin 379; Agriculture Experiment Station; Lincoln, Nebraska: University of Nebraska, 1945), p. 4.
Figure 3.—Value of farm real estate percentage increase in Nebraska, 1910—1920.

that most land was purchased by actual farmers rather than speculators.\textsuperscript{48} According to Filley few farms sold more than once during the period and those land transfers were mostly in the western sand hill and high plains regions where farmers and ranchers bought additional acreages to make their farms more workable.\textsuperscript{49}

Even though most land was bought by farmers for operation rather than speculation, it cannot be denied that more land was changing hands than during normal times and that the rapid turnover stimulated a rise in land prices. Actively engaging in and encouraging the farmer in his purchase of high priced land were many of the state's banks. The banking conditions in the state had steadily worsened after the 1917 Nebraska Supreme Court decision that denied the State Banking Board the power to refuse to charter a new bank on the grounds there were already enough banks.\textsuperscript{50} The number of state banks jumped from 809 in 1916 to 937 in 1919,\textsuperscript{51} and reached the peak of 1,012 in 1920 when there was a bank for every 1,088 people.\textsuperscript{52} Forty-two were national

\begin{itemize}
\item[\textsuperscript{48}] Filley, \textit{Effects of Inflation and Deflation}, pp. 108, 113; Hinman and Rankin, \textit{History of Farm Land Prices}, pp. 35-36.
\item[\textsuperscript{49}] Filley, \textit{Effects of Inflation and Deflation}, pp. 108, 113.
\item[\textsuperscript{50}] State v. Morehead, 100 Nebr. 864 (Feb. 21, 1917) as cited in Hald, "State Bank Failures," p. 22.
\item[\textsuperscript{51}] Filley, \textit{Effects of Inflation and Deflation}, p. 93.
\item[\textsuperscript{52}] Olsen, et al., "Farm Credit," p. 213. Only South and North Dakota had more banks per capita.
\end{itemize}
banks that rechartered as state banks so as to be included in the state's system of depositor guarantee. As a result deposits in the state banks increased from $91 million in 1914 to $270 million in 1919, while capital stock in the banks only increased from $16 million to $25 million.

The Court's decision virtually destroyed any power the State Banking Board had had over the state banks. The state laws were now both ineffective and unenforced as the banks ignored laws regulating maximum loans, interest paid on time deposits, and capitalizations. It was possible for almost anyone with $15,000 to open a bank. As the Lincoln Journal reported, too often bankers were "former school teachers, railway employees, or rich farmers' sons, who have only the most hazy notion of the banking business."

Often these untrained bankers used every piece of discountable security as collateral to borrow from their correspondent banks and held no margin of credit. What reserves they did have they kept at their correspondents only to earn interest, and should a crisis arise the correspondents in turn would not feel compelled to come to their aid.

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53 Filley, Effects of Inflation and Deflation, p. 92.
54 Ibid., p. 93.
56 January 2, 1921, p. 4.
The poor banking practices were due in large part to the over-competition of the banks for business. It forced them into paying dividends to their stockholders before they had complied with the state law that they carry forward one-fifth of their net profits to surplus until their surplus account equaled 20 percent of their paid up capital,\(^{58}\) into paying high interest on time deposits, and into offering expensive banking services free of charge.\(^{59}\) But the most serious consequence of the "over banking" was that each bank's area of operation was so limited that it handled a far greater proportion of farm mortgage loans than safe banking practices would allow.\(^{60}\) The greatest part of the increase in state bank loans from $93 million in 1914 to $252 million in 1919 resulted from the banks' holding of farm real estate.\(^{61}\) Even for these unliquid, high risk loans the banks had to offer low rates in order to attract borrowers. Because the bankers had tied their fortunes so closely to the value of farm real estate, it could not be denied that they stimulated the inflation in land values.\(^{62}\)

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58 Ibid., pp. 27, 91.
60 The amount of farm real estate that state banks could hold was raised by the state legislature in 1919 from 50 percent to 75 percent of the bank's capital (Ibid., p. 31).
61 Filley, *Effects of Inflation and Deflation*, p. 93.
62 Although the bankers operating the national banks in the state were not immune to the effects of the "over
The low interest rates of the banks encouraged the farmers to buy the high priced land with little down payment and large mortgages. By 1920 the percentage of owner-operated farms that were mortgaged had increased to 50.5 percent, a 12 percent increase over 1910, and the amount of debt had increased from $196 million in 1914 to $467 million in 1920. For the average farmer this meant an increase in mortgage debt from $3,154 to $7,025.

Although the percentage of farms mortgaged in 1920 was relatively consistent throughout the state, the western part reported a far greater increase during the ten years. The ratio of debt to value of farms showed a similar trend. In the eastern portion of the state it remained almost

banking, as members of the Federal Reserve system they were more closely supervised by its regulations concerning farm real estate loans, capitalizations, and regular inspections. The national banker therefore tied his bank's fortunes to the farmers' situation more loosely than the state banker (Board of Governors, Federal Reserve System, pp. 257-64).

63 Department of Commerce, Census, 1920, VI, Part 1, Table 19, p. 683.

64 Department of Agriculture, Facilities, Table 64, pp. 219-20. The actual amount of mortgage debt would undoubtedly have been far greater if the Census had included information for tenant operated farms, manager operated farms, and for those operated as additional land to another farm.

65 Department of Agriculture, Yearbook of Agriculture, 1923, Table 691, p. 1157.

constant, but in the western areas, the semi-arid regions specializing in wheat farming, it reached alarming proportions. When it is recalled that 45 percent of the combined value of land and buildings was considered the maximum safe debt limit, it was evident that several counties were dangerously near that limit, while some actually far exceeded it.67

Misled by the easy money, low interest rates of the banks, the farmers failed to recognize that the low rates did not compensate for the artificially high selling prices of the land; for example, that a 5 percent interest rate on a $20,000 farm was equal to a 10 percent rate on a $10,000 farm. The low rates lulled the farmer into contracting debts he could handle comfortably only if he continued to get high prices for his produce.

The bank practices plus blind optimism led the farmers into ignoring the fact that the land prices were grossly over-capitalized in relation to their earning power. By 1919 although farm prices continued to increase, the pace slackened while the price of farm land increased ever more rapidly.68 The 1920 Yearbook of Agriculture was one of the first to warn the farmer that his net return on the purchase price of a farm was often less than the

68 Department of Agriculture, Facilities, pp. 2-3.
ordinary return on first mortgages. It reported that the average farmer was earning less than 4 percent on his investment, while 2 percent was not an uncommon return. It could have added that for those farmers in the dry land wheat areas these were years when poor weather conditions caused operations to be carried on at maximum costs that resulted in little profit and that livestock producers were also hit hard when the Government terminated its meat contracts with the result that both beef and pork exports fell off drastically.

Nevertheless, for all these pockets of depression, the Nebraska farmer noted that aside from the sharp decline in livestock prices, the index of prices for all commodities was only slightly lower than those for the years of highest prices. He looked forward optimistically to years in which continued high prices would bring prosperity to the state.

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69 Meredith, "Report of the Secretary, 1920," p. 32.
70 Sparks, History and Theory, p. 443.
71 Schonenfeld, et al., "The Wheat Situation," p. 120.
73 Nebraska Department of Agriculture, Agricultural Statistics, p. 128. See Figure 1.
CHAPTER III

THE DEFLATION

Not unaware of the inflationary pressures, the Federal Reserve Board in the latter half of 1919 advised its members to use "direct action," that is a more careful selection of loans, to curb the inflation.¹ This action was in line with the general philosophy of both the Board and the Treasury that qualitative restrictions were all that were necessary. At the time they believed that gold reserve ratios should determine rate policy, that when reserves were high, rates should be kept low. When reserve ratios began to decline in December, the New York Reserve bank, under the prodding of its governor, Benjamin Strong,² was the first to augment its policy of "direct action," by raising its discount rates and abolishing the preferential rate on Government paper.³


²Wicker, FR Monetary Policy, pp. 37-43.

³Chandler, Benjamin Strong, pp. 151-54, 163.
The Federal Reserve Board was willing to agree to the New York rate increase because it feared that reserve ratios would be so impaired as to endanger the System's solvency. It was especially apprehensive in December, 1919, because it saw the decline in reserves as due not to any loss in gold deposits, but rather to the increase in bank deposits as the result of the commercial banks' holding of Government securities. According to contemporary philosophy, the increased deposits were the major source of inflation because they were not met by a corresponding rise in the production of consumable goods. The Board also viewed the banks' holding of Government paper as a dangerous threat to the System's liquidity. Therefore the Board directed its policy toward moving them from bank portfolios to the private sector.

On January 3, 1920, the Board of Governors of the Tenth Federal Reserve district followed suit and raised its rates on agricultural, industrial, and commercial paper from 5 to 5¼ percent, that on six month agricultural and livestock paper from 5 to 5½-6 percent, and that on Government notes from 4½-5 percent to 4 3/4-5¼ percent, which abolished the

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5Because of this belief, the use of open market operations as a countercyclical tool was precluded. What open market operations the Board did enter into it did so to gain earning assets for the System (Ibid., p. 64; Chandler, Benjamin Strong, pp. 113-114, 134).

profitable preferential rate on Government securities. The Board also advised its members to continue to use "direct action" to check speculation, to rid themselves of Government paper by selling it to their customers, and to use the proceeds to reduce their indebtedness at the District bank.

Member banks within the District heeded the advice and reduced their Government bond holdings $7 million during the month. Federal Reserve notes in circulation within the District decreased $3 million, and banks used their increased funds to build up their Federal Reserve balances. The attempted curtailment in credit had little effect, however, upon the public, who compensated for the decrease in notes by accelerating the velocity of circulation as shown in the unprecedented level of bank clearings. The higher discount rate also seemed to be little deterrent to increased borrowing, and by March, the Bulletin of the District lamented the lack of adequate funds for legitimate construction because available funds were siphoned off for speculation.

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7 Underhill, Kansas City District, pp. 106, 126.
10 Ibid.
11 Ibid.
In an attempt to pinpoint the sources of speculation the Board conducted an investigation of the distribution of loans. The investigation revealed that some Kansas City and Omaha banks were handling what seemed to be a disproportionate amount of the District's credit. In January, 1920, fourteen Kansas City banks had 34 percent of the District's lending power and nine Omaha banks had 23.5 percent. By April the Kansas City banks had increased their share to 50 percent while the Omaha banks' share remained the same. Together the banks held 75.5 percent of the District's total lending power; only 26.5 percent remained for the other 1,063 banks in the District. To more equitably distribute the funds, the Board on April 17 put into operation the Phelan Amendment to the Federal Reserve Act. The amendment provided for a progressive rate that exacted a penalty of 1/2 of 1 percent for each amount 25 percent above its basic line that a member bank borrowed.

13Joint Commission, Report, III, Part 2, 56.
14This included banks in Denver, Colorado, Ibid.
15Ibid., III, Part 2, 25.
16The basic line was the theoretical limit to the member bank's borrowing at the district bank. It was computed as the sum of the bank's reserve deposit (less the 35 percent reserve requirement) and the amount of capital it contributed to the district bank and multiplied by 2 1/2. In effect it extended a bank's possible borrowing limit which was severely restricted by the gold reserve requirements of 35 percent on all balances and 40 percent reserve...
The Bulletin of the Tenth District reported that soon after the progressive rate went into effect the larger financial and commercial houses that had been excessive borrowers began to curtail their loans. 17 Although the Bulletin attributed the reduction in part to the penalty on excessive loans, 18 it placed greater importance on the apprehension within the District about business conditions in general. 19 A severe shortage of railroad cars, aggravated by a strike of switchmen and yardmen, had disrupted distribution throughout the spring. 20 As goods grew scarce, prices rose still higher until the public began refusing the grossly overpriced goods. Retail business slowed and by June, merchants who were left holding large inventories began to cancel their orders. 21 A commercial recession was underway.

In the meantime, prices on agricultural commodities had continued to rise, but there was uncertainty concerning requirements against borrowing. It also insured that the district bank's reserves would not fall below legal limits if all the banks were to borrow their maximum share at the same time (Joint Commission, Report, III, Part 2, 25).


18 Ibid., May 25, 1920, p. 5.

19 Ibid., p. 1.

20 Ibid.

the effects government withdrawals would have on the market. The WFC was disbanded on May 10, 1920, and the price support on wheat was lifted on June 11. Some Nebraskans believed wheat prices would go to $3 a bushel; others contended that they would fall just as livestock prices had tumbled the previous June when the Government terminated its contracts. The Nebraska Farmer, a farm journal published in Lincoln, Nebraska, illustrated the uneasiness of Nebraskans about prices. On June 12, it stated that prices would probably fall; two weeks later it predicted rising prices.

The confusion about prices was a natural consequence of the chaotic world conditions in the post-war years. Normal trading patterns were disrupted and markets demoralized. The turn-about in the balance of trade during the war left Europe as a debtor region with little

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24 The publication was owned by Samuel McElvick, governor of the state from 1919 to 1923.


26 For studies of post-war conditions see Wiley, Agriculture and the Business Cycle; Joint Commission, Report, III, Part 1, 15-17.
gold and only such credit as the United States was willing to extend.27 When the United States dismantled the WFC, private investors, exporters, and bankers also began to withdraw from the unsteady European market.28 As the buying powers of the European nations became exhausted, they decreased their imports of American meat products.29 Although they continued to import large amounts of grain, much of it came from countries competing with the United States. World economic conditions were reported to be so flimsy that the collapse of the silk market in Japan was asserted to be the first link in a chain of depression that circled the earth and affected every nation.30

Prices for Nebraska commodities began to decline during June. At first it seemed that the decline was due merely to the shortage of railroad cars. The Omaha World-Herald for one charged that the railroad cars were being diverted to carry California fruit rather than Nebraska potatoes.31 In a similar vein the Bulletin of the Tenth District advised the farmers to hold and store their

28Ibid., p. 182.
29Joint Commission, Report, III, Part 1, 16.
30Ibid., p. 17.
31July 30, 1920, p. 12; also August 13, 1920, p. 12.
crops until adequate transportation became available. At first the farmers, thinking the recession merely a temporary adjustment in prices, were not reluctant to hold their crops. But as summer price dips became perpendicular drop-offs in the fall, the farmers became bewildered. By the time most of their crops were ready for market, index prices had fallen from the June figure of 228 to 180 in October and to 136 by December. Wheat prices per bushel fell from $2.46 in June to $1.35 in December, and corn prices from $1.65 per bushel to $1.42 during the same period. Hog and cattle prices continued the decline they had begun in 1919. The average price per hundredweight received by farmers for cattle declined from the 1919 price of $11.50 to $9.70 in 1920. Hogs per hundredweight brought only $12.80 compared to $16.90 in 1919. The total value of Nebraska crops decreased 36 percent during the year.

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33 Nebraska Department of Agriculture, Agricultural Statistics, p. 128.
34 Ibid., p. 139.
35 Ibid., p. 141.
36 Ibid., p. 154.
37 Ibid., p. 156.
38 Ibid., p. 9.
The farmers saw any chance of making a profit slip away as they realized that they were caught in a price squeeze. The prices they paid in the spring to produce their farm products were higher than the prices they would receive for them in the fall.\textsuperscript{39} Although prices for all sectors had generally been reduced, many expenses inherent in farm production had not fallen proportionately to agricultural prices, and in some instances, costs had actually increased.

In addition to the new costs inherent in mechanized farming as discussed before,\textsuperscript{40} the farmers also had to pay relatively higher prices for manufactured goods. As Filley explained, the prices of raw materials such as farm commodities reacted more quickly to changes in the price level. Just as they had increased faster during the war-time inflation, they decreased more rapidly during deflation.\textsuperscript{41} A major cause for the lag in the price of manufactured goods was that they were influenced by retailing and

\textsuperscript{39}Henry C. Wallace, "The Year in Agriculture: The Secretary's Report to the President," \textit{Yearbook of Agriculture,} 1921, p. 4. Hereafter cited as "The Secretary's Report, 1921."

