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RURAL CREDITS

JOINT HEARINGS

BEFORE THE

SUBCOMMITTEES OF THE
COMMITTEES ON BANKING AND CURRENCY

OF THE SENATE AND OF THE
HOUSE OF REPRESENTATIVES

**CHARGED WITH THE INVESTIGATION
OF RURAL CREDITS**

Sixty-third Congress, Second Session

PRINTED FOR THE USE OF THE SENATE COMMITTEE
ON BANKING AND CURRENCY.



WASHINGTON
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1914

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE.

HENRY F. HOLLIS, New Hampshire, *Chairman*.
BLAIR LEE, Maryland.
COE I. CRAWFORD, South Dakota.

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES.

ROBERT J. BULKLEY, Ohio, *Chairman*.

WILLIAM G. BROWN, West Virginia. J. WILLARD RAGSDALE, South Carolina.
CLAUDE U. STONE, Illinois. EVERIS A. HAYES, California.
HARRY H. SELDOMRIDGE, Colorado. FRANK P. WOODS, Iowa.
CLAUDE WEAVER, Oklahoma. EDMUND PLATT, New York.

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RURAL CREDITS.

FEBRUARY 16, 1914.

UNITED STATES SENATE,
Washington, D. C.

The subcommittees assembled in joint session at 10.30 o'clock a. m., Hon. Henry F. Hollis presiding.

Present: Senator Lee and Messrs. Bulkley, Brown, Stone, Seldomridge, Weaver, Hayes, Woods and Platt.

Present also: Senator Robert L. Owen, chairman of the Senate Committee on Banking and Currency.

Senator HOLLIS. Senator Fletcher, will you state your connection with the subject of rural credits up to this time, for the record?

STATEMENT OF HON. DUNCAN U. FLETCHER, A SENATOR FROM THE STATE OF FLORIDA.

Senator FLETCHER. Mr. Chairman and gentlemen of the committee: As president of the Southern Commercial Congress, I had some correspondence with Mr. David Lubin, the American delegate to the International Institute of Agriculture, with headquarters in Rome, Italy, and Mr. Lubin brought this subject to my attention, and I invited him to come to our next convention in Nashville, Tenn., in April, 1912, to discuss the subject there.

Mr. Lubin replied that if we would get the consent of the State Department granting him leave of absence and assemble representatives of the different States, and give him a week there, he would be glad to come; that he did not feel like he could cross the ocean merely to make a speech at the convention. It was a good-sized undertaking, but we started into do that, and finally we got leave of absence, through Secretary Knox, for Mr. Lubin, and we succeeded in assembling representatives from 27 States in Nashville; and Mr. Lubin came and brought all the data that he had been collecting for years, practically ever since he succeeded in establishing that international institute of agriculture, which was in 1905; and they spent six days in Nashville, studying the subject there under the guidance of Mr. Lubin.

And at our convention Mr. Lubin delivered his address, and a resolution was adopted calling on the Southern Commercial Congress to assemble a commission, to be composed of two qualified and representative men from each State, if possible, for the purpose of going to Europe and studying the various systems in operation in those countries for the benefit of agriculture primarily.

It was a good, big contract, but the resolution was adopted by our convention, and we went to work to carry it out as far as possible. I rather protested at the time that the commission was too large.

I thought it would be difficult to get so many together, in the first place; and then, in the next place, I thought it would be unwieldy; but Mr. Lubin's idea, which I think turned out to be a good one, was that the purpose would be to educate two capable men in each State, and when they saw these systems in operation and observed what was going on they would be able to come back home and tell their people about those systems and keep up the work in that way throughout the various States.

We took the matter up with the National Grange and the Farmers' Union and other agricultural organizations, and they approved the plan. We then also suggested provisions in the platforms of the various political parties as they met, the Republican convention at Chicago and the Progressive convention at Chicago, and then we went to the Democratic convention at Baltimore; and planks were written in the platforms of the parties favoring this plan for investigating this subject in those European countries where agricultural finance has obtained a high development, and has wrought great benefits to the people of those countries, and to agriculture in particular.

We also took the matter up with the governors of the various States, and they were in accord with the idea. We prepared bills for the legislatures that met after our convention. Some of the States did not have their legislatures meet before the commission had to go, but other States did.

We figured out that it would cost \$1,200 for each delegate. And we had various applications by people who wanted to go on the trip and enjoy the privileges and that sort of thing accorded the commission, but we wanted men who were seriously bent on working out an adaptation, if possible, of those systems to conditions in this country.

And so we were not looking for men who were willing to pay their own expenses, but we wanted the States to furnish the money, or organizations, farmers' unions, and societies of that kind, so as to identify these men with the work, and have them feel that they were responsible to these States and to the people of their States, and have them go with a determination to accomplish results.

Some of the States passed special laws—California, Oregon, and Washington. I think Ohio appropriated \$2,400 for two delegates. Some of the governors had funds in contingent accounts which they could employ and have provided means in that way. Other delegates raised the necessary money through the farmers' organizations, commercial bodies, and the like.

So that on the 26th of April last the representatives, including two delegates from each of 35 States, left New York. I may say that in the meantime certain Canadian Provinces had applied for permission to join us, and we had delegates from five Canadian Provinces as members of the commission, and they sailed from New York on the 26th of April, 1913, and went direct to Rome, Italy, where they were received by the King and Queen.

And in the meantime Mr. Lubin had arranged with the delegates to—

Mr. HAYES (interposing). The International Institute of Agriculture?

Senator FLETCHER. Yes, the International Institute of Agriculture, which is participated in by 53 nations, by the way. Delegates from

these various countries had outlined a program and made arrangements in advance for this commission.

In the meantime, there was an amendment put on the agricultural appropriation bill, which was approved March 4, 1913, which provided for a commission of seven to be appointed by the President, to cooperate with this American commission being assembled by the Southern Commercial Congress in this study. And that commission was appointed, and five of the members of the commission joined the American commission in New York, and sailed with them, and cooperated with them throughout the investigation.

Two members of the United States commission, Senator Gore and myself, were unable to go on account of the tariff bill and other matters pending, and the five remaining members of that commission, consisting of Representative Moss, Dr. J. L. Coulter, Dr. Kenyon L. Butterfield, Mr. Harvie Jordan, and Dr. Clarence J. Owens, represented the United States commission and, as I say, cooperated with the American commission in that investigation.

Senator HOLLIS. Senator Fletcher, I understand that it is a fact your interest in the subject of rural credits arises largely from the fact that you are a member of the Committee on Agriculture and Forestry of the Senate?

Senator FLETCHER. No.

Senator HOLLIS. You say it was not on account of your connection with that committee that you were particularly interested in the subject?

Senator FLETCHER. No; it was largely because of this movement which originated, as I have stated, with the Southern Commercial Congress, of which I am president. I am not a member of the Committee on Agriculture and Forestry.

Senator HOLLIS. I thought you were.

Senator FLETCHER. No; I was, however, elected by the American commission chairman of that commission, and also elected by the United States commission chairman of that commission.

Senator HOLLIS. Yes.

Senator FLETCHER. So that, as chairman of both commissions, I have been pretty closely identified with the movement. And we received reports here in Washington constantly, while the commission was pursuing its investigation. Every week we would have letters from the members of the commissions in Europe, and we kept up with them pretty well in that way. And since then the commissions have joined in a report which is found in Senate Document 214, setting forth these various systems as they found them in operation in some 14 European countries.

That report is not entirely complete. There are other matters to be submitted by the commission which will form part 2 of that report.

And then the report of the United States commission is found in Senate Document 380, which sets forth our conclusions in regard to long-term land mortgage credit; and also there is attached to that report the suggested bill which we have submitted, both in the Senate and in the House; and the United States commission is now at work on the other part of the problem, the short-term or personal credit phase.

Senator HOLLIS. Senator Fletcher, you have introduced Senate bill 2909, entitled "A bill to provide for the establishment, operation,

management, and control of a national rural-banking system in the United States, and for other purposes"?

Senator FLETCHER. Yes.

Senator HOLLIS. Will you please tell the committee how you came to prepare that bill, Senator Fletcher, and all about it?

Senator FLETCHER. That bill was introduced in August, as I recall.

Senator HOLLIS. It was introduced August 9, 1913, was it not?

Senator FLETCHER. Yes, sir; and as I stated at the time, of course I have been at work on the matter quite actively ever since the commission sailed. We had some other material before that; for instance, Mr. Cahill's report, which is made a Senate document, and which gave me considerable data to work on in that connection. I got information and assistance from every source I could from the farmer's standpoint. I knew something of the farmer's problems from personal experience and observation.

Mr. HAYES. Excuse me, Senator Fletcher, but what is the number of the Cahill report?

Senator FLETCHER. The Cahill report is Senate Document No. 17. This is it [indicating].

And I had been studying the subject, with the help of that report and other documents; and I introduced this bill as I said, at the time, not as the final word on the subject, but in order to keep the subject before Congress and before the country as far as possible and as being my first impressions regarding the subject.

Of course that bill is still pending; and it differs from the bill as finally reported by the commission, in some material respects.

For instance, it provided for the organization of local banks in communities by farmers, and then the organization by local banks of a State central bank; and the organization of the United States central bank, through these State central banks, and the final issuing of the bonds by the United States central bank.

My impression at that time was that that would standardize the farm-land bonds and secure a lower rate of interest and a wider market, not only in this country, but abroad, and that the objection to central banks as commercial institutions would scarcely obtain, in my view, in the case of a central bank of this kind.

But the commission dealing with the matter thought we ought to get away from the central bank proposition, so that the present bill as reported varies in that respect from the first bill.

Senator HOLLIS. Pardon me, Senator Fletcher, but the second bill that you referred to was introduced in the Senate January 29, 1914, and is Senate bill 4246, and the title of it is "A bill to provide for the establishment, operation, and supervision of a national farm-land bank system in the United States of America, for the creation of depositories for postal savings and other public funds, and for other purposes." Is that not correct?

Senator FLETCHER. Yes. Another idea, I might say, which I had in introducing S. 2909 was that I felt it important to impress as far as I could on the Senate, and also on the House, what seemed to me a fundamental idea that ought to be considered in connection with the then pending Federal reserve act. A certain effort was being made, as you will recall, to extend the provisions of that act so as to meet the needs of the farmer, and in studying this subject I became

thoroughly convinced that it is utterly impossible to provide in a commercial banking system for the requirements of those engaged in agriculture.

Mr. HAYES. Do you not think it would be unsafe to try to do so?

Senator FLETCHER. Absolutely. And I was a little afraid that we were going to try to go too far in the then pending measure in that direction, realizing, as of course all Congress did, the importance of making these provisions as far as possible to meet the needs of agriculture; yet it seemed to me that some of them were losing sight of the principle that commercial banks can not possibly have their funds tied up in long-term loans or provide for such accommodations in a financial way as the farmer ought to have.

And for that reason I wanted to get that idea as far as possible before Congress. I wanted to make as broad and liberal provisions as could be safely made for agriculture, but I felt we needed a supplemental system to take us all the way.

Now, perhaps in this matter we should have a starting point and gradually lead up to what we have done.

The act of 1864, establishing our banking system, was based on the Ohio statute, and it provided for a commercial system. It was never intended to be and is not capable of being made to meet the needs of the farmer.

In the second place, it discriminated against him by prohibiting loans on real-estate security. The effect was to place a ban on real estate as a basis of credit. This being the farmer's chief asset, the system absolutely discriminated against him in its operation.

The result has been that the farmer has been obliged to depend upon the factor, the merchant, and the money lender to obtain what accommodations he required, and to make the best financial arrangements that he could; with the further result that high prices were charged him, enormous profits were made at his expense, and burdensome interest charges and exactions were put upon him; and with the result, further, that his earnings were largely consumed in that way. His net returns were small, and with no prospect of growing larger.

Discouragement faced every young man growing up on the farm; hard work and the most meager remuneration were in store for him. It was impossible to improve rural conditions; there was no money to do it with. No wonder occupying owners decreased in number and tenants increased, and a steady flow set in to the cities and towns. The greatest and most important industry of the country, the one upon which we all depend for our food, clothing, and shelter, was not merely neglected and left unprovided for, as far as our financial system was concerned, but was given a severe blow and discriminated against.

Strange to say, this has been continued all these years until the good year 1913, and until the passage of that great measure, to my mind unsurpassed in importance and benefits to the country by any law put on the statute books since the War between the States—the Federal reserve act.

Now, there is no longer that ban on real estate as to loans by national banks. Now the farmers have some opportunity to get personal accommodations in the way the nature of his business calls for. To be sure, this is limited. No commercial system can be

made to meet the requirements of agriculture. The commercial bank must be ready to respond to all of its liabilities on demand, and therefore can not have its deposits or its capital and surplus tied up on loans on real estate running for years; neither can it have its funds invested in securities which can not be readily converted into cash.

Consequently while the Glass-Owen Act (or the Federal reserve act) goes as far as can be safely gone in providing for loans on real estate and for rediscounting six-months' paper, there is a very considerable and very important ground not covered by our banking and currency system, even as amended.

I therefore believe that in order to meet the needs of our farmers and provide for the necessary requirements of agriculture in a financial way we must supplement existing systems by providing for a system of farm-land banks, so empowered, supervised, and managed that the credit resources of the farmers can be made available, to the end that money can be got at cheaper rates, on long terms, with the privilege of paying on account of the principal as the interest is paid, for the purpose of acquiring homes, improving and developing the farm, and discharging existing liens drawing unreasonably high rates of interest. In addition to this, a further system of rural credit banks intended to promote cooperation and enable the members to utilize their collective credit resources to meet the temporary needs as they recur in producing the crops, would be most advantages.

Neither of these needs is fully met by the Federal reserve act. In the first place, the amount allowed to be loaned on real estate is wholly insufficient to give full relief to the farmers. There would probably be available for five-year loans on real estate some \$200,000,000 under that act. The farmers of the country owe some \$6,000,000,000, nearly half of which is secured by mortgages on their land. You can readily see that there is a very wide gap between \$200,000,000 and \$2,000,000,000.

Senator HOLLIS. Do you not mean \$6,000,000,000?

Senator FLETCHER. I just named \$2,000,000,000 as the amount secured by mortgages on land.

Senator HOLLIS. Yes; I see.

Senator FLETCHER. This gap should be abridged. Not only that, but our farmers are in need of more money for development purposes, and it would be in the nature of an investment rather than incurring a debt, if they could get it at sufficiently low rates of interest and have the privilege of paying back it out of the earnings of the farm from year to year.

Mr. WEAVER. May I ask you a question, Senator Fletcher?

Senator FLETCHER. Yes; certainly.

Mr. WEAVER. Do you think that these commercial banks are going to lend the \$200,000,000 to the farmers? Now, while the law allows them to do that, it is a matter of option with them, and they are not compelled to do so; do you think, as a matter of practice, that they will loan the money to the farmers on five years' time?

Mr. HAYES. On real estate?

Senator FLETCHER. I doubt if there will be much money loaned in that way.

Mr. HAYES. Do you think there will be any?

Senator FLETCHER. But the main thing is that that provision does away with the idea in the original banking act that real estate is not a proper security for loans.

Mr. HAYES. Well, for commercial loans, would you not agree with that proposition that they are not proper security for commercial loans?

Senator FLETCHER. Yes; I think there is something in that, but, at the same time, I believe that the effect of the prohibition in the law was harmful to the farmers of the country, because, naturally, money lenders and financial institutions would feel that if the Government itself provided that institutions operated, controlled, and supervised under its direction should not accept real estate as security it threw a sort of suspicion on it with other people, and they charged higher rates of interest, and all that sort of thing, whenever they did make loans on real estate.

I quite agree that there is a very grave doubt whether a great deal of money will be available to the farmer under that plan; but still it is a long step in the right direction.

This consideration ought to be shown the 12,000,000 people engaged in that industry—I mean the consideration of allowing them to have the privilege of paying back these loans and getting their money at reasonable interest. But we need credit provision for considerably more—also for development purposes—than the present debts of the farmers.

Objection is sometimes urged that we are finding a way to make it easy for the farmer to go in debt. There can be no kind of doubt about his being already in debt.

Let me read you what Judge Horace Bagley, of Towner, N. Dak., says. He has taken great interest in this subject, and I appreciate his suggestions and views. We had considerable correspondence, and he sent me this statement, which speaks for itself. I got his permission to use it, and I submit it here as an illustration of conditions in this country, which are by no means confined to North Dakota. There are three letters from Judge Bagley, which I would like to insert in the record as a part of my remarks, including a statement from him as to conditions in North Dakota. I will not stop to read them unless the committee so desires.

The main thing is, he says, the debts of the farmers in that county, which, he says, is typical of that part of the country, are about equal to the assessed value of the farmers' property, and they are paying very large interest charges on the debts which they have.

Senator HOLLIS. These letters will be incorporated in the record as a part of your testimony, Senator Fletcher.

(The letters referred to are as follows:)

TOWNER, N. DAK., August 13, 1913.

HON. D. U. FLETCHER,
Washington, D. C.

DEAR SIR: I have followed with great interest and pleasure your efforts on behalf of a better system of rural credit. I take this opportunity to assure you that your labors are appreciated in this far Northern State fully as much as they can be in Florida.

A long experience as a country banker and as a farmer convinced me years ago that the rural problem is purely an economic one, the solution of which lies along the lines you are so ably following.

Yours, very truly,

HORACE BAGLEY,
County Judge, McHenry County, N. Dak.

TOWNER, N. D., August 28, 1913.

HON. DUNCAN U. FLETCHER,
United States Senate, Washington, D. C.

DEAR SIR: In reply to yours of August 18 in the matter of rural credits, I inclose you herewith a set of figures prepared by me relative to the above matter, as the same applies to our local situation. I think the situation in McHenry County is typical of the general situation throughout central and western North Dakota.

The figures as I give them are either official or are based on a careful estimate. Abstracters and others to whom I have shown them, agree that the totals are under rather than over the actual amounts. I have taken \$1,000 as the average first mortgage real estate loan. The abstracters inform me that a loan of this size has been an exception for the past three years, and that the average now is between \$1,500 and \$2,000.

The amount due local banks is taken from the August 9 reports, as published in the local papers, and indicates that my estimate of chattel mortgage indebtedness at \$2,500,000 is conservative. Practically all the indebtedness due banks is secured by chattel mortgages. And in addition to such bank indebtedness is the very large sums due the machine companies, horse dealers, local merchants, and money loaners. In my opinion, the present indebtedness, other than real-estate mortgage indebtedness, is close to \$3,500,000, and \$2,500,000 is the amount thereof upon which interest is annually paid, the \$1,000,000 representing the sum which will be liquidated this fall.

These figures indicate, of course, that many of our farmers are past all help by any scheme of credit. But a very large number of them are still solvent, and will gladly and successfully make the needed change to a better system of farming if they can secure credit on anything like a reasonable basis. If the present system continues, it is perfectly evident that the bulk of these still solvent farmers will likewise fall into the same bottomless pit as their fellows.

Yours, very truly,

HORACE BAGLEY.

[Inclosure.]

Statistics relative to mortgages and other indebtedness, McHenry County, N. Dak.

[Compiled from official records of said county, Aug. 22, 1913.]

I.

Population, 1910:	
Total.....	17, 627
Rural.....	14, 757
Families, 1910:	
Ratio to population..... per cent..	5. 6
Total.....	3, 147
Rural.....	2, 635
Acres assessed for taxation, 1912.....	1, 132, 248
Assessed valuation, farm lands, 1912.....	\$4, 852, 509
Average valuation per acre, 1912.....	\$4. 28
Assessed valuation, personal property, 1912:	
Total.....	\$1, 380, 888
Rural.....	\$1, 010, 076
Average assessed valuation, per rural family, 1912, total.....	\$2, 225

II.

Real estate mortgages recorded, Aug. 22, 1907, to Aug. 22, 1913.....	12, 359
Real estate mortgages of record Aug. 22, 1913.....	¹ 9, 269
First real estate mortgages of record, Aug. 22, 1913.....	¹ 4, 634
Average amount first real estate mortgages.....	¹ \$1, 000
Total first-mortgage indebtedness.....	¹ \$4, 634, 000
Average first-mortgage indebtedness per rural family.....	\$1, 758
Average interest rate per annum, first real estate mortgage..... per cent..	0. 09
Total interest paid per annum, first real estate mortgage.....	\$411, 114
Average annual interest paid per rural family, real estate mortgage.....	\$158

¹ Estimated.

III.

Chattel mortgages filed Aug. 22, 1907, to Aug. 22, 1913.....	39, 116
Chattel-mortgage indebtedness Aug. 22, 1913.....	¹ \$2,500,000
Average chattel mortgage indebtedness per family	\$794
Average interest rate per annum, chattel-mortgage indebtedness, per cent. .	0. 12
Total annual interest paid per annum, chattel-mortgage indebtedness....	\$300, 000
Average annual interest paid per total family, chattel-mortgage indebtedness.....	\$95

IV.

Number national banks, McHenry County.....	2
Number State banks, McHenry County.....	25
Total bank capital, McHenry County.....	\$397, 000
Total bank loans, statement Aug. 9, 1913.....	² \$1,938,000
Average indebtedness to banks per family.....	\$615

V.

Total real estate and chattel-mortgage indebtedness.....	\$7, 134, 000
Total average real estate and chattel-mortgage indebtedness, rural.....	\$2, 552
Total average interest paid on all indebtedness, per annum, rural.....	\$253
Average cost renewing real estate mortgages.....	\$10
Total cost renewing real estate mortgages, 6 years.....	\$46, 340
Annual cost renewing real estate mortgages.....	\$7, 772

TOWNER, N. DAK., *September 5, 1913.*

HON. DUNCAN U. FLETCHER,

United States Senate, Washington, D. C.

DEAR SIR: Yours of September 1 in re rural credits plan at hand, and I thank you for the same.

I shall be glad to have you use the data I sent you in any way you see fit. I believe it is, on the whole, entirely reliable and will bear investigation.

Not only are our farmers not accommodated with loans at the time and in the amounts they need them, but such loans are looked upon by the average banker as a great favor to the farmer and are only extended upon the terms and in the amounts the banker sees fit.

I have taken the first 50 mortgages filed on and after November 1, 1912, and find that in such 50 mortgages the crop was given as security in 26, machinery in 16, cattle in 12, and horses in 23. I have taken the first 50 mortgages filed on and after April 1, 1913, and find that the crop was given as security in 11, horses in 31, cows in 12, and machinery in 14. It is obvious that the proportion of crop security fell off in the April mortgages for the reason that such security was exhausted and would be worthless.

Several years ago I became acquainted with the German and Danish cooperative credit systems through our farmers of those nationalities and have been greatly interested in the subject ever since that time. In 1912, I spoke to an audience of over 3,000 people at a farmers' picnic, for nearly an hour upon this subject and aroused great interest. Inquiries have been coming pretty steadily since that time, and number of substantial farmers in various townships have offered to take the initiative in the organization of township banks.

You and I both realize, of course, the difficulty of organizing farmers' cooperative societies of any kind. The first step in the successful organization of such societies is financial independence. Your bill seems to furnish the material for securing such independence, and I believe it can and will be used for that purpose.

I have distributed the envelopes which you sent me and can use more of them to good purpose.

Yours, very truly,

HORACE BAGLEY.

¹ Estimated.

² Practically all bank indebtedness is secured by chattel mortgages and is included under III.

Senator FLETCHER. Judge Bagley gives a list of the mortgages from the records in his county and from other data, which I think quite material as illustrative of the point as to the present condition of the farmers.

I have here letters from nearly every State, which would make a voluminous record if printed, showing that the farmers to-day are paying all the way from 6 per cent per annum to 2 per cent a month interest on the money they need to borrow—when they can get it at all.

In the Eastern States and the middle Northwest farmers can get loans on their farms at times as low as 6 per cent per annum, but they must make the note secured by the mortgage payable on demand or at some short period within which it would be impossible for them to earn it.

Senator HOLLIS. If you will pardon me, Senator Fletcher, I would like to interject that in my State we have a law recently passed that exempts from taxation mortgages on New Hampshire land at a rate of 5 per cent or less. That has resulted in putting the rate of interest on real estate loans down to 5 per cent in all our savings banks, and as a result it has done great good. I will say that all mortgages are taxable and the land also is taxable; that is pretty close to double taxation, but that is the rule in my State.

Senator FLETCHER. Yes. May I inquire if those mortgages are for any great length of time, or are they payable on demand?

Senator HOLLIS. They are almost invariably payable on demand; but our savings banks are mutual savings banks and the deposits come largely from the same population that borrows; and I have never known a farmer to be foreclosed without being given ample opportunity. In fact, I have not known any of the farmers to be foreclosed. I am a trustee of a savings bank with \$12,000,000 deposits, a pretty large mutual savings bank. We contribute our services free, all the officials except the treasurer and the secretary. And while the notes are made payable on demand, I have never known any foreclosure to be made. So it works out very well in our section of the country.

Senator FLETCHER. Well, of course, it would be very risky for farmers generally to have their mortgages payable on demand; and whereas there may not be foreclosures—of course the banks are interested in having their funds out at interest—still it is in their power to foreclose, and for that reason it does not quite meet the situation, it seems to me. Even though the interest rate is low, there are disadvantages to the farmer in that system.

Senator HOLLIS. And I will say, in addition, Senator Fletcher, that our banks do not like to loan on local farm lands; they seem very much to prefer to loan on western farm lands, where the loan comes through some agent, to accommodating the local farmer.

Senator FLETCHER. Yes—

Senator HOLLIS. I have myself noticed that. And I have myself, in a number of cases, insisted that they must loan to the local farmers if the security was good. Of course, there is that disadvantage.

Mr. PLATT. Your mutual savings banks are not allowed to loan on western mortgages, are they?

Senator HOLLIS. Yes, they are in my State

Mr. PLATT. They are not allowed to do so in my State. Our mortgages are all made on local farm lands and run for two or three years, but they allow them to run on indefinitely. They are never foreclosed, at least very rarely.

Senator FLETCHER. Again, the farmer must pay for the abstract, drawing the papers, commissions to agents, and the like, averaging about 2 per cent more.

A letter from Missouri gave an actual transaction which the writer recently had, showing that a farmer wanted to borrow \$1,000 and that his farm was worth \$10,000. The loan was made through an agent, and the net amount the farmer received was \$908; and \$92, nearly 10 per cent, went for commissions and expenses.

A letter from Oklahoma says that farmers pay 2 per cent a month as interest and often can get no money for operating purposes at all. These are not exceptional cases.

We must stop this discrimination against the foundation of all our industries. We must provide a means for utilizing their credit resources, and making their assets liquid. As Mr. Lubin would say, give them the dynamic dollar instead of the static dollar. We must provide a way for relieving the burdens on our farmers of excessive interest charges, expensive machinery for obtaining accommodation, and of the difficulties often insurmountable, of supplying their proper and legitimate needs.

Think of an industry enduring such burdens all these years, and suffering such discrimination, and accepting such denials, in which nearly one-third of our population is engaged, which has assets estimated to be worth 40 billions of dollars and yielding annual products worth nearly 10 billions of dollars on the farm.

Very properly our farmers insist that they have endured and have been patient long enough. They are entitled to be fairly considered in the financial scheme of the Nation.

The commission appointed by the President to study this subject and get all the light on it possible, from the experience and practices of the older countries of Europe, believes that it has a plan which is sound in principle and workable in practice for supplying the capital requirements, the investment needs of the farmer, involving long-term low interest and an amortization feature. I now refer to Senate Document 380.

Senator HOLLIS. Senator Fletcher, just a moment. As long as these hearings are to be published, and we want them to be as useful as possible, will you not explain right there, for the benefit of readers, what amortization is?

Senator FLETCHER. Amortization means the payment on account of principal at the interest periods.

For instance, we will say that under this bill, if the bonds provide 4 per cent interest—or rather, if the farmer is to pay 4 per cent interest—there is provision made for not exceeding 1 per cent for administration charges by the bank. In Europe, I believe, that is a good deal less. In some countries, probably, it is as low as 0.35 of 1 per cent, and probably generally will not exceed 0.60 of 1 per cent. We provide that it shall not exceed 1 per cent here, covering all expenses of administration.

Then there is a provision here that the mortgage shall show precisely what the farmer is to pay in the way of interest, in the way of expenses, and in the way of amortization. That is, suppose he pays 0.50 per cent for amortization. That applies on his principal. It differs from a sinking fund that is ordinarily provided for taking care of bonds in that the amortization payment is credited on the mortgage when it is made, so that there is not any doubt but what the farmer receives credit for that payment on the principal at the time it is made; that is wherein it differs from the ordinary sinking fund. It is a payment on the principal at the interest period of whatever amount may be agreed upon. Perhaps he will pay 1 per cent on the principal. Of course, the whole thing will be paid off in a less time the more he pays for amortization.

Now, we propose to follow this with a report and recommendations respecting the personal or short-term credit for temporary or recurring needs. This will be based upon the principle of cooperation, the utilization of the collective credit resources for the benefit of each.

The subject divides itself into two great phases:

First. To provide long time, or land mortgage credit, to take care of the farmer's capital requirements, such as completing the purchase of the farm, improving and equipping the farm, and paying off existing liens.

Second. Short-term or personal credit, to take care of the temporary requirements for preparing the land and cultivating the crops and harvesting them.

The first is the primary step to improve our agricultural conditions, and precedes, naturally, the development of personal credit.

The establishment of a system of farm-land banks is a means for accomplishing this purpose.

Since Senate Document No. 380 is accessible to all, what I might say on that subject in a general way would be largely a repetition of what is there set forth, and I take it that all I should do is to draw your individual and careful attention to what is there said.

In the introduction, Part I, page 9, the discussion of "land mortgage or long term credit," Part II, page 15; the statement interpreting the accompanying bill, page 27; the detailed review of the bill, page 34; and the bill itself, pages 53 to 73.

Now, there are some views of a minority of the American commission which are quite pertinent and suggestive which, if the committee pleases, I will submit for incorporation in your record. They are not yet published, but are sent to me as chairman of both commissions. I do not know whether the committee cares to do that or not.

Senator HOLLIS. If you think that will be useful, Senator Fletcher, it will be incorporated in the record. We are inclined to accept your judgment on that.

Senator FLETCHER. These minority views are submitted by Mr. Gordon Jones, Mr. von Engelken, and some other members of the American commission. Dr. Coulter, do you know how many signed that minority report?

Dr. COULTER. I think there were 8 or 10. I have a letter from Mr. Gordon Jones, stating that he wants to make two or three minor

corrections in that report, and that he will forward a corrected copy of it as soon as he can.

Senator FLETCHER. Well, some 8 or 10 members of the American commission submitted this minority report.

Senator HOLLIS. Then such matter as you may hand to the stenographer in this connection, Senator Fletcher, will be printed as a part of these hearings.

Senator FLETCHER. Of course, it is understood that these gentlemen who signed these minority views are members of the American commission, not of the United States commission. The United States commission are united in their report, as shown in Senate Document 380. But I thought it might be well to insert in these hearings the views of these 8 or 10 gentlemen on the American commission, as throwing light on the subject.

Mr. Gordon Jones is a banker of Denver, Colo., and Mr. von Engelkan, of Florida, is a native of Germany, a highly educated and capable man and quite familiar with conditions both in Germany and in this country; he is a farmer. And I feel like getting all the light we possibly can from every source, whether it is favorable to my bill or to the commission bill or any other bill is immaterial to me; what I want is light on the subject wherever I can find it; and I think it would be well, if the committee agrees, to put this in as the views of those gentlemen on this subject. They went to Europe, and they studied the subject along with the other members of the American commission.

Mr. BULKLEY. Has there been submitted any majority report of the American commission?

Senator FLETCHER. The American commission has not submitted any bill at all; they decided not to submit a bill; but their report is found in Senate Document 214.

Mr. HAYES. That is a very voluminous document.

Senator FLETCHER. Yes; and that will be followed up by some further observations and additional data; but they have not recommended any bill; they decided not to recommend any bill.

Mr. WEAVER. When will we get that supplemental report?

Dr. COULTER. That has already been provided for; 261 is now in final page proof, and can probably be printed to-day.

Senator FLETCHER. That will complete, then, the American commission's report—Document 214.

In addition to that, I have a letter here from Col. Ousley, of Fort Worth, Tex., who was a member of the commission.

Mr. WEAVER. Is that Clarence Ousley?

Senator FLETCHER. Yes.

Mr. WEAVER. He is a newspaper man.

Senator FLETCHER. Yes. He was dealing in this letter with my bill (S. 2909) which I had asked him to criticize; and he has made some valuable suggestions on the subject; and it is not a very long letter, and if the committee would permit it to be printed, it might add something of considerable value.

Senator HOLLIS. The letter will be printed in the record at this point.

(The letter referred to is as follows:)

FORT WORTH, TEX., August 27, 1913.

Senator DUNCAN U. FLETCHER,
Washington, D. C.

MY DEAR SENATOR: I have just had time since my return to carefully consider your bill providing for a national rural-bank system.

I heartily approve the general idea, and in responding to your invitation for "criticism and suggestion," I make bold to submit the following thoughts:

Page 14, under the title "Real-estate loans," you provide that the rural bank may lend an amount equal to its capital, surplus, undivided profits, and 50 per cent of its time deposits on land mortgages. On page 27, you provide that the rural bank shall invest an amount equal to 10 per cent of its combined capital and paid-in surplus in the national rural bank and 20 per cent in the State national bank. Are not these sections at cross purpose? Besides, I doubt the wisdom of allowing the rural bank to lend so much upon farm mortgages. In many sections of our country, where land values are uncertain and there is a tendency to speculation and exploitation, I fear that some banks would be organized for the particular purpose of developing real estate and that there would be serious damage as a result of collapsed booms.

On page 16 and elsewhere you provide that loans on real estate shall be 60 per cent of the value at which such real estate is assessed for taxation. In many sections of Texas, and I doubt not of other States, lands are assessed at scarcely more than half their market value, and in some instances, indeed, at considerably less than half their market value. In such cases the limit of loan would be too low for practical purposes. My opinion is that it is sufficient to limit the loan to 60 per cent of appraised value, but to require appraisement to be made under very rigid rule and to be verified and approved by some Government official or officials not connected with the bank. Appraisements are made in this manner by the Prussian Landshaftern. That is to say, the appraisement by a committee of the Landshaft is subject to revision by a government official acting independently and having no relation whatever to the Landshaft.

On page 21 you provide that loans on farms shall be made "in so far as practicable" only for improvement, equipment, or increasing the value of the property. In my judgment you should make this condition absolute by striking out the words "in so far as may be practicable." I think there should be no opportunity whatever for rural banks to be persuaded to make loans on anything but improvements or part of the purchase price. Our people are not yet conservative enough to exercise such discretion as your bill allows, but they are likely to be tempted into making loans for other than the real purpose of the bill.

On page 30 you provide that the ownership of stock of the State bank shall be exclusively in the local banks. I submit for your consideration whether it would not be wise to permit a minority of the stock to be owned by private individuals and to safeguard the institution from selfish uses by requiring that the majority of the stock shall be owned by the local banks. I apprehend that in the establishment of this system it will be necessary to secure much money from private sources. I think there are many men in the country who would be willing to contribute with the hope of a reasonable profit, and many cities would contribute stock in order to secure the location of the State bank. The same suggestion may be applied also to the national bank or the central bank.

I doubt whether it would be necessary for the entire board of governors to receive such liberal salaries as are provided on page 44. I rather think that it would be sufficient to compensate the president and the vice presidents and to make a modest allowance for other members of the board of governors.

If the Congress can be persuaded to appropriate any money whatever for investment in the national bank, I suggest that the amount should be at least a million dollars instead of the \$500,000 as you provide. It will be a mistake to undertake to establish such a system with a small amount of money. I suggest also that ample provision should be made in the bill for organizers of local and State banks. It will take a tremendous effort by many skilled and efficient men to organize these institutions, and it is my opinion that such organizers should be engaged for a period of two to five years.

I congratulate you upon making the effort, and, while I presume you hardly hope to succeed at the present session of Congress, we must make a beginning, and the sooner we make it the better.

Yours, truly,

CLARENCE OUSLEY.

Senator FLETCHER. Of course, I have not specific authority for offering either of these; but I do so, as I think it will be well, as I said, to have all the light on the subject we can.

Now, if the committee should be interested further in my views, expressed more in detail and supplying certain material relating to the subject, I may be permitted to refer to a speech which I made in the Senate August 14, 1912; another one made in the Senate August 9, 1913; and another one to the conference of governors (S. Doc. 177), and also one which will be found in the Congressional Record of January 29, 1914.

Senator HOLLIS. Permit me to interrupt you there, Senator Fletcher. I think it would be useful to have at least one of these addresses of yours—the one that you think covers the subject best for this purpose—made a part of the record. I should like to have it in the record. Will you give to the stenographer such material of that sort as you think ought to go into the record.

Senator FLETCHER. I will, Mr. Chairman, if it is desirable. But the record of these hearings will show the references to those speeches, so that any of the members can read them if desired. I thought that would save printing in the record; but the committee may do as it likes about that. Perhaps it would serve to furnish extracts from those speeches mentioned.

(The papers referred to are as follows:)

[Extracts from speech of Hon. Duncan U. Fletcher, of Florida, in the Senate of the United States, Aug. 9, 1913.]

NATIONAL RURAL BANKING SYSTEM: ITS ESTABLISHMENT, OPERATION, MANAGEMENT, AND CONTROL.

* * * * *

AS AFFECTING AGRICULTURE.

While the pending legislation is most desirable, it does not, can not, and no amendment to it could be made to, supply the great and pressing call for financial consideration by agriculture.

In the past Great Britain bent her energies developing her industries and her commerce.

Germany realized she must provide food for the people, including her army, and she looked after agriculture as well. In consequence, Germany has the most complete financial system aimed to benefit agriculture and under which her farmers prosper, and without which they would have perished. Raiffeisen heard the call in 1849. The *Landschaften* and other plans were evolved. They are quite distinct from ordinary commercial banking institutions.

In recent years England has endeavored to remedy her oversight. Her statesmen and economists saw the trouble, and legislation has been enacted in the interest of agriculture.

But the most marked example of the successful application of the German idea to local conditions is found in Ireland. In the days of absent landlordism and tenancy that country was noted for the poverty, distress, intemperance, and discontent of its people and the prevalence of crime. Since the efforts of her patriots, resulting in the act of Parliament constituting the development commissioners in 1900, whereby the Government, by its credit of \$1,000,000,000, has made it possible for those who work the land to own it, there is bounding hope, general prosperity, contentment, and progress on every hand, and the jails are turned into schoolhouses, and the Irish lad no longer hurries from the farm. Under the leadership of such economists as Sir Horace Plunkett there has come about a real rural reconstruction. It is because by some wise consideration shown those who till the soil, enabling them to have a fair and square chance—and they have never asked special favor or special privileges—life on the farm is being made, as it must be in every country, if that country is to prosper, conspicuously comfortable, intellectually interesting, and socially satisfying.

We must not get into Ireland's former condition.

Statistics show there has been an increase of tenants on the farms of this country of some 12 per cent since 1880, a decrease of occupying owners in that period of 14 per cent. The exodus from the farm is increasing—our exports of food products rapidly decreases. Soon, at the present rate, we shall not be producing sufficient to supply the home demand. For instance, while our population has increased 9,000,000 since 1907, the number of cattle has decreased 16,000,000. Yesterday 900,000 pounds of beef from the Argentine Republic was delivered in Washington. The shipment came from Buenos Aires via Liverpool, and the time required was 35 days.

It may be claimed that section 27 of Senate bill 2639 will serve the farmer. To a degree it will be of benefit, but it does not approach ample provision. It removes the ban on real estate as security heretofore existing, but the farmer can not return his capital in nine months. This would give but temporary short-time accommodation. What the farmer wants is long-time loans at a low rate of interest, with amortization feature. In this way he can acquire a home, improve his property, develop his industry, and out of the annual proceeds pay off the debt by installment reductions.

* * * * *

COMMERCIAL BANKING SYSTEM NOT SUFFICIENT.

You can not provide for that in any commercial banking scheme. You must have a separate plan. In nine months he might be able to meet obligations incurred for temporary needs—for supplies to enable him to produce the last crop—but that is but a small addition to the avenues now open to him for that purpose. Besides, the Senator from Oklahoma [Mr. Owen] estimates this section would make available for loans on real estate some \$250,000,000. This is an insignificant sum compared to the demands of that great industry. How great it is may be understood when we reflect that over 10,000,000 of our people are directly engaged in it and over 30,000,000 are on the farms and supported by them. Furthermore, that the value of the products on the farm last year were \$9,400,000,000, and it is estimated that one-third of these were consumed on the farms, leaving the remainder to be marketed and for which the consumers paid over \$13,000,000,000. Further, our farmers owe some \$5,000,000,000, nearly three billion of which is secured by mortgages on the land. What would two hundred and fifty million amount to when it is a question of properly taking care of that three billion, say nothing as to the other two billion secured by crop liens and due local merchants?

I realize that in some portions of the country the farmers are lending money to the banks, enjoying automobiles and other luxuries. There are many other portions where the farmer is having a hard and miserable existence. Excessive rates of interest, inability to get capital, lack of credit, or other difficulties in no few districts prevent his getting a direct return from his toil, strive how he will.

STATUS OF AGRICULTURAL AND RURAL LIFE.

We must take the average, as we must deal with the average man in all our calculations. We find that the average farmer earns, gross, \$700 per annum—less than \$2 per day. With this he must support his family, educate his children, meet medical bills; then he can buy barrels with which to store away the remainder.

There seems to be two theories advocated by earnest, conscientious, able thinkers, respectively:

Mr. David Lubin contends the farmer is "behind the times in the United States * * * because he has no cash, no open account. Give him that, and he will have the rest. It therefore follows that the American commission should first of all find out why the European farmer has cash, has open accounts, and why the American farmer has not. Having found out the why, it will be easy enough for the American farmer to build up the structure he should have so as to adapt himself to the needs of the twentieth century and in conformity with the progressive modes in operation in the United States in all other fields of activity."

Sir Horace Plunkett, the Irish patriot, economist, and publicist, says:

"I hold strongly that until farmers have fallen into line with the economic system of your and our countries by organizing their business they can not themselves know the character of the security they have to offer, and therefore will not have credit to get cash adequate for their requirements."

He insists upon dealing with "the problems of rural life in its entirety" rather than restricting our efforts "to the financial aspect of the problem."

As I understand, he contends that we must first get the farmer ready to utilize credit. He must organize cooperative societies, combine with his neighbors, prepare himself and his undertaking in order to make effective and economical use of the credit which will come to him, and then a system may be devised whereby he can economically finance all his operations.

Both aim for the same goal; both wish to accomplish the same ends; the difference appears to be in methods or means. It seems to me both may be right; that the resultant, rather, the middle course, would be nearer the true and the wise course. In other words, let us proceed with both developments at the same time—cooperation to better rural conditions and financial arrangements *pari passu*.

* * * * *

The farmer must always be the foundation, but that does not mean he must be kept beneath the surface.

The rewards of his labor are too meager. Experts say, upon an average, the farmer gets only 35 cents of the consumer's dollar. The cotton grower gets the largest proportion of what the consumer (meaning the manufacturer) pays, 70 per cent. The vegetable and fruit grower get the smallest percent, 20 per cent. This is because cotton passes through fewer hands. He pays high prices for the things he buys. He pays tribute to the manufacturer, the middleman, and the financier. The poorest preachers the church sends to the country meeting houses. The most inexperienced and inefficient teachers the State sends to the country schools. About the cities and towns the paved roads are found. There is need of centers for business and social gatherings in order to make rural life more richly enjoyable and humanely interesting. Farming must be made more remunerative. The returns do not warrant good wages, hence the lowest wage is given to farm labor, and hence, too, its decreasing quantity and quality. The farmer receives less for the hours he spends in toil than any other worker. His work is unceasing—is never done. Yet Adam Smith stated the fact that "all wealth comes from labor applied to land."

The primitive values are food and shelter. There is much talk about universal peace—build up a contented and prosperous husbandry and you make the greatest stride in that direction. The farmer is for peace; he is never a despoiler. He brings on no wars, although, like the hunting-shirt men under Jackson, he does the best fighting when it needs to be done.

We talk about world disarmament. Let a nation produce a surplus of prime necessities of life which other nations must come to it to obtain or go hungry and unclothed, and you have a nation in position of supreme power.

I would encourage, not undermine, the policy of self-help and individual initiative.

But something must be done to give this oldest and really only absolutely necessary industry its proper place in the Nation's economy.

We know that about 1880 the cooperative movement for the benefit of agriculture became very active in Germany, Italy, Denmark, France, and other continental countries.

Sir Horace Plunkett and a Jesuit priest, Father Finlay, just from his studies in German universities, organized the pioneer society of agricultural cooperation in English-speaking countries, the Irish Agricultural Organization Society, which has brought into existence all the present societies, combining 100,000 Irish farmers, giving an output valued at £2,500,000 annually. They apply the cooperative principle to agricultural production, distribution, and finance.

In sporadic instances that course is pursued in the United States. I have been informed that a cooperative society about Summerville, S. C., saved last year to its members \$7 per ton on the fertilizers the members used.

EXPERIENCE IN OLDER COUNTRIES.

The three causes which revolutionized Irish farming are given as: Land purchase, whereby the farmer became the owner of the land; technical education, whereby he was taught to do better farming; and agricultural cooperation, whereby business methods were applied to the industry and the produce was disposed of to the best advantage. The Irish Agricultural Organization Society has successfully demonstrated that the cooperative system is capable of enabling the farmer to produce and distribute efficiently and economically, and at the same time to finance both these operations. Credit societies have been formed as auxiliary to the cooperative society.

There are some 200 rural banks in Ireland. One of the first forms of cooperation on the Continent, and the most useful, was cooperative credit. No loss has come to any one in their operation in all the years since Raiffeisen started the plan in 1849.

In 1884 the idea took fast hold in France and the agricultural syndicates were established and soon came to be considered veritable public utilities.

To-day there are 4,000 syndicates, having a million members, representing 5,000,000 of the rural population of France.

There are 1,350 credit societies after the Raiffeisen principle, having some 60,000 members. There are 1,500 societies of agricultural credit under the law of 1894, which inaugurated a special type of bank composed of members of agricultural syndicates.

These societies have resulted in doubling the produce of the land, enabled the farmers to meet the competition of other countries, attached the people to the soil, advanced the rural population in prosperity and in economic, moral, and social improvement. An illustration of the way cooperation works is this statement: The syndicate chartered steamers to carry strawberries to London, and growers doubled their profits over what they were when they consigned to Paris and left Paris to sell to London. Foreign trade was established in the same way in fruits and early vegetables, to the immense advantage of the growers.

In Germany there are 17,000 credit societies, with 1,500,000 members. These and the *Landschaften* and other institutions providing for amortization and low rates of interest on long-time loans have redeemed agriculture in Germany. The German farmer and the French obtain all the money they need under the cooperative credit system at 3 to 4 per cent.

The farmer must have capital. He must provide for annually recurring requirements. He must have the means of using his asset (land) to get money as capital. Relief can not come through a system of commercial banking. There is need for a special kind of bank, authorized to use its credit to guarantee long-term loans, so as to meet the farmers' capital requirements.

These can not be met by direct loans from any bank. The railroads are financed by the sale of long-term bonds, based on capitalized prospects, rights, and property. The farmer needs an institution to guarantee his bonds and make them salable; one that would furnish not only the capital requirements of the farmer, but his annually recurring needs, naturally bringing about business methods, necessitating organization and cooperation, thus covering the entire field of agricultural reconstruction and making conditions for ideal rural life.

I can not too strongly urge that a special kind of bank, a system separate and distinct from commercial banking, must be established in order to supply the needs of agriculture and rural life.

The deposit of postal savings funds and perhaps the governmental funds with the rural banks thus established would be wise and helpful, enabling the banks controlled by individual farmers, familiar with the needs of their communities, to make the loans as needed.

The objection that such facilities would encourage debt and extravagance is unsound. On the contrary, the effect would be to lend hope to the farmer, brighten the lives of the country men, instill habits of thrift and economy, give open accounts and savings accounts, and promote business methods so much desired, and strengthen the independence and self-reliance of the rural population.

The experience of older countries is contrary to the apprehension indicated. By the establishment of financial institutions primarily for the benefit of those engaged in agriculture and by methods of cooperation in various directions that industry has perhaps attained its highest development in Germany. With an area of 208,780 square miles—not as large as Texas by an area greater than Alabama (53,618 square miles)—that Empire produces 95 per cent of the food required for its 67,000,000 people.

The contention may be that an act creating a rural banking system would be class legislation. This is not well founded. Agriculture, commerce, and industries are the three great pillars of support and strength. The banking system heretofore in force contemplated meeting the requirements chiefly of the last two—commerce and industries. Agriculture has been left out of the reckoning. No commercial banking provisions can supply the needs of the farmer and must largely be confined to commerce and industries. The man engaged in trade and the manufacturer must have facilities which are entirely different from those needed for the farmer. The time has come when the chief stone of the temple must be considered. We can no longer neglect suitable financial provision for the farmer. Statistics furnish argument enough when they show the population of the United States increased from 1900 to 1910, 21 per cent, while the number of workers increased on the farm during that period only 10.9 per cent and the workers in the factories increased (1900-1909) 40.3 per cent and in the mines (1902-1909) 83.1 per cent.

The criticism may be made that the proposed legislation smacks of paternalism. Not at all. The Government is asked for no subsidy. The postal savings must be

deposited somewhere; why not in the rural banks? It simply means providing by law a means of self-help. Individual initiative by the farmers must be exercised in order to make the system a success. The Government does no more in this matter than it does in respect to commercial banks. It gives opportunity, furnishes the machinery, supplies the working tools or a chance to get and use them. Laws applicable to the sea are peculiar and different from the laws in force on land, because the conditions are different.

The conditions of rural life are not at all the same as conditions of life in the cities. Laws governing commerce are not the same as those with respect to mining. The proposition simply is to establish a system of agricultural finance suitable to the needs of those priests of nature who live nearest the fountain of life in the divine economy and on whose prosperity the welfare of all depends.

It would mean that agriculture is not to be longer subordinated to commerce and industry.

The Government should play no favorites. The moral and material upkeep of the rural population is quite as important as the development of urban industries or commercial expansion. The strength and health of society depend on the intelligent labors and well-being of the countrymen.

We must look after something more than merely giving instruction how to cultivate, produce, and market. We must do those things which will create a social order and adjust it to human needs.

We can provide the machinery whereby the farmer can protect himself, and by its intelligent use reconstruct his great industry and redeem rural life from stagnation and decay.

That the time has come for the taking of steps of this kind is clearly indicated, I think, by what has been already said, to which I might add references to a few more statistics.

Mr. President, I offer certain tables, which I ask to have printed as a part of my remarks.

The VICE PRESIDENT. Without objection, leave will be granted.

The tables referred to are as follows:

TABLE 1.—*Number and percentage of farms of specified tenure in the United States, 1880 to 1910.*

[From decennial census of agriculture.]

Year.	Number of farms operated by—		Percentage of farms operated by—	
	Owners. ¹	Tenants.	Owners. ¹	Tenants.
1880 ²	2,984,306	1,024,601	74.5	25.5
1890 ²	3,269,728	1,294,913	71.6	28.4
1900.....	3,712,408	2,024,964	64.7	35.3
1910.....	4,006,826	2,354,676	63.0	37.0

¹ Includes farms operated by owners, part owners, owners and tenants, and managers.

² Not including farms with an area of less than 3 acres which reported the sale of less than \$5 worth of products in the census year.

(This table can be expanded to a showing by geographic divisions and States.)

TABLE 2.—*Urban and rural population in the United States, 1880 to 1910.*

[Urban population resides in incorporated places of 2,500 inhabitants and over.]

Year.	Number.		Percentage.	
	Urban.	Rural.	Urban.	Rural.
1880.....	14,772,438	35,383,345	29.5	70.5
1890.....	22,720,223	40,227,491	36.1	63.9
1900.....	30,797,185	45,197,390	40.5	59.5
1910.....	42,623,383	49,398,883	46.3	53.7

NOTE.—Quotation from abstract of the Thirteenth Census.