\textsuperscript{40}\textit{Supra,} p. 31.

handling charges, especially wages paid to labor. Unlike other prices industrial wages continued to increase after 1920. Although not of great significance, because there were only 58,000 hired men in the state in 1920, agricultural wages had more than doubled since 1910.

Of far greater importance to the farmer were the increased costs of transportation. A 35 percent increase in rates for the West in August, 1920, came into effect just as the Nebraska farmer began marketing his 1920 crop. The effect of the increase at a time when farm prices were rapidly declining was a huge increase in the amount of produce it was necessary for the farmer to trade to pay freight charges.

Figure 4 illustrates the widening gap between the prices the farmer paid and those he received for his products. Although the farmer’s purchasing power declined slightly between 1917 and 1920, it still remained above the index number 100. However beginning in 1920 his

43 Department of Agriculture, Yearbook, 1924, Table 707, p. 1122.
Figure 4.—Index of the general trend of prices and the purchasing power for Nebraska farmers, 1910-1925.

(1910-1914=100)

Source: Filley, Effects of Inflation and Deflation, p. 12.
purchasing power declined sharply until it reached the low of 72 in 1921 and remained below pre-war index levels throughout the period.47

The farmer, plagued by decreasing purchasing power and rising costs of production and distribution, was burdened further by increases in his fixed costs—taxes, mortgage payments, and land rent. The farmer's tax load had more than doubled from pre-war levels.48 War expenses were the major cause of the increase in federal taxes, while increased government services and expenses accounted for the increase in state taxes.49 The Nebraska legislature, which had increased ordinary appropriations in 1917, voted another increase in 1919 to carry on many projects that had been deferred during the war.50 Local taxes, levied by county and township governments, had also more than doubled.51

Although the farmer was not oppressed by taxes while commodity prices were high, when they fell, he began to chafe from the taxes assessed on the high land prices

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47 Filley, Effects of Inflation and Deflation, p. 12.
48 Ibid., Ch. VII, "Taxes," pp. 52-70.
49 Ibid.
50 Nebraska, State Historical Society, Messages and Proclamations of the Governors of Nebraska, 1854-1941 (Lincoln, Nebraska: Work Projects Administration, 1941-42), III, 434. Hereafter cited as Messages and Proclamations.
of 1919-1920. Farm taxes took an ever increasing percentage of the farmer's net income until by 1922 they consumed over 20 percent.\textsuperscript{52} For the small farmers, who paid a proportionately greater share of the taxes, the burden was even greater.\textsuperscript{53} Regardless of difficulty, however, the farmer had no recourse but to pay or face foreclosure for tax lien.

Interest and capital payments on his mortgage or rent were other fixed costs that the farmer could not avoid. Like taxes, increased mortgage payments had not been overbearing during the period of high commodity prices, but as prices fell, mortgage payments and rent took increasingly larger shares of the farmer's net income.

Caught by the deflation in the widening spread between the prices he paid and those he received, the farmer saw what little profit he made taken away by high fixed expenses. For the farmer already in debt the deflation made his situation critical; he had no option but to seek credit to tide him over. For the farmer who was free of debt the deflation at first brought little discomfort. He lowered his expenses by employing fewer laborers and reducing their wages, by not buying machinery, and by postponing repairs to his farm. To meet his current operating and living expenses he dipped into his farm capital or

\textsuperscript{52}Tilley, \textit{Effects of Inflation and Deflation}, p. 78.

\textsuperscript{53}Carey and Hecht, \textit{Relation of Size}, p. 18.
withdrew from his savings account. But as the depression continued and prices did not recover, often even the debt free farmer was forced to join his debtor brother in seeking credit to tide him over.
CHAPTER IV

THE DEFLATION'S EFFECTS ON RURAL CREDIT IN NEBRASKA

During the deflation many farmers were forced into incurring debts regardless of their current incomes or declining land values. The farmers' distress was evident in the shift which occurred in the sources of loans. Because most new mortgages taken after 1920 were contracted to cover previous positions rather than as part of the farm's selling price, the major source of mortgages shifted from individuals who took mortgages as part of voluntary farm sales to credit agencies. Table I illustrates the amount of farm mortgage loans recorded annually by each lending group in Nebraska. The percentage of mortgage debt held by individuals declined from 70 percent in 1920 to 41 percent in 1923. Taking up the slack in individuals' lending were the state and national banks and the centralized credit agencies.  

1Department of Agriculture, Facilities, p. 3.
2Ibid., pp. 23, 29; Department of Agriculture, Recordings, Nebraska, p. 2.
3Department of Agriculture, Recordings, Nebraska, p. 2.
4Ibid.; Department of Agriculture, Facilities, p. 3.
# TABLE I

AMOUNT OF FARM-MORTGAGE LOANS RECORDED ANNUALLY BY EACH LENDING GROUP

IN NEBRASKA, AS A PERCENTAGE OF TOTAL RECORDINGS, 1917-25

<table>
<thead>
<tr>
<th>Year</th>
<th>Individuals</th>
<th>National and State banks</th>
<th>Insurance companies</th>
<th>Federal land bank and Land Bank Commissioner</th>
<th>Joint stock land banks</th>
<th>Others</th>
<th>All</th>
</tr>
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<tr>
<td></td>
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<td>Percent</td>
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<td>Percent</td>
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<td>74</td>
<td>9</td>
<td>10</td>
<td>3</td>
<td>1/</td>
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<td>5</td>
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</table>

1/ Less than 0.5 percent.

Representatives of individuals, such as administrators, executors, and guardians, accounted for only a small proportion of the total loans each year and have been combined with "individuals" for the purpose of this study. A few mortgages recorded by mutual savings banks are included with those of national and State banks.

Source: Department of Agriculture, Recordings, Nebraska, p. 2.
Insurance companies were especially responsive to the farmers' needs for additional credit. During 1920 they nearly doubled their loans to Nebraska farmers and continued to increase their holdings until they held 26 percent of the state's mortgage debt in 1923. Because they could mobilize capital on a nation-wide scale and did not have to call in their loans during periods of stress, the insurance companies seemed most willing to lend on first mortgages. In general those farmers who were previously free of debt and could qualify for insurance company loans were not displeased with the credit situation. The size of the loans, which averaged 88,110 during the period 1920-1923, was usually large enough to satisfy the farmer's needs. Its term also was usually well suited to his needs. The average term of farm mortgages recorded by insurance companies for the West North Central region of which Nebraska was a member was almost

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5Department of Agriculture, Recordings, Nebraska, p. 2. During the period insurance company loans on farm property exceeded their loans on all other property (Morman, Farm Credit in the United States and Canada, pp. 42-43).


7Department of Agriculture, Recordings, Nebraska, p. 7.

8Other states included in the region were Minnesota, Iowa, Missouri, North and South Dakota, and Kansas (Valgren and Engelbert, Farm Mortgage Loans by Banks, p. 23).
twice as long as that granted by individuals or commercial banks. 9

The farmer who mortgaged his farm with the insurance company also benefited by its comparatively low rates of interest. Only in 1921 did rates charged by insurance companies go above 6 percent (they then reached the high of 6.4 percent) and thereafter they were reduced until they stood at 5.3 percent in 1923. 10 Even with the addition of the commission charged by the loan agent, which was often deducted from the principal, the rate of the insurance company's loan was below those of all other agencies except the Federal Farm Loan system. 11

Although the Federal Farm Loan system was nearly inoperative during the initial deflation, the farmers held few grievances against it. As the Nebraska Farmer reported, the farmer felt that the System was the victim of commercial farm mortgage bankers who were trying to destroy it through the suit testing its constitutionality. 12 From August, 1919,

9Department of Agriculture, Facilities, Table 74, p. 242.
10Department of Agriculture, Recordings, Nebraska, pp. 5-6.
11Ibid. According to Olsen, et al., the low rates were due in great measure to the insurance companies' careful selection of farm property as investments and to the competition of the Federal Land banks and joint stock land banks ("Farm Credit," p. 210).
until February, 1921, the System operated on a very limited scale by processing only prior applications and distributing funds already obtained before the litigation. The amount it lent in the state decreased from $5.6 million in 1919 to $3.2 million in 1921,\textsuperscript{13} less than 3 percent of the total mortgage debt in the state.\textsuperscript{14} After the Supreme Court upheld the tax exempt feature of the System's debentures, the System increased its share of Nebraska farm paper to 5 percent of the state's total in 1922 and 6 percent in 1923.\textsuperscript{15}

The farmer who could qualify also found the joint stock banks willing to increase their holding of farm mortgages. Although there were only two joint stock banks in the state,\textsuperscript{16} they increased their holdings from less than 0.5 percent in 1921 to an all time high of 7 percent in 1922.\textsuperscript{17} The size of the average loan made by the joint stock banks was over twice as large as the average Federal Land Bank loan.\textsuperscript{18} Even though the average

\begin{itemize}
\item \textsuperscript{13}Statistics supplied by the Omaha Federal Land Bank.
\item \textsuperscript{14}Department of Agriculture, Recordings, Nebraska, p. 2.
\item \textsuperscript{15}Ibid.
\item \textsuperscript{16}Federal Farm Loan Board, Annual Report, 1923, p. 16.
\item \textsuperscript{17}Department of Agriculture, Recordings, Nebraska, p. 2.
\item \textsuperscript{18}Ibid., p. 8.
\end{itemize}
size of the joint stock land bank loan gradually decreased from the 1920 high of $13,960, it continued to grant large loans particularly suited to the larger farmer's needs. Its interest rates were also only slightly above those of the Federal Farm Loan system, which were the lowest of any lending agency.

The foregoing discussion leads to the conclusion that the farmer who was not previously in debt found the centralized credit agencies—the insurance companies, Federal land banks, and joint stock land banks—willing to accommodate him with reasonably large loans at low rates. For those farmers and tenants, however, who were already in debt the deflation made their credit needs critical. Like the debt free farmer the debtor-farmer attempted to retrench his expenses, but unlike him the debtor lacked the cash or investment capital upon which to call to pay his current expenses. Most of these debtor-farmers could not meet the higher standards of the insurance companies or the Federal loan agencies while some declined even to apply for Federal loans because they disliked the idea of an investigation by their neighbors on the farm

19 Ibid.

20 Ibid., p. 6. Just as with loans granted by insurance companies, the actual costs to the borrower of Federal Land bank and joint stock land bank loans were greater than stated because of initial charges of land appraisal (Olsen, et al., "Farm Credit," p. 209).
loan association and did not want "their business spread around the neighborhood." These farmers who could not or would not seek aid from the centralized loan agencies turned to their local banks.

The banks responded to the farmers' needs by nearly doubling the amount of their already extensive farm mortgage holdings. By 1921 the state and national banks held 19 percent of the total mortgage debt in the state. The greatest portion of the increase was due to the funding of personal and collateral loans into longer term real estate mortgages. These mortgages were regarded by both lenders and borrowers as improvements in the status of existing loans rather than investments leading to increased productivity or efficiency. The funding of the non-real estate loans into mortgage debt resulted in additional amounts of debt carrying higher than average interest rates. The average interest rates charged by state and national banks on farm mortgages were the highest of any

22 Department of Agriculture, Recordings, Nebraska, p. 2. See Table I.
23 Ibid.
24 Department of Agriculture, Facilities, p. 3. The shift was evidenced by the decline in the average size of the mortgages contracted 1920-1923 (Department of Agriculture, Recordings, Nebraska, pp. 7-8).
lending agency. Although they were reduced from the high
of 7.9 percent in 1921, they remained above those of all
other agencies. The rates actually charged varied
throughout the state. The following map illustrates
that the lowest rates were in the southeast and central
portions of the state while the northwest paid the highest
rates.

Often the rates actually charged were higher than
the specified rate because of hidden costs. Some methods
that increased costs were the discounting of the note at
the time the loan was made or requesting the borrower to
withdraw only a part of the amount lent. Other methods
were charging a flat sum in addition to the interest when
the loan was made or a commission charge when the loan was
renewed. No figures were available as to the number of
Nebraska banks using these practices when extending mort-
gage loans, but those for the banks using these methods
when extending personal and collateral loans will be dis-
cussed below. The addition of these charges increased the
costs of bank loans far above those for the centralized
lending agencies. That the farmers continued to increase
their use of bank loans despite these high costs proved

26Department of Agriculture, Recordings, Nebraska,
pp. 5-6.

27Olsen, et al., "Farm Credit," p. 209; Sparks,
History and Theory, p. 341.
Figure 5.—Geographic variations in the prevailing rate of interest on first mortgage farm loans and short time loans to farmers reported by Nebraska banks, March, 1921.

Interest rates on first mortgage farm loans.¹

<table>
<thead>
<tr>
<th>Rate</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.00-6.99</td>
<td>5,6,9</td>
</tr>
<tr>
<td>7.00-7.99</td>
<td>3,8</td>
</tr>
<tr>
<td>8.00-8.99</td>
<td>2,4,7</td>
</tr>
<tr>
<td>9.00-9.99</td>
<td>1</td>
</tr>
</tbody>
</table>

Interest rates on short time loans to farmers.²

<table>
<thead>
<tr>
<th>Rate</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.50-8.49</td>
<td>6,9</td>
</tr>
<tr>
<td>8.50-9.49</td>
<td>3,5,8</td>
</tr>
<tr>
<td>9.50-10.49</td>
<td>1,2,4,7</td>
</tr>
</tbody>
</table>

¹Valgren and Engelbert, Farm Mortgage Loans by Banks, p. 18.

²Valgren and Engelbert, Bank Loans to Farmers on Personal and Collateral Security, p. 15.
that a substantial amount of credit was needed by borrowers who could not meet the standards of the centralized agencies.

All in all, by 1925 the amount of mortgage debt in the state more than doubled, until interest charges amounted to more than $42 million, and the percentage of farms mortgaged had increased to 56.5 percent. At the same time that mortgage debt was increasing, falling commodity prices caused land values to decline. The average value of farms in the state declined from $33,771 in 1920 to $22,504 in 1925. As a result of the increasing mortgage debt and declining land values, the ratio of debt to the combined value of land and buildings increased to 42.2 percent, dangerously close to the 45 percent maximum. The farmer saw the equity he had built up in his farm dwindle.

In addition to mortgage credit, throughout the depression, many farmers often needed still more capital.

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28 Department of Agriculture, Facilities, Table 64, pp. 219-20.
29 Ibid., Table 73, pp. 239-40.
30 Although this was only a 6 percent increase since 1920, it must be remembered that many mortgages had been discharged by bankruptcy or voluntary assignment (Department of Commerce, Census, 1925, Part 1, 1154).
31 See Figure 2.
to meet living expenses and to hold their crops off the market in hopes of securing a higher price. They turned to the commercial banks for personal and collateral loans. Tenant farmers, because they lacked the land with which to secure mortgages, also offered their personal promise to pay or collateral such as livestock to obtain bank loans.\textsuperscript{33} The amount of personal and collateral loans extended by the banks in Nebraska on December 31, 1920, was estimated to be over $204 million,\textsuperscript{34} almost half of the total bank loans in the state.\textsuperscript{35} The percentage of short term loans to farmers made by Nebraska banks was well above that for the West North Central region, which in turn had almost triple the number of such loans for the nation as a whole. It was evident that short term bank loans were a prime factor in the Nebraska farmer's credit situation.

The cost of personal and collateral bank loans was consistently above that for longer term loans. Although the average rate was 8.8 percent, actual rates charged varied throughout the state in the same pattern.