(This table can be expanded to a showing by geographic divisions and States.)

TABLE 3.—*Number and percentage of farms in the United States mortgaged and free from mortgage, 1890 to 1910.*

[From decennial census.]

Year.	Number.		Percentage of owned farms.	
	Mortgaged.	Free from mortgage.	Mortgaged.	Free from mortgage.
1890.....	886,957	2,255,789	28.2	71.8
1900.....	1,127,749	2,510,654	31.1	68.9
1910.....	1,327,439	2,621,283	33.6	66.4

NOTE.—The figures are for farm families in 1890 and for farms in 1900 and 1910. (This table can be expanded to a showing of geographic divisions and States.)

TABLE 4.—*Percentage of farm-mortgage debt of the value of the mortgaged farms, 1890 and 1910.*

[From decennial census.]

	Percentage.
1890.....	35.5
1910.....	27.3

Mr. FLETCHER. Table 1 has been prepared from the census reports as far back as 1880, and the results of these censuses with regard to farm tenure show that the fraction of farms operated by tenants has steadily increased from 25.5 per cent in 1880 to 37 per cent in 1910.

It appears also from this table that the fraction of farms operated by owners decreased from 74.5 per cent in 1880 to 63 per cent in 1910.

The actual and relative urban and rural populations from 1880 to 1910 are expressed in Table 2, and in this table it appears that the rural population has declined from 70.5 per cent of the total population in 1880 to 53.7 per cent in 1910. Conversely the urban population has increased from 29.5 per cent in 1880 to 46.3 per cent of the total population in 1910. These figures do not mean that the changes in the relative proportions of these two classes of population have been caused entirely by the movement from country to city. Immigrants have tended more and more to remain in the cities, especially in New England and in the Middle States.

The censuses of 1890, 1900, and 1910 took account of the number of farms operated by owners that were mortgaged or were free from mortgage, and the results are expressed in Table 3. The fraction of farms operated by owners that were mortgaged increased from 28.2 per cent in 1890 to 33.6 per cent in 1910.

The bulk of the farm-mortgage debt is incurred to secure deferred payments and to make improvements. This was thoroughly investigated in the census of 1890. See Abstract of the Eleventh Census, page 243.

Farms were worth more per acre in 1910, including improvements, than they were worth in 1890, and because of the increase in the value of lands the ratio of farm-mortgage debt to the value of the mortgaged farms declined from 35.5 per cent in 1890 to 27.3 per cent in 1910. (See Table 4.)

The decline in exports in the case of wheat and most of the packing-house products has been marked. In the exports of cotton it is true there has been enormous increase.

In connection with an examination of the trend of exports of farm products it may be borne in mind that the imports of agricultural products has been greatly increased.

The fact that agricultural production is not keeping pace with consumption is full of meaning. This diminution of agricultural surplus may be partly due to the effect of unfavorable climatic influences upon production, but it is also due in part to the building up of cities by immigration and to the drift from agriculture to other occupations at a faster pace than formerly. The movement from country and farm to city and town exists and has existed in all parts of the United States, and it everywhere exceeds the contrary movement, such as it is.

Last year we produced on our farms and in our factories and mines products valued at \$40,000,000,000, of which we consumed thirty-eight billion and exported two billion, in round numbers. We imported and consumed commodities from other countries of the value of \$1,800,000,000. The important part cotton plays in the balance I need only suggest.

ILLUSTRATIONS—RURAL CREDITS.

To be sure, there is no "royal road" to success in farming any more than there is to learning.

Everything depends on the individual farmer—his industry, judgment, and capabilities.

But, assuming he has the necessary sense, energy, and ambition, he could get much further ahead, accomplish much more, enjoy life to a fuller degree if he is enabled to make judicious financial arrangements on terms two or three times as advantageous to himself as he can now.

Certainly it means much to the country if a plan can be devised and put into execution whereby the worthy and industrious man may secure a farm which lack of cash or credit makes impossible to him now. It would count for the individual and the general good if a way could be found whereby the people may be attached to the soil in contentment, comfort, and prosperity, whereas now they seek the city for employment yielding only a bare existence.

It would help mightily in the well-being of society if a plan of organization or cooperation can be put into use whereby the tenant can acquire a home for himself and become the owner of the farm he cultivates.

These ends can be attained by profiting by the experience of others whose necessities compelled a solution of the problem years ago.

For instance, take this illustration from a Danish mortgage-society law, mentioned by the commission on rural credits and betterment: Members of the company (farmers who have mortgaged their property) must pay a yearly amount of 4 per cent interest, three-fourths of 1 per cent amortization, and one-fourth of 1 per cent for expenses, making altogether 5 per cent per annum, with the result that in 47 years their debts, principal and interest, are paid in full.

The American farmer mortgages his farm and pays from 7 to 10 per cent interest per annum. The average rate of interest paid by the American farmer to-day is 7.79 per cent per annum, while the German pays $3\frac{1}{2}$ to 4 per cent, notwithstanding interest rates are generally higher there than here. His mortgage runs for 3 to 10 years—no matter what time—at the end of which he must pay the entire principal. Suppose, with renewals, his mortgage runs 12 years. He would pay 90 to 95 per cent for the use of his money for that time. The Danish farmer would pay 135 per cent for his money for 47 years. The American farmer would pay 7.5 per cent a year for his money—the Dane would pay 2.9 per cent.

The Dane's loan is an investment. He can afford to borrow money to improve his farm or purchase his farm at that rate. The American is in debt and mortgaging his home; the Dane is using his credit. Each year, while paying only 5 per cent on the money received, the Dane is getting out of debt. The American is paying 7 to 10 per cent and not reducing his debt a penny. At the end of 47 years—or less time if he chooses to pay more—the Dane is out of debt and his premises are free. At the end of any period—even 100 years—the American would owe the original principal, his premises would be encumbered by the mortgage, although he will have paid twice as much as the Dane.

A special imperial act provides for cooperative societies in Germany. As we have seen, there are 17,000 cooperative agricultural banks in Germany, with a total membership of over one and a half millions. The loans outstanding at the end of 1910 for fixed periods, together with overdrafts, amounted to £93,034,000, while the savings deposits totaled £92,429,000, and the deposits on current account amounted to £10,865,000.

The late distinguished minister of finance in Prussia, Herr von Miguel, some 17 years ago said in Parliament:

"This must be our goal—to have a cooperative loan bank in practically every parish of the whole monarchy."

The result is the transaction with the German farmer is as follows: On a loan made at 4 per cent is added three-fourths per cent for amortization, one-fourth per cent to cover operating expenses of the association, and by paying this amount, a total of 5 per cent annually for between 40 and 50 years, the entire loan is paid off. The farmers of this country must be got out of the clutches of money lenders, such as demand unconscionable rates and terms, factors who charge outrageous interest on advances, merchants who sell him goods on time at double prices, middle men who take advantage of the situation to despoil him, transportation companies which take all his products will bring him and call for more. I do not say these practices are universal or that the farmer is commonly imposed upon; but the picture is quite too familiar and at present he is too often helpless.

Mr. OWEN. Mr. President —

The VICE PRESIDENT. Does the Senator from Florida yield to the Senator from Oklahoma?

Mr. FLETCHER. I do.

Mr. OWEN. I understand that even at the other end of the earth, in New Zealand, they have a plan of lending money to farmers at 3 per cent on the principle of amortization, so that at the end of 30 years, on an extremely low rate of interest a farmer can acquire a home or borrow money on the home, improve it, make it more productive, and by the use of easy credit produce the values from the home easily to pay for its development.

I do not know whether the investigators studied the New Zealand method or not, and I should be glad to have the report include the New Zealand method of farm land credits.

Mr. FLETCHER. Mr. President, the commission did not visit New Zealand, but I do not doubt that the Senator from Oklahoma is entirely correct in his statement of the practice there. I have, however, no information on that subject through the commission or from any investigation which I have made. I have not any question but that the Senator's statement is correct. The system there is similar to the system which has been in existence and in operation in Germany for a great many years.

The farmer, to whom we must go for what we eat and wear, should and must be a free man, when he is fit and does his part, and not the slave of grinding conditions. Some of these conditions can be remedied by legislation. We surely can find a plan adaptable to the circumstances here which will build up the economic as well as the social structure of rural life.

* * * * *

Any financial system is insufficient, inadequate, and fails utterly in its application which denies to that great industry lying at the base of all wealth and which must prosper if there is to be prosperity, which must make progress, if there is to be any, and which must keep pace with the times and improve in method in order to supply the increasing demand of a growing population just and fair facilities equal to those furnished the other great industries.

It is said the farmers' assets are not liquid, therefore they can not be utilized, as, for instance, goods moving in trade. I do not dispute the claim. I simply say, then, the farmer must have a system or plan different from the commercial plan suitable to the proper demands of agriculture. There is a necessary relation between cooperation and organization among the farmers and a banking scheme which must be evolved in solving their financial problems. Credit is necessary to successful cooperation. Organization on a cooperative basis will make possible the establishment of a system of agricultural credits. The most eminent authority on German commercial and agricultural banking, Prof. Reisser, says, "Agriculture requires a credit system adapted to the special nature of its production." Let us have this great economic truth sink into our minds to stay. Let us not ignore or blot it from our memories. Fully cognizant of its meaning let us face the problem in the blazing light of that truth.

By Bulletin No. 1, April, 1913, by John Lee Coulter, it appears that of the total loans made by national banks only 6 per cent are secured by real estate, including mortgage owned; that of the total loans made by mutual savings banks, 42.6 per cent are so secured; that of the total loans made by stock savings banks, 40.6 per cent are thus secured; that of the total loans made by loan and trust companies, 10 per cent are thus secured; that of the total loans made by private banks, 20.5 per cent are thus secured.

As I understand, this includes all real estate, and I dare say a comparatively small portion of the real estate included is country property.

NECESSITY FOR A COMPLETE SYSTEM OF RURAL BANKING.

Mr. President, in what I have said I have sought to present a kind of general survey of the economic situation as affecting agriculture as an industry, a business, and a life, for it means all of these.

Particular reference has been had to pending and proposed legislation respecting what is designated "currency reform," as related to that situation. I have sought to concisely state some reasons why I regard it highly desirable, if not absolutely necessary, that legislation, such as the pending Federal reserve bill, should be enacted into law, and that speedily.

I have endeavored to point out that our present system of national banks is a commercial system, incapable of meeting the needs of agriculture.

I have contended that the Federal reserve bill likewise is necessarily limited to the demands of commerce and industries. I have attempted, though in a cursory way, to point out the efforts made in other countries to save agriculture by cooperative organizations and the establishment of banking and credit systems and to suggest that we profit by the experience and example of older countries, compelled by necessity to devise and put in operation such systems that agriculture might prosper.

I have sought to give a glance at the status of agriculture in this country, its importance, its problems, and rural conditions to-day.

I have particularly aimed to stress the disadvantages under which the farmer now labors by reason of the lack of proper financial facilities, and to point out the necessity of a separate, distinct banking law under which institutions will be organized which can be authorized and empowered to supply the peculiar needs of the farmer.

I contend that adequate banking facilities are necessary to the successful conduct of any business; that for this large class of our citizenship, about one-third of our population, and for this great industry upon the prosperity of which the welfare of the Nation depends, there has been heretofore no sufficient provision for meeting their banking necessities.

I contend further their financial requirements can not be sufficiently provided for except through a special system of rural banking.

I would like now to be more specific, both as to the needs and the remedy. Before attempting to provide a remedy you will want to clearly understand the needs.

The needs of the farmer, as I conceive them, can be stated, in a condensed way, under three general heads as follows:

FIRST. THE NEED OF CAPITAL TO ACQUIRE, IMPROVE, AND EQUIP HIS FARM.

The cost of improving and equipping his farm is as much a part of the capital requirements of the farmer as the cost of the machinery in a cotton mill is a part of the capital cost of the mill. No class of men should be expected to work without tools or to make bricks without straw. A certain amount of money must be invested as capital in any business in order to equip that business and enable it to earn proper returns. This capital must be permanently invested or else it must be loaned to the business for a long period on such terms that the loan can be repaid in small annual installments out of a portion of the profits derived from the business. This is felt keenly, too, when one desires to purchase land and acquire a home in the country. A remedy means tenants will become owners.

SECOND. BANKING FACILITIES.

The farmer must have available institutions which can meet his temporary banking requirements. He must be able to borrow for a few months some of the money needed to till the soil and to harvest and market the crop. Like the merchant who seeks temporary accommodation to secure money with which to discount his bills and pays back this money out of the proceeds of sale of the goods purchased therewith, so the farmer must likewise be able to borrow temporarily to discount his bills for fertilizer, seed, etc., and for the purpose of carrying on his business during its nonproductive period. Such loans must run for a few months, must be repaid out of the proceeds of the crop, and should not properly be borrowed on a real estate mortgage on the farm any more than the manufacturer's temporary accommodations for discounting his bills should be borrowed on a mortgage on his plant.

THIRD. BUSINESS METHODS IN THE CONDUCT OF HIS BUSINESS.

¶ The farmer, like the merchant, will ultimately keep an accurate statement of the condition of his business, so that he can always ascertain whether he is operating at a profit or at a loss, and he will cease depending on the business man to conduct all business transactions for him. He will adopt business methods and put them in practice in his own affairs.

HOW THESE NEEDS CAN BE SUPPLIED.

If this analysis of the farmer's needs approaches accuracy, the important question then is, How can these needs be supplied? And it must be remembered that these needs have been stated in the order of their importance, and that, in order to meet the requirements of the situation, it is necessary to provide some machinery for supplying these needs in the order named.

FIRST. HIS CAPITAL NEEDS.

How can the farmer secure capital for the improvement and equipment of his farm or for the purchase of a farm?

The answer is obvious. The farmer has only one asset, viz, land, on the credit of which he can secure capital. He must secure his capital by borrowing on his land. Remembering that this capital must be in substance a permanent investment, it is obvious that any loan on land, made for the purpose of supplying the capital requirements of the farmer, should be a long-time loan, repayable in small annual installments set aside by the farmer for that purpose out of the annual profits derived by reason of the purchase or the improvements and equipment made possible by the loan. A loan of one year or three years or five years will not furnish the farmer's capital requirements, because he obviously can not repay it from his profits in that time. No other business could pay off its capital investment within such a period.

It is plain, therefore, that the best if not the only method of furnishing the capital requirements of the farmer is the creation of a long-term first-mortgage bond, secured on his land, which bond shall contain an amortization or sinking-fund provision, so that a small amount will be set aside each year sufficient in the aggregate to pay off the bond when it matures. This is analogous to the German *Landschaft* plan.

Moreover, the capital requirements of the farmer, like the capital requirements of the merchant, manufacturer, or the railroad, can not be met by direct loans from the banks. The farmer's loans, made to furnish his capital requirements, should run from 20 to 50 years. No bank can loan money for such a length of time. The money must be borrowed from the investing public.

Consequently the problem is not only to create such a bond, but more than this, it is to create such a bond in such a way that it will be bought and traded in by the investing public on the best terms.

In order to do this, the bond must not only be secured on the land but it must be guaranteed by some financial institution or institutions of sufficient standing to satisfy the investor that the bond is absolutely beyond question. Just here is where a special system of banks is needed, which will be authorized to use their credit in guaranteeing such bonds under restrictions which will reduce the risk of such guaranties to a minimum. Such banks must be limited in their operations, so that a guaranty of this kind will not, under any circumstances, endanger their solvency.

SECOND, HIS TEMPORARY BANKING NEEDS.

The temporary banking facilities needed by the farmer must be supplied by local institutions managed and controlled by his neighbors, who are familiar with his needs, and who will see that the money borrowed is applied to the purposes for which it was obtained. This means that the farmer should have available the services and resources of a local rural bank, owned and managed by local people, which will collect together the neighborhood funds and make them available for neighborhood purposes. In the system outlined in the bill which I have offered, these local rural banks serve this purpose, and are also permitted to use their credit to guarantee the long-term bonds of the farmer, and so aid in supplying his capital requirements, which are the first and greatest needs. This follows the idea of the *Raiffeisen* system, to which I have alluded.

THIRD, HIS NEED OF BUSINESS METHODS.

The observance of business methods by the farmer and the keeping of proper accounts can not and could not be enforced simply by legislation. Business methods will be observed only where business conditions require the observance. The observance of business principles by the farmer will be accomplished when the banks which lend him the money for his temporary requirements demand the observance of such practices and the keeping of proper accounts as a condition of such loans. The local rural bank provided for in the bill will induce the farmer to keep accurate accounts as a condition to his obtaining the desired credit to meet his annually recurring banking needs.

HOW THE BILL MEETS THESE REQUIREMENTS.

The bill, through a system of rural banks, limited as to their operations and containing the power to use their credit in guaranteeing long-term farm bonds, furnishes a means of meeting these three essentials of any banking system suggested for the rural population. The rural banking board is so constituted and given such powers of supervision and control as to safeguard all transactions and have the system conform to correct principles.

COMMERCIAL BANKS ARE UNABLE TO MEET THE REQUIREMENTS OF THE FARMER.

I feel quite convinced that we can not expect a system of commercial banking to meet the needs of the farmer. It is recognized all over the world that no commercial banks can with safety be allowed to execute a pure contract of guaranty. A commercial bank can not afford to guarantee the payment of long-term bonds. Its assets must be quickly convertible and must become due and payable within a short period. By consensus of opinion it is generally recognized that it is unwise for commercial banks to lend money for a longer period than four months. It must be in position to respond to any liability on demand.

FIRST. CAPITAL.

As the farmer's capital requirements must be met by long-term loans obtained from the investing public, as the guaranty of these long-term bonds by some financial institution is necessary to their sale, as a commercial bank can not safely execute a contract of guaranty, it is obvious that commercial banks can not meet the farmer's capital requirements.

SECOND. TEMPORARY BANKING FACILITIES.

As commercial banks can not safely grant temporary credit for longer than four months, and as the farmer's requirements are for temporary accommodations for a longer period (or until the crop comes in), it is equally obvious that commercial banks are not suited to supply the annually recurring banking needs of the farmers.

THIRD. BUSINESS METHODS.

Commercial banks, as a rule, are located in cities, towns, villages, or other centers. They are usually remote from the farmer. Being remote, they are unable to make small loans needed in the operation of his business because of the expense incident thereto and because they can not keep in close enough touch to ascertain if the money derived from these loans is used for the purposes for which it was granted. The local rural bank is accessible, convenient, and conducted at nominal expense.

* * * * *

INADEQUATE.

The relief afforded in the bill is, moreover, inadequate. The present mortgage loans on farms in the United States approximate \$3,000,000,000. In explanation of section 27 of the bill, the chairman of the committee has said, in effect, that if every bank in the system loaned every dollar that it could under this provision there would be available about \$250,000,000, which is just about one-fourteenth, or 7 per cent, of the present requirements, and is obviously inadequate.

SPECIAL BANKS NECESSARY.

The conclusion is irresistible that rural banking should be provided for in a separate system from commercial banking; that rural banks should have a special power to use their credit in addition to their cash resources to meet the needs of the farmer, and especially in order to aid the farmer to obtain capital, and should, on the other hand, be limited and restricted as to their operations and activities, so that the use of their credit will not impair their solvency.

Some credits have suggested that bankers and capitalists would like to facilitate the mortgaging of farms and issuing of bonds in the expectation that they might eventually own the farms. Here, again, the experiences of other countries is helpful. In Saxony 85 per cent of the land-mortgage bonds are held by the people of that Province. The rural people themselves are the chief and, in most instances, almost the exclusive owners of the bonds. The terms are so favorable to the borrower as to interest, reductions, and payments there can be no excuse whatever for losing his land.

Mr. President, I frankly say that the bill I have introduced has its weaknesses. It is not claimed to be perfect. It is not the last thought or the final word on the subject by any means. It has the merit of proposing something definite, and my hope is it will provoke discussion and lead to action now. It seems to me greatly preferable to have it considered at this time rather than have it go over to next session. It ought to be taken up and, if possible, considered and acted upon along with the commercial-banking bill.

Mr. President, there is no more important subject before the people of this country to-day than the unsolved problems of rural life.

It is gratifying to note that interest is being aroused on this subject and our people are stirring in an unprecedented fashion. The highest country ideals mean the highest civilization.

If we can set in motion agencies that will bring about the highest type of an advanced rural society, we will have done a most useful public work.

If we can start moving forces which will develop the best country life, we will have answered the call for genuine service.

We make a tremendous contribution in those directions when we reach out our hand to the tillers of the toil and say, "We will start with you on the land; we will be with you in the cultivation, go with you to the market, and open the way for you to finance your affairs."

When that is done, fair opportunity will widen the horizon and beautify the lives of those engaged in agriculture. It will open the way for the betterment of rural conditions, even as Daniel's window opened toward Jerusalem.

* * * * *

[Extracts from address of Hon. Duncan U. Fletcher to the house of governors at Colorado Springs, Colo., Aug. 26, 1913.]

WORK OF THE AMERICAN COMMISSION RESPECTING AGRICULTURAL FINANCE, ORGANIZATION, COOPERATION, AND THE BETTERMENT OF RURAL CONDITIONS.

Gentlemen of the House of Governors, responding to the kind invitation of Gov. O'Neal, as chairman of the committee of governors on rural credits, to submit to the house of governors at this meeting a preliminary report from the American commission respecting its investigations of that subject in Europe, I wish to express the acknowledgments of the American commission for this consideration and to direct your attention to the fact that so short a time has elapsed since the return of the commission any report now must be of necessity incomplete and general in character.

Permit me to call to your minds that last December, some nine months ago, I had had the honor, by invitation of President Taft, of addressing you at the White House, on which occasion I sought to point out the plan for assembling the American commission, the purpose then in view, including to some extent the scope of the inquiry we expected to make, and appealed to you for encouragement and support. I boldly expressed the confident hope and belief that the movement started by the Southern Commercial Congress in April, 1912, through the inspiration and advice of Mr. David Lubin, American delegate to the International Institute of Agriculture, later joined in by Ambassador Herrick and others, would be successfully carried out. President Taft and the State Department became impressed with the significance of the undertaking to American agriculture and gave it their full sympathy. It is highly gratifying to report to you that the stupendous task assigned to us was accomplished. Every step was a step forward, and every detail was carried out precisely as planned with preeminent success. I am grateful to you for the assistance you rendered. Some States whose legislature met after your Richmond and White House conferences passed special acts—I recall Ohio, California, Oregon, and Washington—providing for representation on the commission. The Congress of the United States passed a joint resolution accrediting the commission to the foreign Governments. The State Department communicated this fact to our diplomatic officials in the countries visited, and in consequence the highest official recognition was extended the commission throughout Europe. Congress also provided in the agricultural bill for a Federal commission of seven to be appointed by the President "to cooperate with the American commission" in the study in European countries of the subject of rural credits. That act was approved March 4, and the commission, on the recommendation of the Secretary of Agriculture, was appointed by President Wilson, and five of them accompanied the American commission on its tour of investigation and engaged actively with them in the work.

Without reciting further details by way of showing the widespread interest in the subject and the forces behind the cause, I am able to state that on the 26th of April, according to our previous calculations, there sailed on the steamship *Saxonia* for Italy two delegates from each of 29 States, named by their governors, and from each of four Canadian Provinces desiring to join us. Taking more or less part in the work, some already in Europe and some coming later, were representatives from seven other States. As stated, in addition and energetically cooperating were the five members of the United States commission throughout the inquiry. These commissioners returned on the steamship *Cedric*, sailing from Queenstown, and arriving in New York July 26.

Speaking now for the American commission, which is directly connected with the States, I would say the field covered during its investigation in Europe was very broad. The countries visited included Italy, Austria-Hungary, Russia, Egypt, Germany, Denmark, Switzerland, France, Spain, Belgium, Holland, England, and Ireland.

This extensive area was covered by dividing the commission into subcommittees so that considerable time could be given to each country. It must be remembered that the commission entered upon its study with what prior knowledge of the subject could be gained from published works. Thus its task was to correct, confirm, and readjust its book-gained opinions and to visualize the subjects rather than to conduct an exhaustive investigation into an entirely new field. Every facility was given the commission by the European Governments, and we owe indebtedness for their courtesies and assistance, and likewise by the farmers' organizations. I desire to emphasize the sincere appreciation of the members of the commission for the services rendered it by the American diplomatic and consular offices, acting under instructions issued by the Secretary of State, Mr. Bryan. Likewise the American Institute of Agriculture, through Mr. David Lubin, American delegate, rendered assistance by arranging in advance the details of the inquiry, without which it would have been impossible to cover the field within the time allowed, if at all. The organizations visited generously cooperated by having printed in English programs and other data relating to the subjects to be studied by the commission.

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* * * It seems quite well established that economic evolution has made organization a necessity to farmers. Cooperation is urged as a form of organization which would secure for them at once the highest business efficiency and the greatest social strength.

Cooperative organizations should be formed with a view, first, to improving their credit facilities; secondly, to increasing their control over the marketing of crops and to strengthening their position as buyers and sellers; and, thirdly, to establishing a channel whereby educational propaganda and work for the improvement of country life conditions may be effectively brought to the individual and his cooperation and participation in that work secured.

CREDIT.

Credit is the keystone of the organization proposed. American farmers possess potential credit of vast amount. The task is to discover a plan whereby that credit may be made cheaply and easily available.

The credit requirements of farmers differ radically from those of merchants and manufacturers chiefly because returns from money invested in agricultural enterprises are much slower, though more certain, than returns from other enterprises. For this reason in many European countries financial systems have been established devoted exclusively to the interests of the farmers.

In the United States the farmer is dependent upon a banking system operated primarily in the interests of merchants and manufacturers, which in their nature are dissimilar to agriculture.

European credit systems seem to be of two kinds, those providing personal short-time credit for operating purposes, and those providing long-time mortgage credit for works of permanent development and purchase.

PERSONAL CREDIT.

The most highly developed systems of short-time agricultural credit institutions are found in Germany. They are in the form of a pyramid composed of local cooperative credit societies, central societies operating generally over a Province or administrative district and a main central society, as the apex, at Berlin.

Every farmer joining a local society assumes liability for its debts. In other words, he signs over his credit to the society and with this collective liability or credit as security the society contracts loans and solicits saving deposits. There may also be a cash capital subscribed or a cash reserve built up to serve as security in addition to the collective liability, but it is the liability which forms the chief security. The funds thus secured are loaned by the society to its members. A rate of interest is charged members on such loans sufficiently above the rate paid by the society to creditors so that the margin will cover the expenses of the bank and leave enough over for reserves or other purposes.

In their operation it is necessary to insure two things—first, that creditors shall be protected in their loans, and, second, that members shall be protected against the losses to which their liability subjects them.

The members are protected by placing every possible safeguard about the loans to insure their repayment. This is done, first, by admitting to the society only persons of good standing. Then it is provided that loans shall be made only for productive purposes, the borrower being required to state for what purpose he desires a loan. Further, the territory of operations for each society is limited to an area wherein every member knows every other member and is in position to find out whether the borrower is living up to the promises he has made to the society. The liability assumed by members is depended upon to keep them watchful of the affairs of other borrowers, and in a rural community this check is extremely effective. Also, profits are either prohibited or so strictly limited that there is no incentive to speculation as a means to swell the income of a society. The officers of the society are so chosen that one set or board keeps check on the other. The liability of all officers insures their watchfulness. The general management of the affairs of the society is left in the hands of the general assembly of all members. No matter what stock ownership a member may have, he is entitled to only one vote. His stock ownership is generally limited to a small amount. In this way these societies are insured a conservative management and maintain a surveillance over all loans made to members far closer than that maintained by the average commercial bank.

All such local societies within a certain territory are combined to form a central society. A central bank is established which has, first, a small cash capital subscribed by the local societies, and, secondly, the collective liability of its constituent banks as capital. These central banks receive as deposits the surplus funds of local societies and loan them in turn to other local societies. In other words, they equalize supply and demand between the local banks. They are hardly more than paper institutions. Their management is under the control of officers chosen by the local societies through a representative system.

The main central bank acts as equalizer for the central banks above mentioned. The effect of this pyramiding of the societies is to concentrate all of the borrowing and investing for a system in one big institution. The deposits, of course, are taken in by the local societies, and as the societies develop these form the bulk of the system's resources. In Germany such deposits have at times formed over 90 per cent of all the funds required for loans by an entire system.

MORTGAGE CREDIT.

The worst feature of the farm mortgage in the United States is in its individual character. An investor buying a farm mortgage must determine the sufficiency of the security offered by the land upon which the mortgage is executed, must attend to collections of principal and interest, must see that the taxes are paid and that the property is not allowed to depreciate in value to a point where the security of the mortgage is jeopardized. Obviously these responsibilities placed upon the mortgagee make it necessary that he shall be in a position to keep posted with regard to the land upon which he has loaned his money. So long as this is true the market commanded by a farm mortgage will be restricted. Life insurance companies control practically the only source of money to which the farmer may turn in disposing of his mortgage besides the individual lender or his direct agent. The individual lender controls the market. Therefore American farmers to-day are paying one rate of interest in one State and another elsewhere. They do not secure the advantages which ability to compete in a wide market bring, and since their mortgages do not form a liquid investment they are required to pay a higher rate than other borrowers who do not offer, perhaps, as good security.

The second, and perhaps the greatest, disadvantage is the limited time for which a farmer may borrow money on a mortgage and the fact that he is required to pay back in a lump sum the entire principal of the loan at the end of that short time or else contract a new mortgage—that is, secure a renewal. An individual lender can not be expected to place his money in a nonliquid investment for more than about five years. He may grant a renewal of the loan, but he must reserve the privilege of calling in the loan at the end of that time and may increase the interest. It will require the farmer who has invested the money secured from the mortgage in farm improvements far more than those five years to realize the entire principal.

These disadvantages will rest upon the farmer so long as he is obliged to sell his mortgage direct to the investor—in other words, so long as it is an individual transaction. In Europe a remedy for these disadvantages has been discovered which does not involve the Government, except in its proper rôle as a controlling influence, and which does not jeopardize the safety of banks of deposit.

The effect of the European system is to break all connection between the mortgagor and the mortgagee. An institution is established which appraises the land of farmers

desiring mortgage loans. The loans are granted by such institution, which retains the mortgage. Then mortgage bonds, secured by the mortgages, but as the direct obligation of the institutions, are issued. No one bond is secured by one mortgage, but each bond is a lien against all of the mortgages. Thus the investor in place of buying paper secured by one farm and having to determine what sort of a farm that is, buys a bond secured first by a "pool" of mortgages, and secondly by an amortization fund created by small payments made as the interest is paid.

They are issued payable to bearer, are generally listed on the exchange, and so form a liquid asset. With these features the bonds sell at far lower interest rates than individual mortgages. The farmers are charged a rate sufficiently above the rate paid on the bonds to clear a margin for the institution to pay expenses, build up reserves, or for other purposes as desired. But the expenses of operation of such companies are so small in comparison with the volume of business done that this margin of profit may be taken by the institution and still the money can be loaned to farmers much cheaper than they can secure it for themselves. This is the first advantage brought by such institutions—cheaper interest rates.

These mortgage bonds run for an indefinite period. Each year the farmers are required to pay, besides the interest, a certain percentage toward reducing the principal of the loan. Thus if an institution issues \$100,000 of bonds and loans that amount on mortgages, the mortgagors each year pay the institution \$5,000 to reduce the principal of their loans. This money is used to buy up mortgage bonds from the market. In 20 years the entire issue of bonds would be bought up. It is in this way that all European mortgage loans are paid up. Sometimes mortgages run for 50 or 75 years. The bonds are retired by lot, the company generally reserving the privilege to buy them in at par or at a slight premium. Also the payments of the mortgagors are generally the same each year, a larger portion of the sum going toward principal and a smaller toward interest as the principal is gradually reduced. For instance, it is figured that a farmer having a loan at 4.3 per cent and paying each year 6.56 per cent would wipe out his loan in 25 years. This practice, called amortization, is of the greatest value to farmers, for it makes their payments on principal consistent with their income from money expended on agricultural improvements. So long as the farmer meets these annual payments the mortgage will not be foreclosed; also the interest rate can never be raised during the life of the loan.

Thus we see that such a system reduces interest rates, makes the demands upon the farmer consistent with his income, eliminates commissions, protects him from foreclosure and from an advance in interest rates. It changes a mortgage from a burdensome debt to an advantageous form of credit—an investment.

This plan of mortgage credit means more money for machinery, more for purchasing new land and for developing poor land. It means fewer tenants and more owners. It means better rural-life conditions. Generally, it would be unprofitable to attempt to develop land on money borrowed under such disadvantageous terms as now prevail here. Not only are the rates higher—that is the smaller part of the problem, I believe—but the farmer is forced to pay back his loan before he can make his farm earn that amount. That is the really great burden upon the farmer. That is the reason, I believe, why nothing more is done toward placing under cultivation the abandoned farm lands of the East and toward opening up the lands of the West and bringing more lands into cultivation in the South. The example of Germany in this respect is most interesting to Americans. Our commission was told that Germany is supporting to-day 67,000,000 people, is producing 95 per cent of the food they consume, and has definite hopes of increasing that percentage. This is being done on land centuries old that obviously was never particularly fertile. They are doing this through three influences—credit, cheap labor, and scientific methods. Of course cheap labor, as it is known on the Continent, is not to be considered in this country during this generation. I believe that we have the machinery to spread scientific methods. What we need above all is the credit necessary to bring those methods to practical fruition upon the maximum number of acres. As compared to Germany's record, we find in the United States the number of tenants increasing, the farm-mortgage debt increasing, exports of foodstuffs diminishing, imports of such products increasing, the movement from the country to the cities and towns augmenting, production of food supplies approaching steadily to the point where we will have none to export, and it will soon become a question of supplying the home demand.

It is true there have been rises in land values and advances in the price of foodstuffs, due, at least to a large extent, to the disproportionate increase in population in comparison with the increase in agricultural productiveness. It does not represent sound agricultural progress.

BUSINESS COOPERATION.

Every farmer must be a business man as well as a producer. His success depends almost as much upon his efficiency as a buyer and seller as upon his efficiency as a producer. It is in this capacity that the farmer touches the highly organized commercial world, and it is in this contact that he has suffered most. Clinging to his individualism the farmer has attempted to stand against the organized forces of commerce. In the few instances in which farmers have organized, notably among the fruit growers of the Pacific coast and the dairy farmers of the Northwest, they have demonstrated the increased strength attainable through cooperation. The beginning of organization along these lines has already been made in this country, and the task is simply to spread the doctrine broadcast and to lend assistance in the preliminary work of organization. The reason that farmers have not more generally organized along these lines in the United States is that our farmers possess a more intractable individualism than do the farmers of European countries and that in many sections they lack the essential foundation for such organizations—credit. The advantage of a cooperative credit system would be twofold—first, it would prompt the farmers to cooperate, and, secondly, it would afford them credit to make possible the organization of cooperative buying and selling societies. I believe that when the farmers come to realize the sacrifices they are making to cling to the hollow shell of an old-fashioned individualism, which has been cast aside long ago by the urban industrial classes, they will accept this new doctrine. The task now is to afford them a credit system or plan, and with that at their command the other forms of cooperation would follow from the sheer force of their economic advantage.

Although the cooperative purchasing societies of many European rural societies are organized separately from the credit societies, the cooperation between the two is very close. In fact, the purchasing societies generally depend upon the credit societies for their very existence. The principle of the cooperative purchasing societies is simply wholesale purchasing. Needs are estimated and contracts made for the wants of a community for a year or perhaps longer. Orders of individuals are then collected and forwarded through the societies to merchants or manufacturers. Some sorts of goods are bought outright and stored by the societies. The greatest benefit from such practice is only to be secured through the centralization of a system of cooperative societies, in which case the purchases are made upon a sufficiently large scale to materially affect prices. This centralization can be very easily effected through the central societies organized by the credit societies.

I do not mean to be understood as advocating the organization of cooperative societies to take the place of our local merchants, who constitute a useful and necessary part of the commerce of this country. Cooperative societies would have a field of their own, separate and distinct from that now occupied by the stores and shops of our cities and towns. In the purchase of manures, fertilizers, and such supplies as enter into or increase the product of the farm the cooperative societies could render a great service to farmers by demanding that all goods purchased conform to standard specifications, and they could buy direct at wholesale prices certain supplies, thus giving the individual members the benefit of the reduced cost.

The organization and operation of cooperative sales societies would depend upon the sort of produce to be sold. Types of cooperative dairies and cooperative fruit-selling societies already exist in this country. The formation of such societies is purely a question of securing the most efficient business management.

However, it requires credit to finance such societies. Where farmers are buying in the spring on credit from merchants and are selling the minute their crop is harvested in order to realize cash, they can not operate such societies without a species of organization by which their collective credit can be utilized. This condition prevails quite generally in the South. In other sections the farmers have been able to finance such societies, but if their credit facilities were improved it is reasonable to suppose that the strength of such societies would be thereby increased.

When thorough business cooperation is established in a farming community and the cooperative principle is accepted, it is almost certain that the farmers will fall into the habit of cooperating upon general, social, and civic lines. I believe chambers of agriculture organized in the country districts would be found of great value.

All of this organization work in European countries has been carried on through voluntary associations. In some instances the Governments for their own ends have attempted to control the movement, but the results of such control have not generally been regarded as satisfactory. A close study of the subject will show that the entire plan is based upon the idea of self-help, and public nursing is not calculated to give strength to such organizations.

Organization along cooperative lines has been demonstrated to be of great value to the farmers in European countries, and well-directed work of that kind ought not to be delayed or meet with indifference in the United States.

Permit me to say further, individually, that in my judgment our rural population needs a financial plan or system separate and distinct from a commercial banking system to meet their requirements. They should have facilities for short-time cash accommodations at reasonable rates which can be had by cooperative institutions, and they should have a plan or means for obtaining long-time loans at a low rate of interest with sinking-fund or amortization feature.

The question of State legislation to effect the establishment, management, and control of such organizations, societies, associations, or institutions will no doubt receive your earnest consideration.

Agriculture can be relieved of enormous burdens. Serious difficulties can be overcome by proper procedure. Our farmers do not ask for special favors, but there are some problems which are yet unsolved and constitute obstacles in the way of their progress. A long step will be taken when they are in position to finance their affairs and introduce better business methods in their operations.

The solution of these problems will not only mean the redemption of agriculture, the reconstruction of rural life, but go far toward reducing the high cost of living and relieving other burdensome conditions.

It will mean not only relief to the farmer, but the permanent enhancement of the general welfare.

* * * * *

With such a system of rural banks the States should encourage the formation, not of new personal credit banks, but of cooperative purchasing, selling, and distributing societies, which can get needed credit facilities from rural banks, and the States should urge farmers to aid in establishing the rural banks as a means of hereafter financing cooperative societies where formed.

In my remarks on that bill, August 9, I endeavored to set forth the farmer's financial needs and the methods by which these may be supplied. I designated then "his temporary banking needs," those which correspond to what I have herein referred to as his "personal-credit" needs. That is, his everyday-life needs which the Germans have found can best be provided for under the Raiffeisen system.

I called then his "capital needs" those which correspond to what I term herein his "mortgage-credit" needs; that is, to be provided for by long-term bonds bearing a low rate of interest with the amortization feature. The German experience is that a system like the *landschaft* is the best yet devised for this purpose. Whether these two requirements can be provided for in one measure and in one system is somewhat difficult to determine, but I believe the bill combines them in a workable and advantageous way.

On the 13th the President gave a statement to the press of the country, in which he said:

"Special machinery and a distinct system of banking must be provided for if rural credits are to be successfully and adequately supplied. * * * There is no subject more important to the welfare or the industrial development of the United States. * * * There has been too little Federal legislation framed to serve the farmer directly and with a deliberate adjustment to his real needs. * * * This is our next great task. Not only is a Government commission about to report which is charged with apprising the Congress with the best methods yet employed in this matter, but the Department of Agriculture also has undertaken a serious and systematic study of the whole problem of rural credits. The Congress and the Executive, working together, will certainly afford the needed machinery of relief and prosperity to the people of the countryside, and that very soon."

I have contended all along that our present banking and currency system is framed to serve commerce and the industries other than agriculture. For 50 years it has discriminated against agriculture. I am convinced this was not a deliberate blow at agriculture, but arose for the reason that no commercial banking system can be framed so as to adequately serve agriculture. We must have a distinct system to meet the requirements of the farmer.

In the various States your guidance and aggressive efforts will count mightily.

I would not presume to press on you specific action. You will permit me, however, to urge uniformity in any action you may take and a full consideration of fundamental principles as a preliminary to any decision. It would seem possible to simplify and make uniform the land registration laws and that certainly is greatly to be desired.

The same thing is true as to the laws, practice, and procedure with respect to foreclosure of the mortgage lien. While devising a system advantageous to the borrower, it must be borne in mind that the lender is to be protected fully.

The investing public in this country and from other countries while willing to accept a low rate of interest will insist that the security shall be safe and readily realized upon in case of default, without delay or expense, and the procedure ought to be practically the same, no matter from what State the security comes.

It required 40 years to thoroughly establish the Raiffeisen system and demonstrate its wisdom, but the grave of that pioneer is a shrine and the monument over it is one of the most prized in all Germany. It will take time to establish a like beneficent system in the United States, and we can not begin too soon.

[Extracts from speech of Hon. Duncan U. Fletcher, of Florida, of Jan. 29, 1914, to National League of Commission Merchants.]

LAND-MORTGAGE OR LONG-TERM CREDIT.

* * * * *

What do we find upon the slightest investigation? I was perfectly astounded when I came to dig into the question. For 50 years we have been operating in this country under a banking and currency system which was purely and solely a commercial system, absolutely created and adapted and used for the business man and the merchant, the manufacturer, and other industries than agriculture. It is not that we are asking anything unusual or anything special for the farmer. I believe that gentleman is pretty well known as being opposed to special privileges, and he is not asking any favor in his own case, but he is asking for a square deal. He is asking to be put upon the same basis as those engaged in other great industries in the country—nothing more, nothing less.

In that system, which we created and which the United States Government established and which it supervised and controlled, it was written in the body of the law that no loans could be made upon real estate. Real estate was prohibited as security for loans by every national bank established under our financial system.

Now, what does that mean? It meant, of course, that real estate, being the farmer's chief asset, was absolutely condemned as security for loans in this country, and he was deprived of that asset as a basis for credit.

Did you ever think about it? It seems preposterous, when you stop to consider it, that land, real estate, the very basis of all our wealth, was one thing that no bank could loan money on. That was the one most substantial and valuable asset that the farmer had, and we have gone on for 50 years discriminating against the farmer under the only system established in this country.

What was the effect of that? Naturally, business men, financiers, would hesitate to loan upon real estate, because they said the United States Government will not permit its banks, which it supervises and controls and directs, to loan upon real estate, we better not touch it. Consequently that has been a handicap and a hardship imposed upon the agricultural interests of the country.

The farmer has been, generally speaking, without adequate facilities for financing his operations, and when he had such means he could make them available only on such terms and at such rates as to be the most burdensome imposed upon any people engaged in any industry. And for 50 years, I say, that has continued.

Not until the recent act of Congress, establishing the Federal reserve system, was it permissible for national banks to loan upon real estate. Not until the recent Federal reserve act could his promissory note running over 90 days be classed as commercial paper available for discount; because he had no goods moving in trade or that he could handle and turn over daily he had to wait on the seasons. He had his cash coming when the crops matured, and he could not pay anything until then, whereas the merchant is able to carry on his business depositing and discounting from day to day.

Now, I am not blaming the banks in that connection, because the system was such, that the banks had to be ready to meet the demands of their depositors on the instant, consequently they could not have their money tied up in long-time notes or loans. This is true under any commercial banking system standing alone.

That was the reason, a very good reason, and it means that system needs to be supplemented by another system under which the farmer can get accommodations to meet his needs, and that problem has been worked out in Germany. It is not a mere theory, it is a practical demonstration. For 30 years they worked on it over there, and for over 50 years it has been established and in successful operation, and we may

learn something from the experience of other countries. They had to do something in order to feed their people; they had to revive agriculture; they had to take care of the farmer because they had to supply the food, and Germany, not as big as the State of Texas by an area as great as Alabama, is supplying 95 per cent of the food to feed 68,000,000 people.

Here in the United States, this great country of ours, the best country on the face of the earth, we are actually importing beef from Argentina and corn from Buenos Aires. For shame.

What do we find? The tendency is from the country to the cities and towns. We find the tenants increasing and the occupying owners decreasing in the country. We find exports of foodstuffs decreasing and imports increasing. Is that a safe and sound condition for a country to face? Do we not know perfectly well that if the farms of this country were idle for one year that the grass and weeds would grow in these streets, and bats and owls would inhabit these buildings? You have got to come back to that, you have got to look after the man out yonder in the woods. We are all dependent upon him.

We should begin, then, at the very basis of his operations because he needs capital, just like every other business man needs capital. Farming is something more than the mere growing of stuff. It is a business, it is an industry; and proper scientific farming to-day requires just as much business capacity, just as much judgment, as any other business to be successfully conducted. It is a business as well as an occupation, as well as an industry.

We heretofore regarded the farmer as not needing to know about business methods and practices, because his business was expected to be attended to by his factor or banker, while he did the plowing and hoeing and hard work in the fields.

It is claimed that it has got so in some parts of the country that as the farmer rears his family—one is a bright boy, and he says of him: "John here is a pretty bright boy; he has a bright mind. I am going to send him off to school and will make a lawyer of him or a doctor. Here is one who has a particular genius for mechanics. I will send him off to school. I will make an engineer of him. Here is Jim, he was always lazy, indolent, and thick-headed and never would learn anything. I will keep him on the farm and make a farmer of him."

Now, that has got to stop. We are going to prosper in this country. We have got to make it worth while to be a farmer. There must be fair remuneration for the toil and the chances. Farming must be placed on a business as well as scientific footing. Country life must be made attractive socially and industrially.

We are not producing the amount of foodstuffs we could produce; we are not taking care of our farms; we are letting them grow up in weeds or waste away; we are not adding to the attractiveness and the beauty and the proper social conditions in the country as we should. If we are to prosper, we are not to neglect these things.

And why should we? There are 12,000,000 engaged in agricultural pursuits. There are 30,000,000 people directly dependent upon the farms for a living, and we are all indirectly dependent upon them. The estimated value of the farm property of this country amounts to \$40,000,000,000.

Some people say, "Look here, you do not need to make it easy for the farmer to go into debt. You do not want to assist him in incurring any obligations, for he is too much prone to do that now. We are opposed to that. We do not want any plan whereby mortgages will be put on the farm and sent up to Wall Street." It was charged recently that this scheme was a Wall Street proposition. Of course, the complete answer to that is the stand of the President of the United States, when he indorses the very idea we have been contending for. The plan proposed does not encourage but prevents getting in debt.

But our good friends who are so solicitous about the farmer not getting in debt fail to realize that the farmer is already in debt. The farmers of this country owe \$6,000,000,000, according to Government statistics, \$3,000,000,000 of it secured by mortgages on their farms; and I have on my desk in Washington stacks and stacks of letters from people in every State in the Union, and especially from the Northwest, and in many instances they tell me that the farms are mortgaged up to the assessed valuation of the property; and if it had not been for the natural and actual increase in the value of lands in this country many of our farmers would have been bankrupt years ago. It has been simply the natural rise in the value of lands that has saved them.

Now, that is the condition. There is no use to try to get away from that. On that \$3,000,000,000 they are paying an average of 10 per cent, including commissions and expenses—\$300,000,000 a year in interest, nothing going to liquidate the principal at all. If we can do nothing more than save the farmers of this country \$150,000,000 annually we will have done something worth while.

But they are paying that 10 per cent on \$6,000,000,000, which means \$600,000,000 of interest, while here is a possibility of saving \$300,000,000 for the farmers of this country every year. Not only that, but it means giving them financial facilities so they can go on with their plans and develop their properties and beautify their homes and improve and make desirable country life. We can do this. It is being done in other countries; for instance, the interest paid in Germany is $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent by farmers. The bonds based upon farm mortgages are sold in the market at just as high rate as the Government bonds themselves. Three and one-half to $4\frac{1}{2}$ per cent is the interest at which those people get their money, and the ordinary commercial rate, I am told, is as high there as here.

The farmer finds this condition—and here is where your work comes in, it seems to me—the estimate is that the value of the farm products annually on the farm amount to \$9,500,000,000. Assuming that the farmers use one-third of that, we have \$6,000,000,000 as the value of the annual product of our farms, on the farms, going to market. It is estimated further that the consumers of this country pay \$13,000,000,000 for those products, so that we have \$7,000,000,000 disappearing annually between the farm and the breakfast table. Part of it is taken up in transportation; part of it is taken up in distribution; and there, I say, it seems to me, is the problem to which this league could well address its splendid minds—the solving of this as yet unsolved problem of distribution in this country.

What is the best way? The farmer, of course, can not take his product to the consumer. He can not do that to any considerable extent, at least; he can not get in touch with the market places, but he can get in touch with honorable men like yourselves, who can help save him money on his transportation; who can get the best prices for his products; and who can, with him, and with the means you can command, enable some of that \$7,000,000,000 a year to go to benefit the consumers of the country, and some to benefit the producers of the country at the same time.

A tremendous amount of money for the farmers, owing \$6,000,000,000. We can not comprehend what it is. You may get an idea of it by this illustration: There have been just about 1,000,000,000 minutes since the birth of Christ, so that the farmers of this country now owe \$6 for every minute of the Christian era. You must relieve that situation.

And here is what the President says, in his powerful address delivered on the 2d of December to both Houses of Congress:

“I present to you, in addition, the urgent necessity that special provision be made also for facilitating the credits needed by the farmers of the country. The pending currency bill does the farmers a great service. It puts them upon an equal footing with other business men and masters of enterprise, as it should; and upon its passage they will find themselves quit of many of the difficulties which now hamper them in the field of credit. The farmers, of course, ask and should be given no special privilege, such as extending to them the credit of the Government itself. What they need and should obtain is legislation which will make their own abundant and substantial credit resources available as a foundation for joint, concerted local action in their own behalf in getting the capital they must use. It is to this we should now address ourselves.

“It has, singularly enough, come to pass that we have allowed the industry of our farms to lag behind the other activities of the country in its development. I need not stop to tell you how fundamental to the life of the Nation is the production of its food. Our thoughts may ordinarily be concentrated upon the cities and the hives of industry, upon the cries of the crowded market place and the clangor of the factory, but it is from the quiet interspaces of the open valleys and the free hillsides that we draw the sources of life and of prosperity—from the farm and the ranch, from the forest and the mine. Without these every street would be silent, every office deserted, every factory fallen into disrepair. And yet the farmer does not stand upon the same footing with the forester and the miner in the market of credit. He is the servant of the seasons. Nature determines how long he must wait for his crops and will not be hurried in her processes. He may give his note, but the season of its maturity depends upon the season when his crop matures—lies at the gates of the market where his products are sold. And the security he gives is of a character not known in the broker's office or as familiarly as it might be on the counter of the banker.

“The Agricultural Department of the Government is seeking to assist as never before to make farming an efficient business, of wide cooperative effort, in quick touch with the markets for foodstuffs. The farmers and the Government will henceforth work together as real partners in this field, where we now begin to see our way very clearly and where many intelligent plans are already being put into execution. The Treasury of the United States has, by a timely and well-considered distribution of its deposits, facilitated the moving of the crops in the present season and prevented the scarcity of

available funds too often experienced at such times. But we must not allow ourselves to depend upon extraordinary expedients. We must add the means by which the farmer may make his credit constantly and easily available and command when he will the capital by which to support and expand his business. We lag behind many other great countries of the modern world in attempting to do this. Systems of rural credit have been studied and developed on the other side of the water while we left our farmers to shift for themselves in the ordinary money market. You have but to look about you in any rural district to see the result, the handicap and embarrassment which have been put upon those who produce our food.

"Conscious of this backwardness and neglect on our part, the Congress recently authorized the creation of a special commission to study the various systems of rural credit which have been put into operation in Europe, and this commission is already prepared to report. Its report ought to make it easier for us to determine what methods will be best suited to our own farmers. I hope and believe that the committees of the Senate and House will address themselves to this matter with the most fruitful results, and I believe that the studies and recently formed plans of the Department of Agriculture may be made to serve them very greatly in their work of framing appropriate and adequate legislation. It would be indiscreet and presumptuous in anyone to dogmatize upon so great and many-sided a question, but I feel confident that common counsel will produce the results we must all desire."