\textsuperscript{33} Valgren and Engelbert, \textit{Bank Loans to Farmers on Personal and Collateral Security}, p. 21.

\textsuperscript{34} Ibid., p. 2.

\textsuperscript{35} Because more city banks than country banks were included in the study, Valgren and Engelbert held that their conclusion tended to be conservative as to the amount actually lent to farmers (Ibid.).
as mortgage rates. Rates on personal and collateral loans just as for mortgage loans were in many cases increased by hidden costs. For example, banks demanded that the farmer leave a certain percentage of his loan permanently on deposit or that he pay a portion of his loan in advance. Five percent of Nebraska banks reported that they required an average of 16.3 percent of the loan to be retained as a minimum balance, while 11 percent reported that they collected a portion of the loans in advance on 25.5 percent of their farm loans. The figures were in line with national practices.

Although these hidden charges greatly increased the costs to the farmer, his greatest inconvenience was the short term nature of the loans. The farmer was often forced to secure loans which would come due before he had any hope of being able to repay them. Over 60 percent of bank loans were placed for periods of three to six months and 35 percent for periods of six to twelve months. Only 0.3 percent were placed for more than a year.

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36 Ibid., p. 15.
37 Ibid., p. 17.
38 Ibid., p. 19.
39 Ibid., p. 18.
40 Ibid., p. 19.
41 Ibid., p. 23.
During periods of prosperity the short term nature of the loans caused the farmer little inconvenience aside from renewal charges, but during the depression, the farmer found it increasingly more difficult to renew his short term loans. For example, by December, 1920, the member banks of the Tenth District had begun to reverse their earlier policy under which believing the price break was merely a temporary adjustment, they had increased their short term loans to a high of $163 million in November, 1920. The amount of agricultural and livestock paper held by the District bank more than doubled over the previous year's total.

However, when prices did not improve in the winter, but continued their perpendicular drop, farmers, faced with the alternatives of marketing at prices below costs of production or holding for higher prices, defaulted on their loans. Country merchants also had to postpone payments because they were not being repaid by the farmers. It must be noted that the industrial sector was also suffering from the deflation. The failure of both farmers and merchants

44 Ibid.
45 Tenth Federal Reserve District, Bulletin, November 15, 1920, p. 2; also September 25, 1920, p. 1.
to liquidate their spring loans, added to the industrial slowdown, seriously affected bank operations.

In addition the banks were losing loanable funds as the farmers and businessmen drew on their accounts to meet their current expenses.\(^4^6\) The banks were left with smaller resources to lend and therefore with fewer earning assets. The banks' loanable funds were also curtailed by the drastic slowdown in velocity. Bank clearings for the major cities in Nebraska such as Fremont, Hastings, Lincoln, and Omaha decreased tremendously in the last six months of the year.\(^4^7\) Bank clearings in Fremont, for example, fell 29.4 percent between January and September.\(^4^8\) The amount of bank clearings for the entire District continued to decline until the figure for January, 1921, was reduced by a fourth from the previous year.\(^4^9\)

Regardless of the banks' condition the farmers' demand for credit was unabated. Both the *Nebraska Farmer*\(^5^0\) and the *Bulletin* of the Tenth District reported that the

\(^4^6\) *Ibid.*, April 2, 1921, p. 2; see also December 20, 1920, p. 1; January 20, 1921, p. 1.


\(^5^0\) January 1, 1921, p. 22.
demand for loans from farmers and stockmen was "tremendous."\textsuperscript{51} To accommodate their customers the country banks called upon their corresponding reserve city banks for rediscount. The reserve city banks, however, also faced with declining deposits, were becoming increasingly alarmed at their dwindling reserve ratios.\textsuperscript{52} During the latter part of 1920 reserve ratios in the District were maintained at 41.1 percent,\textsuperscript{53} only slightly above the legal requirement of 40 percent, and then only through borrowing from district banks in other areas.\textsuperscript{54} On a scale adjusted to include the borrowing from the other districts, the actual ratio of gold reserves to combined net deposits and Federal reserve note liabilities was 25.2 percent,\textsuperscript{55} and during the last half of the year the ratio actually fell below 20 percent.\textsuperscript{56} During the period of interdistrict borrowing from April to December, 1920, the Kansas City district bank borrowed a total of approximately $220 million.\textsuperscript{57}

\textsuperscript{52}Ibid.
\textsuperscript{53}Federal Reserve Board, \textit{Annual Report, 1920}, p. 535.
\textsuperscript{55}Federal Reserve Board, \textit{Annual Report, 1920}, p. 48.
\textsuperscript{57}Ibid., Table 15, p. 59. The heaviest borrowing was in the month of November (Tenth Federal Reserve District, \textit{Bulletin}, June 25, 1921, p. 1).
The dwindling reserve ratio coupled with the failures of several state banks and one member bank led to the District bank's continued use of the progressive rate and its recommendation on December 20, 1920, that the member banks exercise caution in extending further loans.\textsuperscript{58} The member banks complied by calling upon their customers to repay their loans and by declining to rediscount any new paper. Discounts by member banks fell to the lowest point of the year by the end of December.\textsuperscript{59} The Omaha branch, which served the states of Nebraska and Wyoming, reduced its loans during the year by $6 million.\textsuperscript{60}

Despite the banks' reduction in loans, there was little improvement in their conditions so long as their borrowers failed to repay their previous loans. In addition the banks were seriously hurt by the decline in time deposits which depleted their funds for loans and consequently reduced their earning assets. By mid-1921 many banks found themselves facing insolvency as the value of their farm investments dwindled with the falling prices of farm land. The banks discovered that often they gained nothing by foreclosure. Their portfolios became satiated


\textsuperscript{60}Federal Reserve Board, \textit{Annual Report, 1920}, pp. 543-544.
with real estate paper that was virtually unsaleable.\textsuperscript{61} That land that could be sold had so depreciated in price that often returns were not even enough to meet prior liens\textsuperscript{62} and the banks were forced to make cash outlays to protect their secondary liens.\textsuperscript{63} Assets in the state's banks froze fast around loans that were not liquidated and portfolios that were clogged with farm mortgages.

Crippled by dwindling deposits and falling land prices, many banks faced insolvency. In 1920 the first bank failures since 1917 occurred in the state.\textsuperscript{64} Five banks, all of them state banks, with deposits of over $1 million failed. The trend continued throughout 1921 and 1922 when forty-four banks (four of which were national banks) with over $12 million in deposits failed. Although conditions had somewhat improved by 1923, over $2 million in deposits was tied up when twelve banks failed.\textsuperscript{65} It is important to note that the greatest number of failures

\begin{footnotes}
\textsuperscript{61} Hald, "State Bank Failures," p. 68.
\textsuperscript{62} Federal Reserve Board, Annual Report, 1926, pp. 10-12.
\textsuperscript{63} Hald, "State Bank Failures," p. 104.
\textsuperscript{64} Nebraska, Legislative Council, Reference Bureau, Nebraska Blue Book (Lincoln, Nebraska: Jacob North and Co., 1923), p. 299. Hereafter cited as Blue Book, 1922.
\textsuperscript{65} Ibid.; the figures for 1923 were taken from Blue Book, 1923, p. 273.
\end{footnotes}
occurred in the western and northcentral portions of the state, the areas of greatest expansion.66

The bank failures had serious consequences for the entire financial community. They left many small communities with no banking facilities and tied up deposits for months while receiverships were in process. The failures also frightened banks that were in good shape into refusing to make loans on even the best collateral.67 For those farmers in the worst financial trouble it was virtually impossible to get loans.68 By 1921 conditions had so deteriorated that a wave of foreclosures swept over the state. Throughout the first six months of the year newspapers such as the Western Nebraska Observer of Kimball county and the Nebraska Farmer reported many sheriff's and chattel mortgage sales.69 Hinman and Rankin in their study of eleven southeast townships, which they stated enjoyed more favorable circumstances than the state as a whole, found that after practically no voluntary assignments during 1900 to 1919, an increasing

66 Nebraska, Committee on Business Research of the College of Business Administration, National Bank Failures in Nebraska (Nebraska Studies in Business No. 29; Lincoln, Nebraska: Extension Division, University of Nebraska, 1931), p. 26. The work stated that the causes for national bank failures were the same as Hald gave for state bank failures (Ibid., pp. 30-31; Hald, "State Bank Failures").


68 Ibid., p. 6.

69 Passim spring and summer, 1921.
number of farmers were forced into turning over their property. That many of the foreclosures were to meet delinquent taxes was evidence of a serious shortage of credit.

For the state as a whole 9.25 percent of owner-farmers lost their farms during the period from January, 1920, to March, 1923. In addition almost 15 percent of the owner-farmers were in fact bankrupt but retained their farms through the leniency of their creditors, who were reluctant to take the property since it was practically unsaleable. The percentages for loss were even higher among tenant farmers in the state. Almost 13 percent lost their farms, while over 20 percent retained their farms only through the leniency of their creditors.

Although the total number of bankruptcies for all sectors of the economy increased in the state, the farmers' losses were slightly below the average for the West North Central area, which had a very high incidence of loss, they were slightly ahead of those for the nation. Nationally 8.5 percent of owner-farmers lost their farms; while 14 percent held them through the leniency of their creditors. The number of tenants who lost their farms nationally was greater than those in Nebraska. Nationally 16 percent lost. The figures for leniency holding were the same as those for Nebraska (Schoenfeld, et al., "The Wheat Situation," p. 121).
share grew proportionately larger. From 1910 to 1920 bankruptcies among farmers accounted for an average of 11.2 percent of the state's total cases. By 1922 the percentage had risen to 32.6 and in 1923 to 51 percent.73

Farmers throughout the nation became acutely aware that although the depression affected all sectors of the economy, it hit them harder; and farmers on the Great Plains felt that they had an especial grievance. Nebraska farmers could point to the statistics published in the 1924 Yearbook of Agriculture that while nationally farmers earned on the average almost 2 percent (admittedly a small return, but a profit nevertheless) on their capital investments, the farmer in Nebraska lost after paying his fixed costs.74 It was not surprising then that the Nebraska farmer listened with an especially attentive ear when Secretary of Agriculture Wallace declared that farmers were not the cause but the victims of farm speculation—victims of the bankers and businessmen who had nourished the post-war bubble.75 The state's farmers joined with those throughout the nation to demand that the causes for their distress be uncovered and that action be taken to remedy their plight.

73Department of Agriculture, Yearbook, 1923, Table 692, p. 1160.
74Wallace, "The Secretary's Report, 1924," p. 5; Department of Agriculture, Yearbook of Agriculture, 1924, Table 713, p. 1132.
CHAPTER V

THE FARMERS SEARCH FOR CAUSES

Casting about for the causes of their distress, the Nebraska farmers filled the state's newspapers with reams of accusations and recriminations. Some blamed "the Code"—the new form of state government instituted by Governor Samuel McElvie—for the tremendous increase in taxes. Others blamed their situation on the middlemen, whom they denounced as exploiters and speculators who reaped huge profits while the farmer lost. A few accused the Interstate Commerce Commission of deliberately increasing railroad rates for Nebraska shippers "to bolster up weak railroads in less prosperous states."

The majority of farmers, however, agreed that the credit structure had caused many of their difficulties. For many the only remaining question was who was responsible for the restricted lending policies. Some argued that the local bankers were forcing the farmers to liquidate at great

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1Omaha World-Herald, fall, 1920, passim.
2Ibid.
3Nebraska, House Journal, 1921, p. 605.
sacrifice. Other farmers sided with the bankers who argued in their own defense that they were only following orders from the Federal Reserve Board to curtail credit. Other bankers pleaded that they could do no more on their own without endangering their positions. The state's farmers and bankers raised a cry of distress that the state do something to provide relief.

The statehouse had not been unconcerned with the agricultural situation. Governor McKelvie had become increasingly alarmed at the growth of "radical sentiments among farmers." The vice-president of the state's Farmers' Union reported that radicals "were traveling over Nebraska by train loads and boasting [that] the falling prices were aiding them to get recruits to their organizations at $15 a head [members fees]." Although McKelvie, a Republican, was a man who believed that "the age old principles of thrift, industry and unselfishness" could solve many of the farmers' problems, he realized that the farmers' situation demanded action. To counteract the growing influence of "socialism" as preached by such "radical"

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5Ibid., December 5, 1920, p. 12.
6Ibid., December 3, 1920, p. 6.
7Nebraska, State Historical Society, Messages and Proclamations, III, 367.
groups as the Non-Partisan League, the Governor early in December, 1920, called for a state legislative program that included the establishment of a state land bank to provide rural credit. Throughout the month he met with bankers and representatives from farmers organizations in order to get their suggestions for the proposals he would offer to the state legislature.

On January 6, McKelvie outlined those proposals in his inaugural address. Speaking before the almost unanimously Republican legislature, he called for rigid economy in government spending, a tax change, and regulatory laws on transportation and distributive facilities. He then outlined his plans for the legislation he considered most essential: regulation of the banks and a plan of rural

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8 *Nebraska State Journal*, (Lincoln), January 15, 1921, p. 1. Although the Non-Partisan League never gained strength in Nebraska as it did in other Midwestern states, it reached its greatest power in the state during this period. See Robert Loren Morian, *Political Prairie Fire* (Minneapolis: University of Minnesota Press, 1955).

9 *Omaha World-Herald*, December 5, 1920, p. 12.


11 *Nebraska, State Historical Society, Messages and Proclamations*, III, 370.


13 The Legislature was solidly Republican except for four Democratic members in the House.

14 *Nebraska, State Historical Society, Messages and Proclamations*, III, 370, 374.
credit based on warehouse receipts.\textsuperscript{15} In outlining the first of his proposals, he called for laws to correct the "unscrupulous, and in some cases, criminal" mismanagement of banks, which he stated were the causes of failure in the overwhelming majority of cases in 1920.\textsuperscript{16} With respect to his farm credit proposals, McKelvie changed his approach from the earlier land bank plan, which would have provided long term credit, to one based on warehouse receipts to provide intermediate term loans. Undoubtedly his meetings with the bankers and farmers had convinced him that here was the greater need.

The Legislature took up the first of McKelvie's programs—the regulation of the banks in the state. The legislators agreed with him that the bank failures were largely the result of criminal fraud and mismanagement through neglect and stupidity on the part of bank directors. They therefore concentrated their efforts on granting the state additional regulatory powers.

The Legislature began by giving legal definition to the term "bank" and restricting its use to institutions authorized by the state.\textsuperscript{17} The willfull acceptance of

\textsuperscript{15}Ibid., III, 374. \textsuperscript{16}Ibid., III, 378.

\textsuperscript{17}Nebraska, Session Laws Passed by the Legislature of the State of Nebraska at the Thirty-sixth and Thirty-ninth Special Session, 1919 and the Fortieth Session, 1921 (Lincoln, Nebraska: The Kline Publishing Company, 1922), Ch. 297, Sect. 4, 948-49. Hereafter cited as Session Laws, 1921.
insufficient collateral, which had not been an uncommon practice—especially when bank officers dumped bad mortgages and worthless cattle paper into the banks' portfolios, as well as embezzlement, was made a felony. Provision was also made that an executive officer's approval was necessary before any loan could be made and that no loan could exceed 20 percent of the bank's paid up capital and surplus.

To counteract the effects of untrained bankers, the legislators provided that bankers had to be licensed by the state and to submit full reports of their bank's condition to the Department of Trade and Commerce, which received the power to remove any officer it found unfit. This was legislation long overdue. As has previously been discussed the banker had too often been a real estate speculator who thought of the bank as merely an adjunct to his other businesses.

Recognizing the evils that resulted from the "over banking" in the state, the legislators granted the Department of Trade and Commerce the power to deny banking

18Hald, "State Bank Failures," pp. 77-78.
19Nebraska, Session Laws, 1921, Ch. 297, Sect. 6, 952.
20Ibid., Ch. 297, Sect. 7, 952; Ch. 313, Sect. 33, 1002.
21Ibid., Ch. 297, Sect. 6, 952.
charters if it felt that there were enough banks. The measure was passed over the objections that it would give the Banking Board the power to create a banking monopoly. In an effort to strengthen the banks already in operation, the legislators provided that their cash reserves be increased and that their minimum capital stock be increased from $15,000 to $25,000 and thereafter graduated proportionately to the size of the community in which the bank was located. To alleviate another of the problems inherent in the overabundance of banks the legislators established a 5 percent maximum on the interest payable on deposits. They hoped this would stop the banks' mad race to attract deposits by offering high rates, which because they were no longer earning profits, they paid by dipping into their capital and surplus.

The remainder of the banking legislation dealt with the protection of depositors and provided for the processes of liquidation. The events of 1920 proved that

22 Nebraska, Session Laws, 1921, Ch. 302, Sect. 16, 958.
24 Nebraska, Session Laws, 1921, Ch. 297, Sect. 22, 950; Ch. 297, Sect. 11, 950.
25 Ibid., Ch. 313, Sect. 27, 1001-1002.
too often the banker was more concerned with the demands of the borrower rather than the protection of his depositor. To protect the depositor, the legislators provided that all banks, even cooperative banks, be included in the state Guarantee Fund.\textsuperscript{27} Banks entering into voluntary liquidations could do so only after their depositors had been fully repaid and the Department of Trade and Commerce was given the power to act as receiver or supervisor to receivers of insolvent banks.\textsuperscript{28} The Legislature completed its program of banking legislation in the hopes that the rash of bank failures could be halted. But events soon proved the futility of those hopes. Banks continued to fail throughout the twenties until even the Deposit Guarantee Fund could not meet its obligations. The banking legislation of the 1921 session and for the twenties in general was simply inadequate to meet the banking crisis. Conditions that had been maturing since the war time inflation called for drastic and far seeing legislation. All that the state could offer was mild treatment of the symptoms. By offering too great a dependence on the Guarantee Fund it neglected to enact measures to prevent failures before they occurred. The state's

\textsuperscript{27}\textit{Nebraska, Session Laws, 1921, Ch. 313, Sect. 44, 1002-1003.}

\textsuperscript{28}\textit{Ibid., Ch. 299, Sect. 42, 954-55; Ch. 307, Sects. 1-2, 965-66.}
banking legislation was too little, too late. However, in all fairness it must be stated that the state lacked the power to provide for the banks' greatest need—a system of reserves, either through a state system of branch banking or the Federal Reserve system. 29

The state Legislature then took up the second of Governor McKelvie's proposals, a system of rural credit. Because of the litigation testing its constitutionality, the Federal Farm Loan system was inoperative during the greater part of the session. Most of the bills introduced into the Legislature were patterned after similar systems operating in neighboring states, which provided for loans of state funds to farmers on mortgages. 30 Various methods were proposed to raise the funds: the use of school funds and funds raised by the issuance of bonds based on land received a great deal of attention although both were defeated. 31 Perhaps they failed because as one group

29 For further discussion see p. 122.

30 Sparks, History and Theory, pp. 203-204. Precedent for state systems of rural credit was well established in such neighboring states as South Dakota, North Dakota, and Minnesota. See Mormon, Farm Credit in the United States and Canada, pp. 184-210.

of farmers put it they were "tired of paying interest on bonds." 32

Another bill that closely copied the much favored South Dakota system 33 called for the establishment of a system based on funds raised by the state on its "good faith and credit," 34 a fiat money scheme. The bill did not offer a good test of farmers' sentiment about fiat money because by the time it came up for further consideration, the Federal Farm Loan system had been declared constitutional. Most felt that the federal system would offer the farmer greater relief than a state system and the measure was killed. 35 The legislators contented themselves with adopting a resolution to Congress to increase the maximum Federal Farm loan to $25,000. 36

The Legislature, following Governor McKelvie's lead, adopted a plan for intermediate credit based on warehouse receipts. The measure was constructed to alleviate two of the farmers' greatest problems: a lack of credit and a shortage of storage facilities. The farmer had long complained that it was difficult to find

32 Omaha World-Herald, January 6, 1921, p. 2.
33 Nebraska Farmer, February 12, 1921, p. 291.
34 Nebraska, House Journal, 1921, p. 297.
35 Ibid., p. 904.
36 Ibid., p. 1097.
facilities in which to store his grain to allow him to market it as the demand grow rather than dump it on a glutted market. Under the bill's provisions the farmer could use any facility on his farm for storage, provided that it had been licensed by a county inspector. The inspector would then issue receipts which were negotiable and could be used as collateral for loans. The Legislature completed its banking and rural credit legislation by giving legal definition to cooperatives, thereby clearing the way for the formation of coop banks in the state.

All of the legislation was received with anxious hope by the farmers. But the spring brought little relief when the promises of more rural credit were not fulfilled. The state Banking Board, exercising its new powers, felt that Nebraska's problem was too many banks, not too few, and therefore granted no charters to coop banks. The warehouse system also remained largely unused because the farmers were either unaware of it or disgusted with the

37 Omaha World-Herald, December 2, 1920, p. 3.
38 Nebraska, Session Laws, 1921, Ch. 4, pp. 62-65.
39 Ibid.
40 Ibid., Ch. 57, 197, pp. 160-63.
41 Nebraska, Department of Trade and Commerce, Bureau of Banking, Biennial Report of the Bureau of Banking (York, Nebraska: York Blank Book Co., 1925), Toldout.
"red tape" it involved. The farmers complained that they were no better off for all the legislation and promises—credit was still impossible to get. Based on a study he made of Nebraska banks in the spring of 1921, Charles W. Pugsley, editor of the Nebraska Farmer, corroborated the farmers' charge. He found that short term credit was virtually "non-existent" and what few loans were made carried rates at the state maximum of 10 percent.

The ineffectiveness of the state programs caused the farmers to turn their attention away from local credit agencies to the national system, the Federal Reserve. Many farmers thought that it had control over the supply of money and therefore blamed it for the credit shortage. To this long standing grievance, the farmers in the Tenth District added their dislike of the progressive rate, which many saw as the cause of the deflation since it came into effect just as they began to market their crops. The farmers accused the Federal Reserve Board of Directors of acting with a sort of "fiendish delight" in ordering the deflation and deliberately aiming it at the agricultural sections. Even the conservative Nebraska Farmer admonished

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42 Nebraska Farmer, January 21, 1922, p. 62; February 4, 1922, p. 143.

43 Pugsley was soon to be appointed Assistant Secretary of Agriculture.

44 Nebraska Farmer, June 18, 1921, p. 868.
the farmers for calling for more currency; it said that credit was impossible to get, not because of any money shortage, but because the Federal Reserve Board had decided that there would be no more inflation. 45

According to the farmers, the money that was denied them was diverted to "Wall Street speculators." A letter from a farmer to the Omaha World-Herald was typical of the farmers' sentiments.

In the first place the federal reserve board struck out last spring and sent underground wires out to all of the small banks of the country ordering them to cut out all nonessential loans and to refuse to renew all loans of a nonessential nature. This cut out the speculator—and the manufacturer, the merchant, the farmer and stockman were placed in the same class! When the farmers' paper came due he was forced to begin dumping his produce on the market regardless of price. The cattlemen was compelled to do the same . . .

But what did the speculator, the manufacturer, and the merchant do? They turned to Wall Street and by offering a high rate of interest Wall Street called in all of its money from all over the country and loaned it to this latter class, thereby pulling them through the money famine and making it doubly hard on the farmer and stockman.

It looks very much like a conspiracy against the farmer; it looks like the Federal Reserve board brought on a condition which they were created to prevent . . . 46

The farmers pleaded with the Board to release more credit. For example, farmers and businessmen from Laurel, Nebraska, sent a petition with "hundreds" of signatures

45 September 3, 1921, p. 1050.
begging W. P. G. Harding, Governor of the Federal Reserve Board, to extend more credit. Governor McKelvie also took up the cry. In the early summer of 1921 he wrote to every Nebraska banker for suggestions as to the causes and remedies for the lack of farm credit. The overwhelming majority of bankers laid the blame on the Federal Reserve Board's policies. The bankers charged that they were only acting in accord with its dictates and that they would have been more willing and able to help the farmers if the Federal Reserve bank would have rediscounted their agricultural paper. They added that the conditions the System imposed, especially the six month limit on loans, made it practically impossible to lend to the farmers and that the Board had unfairly discriminated against them as small bankers by demanding greater collateral from them than from the city banks.

Early in September, 1921, Governor McKelvie took up the argument and wrote to Governor Harding asking that the Federal Reserve increase its loans in Nebraska by


49 *Western Nebraska Observer*, August 19, 1920, p. 3.

50 *Nebraska Farmer*, October 8, 1921, p. 1162.

accepting warehouse receipts (as provided for in the 1921 state law) as collateral.52 Harding answered that it was up to the individual banks to decide on the eligibility of collateral, not the Board. He continued that even if it were possible for the Board to increase the amount of credit in the state, he would want a guarantee that the bankers would not reap huge profits. He accused them of "profiteering" by borrowing from the Reserve bank at 6 percent and lending at 10 percent, a profit of 66 2/3 percent. He added that although the progressive rate had been abolished in August, 1921, the bankers were not passing their savings on to their customers.53

Harding's charges evoked a barrage of protest from across the state. Omaha bankers promptly reported that they were not guilty because they charged only 8 percent.54 The outstate bankers were also quick to deny Harding's accusation. A banker from the Chadron State Bank answered that "Profiteering" is the wrong word, as 30 percent would not pay the banks' losses in agricultural lines.55

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53 Ibid., pp. 226-227; Omaha World-Herald, September 20, 1921, p. 11.

54 Omaha World-Herald, September 20, 1921, p. 11.

55 Ibid., p. 1.
The charge was seconded by the foremost critic of the Board, Dan V. Stephens, president of the Fremont State Bank. He stated that although he had helped draft the Federal Reserve Act, his bank was not a member of the System because

the rules and regulations made by his board have been so strict that not one farmer in a hundred could make a note that would be acceptable to the Federal reserve banks, but the country banks have been compelled to take those notes in order to save the country from ruin, even though they have not been permitted to rediscount them with the Federal Reserve bank.\footnote{Ibid., September 24, 1921, p. 2.}

He continued that although more than one-half of the farmers were renters, whose assets barely covered their notes, the Federal Reserve demanded that any note offered for rediscount be not only liquid but represent assets double the amount of the loan.\footnote{Ibid.} He added that had it not been for the Omaha banks \footnote{Ibid.} and the country banks had had to depend on the Federal Reserve system in the recent months, I believe I am safe in saying that fifty more banks in Nebraska would have failed.\footnote{Ibid., September 27, 1921, p. 4.}

Stephens concluded that the Nebraska bankers were disillusioned with the System. They had had “such a bitter experience with the Federal Reserve bank and its treatment
of them that when they once get out of debt they never will borrow again." Thomas A. Leadley, new editor of the Nebraska Farmer, confirmed the statement. Reporting on a study he made of Nebraska banks, he stated that although the Reserve bank of Kansas City had over $12.5 million available for loans, the bankers were afraid to borrow because of their previous experience with the System.

Governor McKelvie called for an investigation of the banking situation. As a result, representatives of the Federal Reserve met with many of the state's bankers in September. McKelvie presented his conclusions from the meeting in a second letter to Governor Harding. He supported the bankers' argument that they were not profiteering, but were forced by high overhead costs to charge high rates. He added that if the banks were profiting so greatly, they would be using their rediscount privileges extensively, but in fact, had made very little use of them. He concluded that "the demands for liquidation were harsh in the extreme in view of the fact that this is an agricultural region and the borrowing here could not easily conform to the same requirements imposed upon semi-agricultural and non-agricultural regions."

59 Ibid., September 24, 1921, p. 2.
60 Nebraska Farmer, October 8, 1921, p. 1162.
61 Omaha World-Herald, September 27, 1921, p. 1.
62 Ibid., September 23, 1921, p. 13.
The Federal Reserve Board did not deny that credit within the Tenth District had decreased. In its Annual Report, 1921, the Board stated that discounted paper and Government securities held by the Reserve bank had continued the decrease begun in December, 1920, and that as a result the amount of notes in circulation had also decreased.\textsuperscript{63} The decrease experienced by the Reserve bank of the Tenth District is shown in the following figure.\textsuperscript{64}

As a result of the decline in loans the Kansas City bank used its resources to build up its reserves. By May, 1921, its reserve ratio had increased to 50.8 percent as compared with 41 percent in the same month in 1920; by August it had risen to 59.6 percent.\textsuperscript{65} The Directors of the Kansas City bank reported it had $50 million available to meet the needs for the 1921 crop harvest and distribution.\textsuperscript{66} The bank's condition had so improved that in addition to discontinuing borrowing from other district banks,\textsuperscript{67} it modified its restrictions imposed by the

\textsuperscript{63}Pp. 637-39.

\textsuperscript{64}Federal Reserve Board, Annual Report, 1922, p. 375.

\textsuperscript{65}Tenth Federal Reserve District, Bulletin, May 23, 1921, p. 1. The improvement was due in part to the large inflow of gold from Europe because of the unbalanced exchange rates (Joint Commission, Report, III, Part 2, 55).

\textsuperscript{66}Tenth Federal Reserve District, Bulletin, June 25, 1921, p. 1.

\textsuperscript{67}Ibid., February 19, 1921, p. 1. The bank discontinued interbank borrowing in January, 1921.
Figure 6.—Financial conditions of the Federal Reserve bank of Kansas City, 1920-1922.

$ Millions

- FR Note Circulation
- Purchased Bills
- United States Securities
- Discounts for Own Members

progressive rate. In July, 1921, it lowered the maximum rate of progression to 8 percent and changed the scale of progressive charges.\(^{68}\) Finally, on August 1, the Board suspended the rate altogether, and accepted the suggestion made by the Federal Reserve Board that all charges in excess of 12 percent be rebated.\(^{69}\)

However, the modifications did little to soothe the farmers' ire that the District bank was building up its reserves to unnecessarily high levels while the farmers still found it impossible to get loans. The charges and complaints heard on the Plains were carried to Washington by the members of the Farm Bloc, a group of senators and representatives from the South and West who raised a tumultuous demand that an investigation be made into the farmers' situation and the part the Federal Reserve system had played in the crisis. Acting upon their demands, Congress passed a joint resolution to establish a committee to investigate the crisis and its causes.

To the Nebraska farmer, suffering through the lowest period of the depression, the investigation had little more than academic importance. The farmer was far more concerned with what action the Joint Commission would suggest to alleviate his plight, but it would be almost two years before

\(^{68}\) Underhill, *Kansas City District*, p. 120.

\(^{69}\) *Tenth Federal Reserve District, Bulletin*, August 25, 1921, p. 1; Underhill, *Kansas City District*, p. 120.
that action would be taken. Meanwhile, the farmer had to content himself with news of what was being said at the hearings in Washington.
CHAPTER VI

THE CONGRESSIONAL SEARCH FOR CAUSES

On July 11, 1921, the Joint Commission of Agricultural Inquiry took up the Congressional order that it investigate (1) the causes of the agricultural collapse, (2) the reasons for the disparity between agricultural prices and the prices of manufactured goods (which involved the study of the conditions of industries other than agriculture), (3) the reasons for the wide disparity between the prices paid to the producer and those paid by the consumer—a study of transportation and marketing factors, and finally, (4) the effect that the policies of the nation's banking and financial agencies, especially the Federal Reserve system, had had on the condition of agriculture.1

This last, most crucial question involved the larger issues of the purposes, capabilities, and policies of the Federal Reserve. The Joint Commission was charged with determining if the Board had discriminated against agriculture, or if the System by its very nature was precluded from accommodating anything but commercial

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1Joint Commission quoting from Senate Concurrent Resolution No. 4, Report, III, Part 1, 9.
paper. Would forcing the System into handling agricultural paper cause it to lose its effectiveness as a central bank? Could the Federal Reserve Board have effected a policy which would have cushioned the economy from the severe deflation?