That is the position of the President. Bills have been prepared. I submitted one last August, and that was referred to a committee; but I am not so wedded to it that I am not perfectly willing to take any other measure that will bring about this relief. The measure will provide for the establishment of a system of farm-land banks, whereby the farmer can get financial accommodation for productive purposes on long term, with a low rate of interest and with the privilege of reducing the principal by small payments as he pays his interest. For instance, if he gets a loan at $4\frac{3}{4}$ per cent and pays $6\frac{3}{4}$ per cent semiannually, he will pay off and discharge the entire debt in 25 years.

Now, gentlemen, I want to appeal to you as intelligent business men, who want to see the country prosper and grow, as it should and as it will in spite of hampered conditions, do not you favor a proposition like that? If you do, do not you think it is worth while to indorse it by some resolution which would have its weight in Congress? I think it will help if you will favorably consider it.

I have in as condensed way as possible endeavored to outline the origin of this movement and the extent and scope of it and to indicate how this great economic question of rural credits ought to be dealt with. The Federal reserve act does not and could not be made to meet the situation. No strictly commercial banking system can. A supplementary system is required. The Federal reserve act goes as far as safety would permit. But under the privilege to loan on farm lands not over \$200,000,000 would be available. This amount would be decidedly inadequate to serve the interests of agriculture. The rediscounting privilege is so restricted as to be of somewhat uncertain value and surely is insufficient. A wise system of agricultural credit will undoubtedly be a highly effective instrument of economic and social conservation.

I am going to leave the subject with you with this further thought:

England might take first place in the naval world, Germany might take first place in the military world, but the United States takes first place in the commercial world. And that is more important than the other two, for the simple reason that peace lasts longer than war. And that nation which is in that position, supreme in its commerce and its trade, is in position, without bullying, to dictate in peace or in war. Its weapon is trade, and it will not likely need any other. That nation which produces a surplus of the prime necessities of life, which other nations must come to it to get or go hungry and naked, is in position of supreme power—and that nation is the United States. So long as that condition continues her position is assured while civilization endures.

Senator FLETCHER. In that connection, Mr. Chairman, I would like to say that the minority views of certain members of the American commission will be printed as a part of Senate Document 261, and may be found there. I find that I have not a corrected copy of the minority views available; and it will hardly be practicable to get it in time to have it inserted in this record.

I have here a table, prepared by Dr. A. L. Butt, of Adairville, Ky., which may be of interest in this connection. It is called "Amortization table," which he says is the result of a study of years

on this subject; and it gives the idea pretty clearly what is meant by the amortization feature in these mortgages according to his plan.

Senator HOLLIS. Without objection, that will be incorporated in the record.

(The paper referred to is as follows:)

Amortization table for note or bond of \$1,000.

[Rate of interest, 4½ per cent; annual payment, \$67.439; time, 25 years.]

Year.	Principal.	Interest.	Principal retired each year or period.	Total amount retired up to end of each year or period.	Unpaid principal at end of each year or period.
1	\$1,000.00	\$45.00	\$22.44	\$22.44	\$977.56
2	977.56	43.99	23.45	45.89	954.11
3	954.11	42.93	24.50	70.39	929.61
4	929.61	41.83	25.60	95.99	904.01
5	904.01	40.68	26.76	122.75	877.25
6	877.25	39.48	27.96	150.71	849.29
7	849.29	38.22	29.22	179.93	820.07
8	820.07	36.90	30.54	210.47	789.53
9	789.53	35.53	31.91	242.38	757.62
10	757.62	34.09	33.35	275.73	724.27
11	724.27	32.59	34.85	310.58	689.42
12	689.42	31.02	36.41	346.99	653.01
13	653.01	29.39	38.05	385.04	614.96
14	614.96	27.67	39.77	424.81	575.19
15	575.19	25.88	41.56	466.37	533.63
16	533.63	24.01	43.43	509.80	490.20
17	490.20	22.06	45.38	555.18	444.82
18	444.82	20.02	47.42	602.60	397.40
19	397.40	17.88	49.56	652.16	347.84
20	347.84	15.65	51.79	703.95	296.05
21	296.05	13.32	54.12	758.07	241.93
22	241.93	10.89	56.55	814.62	185.38
23	185.38	8.34	59.10	873.72	126.28
24	126.28	5.68	61.75	935.47	64.53
25	64.53	2.90	64.53	1,000.00	(1)
			1,000.00		

¹ Nothing.

Senator FLETCHER. Some of the results which may reasonably be expected to follow from the proposed legislation may be given as—

(1) Supplying those engaged in agricultural pursuits with capital for the development and improvement of the industry.

(2) Affording financial facilities for temporary needs to increase production and obtain supplies.

(3) To make available the credit resources of farmers for productive purposes, for acquiring homes, and for refunding existing indebtedness, all at much more favorable rates of interest and on terms adapted to the nature of the industry.

(4) To hold in the community the money made there, and afford depositories where savings can be kept and put in circulation. It is claimed, for instance, that 80 per cent of the farm-land bonds in Saxony are held by residents.

(5) To bring outside capital to places where it is needed. Mr. Lubin states that the land-mortgage bonds in Germany are quoted as high and find as ready a market as the Government bonds. Perhaps this varies. In some localities they are not so high and are not in such good demand, but in some instances I think they are even higher.

(6) Enable the farmer to use the credit which he should have, because of abundant resources, which, under present conditions, he can often avail himself of, if at all, only at a ruinous cost.

(7) Introduces at a vital point the tremendously valuable principle of cooperation into our rural life.

(8) Induce organization among our farmers in their own interests and lead to self-help, independence, and self-reliance.

(9) Tend toward solving the problem of economic distribution, and benefit both the producer and consumer.

(10) If the French farmer can get the money he needs at 3½ per cent and the German farmer at 4 per cent, there is no good reason why our farmers should pay 8 to 24 per cent, and the principle fundamental to all mortgage banks of Europe is the one proposed here, distinguishing farm-land banks from commercial banks—(1) the issue of bonds based on the collective value or security of many individual mortgages on real estate; and (2) compulsory amortization—all under Government supervision.

(11) Tenants will become owners.

(12) Agriculture will become more remunerative and rural life more attractive; good roads, telephones, rural free-delivery mail, social life, improved machinery when needed, broader markets, intensive cultivation when advisable, education, will all be advanced by the general increase of facilities and betterment of conditions.

If you have further time, Mr. Chairman, perhaps it would be better to occupy it by questions and answers.

Senator HOLLIS. Senator Fletcher, I would like to ask you one or two questions and the others very likely do also.

Do you think it is advisable at this session to attempt anything more along the lines you have indicated than the rural credits bill? That is, do you think we had better attempt any legislation looking to a cooperative credit system?

Senator FLETCHER. Well, I will say frankly, Mr. Chairman, my impression at first was, and that I attempted to do in Senate bill 2909, to provide for both the long-term land-mortgage credit and the personal or short-term credit features in one bill. Our commission thought it not wise to do that, and I finally became convinced that if both were attempted perhaps it was better to have them in separate measures, and the more I went into the subject and conferred with my associates, particularly the subcommittee, Congressman Moss and Dr. Coulter, while we were engaged in preparing this report, Document 380, the more I became impressed with the notion that the present system, probably, and especially after the passage of the Federal reserve act, and our country banks as they are organized now, had better be left to take care of that personal credit feature; and I felt that the country banks might oppose, in the first place, legislation along that line, and their opposition would count pretty heavily against us. And then I believe the country banks—and what I have said I did not mean at all to appear as criticizing the banks, any of them, either State or National, and what suggestions I have made in that direction as showing the system to be insufficient to meet the needs of agriculture, is not a criticism at all, in fact, but it is a statement of fact regarding the system, and what must obtain under a commercial system. The banks have done the best they could, no doubt, and it may be that the local banks now,

especially with this provision for rediscount under the Federal reserve act, will be able to take care reasonably of that personal or short-credit feature that we will report on a little bit later. However, if we can do it, I think it would be well to go on with both of these measures now, as long as we have got the subject up; and one somewhat involves the other, and a study of one involves a study of the other, I think, to some extent, and one is supplemental of the other. I am inclined to think that if we can do so we ought to proceed with both of them.

Senator HOLLIS. Do you not think that the long-term feature and the short-term feature ought to be incorporated in one bill, if we can, so as not to have them overlap?

Senator FLETCHER. I say that was my first impression, but I have rather changed my view about that, and I am inclined to think that perhaps they ought to be separated.

Senator HOLLIS. You would not have separate banks, would you?

Senator FLETCHER. Yes: separate banks and a separate system. Of course, the State banks that are now existing could perhaps reorganize or come in under that sort of a system, but the idea would be under that system personal or short-term credit banks would be organized in various communities, wherever they are needed, by 10 or more farmers getting together. Perhaps the capital need not be over \$2,000 or \$3,000 to meet local needs. Then, after a certain number of these banks are organized, they should be tied up with some central bank—we call it “central,” although that is not a very popular name; you might call it a “federated” bank—in the State where these banks are organized, and that bank would become a member bank of the Federal reserve system, and in that way the farmers’ bank is tied up with the present Federal reserve system. Of course with a number of banks in the State, the federated bank, representing all these banks and created by these local banks would have a capitalization of \$25,000 or more, so that it would be entitled to become a member under the present act.

Mr. PLATT. Would you have to amend the Federal reserve act in order to allow that to be done?

Senator FLETCHER. Would we have to do that?

Mr. PLATT. Does the Federal reserve act not provide that no member bank can give the privileges of this system to any non-member bank, at the present time?

Senator FLETCHER. Well, this central bank would be entitled to membership, entitled to become a member of that system. It does not need to make all of these local banks members at all, but the local banks will do business through that central bank. I hardly think it would be necessary to amend the Federal reserve act.

Mr. PLATT. I supposed the purpose of that provision in the Federal reserve act was just exactly that, to prevent any member bank from allowing nonmember banks to do business with the Federal reserve system through any member bank.

Senator HOLLIS. They might make loans directly, while they would not be entitled to the discount. I think it could be worked out that way.

Senator FLETCHER. Yes. We have not fully agreed on the recommendations regarding personal credits yet. We have not finished our report, and there may be things that, of course, we will have to

make harmonize with the present act. I am not sure that we would have to amend it in any way. That is just what we had in mind in reference to these personal-credit banks, to have them organized by farmers, and then the banks themselves organize a main bank, a larger bank, with larger capital, in the same State, and that that bank might become a member of the Federal reserve system.

Mr. BROWN. Senator, would not the mortgages securing the long term loans be prejudicial and destroy the security of the borrower more than the short-term loan? That is, would it not affect his credit? What security is offered in your bill for the short-term loans?

Senator FLETCHER. We would not loan on real estate at all.

Mr. BROWN. I see.

Senator FLETCHER. It would be the indorsement on the paper by members. These banks would do business with the members of the bank entirely and would not loan on real estate.

Mr. BROWN. No, but the borrower, having put in his real estate to secure the long-term loan, as security to secure a long-term loan, would not that affect his credit in securing a short-term loan, because his property was already mortgaged?

Senator FLETCHER. I do not think so. I think, on the other hand, if his long-term loan was rather in the nature of an investment, as we believe it would become, where the terms were such as he ought to have, he would be in better position to pay off his personal obligations than if he did not have the long-term loan.

Senator GWEN. He would have a productive property, in your opinion, from which he could make the arrangements necessary to pay a short-term loan?

Senator FLETCHER. Exactly.

Mr. HAYES. Senator, I judge from your statement that you regard the long-term loan as vastly more important than the short term?

Senator FLETCHER. I do.

Mr. HAYES. Let me ask you another question: Do you think it would be an easy matter to induce cooperative banking, along the lines in operation in Europe, among the farmers of this country? Do you not think it is going to take a good deal of time and a lot of education?

Senator FLETCHER. I think that is very largely true, Hr. Hayes. I think it is going to take time. It took nearly 40 years to establish the system in Europe, I believe.

Mr. HAYES. Therefore it follows that your suggestion that the system should, if possible, be kept separate, and perhaps——

Senator FLETCHER (interposing). Yes, and that is another point in favor of keeping them separate, I think.

Mr. HAYES. Yes.

Senator FLETCHER. We provide in this bill we have introduced, you know, for a cooperative feature?

Mr. HAYES. Yes, I know.

Mr. WOODS. Senator, how about the expenses in running two systems compared to the overhead expenses in case that they were united; would it not be larger?

Senator FLETCHER. It seems to me so, and that was one reason I first thought that they ought to be contained in the same measure; but I am a little afraid that the expenses of supervision under the

two separate systems will be greater than they would be under one system.

Mr. HAYES. Would it be absolutely necessary that there should be two supervisions?

Senator FLETCHER. We will have to provide for supervision, of course.

Mr. HAYES. Yes, supervision; but the same officials, the same head, could supervise both systems.

Senator FLETCHER. Yes, that may be. But that was one thought that I had on the subject, that we were going to run into expenses by having two systems; but I do not know that that would necessarily follow.

Mr. HAYES. I do not think it need to.

Mr. WOODS. Awhile ago I understood you to suggest that the plan proposed by the commission's report is the same, practically, as the plan now in force in foreign countries.

Senator FLETCHER. Well, no; I would not say that. It is really an American plan. It is different from any other. It is neither the *Landschaften*, nor is it the *Schulze-Delitzsch*, nor is it the *Credit Foncier*, but we have got some ideas from all of them.

Mr. WOODS. Do you propose any Government aid in any way?

Senator FLETCHER. No; none at all.

Mr. WOODS. Is there any other Government that has established such a system that does not get Federal aid in some form or other?

Mr. HAYES. The *Landschaften* does not.

Senator FLETCHER. A great many of them do not have Government aid.

Mr. WOODS. Take the two classes of loans, in some form or other, do they not get Government aid?

Senator FLETCHER. Under the French system there is Government aid, and in some States in Germany there is to some extent Government aid, but that does not obtain, as you suggest, Mr. Hayes, in the *Landschaften* system.

Mr. HAYES. In the French system, Senator, the Government aid is not extensive. It only amounts to something like \$2,000,000, except the deposits—the Government carries deposits.

Senator FLETCHER. Yes; about \$2,000,000, I think.

Mr. HAYES. That is all; nothing serious.

Mr. WOODS. The deposits are an aid, are they not?

Mr. HAYES. Sometimes. Sometimes they are not. They are not steady, of course.

Senator FLETCHER. Here we provide for exemption from taxation, double liability of stockholders, we provide for Government supervision. Each one of these banks will have a fiduciary agent of the Government, having joint control of the mortgages that are the foundation of the bond, and in that way the Government supervises the operation of the system.

Mr. WOODS. Do you think that exemption from taxation is a proper plan?

Senator FLETCHER. I do. I think that is very important.

Senator HOLLIS. Senator Fletcher, do you think of anything further that you want to add before any general questioning?

Senator FLETCHER. No; I do not know of anything further.

Senator HOLLIS. Mr. Bulkley, have you anything especially you would like to ask the Senator?

Mr. BULKLEY. No; I do not care to question him now.

Senator HOLLIS. Is there anyone else who wants to ask the Senator some questions?

Senator FLETCHER. This subject is quite fully covered in this report, Senate Document 380.

Mr. WEAVER. I want to ask a few questions.

Where is the money coming from to establish this system of banks? I mean, suppose that it seems to be a good proposition for people to invest money in bank stock, there is no provision of any kind for Government aid. Now, the Federal reserve bank system does make a contingent provision for Government aid. For instance, it provides that if this system of banks is not inviting enough for them to come into it, and a sufficient number do not come into it to establish the system, the Government itself shall buy the stock, shall take the stock, and individuals may subscribe to the stock. Is that not correct. Senator Owen, that individuals may subscribe to the stock if the different national banks can not or do not go into it on a scale large enough to establish it and then if the banks of the country and individuals do not furnish enough money to buy the stock, that then the Government itself will buy the stock? What would be the objection of a system or proposition of contingent Government aid; that is, Government aid depending upon the fact that if it does not appear attractive enough for outside capital to invest in it and give it a start and make it a success, what is the objection to the Government helping establish a system of agricultural credit? While I do not believe in giving special favors to the farms or special benefits to any class, they certainly ought to be on the same basis of Government favoritism as commercial banks, it seems to me.

Senator HOLLIS. If you will pardon me, Senator, I can clear up the Federal reserve act part of that. I was responsible for that myself, having the Government take stock in case the banks did not take it and the public did not take enough to make it workable. I did not do it with any idea that the Government would do it, but merely to show the banks that we meant business, and if they kept their talk about staying out we were going to put it through anyhow. I do not think it is altogether defensible, but it seemed to be a good thing to do, a politic thing to do, perhaps, at that time, and I should be sorry to have that provision of the Federal reserve act made an argument for doing the same thing here, although I think likely it will turn out to be the best thing to do. But I want to say that I was responsible for it, and I did not do it with any idea that it would ever be availed of. I do not think it will be.

Mr. WEAVER. I think that is one of the most salutary provisions in the entire bill.

Senator HOLLIS. I thought it was fair to Senator Fletcher to explain that. I would be very glad to hear his views.

Senator FLETCHER. Of course, in answering the first part of the question, where the money is to come from to start these banks, they are all share banks. That is, they are not merely and purely cooperative institutions, you understand, but the stock is sold and the proceeds of the stock become the capital upon which they do business, and that is where the money comes from.

Senator OWEN. The situation, I think, that Mr. Weaver had in view, probably was that if the stock did not find a market, then what?

Senator FLETCHER. Well, I see. Of course if they can not sell the stock they can not organize the bank. That is all there is to that.

Senator HOLLIS. It is just like starting a cooperative creamery. Unless the public spirit is strong enough in the community, if the community does not need it enough so that someone is willing to take the risk and furnish the money, they can not have it. Then, Mr. Weaver's idea is whether you think it would be advisable for the Government to do it.

Senator FLETCHER. I do not feel inclined to have the Government have any more to do with it than simply supervise it.

Mr. PLATT. If the Government should do that, they would fall in line. It would have a tendency to make the banks fall in line whether they want to or not.

Senator FLETCHER. Yes. I am rather opposed to Government aid. I do not think they ought to fall back on the Government at all. I am a great believer in the principle of self-help and self-reliance, and I believe the farmers can organize these banks where they need them, and they will do it because they have the resources to do it with.

Mr. HAYES. I think they will too.

Mr. SELDOMRIDGE. What is the smallest capital?

Senator FLETCHER. \$10,000.

Mr. SELDOMRIDGE. And with a capital stock of \$10,000, what would be the loaning power?

Senator FLETCHER. Fifteen times that.

Mr. SELDOMRIDGE. Fifteen times?

Senator FLETCHER. Fifteen times.

Mr. SELDOMRIDGE. At \$150,000?

Senator FLETCHER. They could issue bonds to that amount.

Mr. SELDOMRIDGE. To the amount of \$150,000?

Senator FLETCHER. Yes.

Mr. SELDOMRIDGE. What interest would these bonds bear?

Senator FLETCHER. Well, of course, that depends. The mortgage shall not draw more than 1 per cent more than the bonds. That 1 per cent is to be the maximum for administration purposes.

Mr. SELDOMRIDGE. Do you think it would be possible to provide by legislation for an equalization of interest throughout the country, or do you look for it to be different?

Senator FLETCHER. I look for a different interest charge. In this bill we provide for the banks in each State, and the bank of one State is limited to that territory for its business; it can not do business in another State. That is because of the different State laws regarding registration, regarding titles, regarding foreclosure proceedings, regarding exemptions, taxes, and all that sort of thing. We have to have, I think, the bank in one State confined to business in that State, and the bonds to be issued will be bonds from that State, you know. I should think perhaps that the interest rate will vary in different States. I do not think we can expect that the same interest will obtain all over the country. Eventually, however, let me say, I believe that this rate of interest will become largely equalized because if, for instance, in your State you have to sell your bonds at 6

per cent, and in another State, like Illinois, for instance, 4 per cent, naturally the Illinois bonds will not find the market that the 6 per cent bonds will, but eventually there is going to be a sort of equalization.

Mr. SELDOMRIDGE. The point I have in mind is this, will the tendency be to raise the price of bonds in the States where the lower rates of interest prevail or will it be the tendency to bring down the prices of bonds in the States where the higher interest would prevail? In other words, if the farm bonds in Colorado are selling at say 6 per cent, and Illinois bonds selling for 4 per cent, would there not be a tendency to raise the Illinois bonds, and would they not be obliged to increase the rate of interest in these States where the lower rates prevail in order to find a market for their bonds?

Senator FLETCHER. I do not think that. I think the tendency will be the other way, to lower the rates everywhere, because these bonds, according to the experience in European countries—and we have every reason to believe that will be the case here—will be found safe investments, absolutely, and the people will want them, and the local people are going to take them largely.

Mr. SELDOMRIDGE. Of course a higher rate of interest will naturally prevail in all the States where there is less development of farm property and where the farms may not be quite so secure.

Senator FLETCHER. Where their crops are more or less uncertain, and where they have drouths, and all that sort of thing, it may be they will have a higher rate of interest to pay.

Mr. SELDOMRIDGE. What will be the security back of these farm bonds? What is the security provided for?

Senator FLETCHER. Mortgages on lands, appraised by competent appraisers, and the loans not exceeding 50 per cent of the appraised value. Fifty per cent of the value of improved lands and 40 per cent of unimproved lands.

Mr. SELDOMRIDGE. With that first mortgage they have, too, the indorsement of the bank issuing bonds?

Senator FLETCHER. Exactly, with the capital and surplus of the bank back of it, and double liability of the stockholders and the mortgage.

Mr. SELDOMRIDGE. Then you have also the liability of all the banks in that State—that is, other banks?

Senator FLETCHER. No.

Mr. SELDOMRIDGE. You do not provide for any system of cooperation of other banks; it is merely the local banks?

Senator FLETCHER. Exactly.

Mr. SELDOMRIDGE. Do you think it would be wise to extend that liability beyond the individual bank and let it take in a group of banks?

Senator FLETCHER. I did think so at first, and that is how I provided in bill 2909, making all these banks guarantee these bonds, up to the central national bank, but I do not believe that is necessary now.

Mr. HAYES. Would it not be a little hard to sell stock with that indefinite and large liability?

Senator FLETCHER. Yes. There might be objection on that ground. I do not think that would be best. The more I thought about it and considered it, the more I became convinced that those

bonds ought to be good issued by the local bank, when they have back of them real estate worth twice as much as the face of the bond, and when they have the capital and surplus of the bank and double liability of stockholders, and when they have, in addition to that, the amortization feature, whereby the borrower is annually or semi-annually reducing his principal all the while.

Mr. SELDOMRIDGE. Do those stockholders have to be residents in the district in which the bank is located?

Senator FLETCHER. No, sir.

Mr. SELDOMRIDGE. You do not provide for the investment of funds from another State?

Senator HOLLIS. Senator Fletcher, I imagine this Government help will turn out to be one of the fighting points of this measure, whatever it is. I would like to lay a little foundation for that at the start. Of course we realize that the Government authority is limited by the Constitution to fiscal agents, and that is all that that has been extended to, and I would like to have your view as to whether the Government can constitutionally loan money directly to applicants or invest money in the shares of rural-credit banks for the purpose of establishing them. Has your commission considered that?

Senator FLETCHER. We have not considered that particular point, as I recall. I do not think we had that up. But it is possible that there is no constitutional objection to it. The main objection would be, first, the objection that it is very largely paternalism and class legislation and—

Senator HOLLIS (interposing). Subsidy?

Senator FLETCHER. Yes.

Mr. WEAVER. That objection, Senator, would apply to a direct loan to the farmers. I do not see how a constitutional objection on account of class legislation could be presented as an objection to the Government establishing a system of land banks, or cooperative banks, agricultural credit banks, and putting Government money into them, to make them a success. It was pointed out that the first national bank, the Hamilton National Bank, was unconstitutional, and Chief Justice Marshall decided otherwise.

Senator HOLLIS. I occupy a peculiar position on class legislation. I do not think there is any objection to class legislation, and I have so said, but constitutionally I have very grave doubts whether the Government could invest money in rural credit banks as a shareholder.

Senator FLETCHER. I have not gone into that question thoroughly, myself, as to the constitutionality.

Mr. WEAVER. I do not want to go on record as being in favor of class legislation, but if we are going to have any, I would rather give it to the farmers, than to any other class, as being the most worthy class.

Senator HOLLIS. I am in favor of it at present, because I want to give it to that very sort of people.

Senator FLETCHER. I think it is very difficult to make class legislation out of legislation that is going to benefit the farmer and the agricultural interests of the country, because we are universally affected by what affects the agricultural interests of the country, and it seems to me it would be rather difficult to make out a case of class legislation. Still, that objection could be urged as to that

feature, and I do not think it is necessary to have Government aid, and I am rather opposed to it as a general proposition.

Mr. PLATT. Senator Fletcher, in answer to a question of Mr. Seldonridge a few minutes ago you seemed to imply that it would be impossible for capital outside of a State to go into another State and help organize these banks. You did not mean to say that, did you? For instance, if I want to invest my money in a bank in Colorado there is nothing in this bill to prevent it?

Senator FLETCHER. Not as far as bonds are concerned.

Mr. PLATT. No; I mean in the bank itself, its stock.

Senator FLETCHER. My impression is that we confined the organization shareholders to residents.

Mr. MOSS. No; it is just a limitation on the power of the bank to loan.

Mr. PLATT. There is nothing to prevent eastern capital from helping organize these banks in the West, is there?

Mr. MOSS. Oh, yes.

Senator FLETCHER. You are thinking of that in connection with the short term.

Mr. MOSS. I was discussing it in regard to the short term; but in land banks there is nothing in this bill to prohibit outside capital from being invested in the stock of the bank.

Senator FLETCHER. It was in reference to the short-term personal credit banks that we thought of confining the shareholders to the residents, but not as to these land-mortgage banks. In these shareholders may reside anywhere.

Mr. WOODS. What great inducement is there for people with a little money to take stock in these banks as proposed?