Charged with answering these questions and recommending legislation that would alleviate the problems were the members of the Joint Commission. Those from the House were: Ogden L. Mills, Republican from New York; Frank H. Funk, Republican from Illinois; Hatton W. Sumers, Democrat from Texas; Peter G. Ten Eyck, Democrat from New York; and Sydney Anderson, Republican from Minnesota, who served as chairman. The members from the Senate were: Irvine L. Lenroot, Republican from Wisconsin; Arthur Capper, Republican from Kansas; Charles L. McNary, Republican from Oregon; Joseph T. Robinson, Democrat from Arkansas; and Pat Harrison, Democrat from Mississippi. Clyde L. King served as economist, and Irving S. Paul as secretary.

Among the first to testify before the Commission were three spokesmen from Nebraska: Ernest M. Pollard, of Nebraska, who was a member of the national board of the Farmers' Union; John O. Shroyer, of Humboldt, who was the vice-president of the Nebraska State Farmers' Union; and Leonard S. Herron, of Omaha, editor of the Nebraska Union Farmer. All three emphasized the farmers' dire circumstances and the disparity between farm prices and industrial prices. Herron, who in his testimony exhibited the
greatest understanding of the workings of the Federal Reserve system, saw the farmers' situation as the result of worldwide conditions, for which he did not blame the System. Nevertheless, when offering his solution to the farmers' problems, he called for them to organize cooperative banks, so, he explained, the farmers would have control of their own sources of credit.² Pollard and Shroyer, much more direct in their attacks on the System, accused the Federal Reserve Board of ordering a deliberate deflation. Pollard testified that "when the crash came last fall there seemed to have been, from some mysterious source, a tightening of the reins all along the line, and the farmer was told that he must come across and pay his note at the bank."³ He stated that the blame could be placed squarely on the forces beyond the local banks:

In my State—and I believe it is true in all states in the Middle West—the local country banks, with practically no exceptions, came heroically to the rescue of the farmers, and all bent their energies to their utmost to help the farmers. There was no trouble, gentlemen, out in my section of the country with the local country banks; they did come through and help in every way they could. But the forces beyond, the correspondent banks, were tightening up, and the local bank was compelled to draw in the lines in order to save themselves . . . . There is hardly a country bank where they have not their loans right up to the limit of the law.⁴

²Hearings before the Joint Commission of Agricultural Inquiry, 67th Cong., 1st sess., Joint Committee Print, (1922), 1, 141-42. Hereafter cited as Hearings.
³Ibid., I, 41.
⁴Ibid.
Another representative of the farmer testifying before the Commission was J. H. Mercer. Although he was not from Nebraska, he represented the National Livestock Shippers League of Kansas, a state included in the Tenth District. Mercer agreed with Pollard that the local bankers were doing all they could to help the farmer, but were hindered by the too strict rules of the Federal Reserve Board, especially the demand made by the Kansas City Bank for property statements from farmers on all loans over $500. He said that most farmers were already so far in debt that even if they had the technical knowledge to fill out the report, they could not possibly hope to qualify for a loan.5

This attitude of confidence in the local banker was one quite typical of Nebraska's farmers. The local banker was most often thought of as a friend who spared no effort in accommodating the farmer. The farmer felt that a community which was the site of a small country bank had the advantage of some local autonomy over credit, whereas the banks with the larger capitalizations that belonged to the Federal Reserve were controlled by interests foreign to the area. The sentiment was reminiscent of the Populist cry of the '90s that the farmer was the victim of a conspiracy emanating from the East.

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5Ibid., III, 109-111.
The farmers' complaints to the Commission were strengthened by the testimony from the most vocal detractor of the Federal Reserve Board, surprisingly not a farmer himself, but the former Comptroller of the Currency, John Shelton Williams. Williams had served as Comptroller throughout Woodrow Wilson's administration, that is, since the beginning of the Federal Reserve system, until his resignation in 1921. As Comptroller, Williams had been an ex-officio member of the Federal Reserve Board, a position that gave added weight to his testimony.

In his lengthy testimony before the Commission, Williams made accusations against the Board almost identical to those made by the representatives of the farmers in Nebraska and the Tenth District. He charged that the Board had deliberately adopted a policy of deflation aimed at the farmer, so as to divert funds to the East for loans to industrialists and stock speculators. He said that the

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6 Williams resigned from the position only after the Senate refused to approve his reappointment. This was a fitting ending to a stormy and controversial career. Williams spent his career fighting the large financial powers in New York and advocating reforms in the national banking system, such as deposit guarantee. Although he was well thought of for his intentions, he was characterized as "unnecessarily harsh" in his methods (Dictionary of American Biography, New York: Charles Scribner's Sons, 1936, Vol. XX, pp. 279-80). W. P. G. Harding, Governor of the Federal Reserve Board, stated his opinions of Williams in his work, The Formative Period of the Federal Reserve System (Boston: Houghton Mifflin Co., 1925), pp. 201-209. Hereafter cited as The Formative Period. For Strong's views see Chandler, Benjamin Strong, p. 178.

7 Joint Commission, Hearings, II, 20, 30.
Board, acting in collusion with Benjamin Strong, counte-
nanced extremely high interest rates for call money. He 
asserted that this money, used to finance stock speculation, 
lured money from the agricultural areas to "Wall Street."

According to Williams the Board supplemented this 
policy by enacting high interest rates on agricultural 
loans, which discouraged banks from using their rediscount 
privileges and made it impossible for farmers to secure 
loans. He charged that the Board had also discriminated 
against agriculture by allowing some banks, especially 
those "conspicuous for their speculative operations" to 
get easy terms, while the banks in the agricultural 
regions paid "extortionate rates." As an example of 
the former he cited the case of a member bank charging 
its customers 200 percent while it got loans from the 
Reserve bank at 6 percent; illustrating the Board's 
discrimination against the farmer, Williams cited the 
case of a small agricultural bank that paid 80 percent 
interest on its loans from the Reserve bank. He 
charged, as the Nebraska representatives had, that the 
banks accommodating the farmers could not get back from
the Reserve bank anything like the percentage of rediscounts that the banks in central reserve cities could.\textsuperscript{12} The major cause for the difference in rates according to Williams was the progressive rate which had been established only in the agricultural districts.\textsuperscript{13}

Williams alleged that as a result of the progressive rate money accumulated in the industrial centers and grew scarce in the agricultural districts.\textsuperscript{14} He supported his charge by stating that the New York Federal Reserve Bank was lending an amount six times its own capital to one member institution, and that on December 31, 1919, the amount it had lent to one borrower was $3 million more than the aggregate amount of loans and discounts which the Kansas City bank had lent to all the member banks in its entire district.\textsuperscript{15} He charged that even though the amount of agricultural paper the System held had increased throughout 1920, it was "millions of dollars less than the amount of money which the Federal reserve system had from time to time handed out, I might say almost casually, to two certain banking institutions in one of our large cities."\textsuperscript{16}

\textsuperscript{12}\textit{Ibid.}, II, 82.
\textsuperscript{13}\textit{Ibid.}, II, 24.
\textsuperscript{14}\textit{Ibid.}, II, 25.
\textsuperscript{15}\textit{Ibid.}, II, 29, 30, 58.
\textsuperscript{16}\textit{Ibid.}, II, 79.
Williams continued his barrage of attack against the Board by accusing them of being infected with "bureaucracy," a word he had coined to describe the Board's policy of being so inflexible that it refused to recognize changing conditions that called for extraordinary measures.\(^{17}\) He was referring to the Board's preoccupation with building up reserve ratios while, as he charged, the farmer was desperate for credit. He said that the Board "should view with shame rather than pride the big reserve ratio" which left the reserve banks with huge unused lending power.\(^{18}\) Williams was most vehement in his denunciation of the Board for refusing to modify its policy in the late stages of the deflation, that is in the fall and winter of 1920, 1921,\(^{19}\) a policy he charged had permitted a too rapid deflation that especially hurt agriculture. He stated that if the Board had followed his advice to lower rates in the fall of 1920, the deflation would have been more "uniform and gradual."\(^{20}\)

Throughout his testimony Williams expressed his belief that it was not the Federal Reserve system as provided for by the Federal Reserve Act that was to blame

\(^{17}\) Ibid., II, 21.
\(^{18}\) Ibid., II, 34.
\(^{19}\) Ibid., II, 31.
\(^{20}\) Ibid.
for the farmers' plight, but rather that the Federal Reserve Board through its maladministration had subverted the System from its original purpose. The members of the Board, according to Williams, were wrong in exacting the restrictions they had "to make the Federal reserve bank bombproof and ironclad and all that sort of thing; I think that is all wrong. I think that the Federal reserve banks should take some risk in the interest of the community and for the public good."  

In his suggestions to remedy the farmers' situation, Williams stated that there was no need for a new system of rural credit if only men sympathetic to the farmers' cause would be appointed to the Board. He specifically urged that the Secretary of Agriculture be made an ex-officio member. Once the Board had become less "callous" to the farmers' needs, he suggested that they could set maximum rates to be charged by members at 10 percent and could suspend the progressive rate to reroute funds from Wall Street to the west.

That Williams' allegations were taken seriously by the Federal Reserve Board was shown by the extensive refutation presented by Governors W. P. G. Harding and Benjamin

\[21\text{Ibid.}, \text{II}, 127.\]
\[22\text{Ibid.}, \text{II}, 19.\]
\[23\text{Ibid.}, \text{II}, 24, 28, 29.\]
Strong. 24 They realized that Williams' charges were far more important than just petulant complaints against individuals on the Board; rather, they were the questions many both within and outside the farm community were asking about the fundamental purposes of the System.

Harding and Strong went to great and detailed lengths to refute the charge that the Board had discriminated against agriculture. They explained that Williams was confused in his understanding of the operation of the System in that he seemed to think that the Board could issue "orders" to the member banks. They explained that rates and eligibility were determined by individual district banks and that the Board merely acted upon their applications. 25 They stated that the Board had only the powers of supervision, not control.

The two spokesmen for the Board stated that it had not discriminated against agricultural paper by higher rates. They explained that the rates were established according to the length of the paper, regardless of its being agricultural or commercial. 26 They explained that the Board considered

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24 Together with Williams' testimony that of Harding and Strong took up the entire second volume of the three volumes of hearings. In his work The Formative Period, Harding gave identical arguments to those he presented at the Hearings.


26 Ibid., II, 309.
any paper maturing under ninety days as commercial paper, and that by allowing agricultural paper rediscount up to six months, the Board had actually given it the advantage. The only reason for its having a higher rate than commercial paper was its longer maturity, which made it riskier. In answer to Williams' charge that the Reserve banks had demanded excessive collateral on agricultural loans, Harding reiterated the point that the Board did not dictate to the district banks in such matters.28

Both Strong and Harding denied the charge that the Board had encouraged the flow of funds from the agricultural regions to New York. Strong offered an extremely detailed and technical explanation of the operations of the New York money markets and also of the operations of the international gold market and its effects on domestic interest rates.29 He stated that funds were not drawn into New York by high rates for the simple reason that aside from a few days in 1919 rates had not gone above 10 percent, and that even this rate was not an inducement to outside funds because of the great risks involved in the loans, the lack of knowledge by those outside the

28Ibid., II, 419.
29Strong's testimony, Joint Commission, Hearings, II, 540-91.
market of its operation, and simply the law of supply and
demand which forced the rate down as soon as funds were
supplied. Both Strong and Harding emphasized that contrary
to Williams’ allegation, funds were actually drawn out of
New York, as well as the other industrial centers, such
as Boston, Cleveland, and Philadelphia, through inter-
district borrowing by the reserve banks in the agricul-
tural districts.30

Strong offered the following chart of the results
from a study made by the Federal Reserve Board of the
distribution of member bank loans by the character of the
county in which they were located. Counties were consid-
ered agricultural when 80 percent of the value of their
gross products were agricultural; semi-agricultural when
50 to 80 percent were agricultural; and non-agricultural
when they were less than 50 percent. The study was made
for May 4, 1920, and April 28, 1921, dates when the demand
for agricultural loans were comparable.31

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30 The Reserve Bank of Cleveland, for example, lent
more to banks in the South and West than to its own member
banks (Ibid., II, 594).

31 When considering the results, it must be remembered
that the figures were only estimates based on the location of
the bank, and that the loan may have had nothing to do with
the area. For example, loans by country banks were often
used for purposes other than to finance farmers and many
loans by city banks were made to move crops and other agri-
cultural purposes. Nevertheless, the results could still
be used with a fair degree of accuracy to show the differ-
ence in liquidation between the agricultural and industrial
sections.
Figure 7.—Agricultural and industrial liquidation according to counties, May 4, 1920,—April 28, 1921.

<table>
<thead>
<tr>
<th>Category</th>
<th>Increase</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural counties</td>
<td>66</td>
<td>2</td>
</tr>
<tr>
<td>Semi-agricultural counties</td>
<td>57</td>
<td>29</td>
</tr>
<tr>
<td>Non-agricultural counties</td>
<td>11</td>
<td>1</td>
</tr>
</tbody>
</table>

The results showed that 94 percent of the total liquidation in the nation occurred in the non-agricultural sections. Loans and discounts of the banks in the agricultural areas declined 1.2 percent; in the semi-agricultural areas 1.3 percent; and in the non-agricultural areas 5.6 percent.\textsuperscript{32} The liquidation in the agricultural sections was due in large measure to the greater reduction in bank deposits, which resulted from the farmers' drawing upon their savings.\textsuperscript{33} The liquidation in the agricultural sections was actually much less severe because banks in those sections had increased their borrowing from banks in other districts by 56.5 percent. Banks in the semi-agricultural regions maintained their borrowing at about the same level, while those in the non-agricultural areas decreased 28.5 percent.\textsuperscript{34}

In its Report the Joint Commission agreed with the representatives of the Federal Reserve that the System had not discriminated against agriculture but in fact had expanded bank credit relatively more to agricultural

\begin{flushleft}
\textsuperscript{32}Harding's testimony, Joint Commission, Hearings, II, 651.

\textsuperscript{33}Joint Commission, Report, III, Part 2, 115-117.

\textsuperscript{34}The banks in the agricultural counties borrowed $45.2 million from other banks; the banks in the semi-agricultural counties $66.1 million; and the banks in the non-agricultural counties $0.5 million (Ibid., III, Part 2, 102).
\end{flushleft}
counties than to industrial.\(^{35}\) The Commission concluded that this resulted in greater and faster liquidation in the industrial sections, but it also pointed out that this was not unfair to the industrial sections since their more rapid turnover made them better able to face a rapid deflation.\(^{36}\)

In its investigation, however, the Commission discovered that the general trend of liquidation was not true for the Tenth District. Table II shows the reduction in borrowing in the Kansas City District as compared to the New York District, a commercial area, and the Minneapolis District, an agricultural region which did not use the progressive rate. The Kansas City District was the only agricultural district in which the country banks did not borrow a full 100 percent of their basic lines, but, in fact, had decreased their borrowing by 4 percent.\(^{37}\)

The result of the reduction in borrowing was that agricultural loans in the District had decreased 15 percent— the greatest degree of deflation for any agricultural district and equal to the deflation in the industrial

\(^{35}\) Ibid., III, Part 2, 17.