Senator FLETCHER. Well, of course the primary inducement is to provide for the needs of that immediate community. Do you mean for outside capital to come in and take stock?

Mr. WOODS. Yes.

Senator FLETCHER. Well, it is quite a safe institution.

Mr. PLATT. Dividends equal to the legal rate of interest in the neighborhood, and perhaps more.

Senator FLETCHER. Yes. The dividends may be very good, and probably would be; and then the bonds would be good investments.

Mr. PLATT. You think the dividends would be as high as the ordinary banks would?

Senator FLETCHER. I see no reason why they should not be.

Mr. WEAVER. That would be the same as all farm security.

Senator FLETCHER. It would depend very largely upon the amount of business they would do.

Mr. HAYES. If they could get deposits, I see no reason why, with 15 times the loaning value, they should not pay larger dividends than the commercial banks.

Senator FLETCHER. Yes. I have been told that commercial banks now operating on a margin of 0.35 of 1 per cent are earning 20 and 30 per cent on their stock. Here we provide a margin of a maximum of 1 per cent.

Mr. BULKLEY. Where is that, Senator? What banks are those?

Senator FLETCHER. I have been told—perhaps I ought not to quote people personally about that—but in Vermont this particular institution I am talking about, I was told by the president of one of

these institutions that they did a large business there, and what the banks got out of it was 0.35 of 1 per cent, and they were able to pay 20 per cent dividends or something like that on their stock. It depends of course on the volume of business as to what the earnings would be.

Mr. PLATT. Do you think banks of this kind could serve the farmers any better or make loans any cheaper than the savings loans institutions can, building loan associations?

Senator FLETCHER. I think they can. I am inclined to think their operating expenses will be less, generally.

Most people interested in them will be concerned very largely because of this cooperative feature, cooperative possibilities, and they will be keeping down the expenses of the institution, I think.

Mr. HAYES. Senator, do you not think if we could organize a system of banks where the expenses would be down as low as the building associations, which are usually under 1 per cent, that we shall have accomplished a great result for the agricultural interests of the country?

Senator FLETCHER. Yes; I do.

Mr. HAYES. I think so.

Mr. PLATT. You spoke of compulsory amortization. Of course amortization is what the farmers want, but could as low a rate of interest be given on a loan with the amortization feature in it as on perfectly secured loans without amortization? Does not the borrower usually want a fixed term. Of course that does not affect the bond feature.

Mr. HAYES. He would have a fixed term.

Mr. PLATT. He would have a fixed term of the bond.

Mr. HAYES. The bank fixes that.

Senator FLETCHER. I think that is a very important feature. I think it is one of the most important features of this bill, that there should be compulsory amortization.

Mr. BULKLEY. Senator, on that point, a great many farm loans that now exist are constantly renewed, and as long as their security is kept good there does not seem to be any particular objection on the part of the lenders against renewing mortgages from time to time. If we had compulsory amortization that would upset all of that system. Do you think there is any reason why it should be upset?

Senator FLETCHER. No; I would not want to upset it. I would want this system we are speaking of to be supplemental of what we have now. I would not want to interfere with what we have got.

Mr. BULKLEY. Do you think it is necessary that amortization should be compulsory, or shouldn't it be optional?

Senator FLETCHER. I think it should be compulsory. I think that is the experience of all the countries where the system is in operation.

Senator OWEN. Senator, the defense of the national bank system against the charge of unconstitutionality was that those banks were an agency through which the United States might finance its bonds, and so forth. What is the defense of this system as against a like charge? You have doubtless worked that out, and I thought you might put it in compact form.

Senator FLETCHER. We made these bonds security for postal deposits, and, in a way, the banks may be fiscal agents of the Government. I think we come within that decision on that subject.

Senator HOLLIS. You do provide in your bill, I believe, that they may receive deposits of Government funds outside of postal funds?

Senator FLETCHER. Yes.

Senator OWEN. So that the postal funds might be deposited with these banks?

Senator FLETCHER. Yes.

Mr. PLATT. It seems to me, Senator, that any possible scheme of payment on the installment plan can not work out as cheaply for the borrower as if he did not pay on the installment plan. It seems to be the same in buying money as in buying furniture or anything else that you can not buy on the installment plan without paying a little bit more.

Mr. HAYES. Not unless there is some risk connected with it. In this connection I do not see your point. There is no more risk, and the risk is even less.

Mr. PLATT. If your security is good, there is no more risk in not having the installment plan payments than there is in the other way.

Mr. HAYES. The security is not, because it is personal security.

Mr. PLATT. We are talking about the long-term mortgages.

Mr. HAYES. I do not think so.

Senator FLETCHER. I do not think that the objection would obtain.

Senator OWEN. Making these partial payments would be in the nature of an investment, leading the borrower out of the borrowing class and leaving him to escape from the borrower class.

Senator FLETCHER. This table I have just submitted here, for instance, gives a rate of interest of $4\frac{1}{2}$ per cent, and this case, involving a bond of \$1,000 and paying $4\frac{1}{2}$ per cent interest, the entire debt is liquidated in 25 years, which seems to be quite a favorable proposition for the farmer.

We give illustrations in the report on that point.

Mr. PLATT. There are in existence at the present time two purely mutual institutions, one of them dealing in the amortization plan and the other in the mutual savings bank, institutions such as Senator Hollis has spoken of, the loan associations. I think it is the experience of everybody who has tried to borrow, and I have tried it myself, that you can borrow cheaper from a savings bank than you can from a building loan association. The amortization feature is a great advantage to some people, but for people who do not need it it is a little bit cheaper to borrow money from a savings bank.

Senator HOLLIS. The reason for that is this, that the building loan associations will loan out practically the entire value of the property; that is, they will advance the funds, and they will put it right in the property, and therefore it is proper, because the risk is greater, that they should require a better rate of interest.

Mr. PLATT. They are purely cooperative, because the borrower is an association member.

Senator HOLLIS. Not with our associations. The men who borrow from it pay a higher rate of interest. It is a mighty good investment for those who put money into it, but it is a very poor one for the

borrower, because they make the borrowers pay a higher rate of interest because of the greater risk. I think that is the theory of it.

Mr. HAYES. The mutual savings bank requires such a big margin.

Mr. PLATT. I do not think in my State the margin is any different. The margin is just the same.

Mr. HAYES. They make themselves absolutely safe. There is absolutely no risk at all with the savings bank, but with the building association they will take a man's case, as you might say, and finance him on a great deal smaller margin.

Mr. PLATT. But they have the amortization feature. The borrowers have to be members of the association, and they get a part of the profits back.

Senator HOLLIS. There are a great many members who never become borrowers, and they need not become members in order to become borrowers. That is a feature we want to avoid.

Senator FLETCHER. A great many of these institutions have reference more particularly to enabling a man to build a home, and they will generally loan him all that he needs to build the home; if he furnishes the land they will build the house.

Mr. HAYES. That is the case generally. Of course, the proposition before the commission is along the same general lines.

Mr. MOSS. The amortization feature in here is really the savings feature we put in here; that is the real value of it. It is for the benefit of the borrower as much as the lender, with the idea that it might tend to encourage a person, under Government supervision, to go in debt for a long time without making provision for paying it; so it is really making the bank a savings bank.

Mr. PLATT. I do not believe it would work out any cheaper for the borrower than if he borrowed direct from the mutual savings bank.

Mr. HAYES. It might work out to his advantage in the end, in that he would have his land left in the one case, and in the other the bank would have it, perhaps.

Senator HOLLIS. I have an illustration. I am trustee of an estate, and there is a mortgage on it on which a farmer has been paying 6 per cent interest since 1876, and he is now dying with cancer. If that had been on the amortization plan, even at $4\frac{1}{2}$ per cent, according to this theory, he would have had his debt all paid up now. It is a good deal like the insurance policies that we have all taken out; they collect more from you than they really come to, but the endowment feature and the participating feature, and so on, compels a man to save something, if he once starts and keeps up his payments.

Senator FLETCHER. Then I think you get a better rate of interest and get a wider market for your bonds and a greater demand for them if the purchaser of the bonds knows that back of them is what would be, in the case of an industrial bond, a sinking fund that is going to take care of that obligation.

Senator OWEN. Increasing the value of the security?

Senator FLETCHER. Precisely. And instead of having a sinking fund that is kept separate and invested, that may be lost by the investment, we provide for this amortization feature, whereby the payment is noted on the mortgage. It has the features of a sinking fund and has the advantage of being a credit, when it is made, on the mortgage, rather than invested as a sinking fund might be invested.

Mr. PLATT. After all, the chief advantage of it is that it compels the borrower to pay back in small amounts, so that he is bound to save, and it is not in the low rate of interest.

Mr. HAYES. But when you come to the practical operation of a scheme of that kind, it seems to me, Mr. Platt, that it would give additional confidence to the public in the bank and in the bond that it had issued.

Mr. PLATT. I think it would.

Mr. HAYES. If there was compulsory amortization in the law.

Mr. PLATT. I think so.

Mr. HAYES. Because they would not have any poor securities; it would make it impossible to have any poor securities.

Mr. BROWN. Would it not lessen the value of the bonds if at every interest payment there would be an amortization payment?

Mr. HAYES. Oh, no; not of the bond.

Senator FLETCHER. The bond is not issued against each mortgage; it is issued against all the mortgages. The provision is made that the amount of bonds outstanding shall not exceed the amount of mortgages that the bank holds. It may have 20 mortgages, you see, and the issue of bonds is against the whole 20 mortgages. If the individual mortgagor makes a payment on account of his principal, it is noted on the back of his mortgage as paid on that mortgage. But of course the bank has got to see that the bonds outstanding do not exceed the face of the mortgages which it holds. And then we have a provision in here for the bank to use its capital and surplus in buying in these bonds from time to time, so that will help to keep the market price of the bonds up, and will be an advantage.

Mr. HAYES. Of course as the operation went on and these mortgages were paid, these installments, that gives capital to make other loans and make other mortgages.

Mr. SELDOMRIDGE. What is the lowest denomination of the bonds?

Senator FLETCHER. I do not think we provided for that. It is left for regulation by the banks, as I recall it.

Mr. SELDOMRIDGE. Do you not think it advisable to issue these bonds in rather small amounts to be used for saving purposes by people of small means?

Senator FLETCHER. I think that is true. We have not fixed the denomination of the bonds. That will be left to the bank. One community might want one denomination and another community another.

Mr. SELDOMRIDGE. You could fix a minimum and maximum between which they might operate.

Senator FLETCHER. Yes, that could be done.

Mr. SELDOMRIDGE. A minimum and maximum.

Senator FLETCHER. That could be done. The bank must see to it, and this Government agent, that the bonds are called in as the mortgages are paid off. That is another matter, Senator Owens, that ties this up, I think, to the powers of Congress. We provide that there shall be a fiduciary agent of the Government in every one of these banks, and it is his business to see to it that the mortgages shall be there to equal the bonds that are outstanding in these banks.

Mr. HAYES. And that the payments are made?

Senator FLETCHER. And that the payments are made and entered properly and registered.

Mr. SELDOMRIDGE. Do you think, under that scheme, that in the manner proposed there, there will be a positive inducement for capital to go into what we might call the needy farm sections of this country that are now asking for this relief and establish these institutions?

Senator FLETCHER. I do.

Mr. SELDOMRIDGE. And do you think there is sufficient attraction for capital to seek investment in that particular section?

Senator FLETCHER. Yes, sir.

Mr. SELDOMRIDGE. What makes you think that? Is it anything in addition to what you have said here, or just providing means for investment which are not now open?

Senator FLETCHER. I think it provides means for investment which are not now open, and then, in the next place, I think it will uncover and develop, perhaps, funds that are not in bank and not in circulation now in the various communities. It is an absolutely safe investment for people who have money and who are afraid of banks. That will be one source.

Mr. SELDOMRIDGE. In other words, it will be a vehicle for putting on the market the mortgage securities in a different way from what now obtains?

Senator FLETCHER. Yes.

Mr. SELDOMRIDGE. The people, instead of having to find an individual lender, or, on the other hand, an individual borrower, the two will be brought together through this channel?

Senator FLETCHER. That is true.

Mr. HAYES. The individual lender does not have to watch the individual borrower to see how he is getting along. The bank takes care of that.

Senator FLETCHER. The man who holds the bonds has no relation with the man who made the mortgage—not at all—and I think that will attract outside capital.

Mr. HAYES. I think it will.

Mr. SELDOMRIDGE. I think the proposition is a good one, if we can secure absolute fidelity and security in the management of the bank. If that can be done, I think there is no question in my mind about it.

Senator FLETCHER. Yes.

Mr. BROWN. On that point, even though the individual borrower may pay off at stated periods and get credits upon his individual mortgage, does not his property in fact stand for the security of all the bonds that are out, even though he may be entirely paid out—does not his property still stand for the face of all the bonds that are out?

Senator FLETCHER. No, sir; the lien on his property is gradually diminished.

Mr. BROWN. Suppose, though, that the bonds are not paid.

Mr. HAYES. That has nothing to do with the mortgage; it does not affect the mortgage at all.

Mr. MOSS. Under the terms of the bill, Mr. Brown, that could not happen.

Mr. BROWN. It could not happen if the bank was properly organized and everything went along smoothly; but suppose the bank were to fail, or the bonds be stolen.

Mr. HAYES. Suppose it did fail, and the mortgage is paid off to \$100; that is all he is called upon to pay.

Senator FLETCHER. There can not be outstanding more bonds than there are secured by the mortgages.

Mr. WEAVER. It is just an asset of the bank, that is all, and if the bank fails of course the creditors of the bank participate in its assets and the mortgages outstanding are given to that bank, and have no connection with the bonds of the bank in any way.

Mr. BROWN. Suppose the bank should fail and they were not paid?

Mr. HAYES. The mortgagor would not have to respond except to the extent of his mortgage under the bill we have here.

Mr. SELDOMRIDGE. Whenever any portion is paid on a mortgage, that portion is reinvested in some other bond, and the difference between the amount covered by the mortgage and the amount paid in would be found somewhere else—in some other investment of the bank's property. It would be in the capital somewhere. That would be the security that the bondholders would have, other than the security of the balance due on the mortgage.

Mr. HAYES. The bondholder would have not only the total amount of mortgages held by the bank, but would also have the capital and surplus of the bank, and the double liability of the stockholders.

Senator OWEN. If there was an individual loss under a system of that kind, which might occur in an individual instance, the mortgage would be covered by the earning capacity of the bank otherwise.

Mr. PLATT. It is not inconceivable, of course, that a big defalcation might ruin the bank.

Senator OWEN. That would ruin any bank.

Mr. SELDOMRIDGE. Could we not put in this bill some sort of guaranty provision which would protect the bondholders against defalcations?

Senator FLETCHER. We have got our provision here in the representative right in every bank.

Mr. HAYES. If your Government representative is performing his duties properly, there could not be any defalcation.

Mr. PLATT. The local stockholders and directors ought to have some responsibilities.

Mr. BROWN. Then, Senator, may I ask this question, which appears to me to be in point: Is not the bondholder in the end dependent entirely upon the integrity of the bank?

Mr. HAYES. And the fiduciary agent of the Government, too?

Senator FLETCHER. Ultimately, that might possibly be. Of course, if the mortgages were stolen and taken away he would lose his security for the bond.

Senator OWEN. It would have to be a protracted series of defalcations, which is impossible under Government supervision.

Senator FLETCHER. I do not see how it is possible to happen as we have this bill, because we have Government inspection, and we have a Government agent in every bank.

Mr. SELDOMRIDGE. Do you make them depositories in any way?

Senator FLETCHER. Yes.

Mr. WEAVER. Is not the whole theory of our Government based upon the fact that we have got to rely upon some men being honest?

Senator OWEN. We all put our lives in the hands of the fellow who handles the throttle of the engine every time we ride on the trains.

Mr. HAYES. And even on the fellow that is fixing the track; we have got to depend on him.

Mr. BULKLEY. What is your view of the probable effect of this legislation on farm-land values?

Senator FLETCHER. It may be possible that it will increase farm-land values. The low rate of interest would have a tendency to do that.

Mr. HAYES. Do you think that is desirable?

Senator FLETCHER. I do not see any objection to that. The only reason, it seems to me, that it might be undesirable would be to encourage speculation in lands.

Mr. HAYES. Is not this the principal objection to it, that it makes it harder for the individual to get a farm?

Senator FLETCHER. That might possibly happen in some instances, but still if he is getting a more valuable farm he can afford to pay more for it. I do not think there will be very much danger of any material rise in farm-land values.

Senator OWEN. The remedy for your suggestion, Mr. Hayes, is single tax. [Laughter.]

Mr. HAYES. What objection would you see to our undertaking to prevent that result by providing in the law for what purposes the money can be used?

Senator FLETCHER. We do that.

Mr. HAYES. Would that not accomplish that result?

Senator FLETCHER. I think so. I think that is a safeguard against that. We provide in the bill that it shall be used to complete the purchase of land, to supply money to complete the purchase of land, to improve and equip the farm, and to pay off existing liens. Those are the three purposes named in the bill.

Mr. HAYES. So that the man that had none of these needs could not be a borrower under the law?

Senator FLETCHER. He could not borrow, no. I do not think that it would be possible to borrow for purposes of speculation to any extent. As a matter of fact, I believe generally our lands are lower priced than the lands of any country where they do not produce any more than our lands. I think our lands are generally lower in price, compared with the lands of other countries, so that we can stand some increase.

Mr. PLATT. Suppose I own a farm just as an investment and it is clear of mortgages. Is there anything in this bill to prevent me from borrowing other funds, if I want to?

Senator FLETCHER. I did not quite get that.

Mr. PLATT. Suppose I own a farm that is clear of mortgages, just as an investment.

Senator FLETCHER. Yes.

Mr. PLATT. Is there anything in this bill that prohibits me from borrowing under this plan?

Mr. BROWN. You would have to spend the money on the farm.

Senator FLETCHER. You would have to borrow for the purpose of improvement or equipment.

Mr. PLATT. Well, I could fix that easy enough. I could use this money I got from this mortgage for improvement and take other

money and buy railroad stock that I intended to use for improving the farm. It seems to me you can not get up a system that will absolutely insure that the money is not going to be spent except for certain purposes. If the man has good security and wants to borrow on it, I do not see how you can avoid lending him.

Senator FLETCHER. So far as I am concerned personally, I do not see that we ought to set ourselves up as guardians of the farmers.

Mr. PLATT. I think you are entirely right about that.

Senator FLETCHER. I think if the farmer gives good security that is all we need to bother about; what he does with the money is his business.

Mr. BROWN. Suppose he wants to buy an automobile?

Senator FLETCHER. Well, if he needs one he ought to buy one to take his children to school.

Mr. WEAVER. However, the purpose of this bill is the development of farms, and the giving to the farmers of facilities that they do not now have under the general commercial banking system and under the borrowing of money from individuals?

Senator FLETCHER. Yes.

Mr. WEAVER. I say, is not the purpose of it to put the money from this system which the Government of the United States, through the Congress, is endeavoring to give to the people, into the land for the development of the land, whereby you are increasing the value of the land and developing the farm, and do you not think it would be rather aside from the purposes of this bill to lend money to persons for the purpose of speculation?

Senator FLETCHER. As I said a moment ago, I do not know that we ought to set ourselves up to watch the use of the money too carefully. If he is able to furnish security, I do not think we ought to inquire too closely what he shall do with the money. I would not want to encourage any class of people going into speculation or going into wild schemes. Primarily what you say is quite true, I think, Mr. Weaver, and that is one reason why we have this limitation mentioned here in the bill.

Mr. WEAVER. I am sure I agree with the Senator in his idea that it is for the individual to do what he wants to with his own. As old Falstaff said, "Shall I not take mine own ease in mine own inn?" The whole purpose of it is to provide money for the development of the farm.

Senator FLETCHER. To provide cheaper money for that purpose.

Mr. HAYES. Yes; but some of us are not particularly anxious to provide cheaper money for him if it is going to raise the price of farm land and make it harder for the accomplishment of the purpose we all have in view, which is to make it possible for a man who has not much money to secure land and equip it for profitable operation.

Senator FLETCHER. That is one reason why we thought best to specify the purposes.

Mr. PLATT. If you own a farm, this will enable you to sell it at a higher price.

Mr. HAYES. I know, and I own a farm, all right, but I am not thinking of my own individual interests in this case.

Mr. MOSS. Do you not believe that the provision in the bill that no man can borrow more than 50 per cent of the value of his land will, in itself, check speculation very largely?

Senator FLETCHER. I think so. That is also one of the effects.

Mr. MOSS. In other words, the man is not going to speculate very much when he has to put up \$2 to get \$1.

Mr. HAYES. That is the case now. You have to put up about \$2 to get \$1 if you want to go to a bank and borrow money to-day on real estate.

Mr. BROWN. Is there any limit in your bill, or do you think there should be one, of the amount any one individual can borrow or should borrow?

Mr. PLATT. That is not in the bill.

Senator HOLLIS. It does not occur to me that there should be any limit to any man's borrowing on land when the land answers the debt rather than the individual. Of course on commercial loans they have to look pretty strictly to that. But I did have an impression there was something of that sort in this bill.

Mr. BROWN. I did not catch it when I ran over it.

Mr. COULTER. There is no limit to the amount one man can borrow, but no bank can lend more than a certain per cent of its capital to any one person.

Mr. BROWN. It is the other way, then.

Mr. PLATT. It could not be used to any extent on a 10,000-acre farm?

Mr. COULTER. A man has to divide the farm up and get it on separate mortgages.

Senator FLETCHER. I think that is the only limitation, Mr. Brown.

Mr. BROWN. That answers practically the same purpose, if the bank is limited in the amount of the loan.

Senator FLETCHER. Yes. I was looking to see the particular sections of the bill.

Mr. WEAVER. In some States individual landowners hold great bodies of land. For instance, in Texas I know of one tract of 420,000 acres near San Angelo.

Senator FLETCHER. This is the provision in the bill that I think answers your question, under section D, page 61 of the document 380:

No national farm-land bank shall at any time loan any money upon the face or credit or upon the assignment of its own stock or of the stock of any other national farm-land bank; nor shall any national farm-land bank loan to or on the credit of any one individual or institution, either on the security of land or on any other security, an amount in excess of 20 per cent of the sum of its then paid-in capital and surplus.

Senator HOLLIS. Is there any other question that anyone would like to ask Senator Fletcher?

Senator LEE. I want to inquire about one suggestion made by Senator Fletcher, which is this question of taxation, which has not been entered into very largely.

Senator FLETCHER. We follow, practically, in the proposed bill, the provisions of the Federal reserve act.

Senator LEE. Of course, national-bank stock is subject to taxation, and then stock owned by another bank would be the property of the national bank, and would not be subject to taxation. We had a very acute, long-standing controversy over this question of bank taxation, and it has developed some peculiar phases, and shows how deeply interested the financial institutions are in the question of taxation, and it resulted in some litigation that I started myself in my

own county. We got the State divided into two groups, so as to keep the banks under a separate law, and the effect of which is that certain exemptions are allowed in Baltimore City that are not allowed in other parts of the State. The contention was that the exemptions were unlawful, and contrary to the provisions of the constitution of the State for equal taxation, and the result of it was that there was, particularly in some portions of the country, no corporate tax. It showed how close a margin the financial system is operating on, and in some places you can see, yourself, how important it is. You get a county tax of 90 cents or a dollar, and a State tax of 31 cents, and you might have a municipal tax of \$2, and it will readily run your banking costs up to a fixed charge for taxation of over 3 cents. The question arises, if you have a national bank or a State banking system subject to a taxable burden, and you put in competition with that system another type of bank or money-lending institution, exempted from all taxation, you are going to increase the demand for absolute freedom from taxation for other financial institutions, which will probably lead up to a demand for a repeal of all taxation on national banks. Other banks take the position now, all the banks of Baltimore, that all of their taxes should be reduced to a dollar basis, and in the last four sessions of our legislature there has been a bill urged by the Baltimore banks to the effect that all their taxation—municipal, State, and county—should be reduced to a dollar basis, and they all claim that the New York banks are on that basis to-day, and the Philadelphia banks are on that basis. The great issue of our banks has come under their demand for not only a dollar basis, but a reduction of that dollar basis of all exempted securities, which would reduce the banks to the position of having no taxes at all.

So you see, gentlemen, if you are going to go into this question of taxation, it is one of the most fundamental and far reaching aspects of the whole plan.

Senator FLETCHER. It is in our section 18 where we refer to the exemption of capital stock, and it is similar to the provision contained in the Federal reserve act. We look at it this way: If the mortgages have to pay taxes, then, undoubtedly, the man who makes the mortgage has got to pay it, generally speaking, and it means it comes out of the farmer, and we thought that mortgages ought to be exempt from taxation.

Senator LEE. If you have a strictly limited basis, so that, aside from the operating expense, there can be no profits accruing to any one except an absolutely limited amount of profit, that might be very well; but if you have in business an institution where the margin of profit for the people who are operating it is on a different basis from the margin of profit of the commercial bank, that very margin of profit is going to attract this capital. You either get it or you do not get it on that margin of profit.

Mr. PLATT. That is practically the only special privilege that there is in the bill, is it not?

Senator FLETCHER. Exemption from taxation?

Mr. PLATT. Yes.

Senator FLETCHER. And then making them fiscal agents, in a way, and allowing deposits.

Senator OWEN. Making them depositors for postal receipts and postal savings, is it not?

Senator FLETCHER. Yes; and then making them investments for trustees and guardians.

Mr. PLATT. That is not exactly a special privilege, because there are lots of other securities that are also in that last class of securities which can be invested in trust funds.

Mr. MOSS. When the State in which they are located passes certain legislation of a reciprocal character in its broadest sense, other securities can not be invested in trust funds, but can in these special instances where the State passes legislation desire by the commissioner of land banks?

Senator FLETCHER. Yes; the commissioner of farm-land banks is given certain powers in connection with that privilege.

Mr. MOSS. The question of investment in trust funds is entirely under the regulation of the commissioner of land banks and is dependent upon reciprocal State legislation?

Senator FLETCHER. Yes.

Mr. PLATT. I think that is a very good provision.

Senator LEA. Senator, it would seem more consistent if you would reduce these two systems, the central system of farm loans for farm purposes, to regulate it and make it free from taxation, than it would be for you to make it a broader type of lending for all commercial purposes, to any one who would see fit to invest in these agricultural securities?