\(^{36}\) Ibid., III, Part 2, 14, 103.

\(^{37}\) City banks in the District decreased their borrowing 47 percent (Joint Commission, Report, III, Part 2, 68).


TABLE II

PERCENTAGE RELATIONS OF TOTAL BORROWINGS FROM SELECTED FEDERAL RESERVE BANKS AND TOTAL BASIC DISCOUNT LINE OF ALL BANKS IN THE CORRESPONDING DISTRICT

<table>
<thead>
<tr>
<th>Federal Reserve Bank</th>
<th>June 10, 1920</th>
<th>October 9, 1920</th>
<th>February 10, 1921</th>
<th>June 15, 1921</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>59</td>
<td>77</td>
<td>81</td>
<td>128</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>99</td>
<td>130</td>
<td>101</td>
<td>102</td>
</tr>
<tr>
<td>Kansas City</td>
<td>81</td>
<td>108</td>
<td>75</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Records of the Federal Reserve Board as cited by Governor Strong, Joint Commission, Hearings, II, 762.
districts. The Commission concluded that the Tenth District had suffered a deflation "greater in extent and more rapid . . . than in other agricultural districts" that had forced farmers to liquidate their commodities, especially cattle, at great loss.

The Commission focused its attention upon searching out the causes for the peculiar circumstances in the Tenth District and called upon Joseph Z. Miller, Jr., Governor of the District, to testify. Miller began his testimony by denying the charge that the District had demanded excessive collateral on agricultural loans. He explained that many farmers were unreasonably demanding that the District bank make loans on commodities at the highly inflated values of 1919. He also refuted the charge that agriculture had been discriminated against by the District's demand of financial statements on loans over $500. He argued that the farmer merely had to supply the facts to his banker, who then filled out the form. He added that the District bank had denied only 2 percent of the loans asked.

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38 Loans to semi-agricultural regions had decreased 10.38 percent and those to non-agricultural areas 13.35 percent (Joint Commission, Hearings, II, 661).


40 Miller was the only governor aside from Governor Strong called by the Commission.

41 Joint Commission, Hearings, III, 777.

42 Joint Commission, Hearings, III, 776.
Governor Miller then took up the defense of the District's use of the progressive rate. He explained that prior to its establishment, a few banks were in debt far greater than their basic lines permitted while the other banks in the District held a theoretical lien of $3 million against the Bank. Because it could not have provided that amount if the banks would have called for it, the Board had established the progressive rate to encourage the non-excessive and non-borrowing banks to make greater use of their rediscount. Miller stated that the rate had strengthened the District bank's position by inducing many non-borrowers to get their shares, which liquidated the liability owed them by the District bank.\footnote{\textit{Ibid.}, III, 740.}

According to Governor Miller, the progressive rate had also resulted in a more equitable distribution of credit. He explained that the excessive borrowers decreased their loans at the same rate as they had increased. The banks in Kansas City decreased their borrowing from 50 percent of the total in May, 1920, to 28 percent in July, 1920 while the Omaha banks reduced their borrowing from 23 percent to 13 percent. Miller explained that the reduction in borrowing by these banks was more than offset by the increase in the number of new borrowers. He stated that this was due to a reversal in the borrowing pattern. Up
to the time of the progressive rate, the city banks had encouraged the country bank to avoid the District bank with all its "technicalities" and to deal directly with them. They in turn rediscounted at the District bank. Miller explained that this was a highly profitable operation for the city banks since they could borrow from the District bank at an average rate of 6 percent and lend to the country banks at rates of 8-11 percent. The country banks in turn could also make a profit of 2-4 percent because the maximum interest rates set by the state governments in the District ranged from 10 percent in Kansas and Nebraska to 12 percent in New Mexico, Colorado, and Wyoming. Miller stated that after the progressive rate went into effect, the larger banks who had previously been excessive borrowers found that they could no longer profitably act as middlemen for the country banks. They therefore suggested to the country banks that they deal directly with the District bank. The following table illustrates the increase in the number of borrowing banks in Nebraska—an increase that was typical for all the states in the District. The table showed that the number of banks borrowing excessively

\[\text{\textsuperscript{44}}\text{Ibid., III, 741.}\]
\[\text{\textsuperscript{45}}\text{Ibid., III, 740.}\]
\[\text{\textsuperscript{46}}\text{Ibid., III, 741.}\]
\[\text{\textsuperscript{47}}\text{Ibid., III, 739.}\]
TABLE III
AGRICULTURAL INQUIRY
FEDERAL RESERVE BANK OF KANSAS CITY--LOANS TO MEMBER BANKS

LOANS TO NEBRASKA MEMBER BANKS

<table>
<thead>
<tr>
<th>Date</th>
<th>Excessive Borrowers</th>
<th>Nonexcessive Borrowers</th>
<th>Nonborrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Banks</td>
<td>Number of Lines</td>
<td>Total Loans</td>
</tr>
<tr>
<td>1920</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apr</td>
<td>64</td>
<td>$19,938</td>
<td>$33,149</td>
</tr>
<tr>
<td>May</td>
<td>67</td>
<td>16,748</td>
<td>29,126</td>
</tr>
<tr>
<td>June</td>
<td>68</td>
<td>13,273</td>
<td>24,928</td>
</tr>
<tr>
<td>July</td>
<td>80</td>
<td>14,096</td>
<td>27,184</td>
</tr>
<tr>
<td>Aug</td>
<td>91</td>
<td>14,966</td>
<td>28,370</td>
</tr>
<tr>
<td>Sept</td>
<td>101</td>
<td>17,644</td>
<td>34,588</td>
</tr>
<tr>
<td>Oct</td>
<td>115</td>
<td>16,628</td>
<td>36,687</td>
</tr>
<tr>
<td>Nov</td>
<td>122</td>
<td>14,634</td>
<td>30,900</td>
</tr>
<tr>
<td>Dec</td>
<td>130</td>
<td>16,962</td>
<td>30,195</td>
</tr>
<tr>
<td>1921</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan</td>
<td>120</td>
<td>11,922</td>
<td>19,935</td>
</tr>
<tr>
<td>Feb</td>
<td>108</td>
<td>11,915</td>
<td>18,711</td>
</tr>
<tr>
<td>Mar</td>
<td>99</td>
<td>10,394</td>
<td>17,780</td>
</tr>
<tr>
<td>Apr</td>
<td>100</td>
<td>10,597</td>
<td>16,691</td>
</tr>
<tr>
<td>May</td>
<td>92</td>
<td>6,248</td>
<td>9,508</td>
</tr>
<tr>
<td>June</td>
<td>89</td>
<td>3,962</td>
<td>6,199</td>
</tr>
<tr>
<td>July</td>
<td>78</td>
<td>5,613</td>
<td>7,253</td>
</tr>
</tbody>
</table>

Source: Miller's testimony, Joint Commission, Hearings, III, 750.
more than doubled from April to December, but thereafter
decreased throughout 1921. The number of non-borrowing
banks decreased from 81 in April to 34 in December, but
this trend too was reversed in 1921. The trend in Nebraska
was true for the District as a whole except that in the
District the number of borrowers increased until December,
when 38.3 percent of all member banks were using their
rediscount privileges.48

Miller denied that the progressive rate had raised
rates to exorbitant levels. He explained that local banks
charged as much as the demand would allow under state law,
as shown by the fact that non-borrowing banks charged
exactly as much as their neighbor bank that had to pay a
penalty.49 He added that the progressive rate had not
unfairly affected any bank and that any interest paid over
12 percent was refunded.50 He stated that rates in the
Tenth District were actually lower than the flat 7 percent
rate in effect in the Minneapolis District, and that if
the flat 7 percent had been in effect, borrowers in the

48 The number had increased from 16.8 percent in
April (Joint Commission, Report, III, Part 2, 57).

49 Joint Commission, Hearings, III, 751-52.

50 He stated that in fact no banks had paid interest
over that rate, and that only three banks had paid 12 per-
cent while practically all banks paid under 7 percent. In
all the District bank refunded less than $200 for excessive
rates (Ibid., III, 748).
Tenth District would have had to pay an additional $240,000 in interest.\textsuperscript{51}

The Commission agreed with Governor Miller that the progressive rate had distributed funds to more banks and the amounts borrowed had remained fairly steady up to December, 1920, but it noted that beginning in January, 1921, the number of Nebraska banks borrowing and, more significantly, the amounts they borrowed decreased precipitously until by May, 1921, their borrowing amounted to only 40 percent of their basic lines.\textsuperscript{52} Loans to excessive borrowers fell to the low of $6 million in June, 1921, as compared to $33 million in January, 1920. This was offset in some measure by the increase in loans to non-excessive borrowers from $3 million in January, 1920, to $7 million in June, 1921, and by the increase in the amount of unused loans to non-borrowers, which increased from $5 million in January, 1920, to almost $8 million in June, 1921. But, these alone did not account for the severe decrease in total loans. The decrease was certainly not due to any improvement in the farmers' situation or a lessening in their demand for credit. On the contrary, all evidence pointed to the fact that they needed more credit than ever.

\textsuperscript{51}\textit{Ibid.}, III, 742.

\textsuperscript{52}\textit{Ibid.}, III, 754-69; refer to Table III for Nebraska statistics.
When asked to account for the severe decline, Governor Miller answered that the Kansas City bank simply could not handle all the needs of the farmer. Citing a study made by the Bank of the credit needs of the livestock industry in the District, Governor Miller stated that it alone needed $1 billion annually, while the Kansas City bank's entire lending power was only $120 million.\(^5\) When accounting for the severe decline in loans after December, 1920, Miller stated that it was due to the banks' running out of eligible paper, i.e., Government securities and short term paper.\(^6\) He cited that many banks were left with only long term farm mortgage paper, which was ineligible for discount. By the spring of 1921, he said it was virtually impossible for either local or city banks to accommodate any new customers.\(^7\)

Governor Miller stated that the farmer and stockman needed help which the "Federal Reserve bank could not possibly give, unless we depart from the purposes for which the Federal Reserve bank was created. . . .\(^8\) He explained that for the portfolio of a central bank to include anything other than self-liquidating commercial paper would be

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\(^5\)Ibid., III, 772.
\(^6\)Ibid., III, 773.
\(^7\)Ibid.
\(^8\)Ibid., III, 777-79.
disastrous. Instead he called for the establishment of a new agency to supply the farmer with intermediate term credit. 57

The Commission spent months weighing the testimony concerning the causes of the farmers' plight in the Tenth District. When it finally published its Report in January, 1922, the Commission was still not altogether clear in its conclusions. Basically it agreed that the problem was one of distribution. 58 It stated that had all the banks used their rediscount to the full, the farmer would not have been so severely hurt. 59 But, it added that the progressive rate at best was a clumsy method of redistribution.

Using the table of member bank accommodations in Nebraska, 60 the Commission concluded that in effect, the progressive rate had not brought about any greater use of the District bank, but had only encouraged banks that had previously been using correspondents for rediscount to go directly to the District bank. 61 After the progressive rate

57 Governors Strong and Harding presented identical views to Governor Miller's (Harding's testimony, Ibid., II, 440; Strong's testimony, Ibid., II, 785-90).


60 The Table was included in the Commission's Report, III, Part 2, Table III, p. 65.

61 Ibid., III, Part 2, 58.
went into effect, many of the banks that had been indirectly discounting at the District bank through their correspondents found that they lacked eligible paper for direct discount at the District bank, while other banks simply chose not to use their rediscount privileges. As a result by July, 1921, over $12 million in potential rediscounts was unused by non-excessive borrowers, who had $3.6 million in unused credit, and by nonborrowers, who had $8.5 million in unused credit. The Commission concluded that the failure of the progressive rate to induce non-excessive borrowers and nonborrowing banks to use their rediscount privileges to the full was its major flaw. 62

The Commission added that allied to this fault was the progressive rate's effect on excessive borrowers. It concluded that the larger banks, which had previously been the excessive borrowers, curtailed their loans the most. 63 This was evident from the statistics presented for Nebraska member banks. The basic lines of nonborrowers increased from $4 million in July, 1920, to $8 million in July, 1921, while the number of nonborrowing banks decreased from 74 to 67. On the other hand, it was the small banks who continued to extend themselves beyond their basic lines. Although the number of banks borrowing excessively increased to 130 in

62 Ibid.
63 Ibid., III, Part 2, 57-58.
December, 1920, their basic lines were $3 million less than for the 64 excessive borrowers in April, 1920, before the progressive rate went into effect. The trend of banks with smaller basic lines being the excessive borrowers continued to July, 1921, when 78 banks had a total basic line of only $5.6 million. The facts seemed to support what the Nebraska farmer had for so long alleged—that the small banker was trying hardest to aid the farmer, and that it was the larger banker who panicked and became so overly conservative that he refused to extend any loans.

The Commission, however, concluded that it was not the bankers' fears but the progressive rate that was to blame for the contraction. It stated that it was those bankers who were "making the greatest effort adequately to serve their customers"\(^{64}\) who were hurt most by the progressive rate.\(^{65}\) Because the Commission offered no explanation of how it determined that these bankers were trying hardest to accommodate the farmer (aside from their larger loans), it is difficult to accept the explanation. On the contrary, the facts suggest that it was the larger banks who reacted and tightened their credit to the agricultural sector.

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\(^{64}\)Ibid., III, Part 2, 62.

\(^{65}\)Ibid., III, Part 2, 57, 62.
However, the severity in the Tenth District was not due exclusively to the bankers' panic or to the progressive rate.\textsuperscript{66} As the Commission pointed out, it was due in large measure to the great decrease in bank deposits, which had occurred in agricultural districts throughout the nation.\textsuperscript{67} The decline was shown in the 20 percent reduction in total basic lines for all member banks in Nebraska in April, 1921, over the previous year.

Accounting for the severe decline in Nebraska in particular, the Commission put much of the blame on the extremely low membership of state banks in the Reserve system.\textsuperscript{68} In the state 83 percent of the banks holding over 60 percent of the state's banking resources were not members in 1920.\textsuperscript{69} Although many of the non-member banks corresponded with member banks, and therefore received some financial benefits from the System, they did not have the supervision it offered.\textsuperscript{70} Many of these banks had loaded

\textsuperscript{66}The Commission pointed out that the rate of deflation (35 percent) was the same for the Minneapolis district which did not have the progressive rate as for the Kansas City District (\textit{Ibid.}, III, Part 2, 68).

\textsuperscript{67}\textit{Ibid.}, III, Part 2, 115-17.

\textsuperscript{68}\textit{Ibid.}, III, Part 2, 146.

\textsuperscript{69}Federal Reserve Board, \textit{Annual Report}, 1921, p. 62.

\textsuperscript{70}There was some sentiment at the time that all banks be brought forcibly into the System (Sparks, \textit{History and Theory}, p. 459). One suggestion was that non-members be denied the use of the mails (Herbert Myrick, \textit{Rural Credits System} (New York: Orange Judd Publishing Co., 1922), p. 131).
themselves up with high priced mortgage paper which, after the progressive rate had caused their correspondents to withdraw as intermediaries, was practically worthless for rediscount at the District bank.

The Commission reported that many of these problems could have been solved by a system of branch banking, which would have provided greater reserves and allowed greater diversification in bank holdings. The Commission however was quick to add that it was virtually impossible to establish such a system over the fears of the public that a banking monopoly would result.\(^7\)

The Commission concluded that the Board had not deliberately discriminated against agriculture and that it could not have complied with the farmers' demands for longer credit without endangering the System's liquidity. However, the Commission agreed that there was a gap in the credit structure and offered its recommendations for a system of intermediate credit.\(^7\)

Despite its conclusion that the Board had not deliberately discriminated against agriculture, the Commission was not ready to dismiss the case against the System's influence on the economy in general. There still

\(^{71}\)Joint Commission, Report, III, Part 2, 146-47.

\(^{72}\)Ibid., pp. 9-11, 147-50. The next chapter will discuss legislative remedies.
remained the question of whether or not the Board had followed the wisest course open to it.

The Commission found little to disagree with in the explanations offered by Governors Strong and Harding concerning the Board's war time policies. As they stated, although the Board did not favor the low rate policy, it had no choice but to follow the Treasury's lead until after the Victory Loan was placed in the spring of 1919. They explained that the low rates led to a general misunderstanding of the function of a central bank's discount rate. During the war the banks had gotten used to profiting on their rediscounts at the reserve banks, a result that was contrary to the intention of the Federal Reserve Act and was tolerated only because the exigencies of war demanded it. The System's spokesmen explained that Treasury considerations continued to shape Federal Reserve policy even after the war's end, because the Board feared that a raise in rates would precipitate a severe public reaction demanding that Government securities be funded at an equal rate.\(^3\) This would have put pressure on the Treasury and destroyed its entire war time financial policy.

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\(^3\) Wicker maintained that the Board did not have to continue its subordination to the Treasury after the Victory Loan had been placed, but that it willingly and deliberately accepted Treasury leadership. He contended that the Board felt the Treasury was better informed about economic conditions and therefore better able to determine policies. The Board however was also influenced by the reserve ratios, which continued to increase. Because of the high ratio, the
The spokesmen continued that it was not until late in 1919 when conditions had returned to "normal," that the Board could reverse its policy to coincide with that traditionally held by central banks.\textsuperscript{74} Strong explained that by raising its rate slightly above commercial rates, the Federal Reserve could discourage any profiteering yet still be available to fulfill the primary function of a central bank, meeting the banks' demands during seasonal needs or a crisis.\textsuperscript{75} The rate increase in early 1920 was also necessary from the Board's point of view because reserve ratios had fallen as a result of the banks' holding of Government securities.\textsuperscript{76} It should be recalled that according to contemporary philosophy, this caused inflation because it resulted in an increase of deposits and currency without a commensurate increase in the production of consumable

\textsuperscript{74} Harding's testimony, Hearings, II, 143, 513, 380-81; for a more complete discussion of his views of the Federal Reserve's rate policies, 1917-1920, see Harding, The Formative Period, pp. 139-155.

\textsuperscript{75} Strong's testimony, Hearings, II, 516. It is important to note that he made this statement in 1921; the significance of this will be discussed below.

\textsuperscript{76} Wicker took issue with this explanation. He presented convincing evidence that the rate increase in January 1920 was at the initiative of the Assistant Secretary of the Treasury R. C. Leffingwell who acted because the Treasury's position had greatly improved (FR Monetary Policy, pp. 42-45).
goods. Therefore, the Board deemed it necessary to abolish the preferential rates on Government securities to force a contraction in credit and the liquidation of the redundant money supply.

Both Strong and Harding testified that the rate increase in 1920 was necessary to forestall greater inflation, which ultimately would have led to even greater deflation. They explained that had the Board not taken the steps it had in 1920, the inflation would have continued for a short time longer, but when deflation occurred, it would have been just that much more severe. They continued that the deflation was not due to the order of some secret "clique that met somewhere and decreed that there should be deflation," as Williams had charged, but that it was an "inevitable" result of worldwide economic disruption, of "silent, unseen, powerful, irresistible forces, forces even greater than the Congress of the United States, and certainly much greater than any board created by an act of Congress."**

In its Report the Commission accepted for the most part the explanation for the Board's policies. It agreed with Governors Strong and Harding that the Federal Reserve had little choice but to follow the Treasury during the war and in the immediate post war period. However, it chided

**Harding's testimony, Ibid., II, 300.
the Board for not having raised rates in the fall of 1919 before the farmers had bought the grossly overpriced land and planted their expensive crop.78 But it moderated this rebuke by stating that it recognized the Board's dilemma in making the choice between continued low rates which encouraged speculation, but prevented a disturbance to the Government security market and ultimately to the industrial sector and high rates which would have allowed the inflation but would have caused chaos in the financial centers. For these same reasons the Commission also concurred with the Board in the rate increase of January, 1920. It reported that had the Board not increased rates then, a general banking collapse would have occurred which undoubtedly would have precipitated an industrial depression.79 The Commission concluded that the Board had done all it could to prepare for the deflation, which it agreed was the inevitable reaction to the war time inflation.80

The Commission then took up the allegation made by ex-Comptroller Williams that the Board was so infected with "bureaucracy" that it refused to change its policies to meet the changing conditions in the fall of 1920. Although Governor Strong reiterated that the Board had

78 Joint Commission, Report, III, Part 2, 12.
79 Ibid., p. 13.
80 Ibid., III, Part 1, 16.
only supervisory powers, the Commission correctly assessed that it in fact determined policies if not initiate them. They realized that through its unlimited veto power the Board could negatively establish its will. Consequently, the Commission held the Board responsible for the System's policies in general and those of the individual districts in particular.

Upon these premises, Chairman Anderson questioned Governor Strong about the Board's policies in the fall of 1920. Anderson asked him if when the Board had made the decision that restriction through higher rates was necessary, it had also set a limit to the amount of deflation it would allow before modifying or reversing its policy, or "would it simply let the thing go along until the adoption of some other policy was forced upon it by public sentiment?" He then asked why the Board did not take the perpendicular drop in prices as a warning that the high rate was inflicting great hardship for all sectors, especially on agriculture.

Governor Strong answered that the high rates had had little effect on borrowing which had continued to

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81 During this early period of the Federal Reserve there was much confusion over the extent of the Board's powers in initiating rate changes (Chandler, Benjamin Strong, pp. 163-165).

82 Joint Commission, Hearings, II, 713.

83 Ibid., II, 717.
increase throughout the fall of 1920. He stated that when the contraction set in it was because the bankers became frightened and "put the brakes on pretty sharply."\textsuperscript{84} However, he contradicted himself when he added that the Board had modified its policy in the fall, 1920, by "gradually seeking to create the sentiment that people who were in difficulties must be carried along. No rate reductions were made then, and I do not think they were justified,"\textsuperscript{85} because no policy of the Board could have reversed the trend of deflation; "it was bound to come."\textsuperscript{86}

This discussion revealed the confusion within the Board about the effects of rate changes upon the economy. The Board held that increased rates could curtail inflation, but that decreased rates had no effect on deflation. Even Governor Strong, who had been the first to advocate a rate increase in the fall, 1919, was confused about the relationship of the central bank's rate policy to prices and the economy in general. This was evident when he quoted with approval an explanation of the Federal Reserve's purposes given in a letter from Governor Seay of the Atlanta Federal Reserve bank:

\ldots it is believed there should be no connection either actual or apparent, between the objective of

\begin{itemize}
  \item \textsuperscript{84} \textit{Ibid.}, II, 713.
  \item \textsuperscript{85} \textit{Ibid.}, II, 714.
  \item \textsuperscript{86} \textit{Ibid.}, II, 719.
\end{itemize}
the credit control policy by reserve banks and the course of prices; that is to say, control of credits should not be undertaken by reserve banks for purposes of regulating prices. The aim should be to keep credit liquid, to control its use by the discount rate, and leave prices to take their natural course.\textsuperscript{87}

Strong added that the "conservation of reserves should always be the object of credit control,"\textsuperscript{88} and that the Federal Reserve policies should be a "reflection of what is going on rather than as a cause of what is going on in the credit market."\textsuperscript{89}

The Commission began to sift through the confusing and often contradictory testimony. However, for one member, Ogden Mills, the conclusion seemed self-evident. In the minority report he submitted to the Commission's Report, Mills expressed complete agreement with the beliefs and policies of the Federal Reserve Board. He stated that since the price break was not due to higher rates, lower rates would not have helped to stem the deflation. His entire statement testified to the contemporary attitude that economic adjustments, that is inflation and deflation, were inevitable and the best that could be expected from

\textsuperscript{87}Ibid., II, 734. Governor Harding was much more succinct when he said it was "not the function of the Federal Reserve to regulate prices" (Ibid., II, 334).

\textsuperscript{88}Ibid., II, 734.

\textsuperscript{89}Ibid., II, 622.
the Federal Reserve system was a reflection of existing conditions. 90

In its Report, the Commission disagreed. It chided the Board for not lowering interest rates in the latter half of 1920. It explained that since prices were tending lower anyway, this would have had a psychologically beneficial effect. 91 In believing that the depths to which the deflation descended were not inevitable and that the Board could have counteracted them, the Commission had taken a definite step forward in an understanding of the economy. The Commission concluded that the Federal Reserve was successful under the old standards for a central bank, that is, it had maintained the convertability of gold and had prevented a financial crisis. But, as the Commission showed by its condemnation of the System's policies in the fall of 1920, this was no longer enough. The Board was guilty by omission when it allowed district banks in the late stages of the deflation to constrict credit, reduce the money supply, and consequently lower prices. For instance, as late as December, 1920, the Board of the Tenth Federal Reserve District admonished its members to curtail their loans. 92 Although the Board had not deliberately aimed its deflation policy

92Supra, p. 70.
at the farmer, it had hurt him the most because as a producer of raw materials he felt price changes most acutely. The failure of the Federal Reserve Board during this period showed the need for it to accept responsibility for the economic as well as the financial needs of the nation.

However, it would take several years before the Board would understand and accept the new role for the System, and the transition would be difficult. It involved a reversal in the Board's theory of central banking from one stressing the financial aim of supplying liquidity and elasticity to the currency to one in which the System could be used to meet the cyclical and secular needs of the economy. To effect the change it was necessary to understand the inadequacy of the pre-war theory that liquidity was the only function of the System, and therefore once the reserve system was established it would operate automatically without human intervention. Under this theory the System needed only to create temporary additions to the credit supply to meet real business needs. This was the


94Just when the Board did accept the new role has been the subject of much discussion. Chandler in his work, Benjamin Strong, pp. 182-246, and Friedman and Schwartz in theirs, Monetary History, p. 240, maintained that the Board began consciously to use the open market as a countercyclical tool as early as 1922. Wicker on the other hand contended that it was not until 1924 and then only as a more or less unconscious move that was governed primarily by international gold considerations (EP Monetary Policy, pp. 77-92).
view expressed by Governor Strong when he explained to the Commission that the primary purpose of a central bank was to meet the banks' demands during seasonal needs. But the post war deflation showed that the public would not tolerate the Federal Reserve system's ignoring the violent price fluctuations. They demanded that it acknowledge the relationship between the central bank's credit policies and prices.

The transition involved an overhaul in methods. Obviously the first change necessary was supplementing the use of reserve ratios as the sole criteria for rate policy with production indexes and price levels; in other words, the System had to accept responsibility for both the quality and quantity of credit. In order to achieve this, however, it was necessary to shift the initiative from the reserve banks, which through their rate changes could influence the economy, to one in which the Board could act directly. The Board would find operations in the open market to be an effective tool to gain the initiative. But, the transition would be impossible as long as the Board regarded the banks' holding of securities as dangerous to the System's liquidity. Only after it accepted

95 See Chandler, Benjamin Strong, pp. 185-187.
the permissibility of permanent additions to bank reserves could it use the open market to counteract economic disruption.

But, the Joint Commission in 1921 understandably knew little of these things. Instead the Commission concentrated upon what it knew could be done and offered its plan for a system of intermediate credit to the Congress already flooded with proposals to provide relief.
CHAPTER VII

RESULTS

By the time Congress received the Joint Commission's suggestions in 1922, most members of Congress were convinced of the need for relief for the farmer. This was a decided change from the early days of the deflation when only those from the farm sections demanded action. Among the first were Nebraska's two senators. Although they took different approaches to the problem, they were both convinced of the farmers' critical condition.

Gilbert Hitchcock,1 a Democrat, believed that the farmers' most urgent need was for additional intermediate credit to finance their operations. He argued that the Federal Reserve system had been as "liberal" in its agricultural loans as it could be without endangering its liquidity, and that agriculture's credit needs could be met only by a special credit agency.2 Early in December, 1920, he offered a plan to use the profits from the Federal Reserve system as investments in the Federal Farm Loan

1Hitchcock was the owner of the Omaha World-Herald, which naturally carried extensive reports of his activities. He had served in Congress since 1910.

2Omaha World-Herald, November 30, 1920, p. 8; December 3, 1920, p. 3; December 14, 1920, p. 1; December 21, 1920, p. 8.
system, which in turn would lend to farmers on warehouse
receipts and chattel mortgages for periods up to one year. When the Federal Farm Loan system opposed the bill, he sub-
stituted a plan to use the Federal Reserve system directly
for longer term loans. Just as spokesmen for the Federal
Farm Loan System had opposed his first bill as endangering
it, the representatives of the Federal Reserve system opposed
this bill. Although Hitchcock never again gained preemi-
nence in drawing up a plan for rural credit, the ideas
behind his proposals continued to get much attention.

George Norris, the Republican senator from Nebraska,
disagreed with Hitchcock's theory that the farmers' primary
need was for additional production credit. The problem as
he saw it was to bring together the buyers in Europe, who
although bankrupt had the potential to repay if they were

3 Congressional Record, 66th Cong., 4th sess., 1920,
LX, 43; Omaha World-Herald, December 3, 1920, p. 1.

4 Congressional Record, 66th Cong., 4th sess., 1920,


6 After the defeat of these two proposals, Senator
Hitchcock never again played a major role in farm credit
legislation. The only other proposal he put forth was for
a world bank to provide credit for agricultural exchanges.
This proposal received little notice and was passed over.
Hitchcock's position was undermined by his not being a
member of the Farm Bloc. Although he often voted with the
Bloc, his position on the League of Nations had reduced his
influence in the now Republican dominated Congress (Omaha
World-Herald, April 23, 1921, p. 1; Ibid., August 4, 1921,
pp. 1-2; Congressional Record, 67th Cong., 1st sess., 1921,
LXI, 4575-79).
granted credit, and the American farmer, who was saddled with a price depressing surplus.\textsuperscript{7} He stated that all previous legislation had failed to help the farmer. The Edge Act, which provided that the Government buy stock in private export agencies, according to Norris was simply a Government subsidy to the "middleman to buy at bottom prices from the American farmer to take advantage of the starving toiler" in Europe.\textsuperscript{8} He cited its failure as proof that private enterprise could not handle the task because it demanded too high a profit margin and was too conservative in accepting foreign securities as collateral.\textsuperscript{9}

Norris had just as little confidence in the WFC, which had been reinstated in the spring of 1921 to allow the Government to lend directly to American producers of exportable goods.\textsuperscript{10} He denounced it for making "pitifully" small amounts available and for lending almost exclusively to American banks for domestic operations rather than export.\textsuperscript{11} He condemned it along with all previous

\begin{enumerate}
\item\textsuperscript{7}Congressional Record, 67th Cong., 1st sess., 1921, LXI, 4049.
\item\textsuperscript{8}Ibid., p. 4048; XL, Statutes at Large, 516; XLI, Statutes at Large, 378.
\item\textsuperscript{9}Congressional Record, 67th Cong., 1st sess., 1921, LXI, 4046.
\item\textsuperscript{10}XLI, Statutes at Large, 1084-85.
\item\textsuperscript{11}Congressional Record, 67th Cong., 1st sess., 1921, LXI, 3980-81.
\end{enumerate}
legislation for resulting in the farmers' getting even further into debt.\textsuperscript{12}

Early in July (just as the Joint Commission began its hearings), Norris offered his plan to replace the WFC and the Edge Corporation. His measure provided for the establishment of a Government operated export corporation that would buy American farm products and sell them abroad on credit with foreign securities as acceptable collateral.\textsuperscript{13}

Norris' bill brought up one of the touchiest issues of the day—Government agencies operating in the realm of private business. In the 1920 election, Warren G. Harding had won the presidency by an overwhelming majority by pledging a return to "normalcy" by having "less government in business, and more business in government." President Harding regarded Norris' bill as a gross violation of all that his administration stood for and argued that the measure would destroy private initiative.\textsuperscript{14} Senators Henry C. Lodge, Republican from Massachusetts, and Walter E. Edge, Republican from New Jersey, urged the Administration's point of view in the Senate. They contended that the bill

\textsuperscript{12}Ibid., p. 3529.