Senator FLETCHER. Yes; that is true, I think. That is another reason why we felt like limiting the loaning of the money for certain purposes.

Senator OWEN. That is done in the bill, is it not; the money which is received is intended to be used for farm purposes?

Senator FLETCHER. For three purposes, completing the payment of the purchase price, equipping and improving the farm, and paying off and discharging existing liens.

Senator LEA. How do you operate that with regard to the balance? Has the farmer a checking right upon the balance on deposit?

Senator FLETCHER. The bank will have to see to that.

Senator HOLLIS. The bank will not make the loan until it is satisfied with the security?

Senator FLETCHER. Precisely, and the commissioner of farm-land banks is empowered here to make certain rules and regulations with reference to that. I think it can be met in that way, by rules and regulations prescribed by the commissioner of farm-land banks, and then the Government supervision.

Senator HOLLIS. If there is nothing further we will adjourn until to-morrow at half past 10, at the room of the Banking and Currency Committee of the House. I believe Mr. Moss is going to advise us to-morrow. We will consider that we adjourn until 10.30 o'clock to-morrow.

(The committee adjourned to 10.30 o'clock a. m., Tuesday, February 17, 1914.)

TUESDAY, FEBRUARY 17, 1914.

HOUSE OF REPRESENTATIVES,
Washington, D. C.

The subcommittees assembled in joint session at 11 o'clock a. m., Hon. Robert J. Bulkley presiding.

Present also Senator Henry F. Hollis and Representatives Brown, Stone, Seldomridge, Hayes, Woods, and Platt.

By direction of the chairman the so-called Fletcher bill (S. 4246) is incorporated in the record as follows:

A BILL To provide for the establishment, operation, and supervision of a national farm-land bank system in the United States of America, for the creation of depositaries for postal savings and other public funds, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be "National Farm-Land Bank Act."

SEC. 2. That there shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the creation and supervision of farm-land banks, the chief officer of which bureau shall be known as the commissioner of farm-land banks, and shall perform his duties under the general direction of the Secretary of the Treasury.

SEC. 3. That the commissioner of farm-land banks shall be appointed by the President, by and with the advice and consent of the Senate, and shall hold office for the term of five years, unless sooner removed by the President upon reasons to be communicated by him to the Senate; and he shall be entitled to a salary of \$6,000 a year.

The commissioner of farm-land banks shall, within fifteen days of notice of his appointment, take and subscribe the oath of office, and he shall give to the United States a bond in the penalty of \$50,000, with surety or sureties to be approved by the Secretary of the Treasury, conditioned for the faithful discharge of the duties of his office.

SEC. 4. That the Secretary of the Treasury, at the request of the commissioner of farm-land banks, may appoint one deputy commissioner, who shall be entitled to a salary of \$3,500 per year, and who shall possess such powers and perform such duties under the commissioner as he shall direct. During a vacancy in the office of the commissioner, or during his absence or inability, the deputy commissioner shall possess the powers and perform the duties attached by law to the office of the commissioner. The deputy commissioner shall take the oath of office, and shall give a like bond in the penalty of \$30,000.

SEC. 5. That the commissioner of farm-land banks shall adopt a seal of office to be approved by the Secretary of the Treasury, a description of which seal, together with an impression thereof and a certificate of approval thereof signed by the Secretary of the Treasury, shall be filed in the office of the Secretary of State.

SEC. 6. That there shall be assigned from time to time to the commissioner of farm-land banks by the Secretary of the Treasury rooms for conducting the business of the bureau of farm-land banks, containing safe and secure fire-proof vaults in which the commissioner shall keep all original articles of association and other valuable documents and things belonging to his department; and the commissioner shall from time to time furnish the necessary furniture, stationery, and other proper conveniences for the transaction of the business of his office.

The commissioner shall employ from time to time the necessary clerks, to be appointed and classified by the Secretary of the Treasury, to discharge such duties as the commissioner shall direct.

SEC. 7. That it shall not be lawful for the commissioner or deputy commissioner, or for any clerk employed in the bureau of farm-land banks, either directly or indirectly, to be interested in any farm-land bank formed pursuant to the provisions of this act.

SEC. 8. That the commissioner shall make an annual report to Congress at the commencement of its session, exhibiting—

First. A summary of the state and condition of every farm-land bank from which reports have been received during the preceding year, at the several dates to which such reports refer, with an abstract of the whole amount of mortgages or deeds of trust held by them and collateral trust bonds (hereinafter described as national land-bank bonds) issued by them, the whole amount of their other assets and liabilities, the amount of their capital stock, and such other information in relation to such companies as in his judgment may be useful or as may be requested by Congress.

Second. A statement of the companies whose business has been closed during the year, with the amount of their mortgages or deeds of trust and of their national land-bank bonds redeemed and the amount outstanding.

Third. Any other information which he may deem desirable to present and such special information as may be called for by Congress.

Fourth. The names and compensation of the clerks employed by him, and the whole amount of the expenses of the bureau of farm-land banks during the year, together with a full and complete list of all officers, agents, clerks, and other employees of his office, including examiners, receivers, and attorneys for receivers, and clerks employed by them, or any other person connected with the work of said bureau in Washington or elsewhere whose salary or compensation is paid from the Treasury of the United States or assessed against or collected from existing or failed companies under supervision or control.

When the annual report provided for in the last section is completed, or while it is in process of completion if thereby the business may be sooner dispatched, the work of printing shall be commenced under the superintendence of the Secretary of the Treasury, and the whole shall be printed and ready for delivery on or before the first day of December next after the close of the fiscal year to which the report relates. There shall be printed not to exceed ten thousand copies; one thousand for the Senate, two thousand for the House, and the remainder for distribution by the commission.

SEC. 9. That within ninety days after the approval of this act, or as soon thereafter as may be, the Secretary of the Treasury shall formulate and adopt the plans, rules, and regulations governing the operations of the bureau of farm-land banks, in accordance with this act, which plans, rules, and regulations shall be enforced by the said commissioner of farm-land banks.

POWERS OF COMMISSIONER OF FARM-LAND BANKS.

SEC. 10. That the commissioner of farm-land banks is authorized and empowered upon proper application to issue charters or certificates of incorporation for the establishment of national farm-land banks as herein provided for; and to exercise supervision and control over and make examinations of all of the national farm-land banks established under this act, under such general rules and regulations as may be provided; and to withdraw or forfeit such charters or liquidate such banks whenever necessary, in accordance with rules to be provided, subject in all respects to the requirements and provisions herein contained.

SEC. 11. That the said commissioner of farm-land banks is hereby authorized, by general rules and regulations to be approved by the Secretary of the Treasury, applicable alike to all the national farm-land banks organized hereunder, to specify the conditions under which the privileges herein authorized to be granted to all said national farm-land banks shall be extended to such banks; and particularly to provide for the extension of such privileges only to national farm-land banks operating in those States which, by the passage of suitable laws, have met the requirements of the said commissioner of farm-land banks (first) as to the simplification of land-title registration and conveyancing, (second) as to the simplification, promptness, and economy of methods of securing farm-land loans and of foreclosing the same, and as to other matters as more fully

set out in section thirty-four of this act. And the said commissioner of farm-land banks shall, by like general rules and regulations to be approved by the Secretary of the Treasury, have the power to specify the time when such rules and regulations or certain of them shall go into effect, and the time within which such conditions or certain of them must be complied with, and to extend such time, and to withhold such privileges or certain of them from the national farm-land banks operating in any State failing to comply with the required provisions and regulations until the same are fully complied with.

Sec. 12. That the commissioner of farm-land banks, by and with the approval of the Secretary of the Treasury, shall from time to time prepare and publish amortization tables, covering periods of from six to thirty-five years, at varying rates of interest, to meet all the requirements of the banks organized hereunder. Such tables shall be adopted and used by all of such banks as the basis of all repayments of long-term mortgage loans herein provided for.

INCORPORATION OF NATIONAL FARM-LAND BANKS.

Sec. 13. That the associations for carrying on the business of farm-land banking under this act may be formed by any number of natural persons, not less in any case than ten. They shall enter into articles of association, which shall specify in general terms the object for which the association is formed, and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. These articles shall be signed by the persons uniting to form the association, and a copy of them shall be forwarded to the commissioner of farm-land banks to be filed and preserved in his office.

Sec. 14. That the persons uniting to form such a national farm-land bank shall, under their hands, make an organization certificate, which shall specifically state:

First. The name assumed by such association. The words "national farm-land bank" shall be a part of the title of every such institution, and these words shall not be used by any institution other than those incorporated under this act: *Provided, however,* That if the persons uniting to form such a national farm-land bank shall wish to apply cooperative principles in the formation and management of the same, the words "national farm-land bank, cooperative," shall be a part of the title; and the word "cooperative" shall not be used by any national farm-land bank other than those which accept the following principles and provide in their by-laws that—

(a) No stockholder shall own more than ten per centum of the share capital at any time.

(b) At all meetings of the stockholders of such banking corporation each stockholder shall have one vote and only one on all matters pertaining to the organization or management of the institution, irrespective of the number of shares of stock owned by such stockholder.

(c) The net earnings of such banking corporation available and set aside for the payment of interest and dividends shall be distributed as follows:

To each owner of stock of such corporation may first be paid a dividend in the form of interest upon the par value of the shares of stock owned by such owner of stock, computed at the rate of interest generally prevailing in the community where such bank is located, but not exceeding the legal rate of interest in the State where such banking corporation is situated, if said earnings are sufficient for that purpose; otherwise, to be paid to each owner of such stock pro rata computed upon the par value of such stock. The balance of such net earnings, if any, shall be distributed among the patrons of such banking corporation in proportion to the amount of business transacted with such bank: *Provided, however,* That in such distribution the share-owning patrons may, if approved by a two-thirds vote, take dividends at a rate twice as great as that paid to the nonshare-owning patrons.

(d) The shares of stock of such national farm-land banks, cooperative, may be of the par value of \$25 each.

(e) In all other respects such national farm-land banks, cooperative, shall conform to and be governed by the general laws as herein provided.

The words "national farm-land bank" or "national farm-land bank, cooperative," shall be prefixed by such descriptive title or name as the applicants may indicate, subject to the approval of the commissioner of farm-land banks. Each said national farm-land bank shall be designated by an official number provided by the commissioner of farm-land banks.

Second. The State in which the operations of such national farm-land banks are to be carried on, and the place in said State where its principal office is to be located, which place may be changed from time to time upon the request of such national farm-land bank, with the approval of the commissioner of farm-land banks.

Third. The amount of capital stock, and the number of shares into which the same is to be divided: *Provided*, That such capital stock shall in no case be less than \$10,000; *And provided further*, That such capital stock may be increased or decreased from time to time, subject to the approval of the commissioner of farm-land banks, but at no time to be less than the minimum herein set forth.

Fourth. The names and places of residence of the shareholders and the number of shares held by each of them.

Fifth. The fact that the certificate is made to enable such persons to avail themselves of the advantages of this act.

SEC. 15. That the organization certificate shall be acknowledged before a judge of some court of record, or before a notary public, and shall be, together with the acknowledgment thereto, authenticated by the seal of such court or notary public, transmitted to the commissioner of farm-land banks, who shall record and carefully preserve the same in his office.

POWERS AND LIMITATIONS OF NATIONAL FARM-LAND BANKS.

GENERAL POWERS.

SEC. 16. That upon duly making and filing the articles of association and an organization certificate, the association shall become, as from the date of the execution of its organization certificate, a body corporate; and as such, and in the name designated in the organization certificate, shall have power:

First. To adopt and use a corporate seal.

Second. To have succession for the period of fifty years from its organization, unless it is sooner dissolved according to the provisions of its articles of association or by the act of its shareholders owning two-thirds of its capital stock; except that, in the case of cooperative farm-land banks, a vote of two-thirds of the stockholders shall be necessary, or unless its franchise becomes forfeited by some violation of law: *Provided*, That the charters of all national farm-land banks shall be at all times subject to change, amendment, or repeal under general laws enacted by Congress: *Provided*, That no such change, amendment, or repeal shall in any way affect the rights of the creditors of such national farm-land banks.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law and equity as fully as natural persons.

Fifth. To elect or appoint not less than five nor more than nine directors, and by its board of directors to appoint a president, vice president, and other officers, to define their duties, require bonds of them, and fix the penalty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places: *Provided*, That the officer herein described as Federal fiduciary agent shall not be subject to removal by the board of directors or officers of said bank, but shall be subject to removal only by the commissioner of farm-land banks.

Sixth. To prescribe by-laws not inconsistent with law regulating the manner in which its stock shall be transferred, its directors shall be elected or appointed, its officers elected or appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed, except that in the case of cooperative farm-land banks the by-laws shall be approved by two-thirds of the stockholders before being adopted and put into effect.

Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of farm-land banking: *Provided*, That the powers of such association shall include the following specific powers and shall be subject to the following specific restrictions:

A. SPECIFIC POWERS.

Every national farm-land bank shall have the following specific powers:

(a) To accept and pay interest on deposits to an amount not exceeding fifty per centum of the amount of its combined paid-up capital and surplus; to receive deposits of postal savings funds to the same extent and to pay interest thereon at the rate required of other banks receiving such deposits. The trustees of the Postal Savings System are hereby authorized and empowered to select national farm-land banks as depositories for such funds, which banks, when required by the Secretary of the Treasury, shall act as fiscal agent of the United States.

(b) To make loans upon farm lands anywhere within the State in which such national farm-land bank is operated: *Provided*,

First. That such loans are made for not more than thirty-five years.

Second. That such loans are secured by a first mortgage or first deed of trust on farm lands.

Third. That such loans shall be made for any of the following purposes:

(a) To complete the purchase of the agricultural lands mortgaged; (b) to improve and equip such lands for agricultural purposes; (c) to pay and discharge debts secured by mortgages or deeds of trust on said lands.

Fourth. That such loans do not exceed fifty per centum in amount in the case of improved farm lands, and do not exceed forty per centum in amount in other cases, of the value of the said lands; to be determined by an appraisal, as provided in this act.

Fifth. That every such farm-land loan contain a mandatory provision for the amortization of such loan, or reduction of the same by annual or semiannual payments on account of principal: *Provided*, That the loan extends over a period exceeding five years.

Sixth. That every such loan may be paid off in whole or in part by the borrower, in accordance with rules to be prescribed by the commissioner of farm-land banks, at any interest period, after such loan has continued for five years, by the payment of the whole or a part of such loan, with interest to such date, after crediting the amortization payments on the same, as and when they were made.

(c) To issue, sell, and trade in its own collateral trust bonds which shall be known and described as "national land-bank bonds" secured by the deposit, as elsewhere herein provided of first mortgages or first deeds of trust (and of notes or bonds secured thereby), in an amount equal at least to the face value of the national land-bank bonds so issued and sold by the said bank: *Provided*,

First. That the rate of interest upon the farm-land loans evidenced by the mortgages or deeds of trust held by the bank as security for its own national land-bank bonds shall not exceed the rate of interest paid on such national land-bank bonds by more than one per centum annually upon the amount unpaid on the loan, which said one per centum shall cover all charges of administration.

Second. That all national land-bank bonds issued by the said bank shall be payable on a date specified and shall be subject to call at par, at any interest period, after the date of issue, or after a specified time, by such proper notice and advertisement as may be provided by the commissioner of farm-land banks.

Third. That such national land-bank bonds shall be always protected by the deposit, as security therefor, of at least an equal amount in face value of first mortgage or first deed of trust farm loans (and of notes or bonds secured thereby), maturing not less than five years after their date.

Fourth. That as the amortization payments are credited upon the first mortgage or first deed of trust farm loans so deposited as security, the national land-bank bonds issued by the bank and secured thereby shall be called and paid, or purchased in the open market and retired, to the extent of the credits made upon such first mortgage or first deed of trust farm loans held as security for the same, under rules and regulations made by the commissioner of farm-land banks.

Fifth. That the first mortgage or first deed of trust farm loans (and the notes and bonds secured thereby) field as security for such national land-bank bonds shall at all times be in the joint possession and under the joint control of the said bank and of the Federal fiduciary agent hereinafter provided for, and that a register of such first mortgages or first deeds of trust shall be at all times kept by the bank, entries or cancellations in which shall only be made with the approval in writing of such Federal fiduciary agent.

Sixth. That no national land-bank bond shall be issued against any mortgage or deed of trust (or notes or bonds secured thereby) which falls due earlier than five years after its date.

(d) To use its capital stock, surplus, and deposits as a revolving fund for the temporary purchase or holding of such first mortgage or first deed of trust farm loans; or to use the same for the purpose of buying in its national land-bank bonds and of holding them temporarily, so as to maintain the price of the same; or to loan its capital and surplus on first mortgages or first deeds of trust for a period not exceeding five years: *Provided*, That not to exceed fifty per centum of such capital and surplus may be permanently invested in such national land-bank bonds and in first mortgage or first deed of trust farm loans, and the remainder of the capital and surplus can be permanently invested only in United States Government bonds, in the bonds of the State in which such bank is operating, or in such other securities as may be authorized by the commissioner of farm-land banks.

(e) To buy and sell gold and silver coin and bullion; to collect notes, drafts, and bills of exchange; to discount commercial and other short-term paper and deal in national land-bank bonds of other farm-land banks with its deposits; to keep reciprocal accounts with other banks; to rediscount its commercial and other short-term paper with other banks; and to carry on a general banking business so far as its current deposits are concerned: *Provided*, That such deposits do not exceed fifty per centum of its capital and surplus, except as elsewhere herein specified: *Provided, however*, That farm-land banks, cooperative, may for and with their stockholders also do and transact the business now possessed and exercised by national banks under the laws of the United States, under such rules and regulations as may be prescribed by the commissioner of farm-land banks.

B. SPECIFIC LIMITATIONS.

Every national farm-land bank shall be subject to the following specific limitations:

(a) The amount of national land-bank bonds that may be issued and outstanding at any one time by such national farm-land bank shall not exceed fifteen times its capital and accumulated surplus.

(b) The charges of administration imposed by such national farm-land bank upon the borrower for handling such loan shall not in each instance exceed an annual charge of one per centum upon the amount unpaid on the loan.

(c) The payments to be made annually or semiannually by the borrower shall in all cases be sufficient to pay the interest charge upon the loan, the administration charges of the bank, and an amortization payment sufficient to retire and pay off the amount of the principal borrowed (as evidenced by the face of said first mortgage or first deed of trust and the notes or bonds secured thereby), at its maturity.

(d) No national farm-land bank shall at any time loan any money upon the faith or credit, or upon the assignment, of its own stock, or of the stock of any other national farm-land bank; nor shall any national farm-land bank loan to or on the credit of, any one individual or institution, either on the security of land or on any other security, an amount in excess of twenty per centum of the sum of its then paid-in capital and surplus.

Eighth. But no national farm-land bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized to commence business by the commissioner of farm-land banks.

HOLDINGS OF REAL ESTATE.

SEC. 17. That national farm-land bank may purchase, hold, and convey real estate for the following purposes and for no others:

First. Such as shall be necessary for its immediate accommodation in the transaction of its business.

Second. Such as shall be mortgaged to it by way of security for loans made by it, as elsewhere herein provided.

Third. Such as shall be conveyed to it in satisfaction of debts contracted in the course of business dealings.

Fourth. Such as it shall purchase at sale under judgments, decrees, or mortgages or deeds of trust, held by the bank, or shall purchase to secure debts due to it.

But no such bank shall hold the title and possession of any real estate conveyed to or purchased by it to secure any debts due to it for a longer period than five years.

EXEMPTION FROM TAXATION.

SEC. 18. That every national farm-land bank incorporated under the terms of this act and the capital stock and surplus therein and the income derived therefrom and the mortgages and deeds of trust (and the notes and bonds secured thereby) held by said bank and the national land-bank bonds issued by the same shall be exempt from Federal State, and local taxation, except in respect to taxes upon real estate.

FEDERAL FIDUCIARY AGENT.

SEC. 19. That the commissioner of farm-land banks shall at the time of organization of each national farm-land bank designate some individual who is not an officer or director of the bank, and who is not objectionable to the directors of the bank, as a "Federal fiduciary agent" for that bank, who shall also be the representative of the bureau of farm-land banks. As such Federal fiduciary agent he shall have the following powers and perform the following duties:

First. He shall certify to each national land-bank bond issued by the said bank, and no national land-bank bond issued without his signature shall be binding upon the said bank

Second. He shall have joint possession and control with the bank of the mortgages and deeds of trust (and of the notes and bonds secured thereby) which are deposited as security for the national land-bank bonds issued by the bank, and no mortgage or deed of trust (or note or bond secured thereby) so placed in the joint possession of himself and the said bank shall be withdrawn or changed or have any credit made thereon except by and with his consent in writing.

Third. He shall have the supervisory control of all entries in the mortgage ledger kept by the bank, in which ledger shall be kept a detailed statement of each issue of national land-bank bonds made by the bank, and of all the mortgages or deeds of trust (and notes or bonds secured thereby) held by the bank and himself jointly, to secure the national land-bank bonds of the bank, as well of such other information as may be required by the bureau of farm-land banks. And no entry shall be made in the said mortgage ledger indicating either the deposit of mortgages or deeds of trust, the withdrawal or substitution of mortgages or deeds of trust, or credits on mortgages or deeds of trust so held by the bank, except by and with his approval in writing, which approval may be signified by signing his name on the margin of the page in the mortgage ledger where such entries are made.

Fourth. He shall execute such bond with such security as may be required by the commissioner of farm-land banks. The salary and expenses of said Federal fiduciary agent shall be fixed by the joint agreement of the bank and of the commissioner of farm-land banks and shall be paid by the national farm-land bank with which he is acting.

CAPITAL STOCK.

SEC. 20. That the shares of stock of each national farm-land bank shall be of the par value of \$100 each, and each stockholder shall be entitled to one vote for each share of stock standing in his name: *Provided, however,* That in the case of national farm-land banks, cooperative, each stockholder shall be entitled to one vote, and only one, and the shares of stock may be of the par value of \$25 each. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, or employee of such bank shall act as proxy, and no shareholder whose liability is past due or unpaid shall be allowed to vote. Any national farm-land bank may be it by-laws authorize cumulative voting for directors.

SEC. 21. That at least fifty per centum of the capital stock of every national farm-land bank shall be paid in before it shall be authorized to do business, and the remainder of the capital stock of said bank shall be paid in, in installments of at least ten per centum each on the whole amount of the capital, as frequently as one installment before the end of each succeeding month from

the time it shall be authorized by the commissioner of farm-land banks to commence business, and the payment of each installment shall be certified to the commissioner of farm-land banks, under oath, by the president or cashier of the bank.

SEC. 22. That whenever any shareholder or his assignee fails to pay any installment on the stock when the same is required by the preceding section to be paid, the directors of such bank may sell the stock of such delinquent shareholder at public auction, having given three weeks' previous notice thereof in a newspaper of general circulation published in the city or county where the bank is located (or if no newspaper is published in said city or county, then in a newspaper published nearest thereto), to any person who will pay the highest price therefor, to be not less than the amount due thereon, with the expenses of advertisement and sale; and the excess, if any, shall be paid to the delinquent shareholder. If no bidder can be found who will pay for such stock the amount due thereon to the association and the cost of advertisement and sale, the amount previously paid shall be forfeited to the association, and such stock shall be sold as the directors may order, within six months from the time of such forfeiture; and if not sold, it shall be canceled and deducted from the capital stock of the association. If any such cancellation and reduction shall reduce the capital of the association below the minimum of the capital required by law, or below one-fifteenth of its outstanding national land-bank bonds, the capital stock shall, within thirty days from the date of such cancellation, be increased to the required amount, in default of which a receiver may be appointed, according to the provisions of section fifty-two hundred and thirty-four of the Revised Statutes, so far as it may be applied hereto, to close up the business of such bank.

SEC. 23. That any bank formed under this act may, by its articles of association, provide for an increase of its capital from time to time, as may be deemed expedient, subject to the limitations of this act. But the maximum of such increase to be provided in the articles of association shall be approved by the commissioner of farm-land banks; and no increase of capital shall be valid until the total amount of such increase is paid in and until notice thereof has been transmitted to the commissioner of farm-land banks, who shall thereupon issue to such bank his certificate, specifying the amount of such increase of capital stock, with his approval thereof, and after it has been duly paid in it shall be treated as part of the capital stock of such association.

SEC. 24. That any bank formed under this act may, by the vote of shareholders owning two-thirds of its capital stock, or in the case of national farm-land banks, cooperative, by the vote of two-thirds of the stockholders, reduce its capital to any sum not below the amount required by this act to authorize the formation of such a bank; but no such reduction shall be allowed which will reduce the capital and surplus of the association below one-fifteenth of its outstanding national land-bank bonds as herein provided; nor shall any such reduction be made until the amount of the proposed reduction has been reported to and approved by the commissioner of farm-land banks.

BOARD OF DIRECTORS.

SEC. 25. That the affairs of each bank shall be managed by not less than five nor more than nine directors. All directors shall be elected by the shareholders at a meeting to be held at any time before the association is authorized by the commissioner of farm-land banks to commence business, and afterwards at meetings to be held on any such date in January of each year as is specified therefor in the articles of association. The directors shall hold office for one year and until their successors are elected and qualified.

SEC. 26. That every director must, during his whole term of service, be a citizen of the United States; and at least three-fourths of the directors must reside in the State or Territory in which the bank is located for at least one year immediately preceding their election, and must be residents therein during their continuance in office. Every director must own, in his own right, at least five shares of the capital stock of the bank of which he is a director. Any director who ceases to be the owner of five shares of stock, or who becomes in any other manner disqualified, shall thereby vacate his place.

SEC. 27. That each director, when appointed or elected, shall take an oath that he will, so far as the duty devolves on him, diligently and honestly administer the affairs of such bank, and will not knowingly violate or willingly permit to be violated any of the provisions of this act, and that he is the owner

in good faith, and in his own right, of the number of shares of stock required by this act, subscribed for by him or standing in his name on the books of the bank, and that the same is not hypothecated or in any way pledged as security for any loan or debt. Such oath subscribed by the director making it, and certified by the officer before whom it is taken, shall be immediately transmitted to the commissioner of farm-land banks and shall be filed and preserved in his office.