\textsuperscript{13}Provisions were also made in the bill to use the then idle merchant marine to ship the goods abroad and to have the Interstate Commerce Commission lower rates on those goods (Ibid., p. 4044).

violated the "traditional policy of the Government" and that it would be unthinkable "for the Government itself to set up a department store, to go into the business of buying and selling."

They denounced the measure as class legislation, "a gift from the Treasury" to the farmers, which by eliminating surpluses would cause shortages and higher prices for the rest of the country. They also asserted that there was no need for a new agency whose powers would overlap and interfere with the already established WFC. They argued that the farmers' primary need was not for an export agency but more production credit that could be supplied by the WFC.

The Administration prevailed, and within the week a substitute bill containing most of its recommendations was presented to the Senate. It provided that the WFC supply credit to private export agencies and commercial banks. Despite Norris' impassioned plea that the bill would only

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15 Congressional Record, 67th Cong., 1st sess., 1921, LXI, 4039.
16 Ibid.
17 Ibid., p. 4158.
18 Ibid., p. 4040.
19 Ibid., p. 4288.
20 Ibid.
result in the farmers being dragged further into debt, the
measure gained the support of not only the Administration
but, most galling of all to Norris, most of the members of
the Farm Bloc. 21

For the remainder of the year and throughout 1922
the problem of farm credit continued to engross the Congress.
But there were few concrete results. The Federal Reserve
Act was amended to provide that member state banks were no
longer restricted in their rediscouts to 10 percent of
their capital and surplus, but could rediscount at the
same rate as national banks. 22 Also, the Federal Reserve
Board was enlarged. 23 Although there was no stipulation
that the new member be a farmer or even that he be sympa-
thetic to agriculture, the farmers saw it as a victory. 24
In reality, however, these were only stopgap measures that
were relatively easy for the members of Congress to accept.
Concerning those proposals for major farm relief legislation
they were considerably more lethargic.

However, by 1922 the results of the election showed
that the farmers would no longer tolerate Congressional

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21 Norris, Fighting Liberal, pp. 283-85; Congressional
Record, 67th Cong., 1st sess., 1921, LXI, 4283.
22 XLII, Statutes at Large, 821.
23 XLII, Statutes at Large, 620.
24 Theodore Saloutos and John D. Hicks, Twentieth
Century Populism (Lincoln, Nebraska: University of Nebraska
indifference. The results in Nebraska were a case in point. Nebraska voters showed that they were tired of being told that if they worked harder and applied businesslike techniques to their operations they could help themselves out of the depression.\(^{25}\) Nebraskans voiced their demand for a new approach and elected most of the candidates supported by the Progressive Party, which had used the old Non-partisan technique of supporting regular party candidates who were sympathetic to agriculture. The Progressive Party, with its Neo-Populist approach, called for the return of government to the hands of the people, that business be forced to compete as the farmers were, and that the farmers use cooperatives.\(^{26}\) For senator the Progressives supported the Republican candidate, R. Beecher Howells in his contest against incumbent Senator Hitchcock. Howells got strong support from Senator Norris, who charged that no matter how Populist the language Hitchcock used he was only hiding the traditional Democratic line that the farmer


\(^{26}\) Ibid., p. 252.
help himself.27 The charge stuck and Howells overwhelmingly defeated Hitchcock.

The results of the election in Nebraska were typical of the entire midwest.28 The Progressives' victory had weakened Republican control in both Houses of Congress and given the newly formed coalition of Farm Bloc members and Progressives enough control to offset the regular party forces. Undoubtedly the fear that the election results were the forewarning of a mass move to the Progressive movement caused many Congressmen to become decidedly more enthusiastic about farm relief.29 Their enthusiasm, however, often waned when specific measures were discussed. The long standing controversy of which agency—Federal Reserve system, Farm Loan system, War Finance Corporation, or a completely new agency—should handle the credit program continued to soak up Congressional energies.

Finally late in 1922, the controversy narrowed to a choice between the plan offered by the Joint Commission, the Lenroot-Anderson bill, and that drawn up by Eugene Meyer, Jr., the Capper-McFadden bill. The latter bill was based on

27 Ibid., p. 263.
28 For a discussion of the gains the Progressives made throughout the Midwest see Saloutos and Hicks, Twentieth Century Populism, Ch. XII, "Third-Party Ideologies, 1920-1924," pp. 342-371.
29 Ibid., p. 337.
the promise that the Federal Reserve system could supply all agricultural credit needs up to nine months maturity. For longer needs, it proposed the establishment of livestock finance corporations financed with private capital. The Lenroot-Anderson bill, on the other hand, was based on the belief that only the Federal Farm Loan system could safely provide intermediate length credit. It therefore provided that separate departments be established in each of the Federal Land banks to discount agricultural paper of six months to three years maturity.

Critics of the Lenroot-Anderson bill pointed out that it failed to use the already existent WFC and depended on the relatively inexperienced land banks, which lacked the interdistrict and interbank mobility of funds that the Federal Reserve had. They complained of its failure to include any cooperative features as the Capper-McFadden bill had. Supporters of the bill however pointed out that it provided longer term credit than the Capper-McFadden bill.

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32 Eliot, Farmer's Campaign, p. 257.
33 Saloutos and Hicks, Twentieth-Century Populism, pp. 338-39.
and that its tax free debentures would result in lower rates.34

When Congress finally passed the Agricultural Credits Act on March 4, 1923, it incorporated ideas from both the bills as well as many borrowed from several other proposals.35 As Saloutos and Hicks stated, "the act of 1923 was passed because the time was short and the political exigencies great. About all that Congress could do was to connect the several measures and to end with only a little attempt at smoothing off the edges."36 Critics of the measure were quick to denounce it for putting the emphasis on a conservative long term credit program rather than on measures to meet the emergency.

The Act provided for two separate systems: one privately owned but supported by the national government while the second system was owned and operated directly by the Government. The first system called for the establishment of National Agricultural Credit Corporations, which secured their funds by issuing taxable debentures. They were empowered to make loans on any readily marketable,

34Ibid., p. 339.


36Saloutos and Hicks, Twentieth-Century Populism, p. 339.
non-perishable products or on chattel mortgages for periods up to nine months and on cattle paper up to three years.\textsuperscript{37}

The second provision of the Agricultural Credits Act provided for a system of twelve intermediate credit banks to be established as separate corporations but with dual boards of directors and officers with the Farm Loan banks. Their capital stock of $750,000 was initially subscribed by the Treasury and thereafter through tax exempt debentures. The system could make loans to any organization of farmers for any agricultural purpose that fell within the six month to three year period. Paper within six months maturity was in turn rediscounted at the Federal Reserve.\textsuperscript{38}

The Act also provided for the long desired raise in maximum loans by the Federal Farm Loan system to $25,000 and provided for various changes in its organization.\textsuperscript{39} Also amended by the Act, the Federal Reserve was made more liberal both in its membership requirements by lower minimum capitalizations and in its policy of rediscount of agricultural paper by extending the length to nine months. Finally, the Act extended the life of the WFC to February, 1924, to

\textsuperscript{37}XLII, Statutes at Large, 1454-57.
\textsuperscript{38}Ibid.
\textsuperscript{39}Ibid., pp. 1473-78.
allow the Intermediate Credit banks sufficient time to get organized.  

By the time Congress acted upon rural credit conditions in Nebraska, at least in the eastern half, had largely improved. Since the low point of the depression in the summer of 1921 financial conditions in Omaha had been quickly recovering. Bank clearings, building permits, and spring sales had all improved. Agricultural conditions in the eastern part of the state had also improved as farm prices in general began to move up. For the first time in two years, Omaha bankers were reported willing to lend on agricultural paper for six months with the option of renewal.

Largely responsible for the recovery in the eastern portion of the state was the War Finance Corporation. Despite a slow start in September, 1921, due to the misunderstanding of its operations and a state law that restricted the size of bank loans, the WFC had recommended loans of $3 million, $808,000 of which was distributed before the end of 1921. The amount, however, was too small to do

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40 Ibid., pp. 1478-81.
42 Omaha World-Herald, April 4, 1922, p. 13; April 7, 1922, p. 1.
much good. The Nebraska agency, under the direction of
Omaha Fred, Thomas, set about to improve operations. It
advised farmers to organize their own companies when they
found existing agencies unwilling to lend.\textsuperscript{44} It also got
Governor McElvie's cooperation in asking a special session
of the state legislature to revise the state law to allow
the state banks to obtain funds from the WFC without limi-
tation by their capital and surplus.\textsuperscript{45} The WFC consequently
increased its operations until by March, 1923, it had lent
about $13.5 million in the state.\textsuperscript{46} About 88 percent of
this was lent to banks while the rest went to livestock
loan companies.\textsuperscript{47}

As Director Thomas pointed out, 775 of the state
banks (out of a total of 986 banks) had availed themselves
of the services of the WFC.\textsuperscript{48} By offering overextended
state banks discount privileges similar to those offered
by the Federal Reserve to its members, the WFC had enabled
many of the state banks to "unfreeze" their assets and
resume lending. Even more significant than the amounts

\textsuperscript{44} Omaha World-Herald, January 6, 1922, p. 1.

\textsuperscript{45} Nebraska, State Historical Society, Messages and
Proclamations, III, 456.

\textsuperscript{46} Board of Directors of the WFC, Fifth Annual
Report, p. 2.

\textsuperscript{47} Olsen, et al., "Farm Credit," p. 232.

\textsuperscript{48} Omaha World-Herald, March 14, 1922, p. 1.
it lent was the psychological effect it had in restoring confidence.

However, many farmers and ranchers in the western part of the state evaluated it with considerably less enthusiasm. Conditions in the west continued to deteriorate. Added to the burden of higher mortgage indebtedness, greater land speculation, and bank failures, low wheat yields and cattle prices brought many farmers to denounce the WFC as useless. They stated that it did not deserve any of the credit for rescuing the farmer because it got more than enough security for its loans since it demanded that all notes be backed by the farmer, the banker, and the bank's stockholders in addition to carrying other notes worth twice the value of the loan. Typically, the farmers stated that the credit should belong to the little country banker who took all the risks.49

Officers of the WFC countered that the ranchers were demanding that it do something that it could not. They explained that the major cause for the distress in the range cattle area was that the WFC could lend only on cattle already owned, not for the purchase of cattle to restock the ranges. The rancher who needed such funds had to depend on the livestock commission firms and banks who

49 Ibid., January 1, 1923, p. 12.
charged higher rates, and were often so over-extended that they could not qualify for WFC rediscount.\textsuperscript{50}

This last was indeed a major problem throughout the state but especially in the west. Despite the aid the WFC had offered to many banks, the banking situation continued to worsen.\textsuperscript{51} The continued failure of banks put a severe strain on the State Guarantee Fund. In order to maintain it at even the minimum level, it was necessary for member bankers to make two special assessments against themselves in 1922.\textsuperscript{52} Governor McKelvie reported that the State Bureau of Banking had done all it could short of depleting the Fund.\textsuperscript{53} As it was, the Fund had at times owed over $1 million, and in January, 1923, still owed $600,000 to depositors in failed banks.\textsuperscript{54} McKelvie recommended that the Bureau of Banking be given the power to use capital from the Fund for loans to weak or failing banks and that it be empowered to take over the management of those banks.\textsuperscript{55} However, it was

\textsuperscript{50}Ibid., March 14, 1922, p. 1.
\textsuperscript{51} Nebraska, Bureau of Banking, Biennial Report, 1924, Foldout; \textit{Omaha World-Herald}, February 12, 1923, p. 4.
\textsuperscript{52} \textit{Omaha World-Herald}, January 7, 1923, p. 12; September 28, 1922, p. 5.
\textsuperscript{53} Nebraska, State Historical Society, Messages and Proclamations, III; 418-19.
\textsuperscript{54} Ibid.
\textsuperscript{55} Ibid.
not for him but the newly elected Governor, Charles Bryan, to determine policy.

Swept into office in a blaze of Neo-Populist appeal, the brother of the "Great Commoner," called for the return of government to the hands of the people, repeal of the "Code System," and of the 1921 state banking law which gave the "banking board a monopoly in the control of the banking business." His effectiveness however was weakened by the overwhelmingly Republican legislature which promptly killed his bill to repeal the "Code" and enacted a banking bill exactly contrary to his wishes. It created a Commission to strengthen and administer the Guarantee Fund, with the power to take over any banks it found floundering. In cases which the Commission found that the banks could not be saved by additional funds, it was to provide for their liquidation. The Legislature also created a special fund, the Bankers' Conservation Fund,


57Nebraska, Legislative Council, Reference Bureau, Blue Book, 1924, pp. 192-207.

58Nebraska, Session Laws of the Legislature of the State of Nebraska in the Forty-second Session, 1923, compiled and published by Charles W. Pool, (University Place, Nebraska: Chaflin Printing Co., 1923), HR 272, Ch. 191, Sect. 8029, pp. 443-44.

59Ibid., Sect. 18, pp. 446-47.
as a reserve if the Guarantee Fund should be depleted.\textsuperscript{60} It completed its work by enacting various proposals strengthening the conditions of individual banks.\textsuperscript{61}

But, these measures, as those passed by the 1921 session, were simply too little to stem the tide of bank failures. It would have taken far reaching action to cure the long ripening causes and the state government was not prepared or willing to offer any greater help. It continued throughout the 20's to concentrate on banking legislation as a cure for the farmers' problems, and even in this it limited itself to dependence on the Guarantee Fund as a cure-all.\textsuperscript{62}

What action the state government was too uncertain to undertake and the local credit agencies unable to take, the national government, albeit reluctantly, began to provide. By accepting the Intermediate Credits Act of 1923, the Federal government not only fitted the last major piece into the rural credit picture, but, also showed that it was willing to move into the extra risk credit field, a move that had far reaching significance. For one, it showed that the

\textsuperscript{60}{\textit{Ibid.}, Sect. 25, pp. 451-52.}

\textsuperscript{61}{\textit{Ibid.}, HR 464, Ch. 192, Sect. 7992, pp. 463-64.}

\textsuperscript{62}Dependence on the Guarantee Fund as a cure-all finally ended in 1930 when the Fund Law was repealed as a result of the $20 million deficit it had accumulated (Filley, \textit{Effects of Inflation and Deflation}, p. 100).
Government assumed responsibility for helping the farmer out of the depression. Of even greater significance was the implication that the Government would no longer depend on the laissez faire approach to agriculture's economic problems. Gradually, this change was felt in the Federal Reserve Board as it too began to divest itself of the idea that economic aberrations were a necessary and inevitable part of the economic cycle. From the experience gained during the 1920 depression, the Board began to realize that human judgment and knowledge could be used to change conditions rather than merely adjust to them.

The credit legislation certainly was no cure-all for agriculture's chronic problems. In fact, the failure of the credit legislation to remedy agriculture's ills in the latter half of the 20's showed the farmers that they had over-emphasized the importance of credit problems in relation to those of over production, inefficient distribution, and low prices, which continued to plague them. It would be easy to assume therefore that since credit problems were the least difficult to solve, the solutions offered were feeble. However, considering the temper of the times, the legislation of the early 20's was at least a beginning in solving one of the nation's major economic problems.
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