SEC. 28. That any vacancy in the board shall be filled by appointment by the remaining directors, and any director so appointed shall hold his place until the next election.

SEC. 29. That if, from any cause, an election of directors is not made at the time appointed, the bank shall not for that cause be dissolved, but an election may be held on any subsequent day, thirty days' notice thereof in all cases having been given in a newspaper published in the city, town, or county in which the bank is located; and if no newspaper is published in such city, town, or county, such notice shall be published in a newspaper published nearest thereto. If the articles of association do not fix the day on which the election shall be held, or if no election is held on the day fixed, the day for the election shall be designated by the board of directors; or if the directors fail to fix the day, shareholders representing two-thirds of the shares may do so, or in the case of national farm-land banks, cooperative, two-thirds of the stockholders may do so.

SEC. 30. That one of the directors, to be chosen by the board, shall be the president of the board. One or more vice presidents shall likewise be chosen by the board.

LIABILITY OF STOCKHOLDERS.

SEC. 31. That the shareholders of every national farm-land bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank, to the extent of the amount of their stock therein, at the par value thereof, in addition to the amount invested in such shares, unless, in the case of national farm-land banks, cooperative, by a two-thirds vote of the stockholders a larger liability shall be undertaken.

SEC. 32. That persons holding stock as executors, administrators, guardians, or trustees shall not be personally subject to any liabilities as stockholders; but the estates and funds in their hands shall be liable in like manner and to the same extent as the testator, intestate, ward, or person interested in such trust funds would be if living and competent to act and hold the stock in his own name.

CONVERSION OF EXISTING LAND-MORTGAGE COMPANIES AND OTHER STATE INSTITUTIONS INTO NATIONAL FARM-LAND BANKS.

SEC. 33. That any land-mortgage association or corporation, or any similar institution, including building and loan associations or savings and loan associations lending exclusively on farm mortgages, now incorporated under the general or special laws of any State, may become a national farm-land bank under this act, under a suitable name, upon complying with the provisions of this act; and in such case the articles of association and the organization certificate may be executed by a majority of the stockholders of the existing institution, and the certificate shall declare that the owners of two-thirds of the capital stock of the old institution have authorized the directors to make such certificate and to change and convert the institution into a national farm-land bank. The majority of the directors, after executing the articles of association and organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national farm-land bank. The directors of the old company may continue to be the directors of the national farm-land bank until others are elected or appointed, in accordance with the provisions of this chapter. When the commissioner of farm-land banks has given to such association a certificate under his hand and official seal, after the provisions of this bill have been complied with and after it is authorized to commence the business of farm-land banking, the bank shall have the same powers and privileges and shall be subject to the same duties, responsibilities, and rules, in all respects, as are prescribed for other banks originally organized as national farm-land banks, and shall be held and regarded as such a national farm-land bank; but no such

bank shall have a less capital than the amount prescribed for national farm-land banks organized under this act, and no such corporation shall be authorized to do business as a national farm-land bank until the amount of its outstanding collateral trust bonds is so reduced that it does not exceed fifteen times the capital and surplus of the said bank and until it complies in all other respects with the provisions of this act.

PRIVILEGES GRANTED TO NATIONAL FARM-LAND BANKS.

SEC. 34. That the national land-bank bonds of any national farm-land bank shall be available for the following purposes:

First. As security for the deposit of postal savings funds in such national farm-land banks and all other banks authorized to receive such deposits.

Second. As a legal investment for time deposits of national banking associations, as provided in the Federal reserve act, and for the funds accumulated in savings banks organized and doing business in the District of Columbia.

Third. As a legal investment for trust funds and estates under the charge of or administered by any of the courts of the United States.

Fourth. As a security for loans from national banking associations to national farm-land banks or to individuals, for not exceeding five years, to an amount aggregating not over twenty-five per centum of the capital and surplus or to one-third of the time deposits of the national banking association making such loan. Such loans to be made and held by the national banking association making the same, as being within the provisions of section twenty-four of the Federal reserve act, so as to permit national banking associations to lend to national farm-land banks, on their obligations secured by their national land-bank bonds, in place of making the loan directly on farm lands, as provided for in said section.

The foregoing privileges (or such of them as the commissioner of farm-land banks, with the approval of the Secretary of the Treasury, may, by general rules applicable to all banks organized hereunder, from time to time designate) shall apply to national land-bank bonds issued under authority of this act only as and when the following conditions (or such of them as the commissioner of farm-land banks, with the approval of the Secretary of the Treasury, may from time to time by like general rules designate) are likewise put into effect in any State or States:

(a) That laws decided to be sufficient by the bureau of farm-land banks have been enacted by the State in which such national farm-land bank is operating, withdrawing or canceling the right to claim exemption, or providing for the waiver of such exemption, whether homestead or otherwise, against the mortgages or deeds of trust (or notes or bonds secured thereby) held as security for the national land-bank bonds of such national farm-land bank: *Provided*, That if the right to waive such exemption is given, then that all the mortgages or deeds of trust (and bonds or notes secured thereby) deposited as security for such national land-bank bonds contain such waiver.

(b) That in the judgment of the commissioner of farm-land banks the State laws providing for registration of land titles, conveyances, and foreclosures in any given State are such as to give reasonable protection to the holders of first mortgages and first deeds of trust on lands located within that State.

(c) That the national land-bank bonds of all national farm-land banks which are accepted under this law as security in the various matters above set out shall be likewise accepted, under the State laws of the State in which such national farm-land bank is operated, as a legal investment for the funds of savings banks operating in that State and of trust funds and estates held by or under the control of the courts of that State and as a legal investment for the reserves of insurance companies incorporated under or operating under the laws of that State.

EXAMINATIONS.

SEC. 35. That the commissioner of farm-land banks, with the approval of the Secretary of the Treasury, shall, as often as shall be deemed necessary or proper, indicate a suitable person or persons to make an examination of the affairs of every national farm-land bank, and shall have power to make a thorough examination into all the affairs of the bank, and in doing so to examine any of the officers and agents thereof on oath, and shall make full and detailed report of the condition of the bank to the commissioner of farm-land banks.

The person assigned to the making of such examination of the affairs of any national farm-land bank shall have the power to call together a quorum of the directors of such bank, who shall, under oath, state to such examiner the character and circumstance of such of its business as he may designate. The expense of the examinations herein provided for shall be assessed by the bureau of farm-land banks upon the banks examined in proportion to assets or resources held by such banks upon a date during the year on which such examinations are held, to be established by the bureau of farm-land banks. The provisions of section twenty-six of the Federal reserve act, prohibiting the making of any loan or granting any gratuity to the examiner of a national bank, shall apply with equal force to examiners of national farm-land banks, and the penalties and punishments therein provided shall be equally applicable to such examiners of national farm-land banks.

SEC. 36. That the commissioner of farm-land banks shall require statements showing the condition of each bank to be published in a newspaper or newspapers published in the vicinity where the bank is located at such times as calls for such statements may be made by him, and in general conformity with the practice as to call for statements from national banking associations by the Comptroller of the Currency: *Provided*, That in the discretion of the Secretary of the Treasury any or all examinations of national farm-land banks may be made by examiners who are commissioned to examine national banking associations.

DIVIDENDS.

SEC. 37. That the directors of each national farm-land bank shall be authorized to declare a dividend upon the outstanding and paid-up capital stock of such an institution out of the net earnings of the same: *Provided*, That in no case shall any dividend be paid which will impair the capital stock of the said institution, nor shall any dividend be paid which will reduce the amount of capital and surplus of each bank to less than one-fifteenth of the outstanding national land-bank bonds of the said bank: *Provided, however*, That in the case of cooperative farm-land banks the net earnings of such banking corporations available and set aside for the payment of interest and dividends shall be distributed as follows: To each owner of stock of such corporation may first be paid a dividend in the form of interest upon the par value of the shares of stock owned by such owner of stock, computed at the rate of interest generally prevailing in the community where such bank is located, but not exceeding the legal rate of interest in the State where such banking corporation is situated, if said earnings are sufficient for that purpose; otherwise, to be paid to each owner of such stock pro rata, computed upon the par value of such stock. The balance of such net earnings, if any, shall be distributed among the patrons of such banking corporation in proportion to the amount of business transacted with such bank: *Provided, however*, That in such distribution the share-owning patrons may, if approved by a two-thirds vote, take dividends at a rate twice as great as that paid to nonshare-owning patrons: *Provided further*, That a special reserve fund shall be maintained by each national farm-land bank, which special reserve fund shall be created out of the net earnings of the bank and shall at all times be equal to five per centum of the total annual interest charge on the land-bank bonds which are outstanding against such bank at the close of the last fiscal year. Such special reserve fund shall not be disbursed for any other purpose except to meet arrears in interest payments on land-bank bonds issued by such bank.

DIRECTORS' MEETINGS.

SEC. 38. That the directors of each national farm-land bank shall meet at least once in each month, and at such other times as are necessary. They shall have power to appoint committees and to delegate to such committees such portion of their powers as may be necessary for the convenient operation of the bank, subject to the approval of the bureau of farm-land banks.

APPRAISEMENT COMMITTEE.

SEC. 39. That the board of directors of each national farm-land bank shall immediately upon its organization, and before making any loans upon farm lands, appoint an appraisement committee, which shall be composed of three

members of the board of directors. The names of said appraisement committee shall be at once delivered to the commissioner of farm-land banks, and any change in the said committee shall be at once communicated to him. The duty of said committee shall be to appraise, or cause to be appraised, and report on the value of real estate offered as security for loans. All reports of the appraisement committee shall be made in writing, signed by a majority of the committee, and shall give a description of the property, the value at which it is appraised by them, the value at which it is assessed for taxation, and such other information as may be required by the directors of the bank or by the commissioner of farm-land banks. Such report shall be filed and preserved with other papers relating to such loan, and no loan shall be made on any farm land unless and until such report in writing has been filed with the said bank.

POSTAL SAVINGS DEPOSITS—DEPOSIT OF STATE FUNDS—RESERVES—LOAN OF CURRENT DEPOSITS.

SEC. 40. That all national farm-land banks shall, upon the request of the board of trustees of the postal savings system, receive deposits of postal savings funds to the extent of one-half their capital and surplus, and pay interest thereon at the rate required to be paid by other banks on similar postal deposits.

SEC. 41. That the limitation on the amount of deposits which shall be received by national farm-land banks, by which they are prevented from receiving deposits in excess of fifty per centum of their capital and surplus, shall not apply to deposits made with said banks by the Government in the shape of postal savings deposits or other governmental deposits; nor shall it prevent the said banks from receiving deposits of State funds. On all time deposits of whatever character the national farm-land banks shall maintain a cash reserve of at least five per centum, and on all check deposits shall maintain a reserve of at least twelve per centum, either in cash or in balances with other banks, under rules and regulations to be prescribed by the commissioner of farm-land banks. The postal savings deposits held by any such bank, except the five per centum reserve, may be invested only in first mortgage or first deed of trust loans on farm land, being secured to the Government by the deposit with it of the national land-bank bonds of any national farm-land bank complying with the rules of the commissioner of farm-land banks, approved by the Secretary of the Treasury, as prescribed in pursuance of the provisions of this act. The funds held on deposit by such banks for the State in which they operate may be invested as provided by the laws of such State.

DESTRUCTIBLE PROPERTY TO BE INSURED.

SEC. 42. That wherever the value of buildings or destructible property attached to the land is a part of the security for any loan, such buildings or destructible property shall be properly insured against loss by fire, and policies representing such insurance shall be properly assigned and deposited along with the mortgages under the joint control of the said bank and the Federal fiduciary agent. In such case provisions shall be made in the mortgages or deeds of trust for the payment by the borrower of an amount sufficient to pay the premiums on such insurance policies, in addition to the interest, amortization, and administration charges to be paid by him as herein set out. In appraising property for loans the buildings and destructible property shall not be valued at more than twenty per centum of the total appraisement.

BRANCH BANKS.

SEC. 43. That no national farm-land bank shall be authorized to operate branches, but each said institution may, with the approval of the commissioner of farm-land banks, employ and maintain loan agencies throughout the State in which it is operated.

SALES AGENCIES.

SEC. 44. That any national farm-land bank may, with the consent of the commissioner of farm-land banks, maintain either within the State in which it is operating, or elsewhere, sales agents or agencies for the sale of its national land-bank bonds or for trading in the same.

HOW PERIODIC PAYMENTS MADE BY BORROWER ON MORTGAGE TO BE DETERMINED.

SEC. 45. That to the rate of interest to be borne by the national land-bank bonds to be issued by the bank shall be added the administration charge, together with a charge sufficient to amortize the loan by the time of its maturity, and in this way the periodic payment to be paid by the borrower on his mortgage shall be fixed, and this shall be set out in every mortgage and shall not be changed during the term thereof.

LOANS MAY BE PAID WITH NATIONAL LAND-BANK BONDS OF SAME SERIES—BANK MAY BUY IN ITS NATIONAL LAND-BANK BONDS AND HAVE CORRESPONDING AMOUNT OF MORTGAGES RELEASED.

SEC. 46. That any borrower shall be entitled to pay off the amount of his mortgage or any portion thereof by presenting to the bank, on any interest period after the first five years, the national land-bank bonds of the bank of the same series as those issued against his mortgage. To the extent of such national land-bank bonds presented and canceled at such time, the borrower shall be relieved of his mortgage indebtedness and proper credits shall be made upon his mortgage. The Federal fiduciary agent shall evidence such credit. The bank issuing such national land-bank bonds shall also have the right at any time to buy in the open market its national land-bank bonds and to cancel the same, and thereupon to release a proportionate amount of the mortgages securing such national land-bank bonds. But in case any of such national land-bank bonds of the bank are called for payment by the bank, as hereinbefore provided, then the same must be paid off by the bank at par.

SEC. 47. That whenever the borrower pays his debt in full the bank shall promptly satisfy and discharge the lien of record.

GENERAL POWERS GIVEN TO COMMISSIONER OF FARM-LAND BANKS.

SEC. 48. That the commissioner of farm-land banks, by general rules and regulations, shall prescribe the methods of keeping the mortgage register; of holding and preserving the mortgages and the bonds secured by deed of trust in the joint possession of the bank and of the Federal fiduciary agent; of crediting payments on mortgages; of canceling mortgages; and of releasing the liens of mortgages in whole or in part; and the general rules and regulations for the conduct of the institutions provided for under this act. Such rules and regulations not in conflict with the provisions of this act shall be binding upon all the banks created under the same.

SEC. 49. That all matters relating to the organization and operation of said national farm-land banks created under this act shall be under the direction and control of the commissioner of farm-land banks, except as herein specified.

PENALTIES FOR VIOLATION OF LAW.

SEC. 50. That any officer, clerk, or agent of any national farm-land bank or any Federal fiduciary agent herein described, who commits any offense or malfeasance, such as described in sections fifty-two hundred and eight and fifty-two hundred and nine of the Revised Statutes of the United States, and section thirteen of the act approved July twelfth, eighteen hundred and eighty-two, being the law relating to national banks, shall be punished upon conviction as prescribed in the said laws relating to national banks.

SEC. 51. That all acts and parts of acts inconsistent herewith are hereby repealed.

Mr. BULKLEY. Now, Mr. Moss, if you are ready we will be glad to hear you.

STATEMENT OF RALPH W. MOSS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA.

Mr. Moss. Mr. Chairman and gentlemen of the committee, I am going to confine myself to the terms of the bill. I take it that the members of the committee fully comprehend the importance of the

subject and also the urgency of the matter pending before the country. I feel, too, that the committee must be aware of the fact that the literature on this subject is readily available to each member of the committee, and I have no doubt that each member of the committee has read widely on the subject. I am not, therefore, going to discuss the general features of it. Even though such discussion were necessary, Senator Fletcher's statement on yesterday would relieve that necessity largely. I had also intended to present some facts before the committee, especially bearing on the question of a uniform rate of interest all over the United States, but the necessity for that I feel has been largely obviated by the statement of Prof. Thompson, and I am gratified to find, on reading it carefully, that the conclusions I had reached myself and the conclusions the commission have reached are fully borne out by the investigation made by the Department of Agriculture through Mr. Thompson. And I would say to those members of the committee who have not already studied it carefully, that I think Prof. Thompson's statement is well worth a careful study of the facts there stated.

And now this bill, as was stated yesterday, was drafted by a sub-committee consisting of Senator Fletcher, Dr. Coulter, and myself; then submitted to the full committee, and later submitted to the President and, by his request, was submitted to the Secretary of Agriculture. The Secretary of Agriculture, after some weeks of study, gave to the President a written opinion on the bill containing a suggestion I would like to call the committee's attention to at this time.

On page 14, in clause 3 of the bill, is represented the principal criticism Secretary Houston had of the bill as originally submitted by the commission. I shall discuss that. Clause 3, on page 14, reads:

That such loans shall be made for any of the following purposes: (*a*) To complete the purchase of the agricultural lands mortgaged; (*b*) to improve and to equip such lands for agricultural purposes; and (*c*) to pay and discharge debts secured by mortgages or deeds of trust on said lands.

That clause was inserted in the bill at the suggestion of Secretary Houston and, as I understood it, with the approval of the President. Now, the purpose of that clause is very apparent, and grows out of the belief on the part of the Secretary of Agriculture that any pure credit institution would lend itself to the purposes of speculation, and that its results even might extend so far that it would lower the rate of interest to an extent which would cause a general rise of land values. If so, the advantage of the lower rate of interest would be consumed partly, at least, in the rise of the value of the land, and therefore the total interest charge might remain stationary, instead of falling to the borrower.

I feel not only every member of the commission, but every member of this committee is in full sympathy with the purpose of this restriction, and yet I do not believe that such results would follow if the clause were to be omitted. I feel that the Secretary of Agriculture in suggesting this restriction acted with rather overdue caution. In support of this opinion, I want to give the reasons to the committee for my conviction.

First, this bill is an instrument permitting voluntary contracts between parties. In other words, the loans are not forced—the bank

is not forced to make the loan—and the borrower is not compelled to borrow. Therefore, before any loan can be negotiated there must be an agreement made between a lender and a borrower.

Now, farmers do not mortgage their farms rashly nor hastily. In my State, in giving a mortgage on farm property, the wife must join with the husband, and the question of mortgaging a piece of real estate is well considered.

We then have, first, the prudence of the borrower, and, next, the prudence of the lender. For, under the terms of this bill, for every \$15 loaned, the bank must actually pledge \$1 in paid-in capital and assume an additional dollar in liability. Now, a bank does not seek to make loans in order to foreclose, to gain the title to real estate. In fact, if any bank believed, when asked to make a loan, that in order to secure repayment of the loan it would have to foreclose, it would not make the loan. Banks will therefore be prudent about the loans. We thus have the prudence of the bank and the caution of the borrower combined in guarding against speculation.

This restriction is difficult of administration. As a matter of fact, there is only one way in which such restrictions can be administered effectively, and that would be to make the bank the trustee of the borrower to supervise its expenditure. You would not consider that for a moment. Immediately the loan is made it can not be withdrawn. Its terms are fixed, and it is fixed for a long period of years. Under this bill the principal sum is absolutely secured; the man has the money in his pocket, and he can undoubtedly control it and do with it as he chooses. He may spend his money in any way he sees fit, unless you were to make the bank his trustee. Assuming, however, 99 per cent of the farmers are honest, it is argued that we can take this chance on the 1 per cent. But I want to call your attention to the fact that undoubtedly the man who has an easy conscience is the one who would use this bill for speculative purposes. So you restrict, in my judgment, the operations of the bank; you place restrictions upon the man who is borrowing the money, who is prudent, and at the same time you can not place restrictions upon the reckless man. And for that reason I consider it a restriction which ought not to be written into the bill.

And more than that. This bill is very closely restricted in its general terms, and there ought to be no additional restrictions placed further than are absolutely necessary. I trust that the committee will consider this point carefully; and if you believe, when you consider this matter—because it is a question you must consider, in any bill you report, the question of the purpose of the loan must come up—that it is not necessary to declare the purpose of the loan in order to prevent speculation, I trust the bill will be reported by the committee without that restriction.

Senator HOLLIS. Mr. Moss, you recall that in the banking and currency bill which has already been passed, the purpose for which the notes may be rediscounted and made the basis of circulation is definitely prescribed, and that is for the reason it is contemplated that the rediscounted notes may be the basis of circulation. But here there is no such purpose, so far as I know; and do you not imagine that Secretary Houston, perhaps, was influenced somewhat by the restrictions on the purpose of the loans in the Federal reserve act?

Mr. Moss. That may be. I want to say, Senator, that a restriction on the purpose of the loan is proper and ought to go with all systems of personal credit, and I would not favor a system of personal credit—and I am going to discuss that with you in a few moments—that did not put a restriction upon personal loans as to the uses to which the borrowed money may be used. But on real-estate loans it is a different matter entirely. I desire to call the committee's attention to the fact that in every system of mortgage loans which I have studied, unless the funds have been advanced by the National Treasury for a specific purpose, there has been no limitation placed upon the purposes of the loan.

France will loan \$2,000 to any French subject for the purpose of acquiring a homestead, providing he does not own a homestead. The same Government will give a man a pension providing he lives on that farm until he is 65 years of age. And when I asked the reason for such provisions of law it was said France considered it was worth \$2,000 to have a new farm home established, because of the large decrease in her farm population.

Now, if the proposal were to advance the funds out of the Public Treasury, I agree at once there should be a restriction to certain declared purposes; but that has not been the idea of the commission. We are not endeavoring to do anything more than provide a system of favorable contracting between lender and borrower. Government supervision should see that the terms of the contract are faithfully carried out; but it seems to me to be going too far to attempt to direct the expenditure of the money, and I do not believe it is necessary nor advisable to insert that clause which the Secretary of Agriculture has suggested.

Mr. HAYES. Don't you think it would have this effect: It would serve as sort of a guide to the men who are desirous of being prudent; for instance, the bank and the Federal agent? Now, you are an attorney, I presume?

Mr. Moss. No, sir.

Mr. HAYES. I am, and I say to you that a man who came to a bank and desired that money for speculative purposes, a prudent banker or prudent Federal agent in charge of that bank with this condition upon it could, by a proper system of examination, find out if a man was going to use it for speculative purposes. So I believe it would be not, as you suggest, an unnecessary limitation; but I believe it would be a very wholesome limitation and one that could be enforced and that would be enforced.

Mr. Moss. I have just suggested a situation that came to my mind to the committee.

Senator HOLLIS. What is your real objection to it, Mr. Moss?

Mr. Moss. My real objection to it is in the operation of the bank. I do not believe it to be a simple task to organize these banks and set them to work, as a great many people seem to believe it will be. And I recall that in one bank—the Bavarian Mortgage Bank, which is the largest mortgage bank in Germany—that its prominence is due to the fact that it had one privilege which other competing banks do not have, namely, naming its own appraisers. The other banks of Germany must accept official appraisers, but this bank has a right to name their own appraisers. They claim they are able on this account to give a little more favorable terms, and that such advantage

has extended their business until it has overshadowed all other banks in Germany.

I believe we ought to make it possible for these banks to operate with as few restrictions as possible with safety to their patrons. That is the commission's idea; we wish to afford every possible means of competition among themselves, but impose no restrictions unless it is absolutely necessary to secure safety of operation.

Mr. BULKLEY. Now, Mr. Moss, there is another suggested restriction that seems to me very close to the point you are discussing. I would be glad to have you tell us what you think about limiting the amount an individual would be permitted to borrow from the bank.

Mr. Moss. Yes; I will come to that in a moment; but there is one other matter I wish to touch upon in answer to the Senator's question, and that is the bank will be under the control and will be supervised by Government agents like the national-bank examiners if this bill is adopted. Now, if the purpose of the loan is written in the law, it would give power to the supervising agent, the man who is examining the bank, to harass the management of the bank at times by insisting that the borrower is not carrying out the purpose of the loan, when it is beyond the power of the bank to compel him to do it; and I fear that this might be used as a means of embarrassing the bank. The Government agent has the power under this bill to close the bank in just the same way as a national bank is closed. Here is a proposed limitation that the bank shall not loan except for certain purposes with no power on the part of the bank to see that the borrower carries out those particular purposes. You put it in the power of the borrower to violate the purpose for which the loan is made, and, it seems to me, the bank examiner might hold the management of the bank responsible for the violation of the law, which the bank could not prevent. I always did object and object now to imposing any penalty for a violation of a law when the person who is penalized can not prevent the violation.

Mr. HAYES. Do you think there will be any opportunity for that being done provided they have the statement of the applicant for a loan, which they would have in writing, as to what the purpose of it was?

Mr. Moss. That is a question that I am suggesting for the consideration of the committee.

Mr. HAYES. I do not see how there would be. If there are any other objections I wish you would suggest them, because that is quite an important point with me.

Mr. Moss. I will state again, Mr. Hayes, that I am in entire sympathy with the purpose of the restriction, but I do not believe it is necessary. The natural prudence of the borrower and the caution of the lender, together with the further fact that the owner can only borrow 50 per cent of the value of the land, and that by enforced amortization he will have a higher rate to pay—all of these considerations, it seems to me, would absolutely put a check upon the speculative borrower.

Mr. SELDOMRIDGE. Mr. Moss, I just want to ask Mr. Hayes a question.

Mr. Moss. Yes.

Mr. SELDOMRIDGE. Suppose a man gets some money under section 3 and should be visited by some unforeseen occurrence—sickness or

something of that kind—would not that tend to relieve him of the obligations of this clause?

Mr. HAYES. Absolutely; of course.

Mr. SELDOMRIDGE. But you put him under writing and under oath—

Mr. HAYES. Not under oath; no.

Mr. SELDOMRIDGE. When he makes a written statement he practically makes himself liable, it seems to me; and I have some sympathy with the position taken here by Mr. Moss.

Mr. HAYES. Of course, I do not want to take Mr. Moss's time. You and I can discuss this later, but I do not look at it that way.

Mr. Moss. Undoubtedly there are certain legitimate purposes and highly important purposes for which a loan would not be permitted under the fixed terms of this bill and that ought to be permitted under this system. I call your attention to the fact that the Department of Agriculture has just made an investigation and has reached the conclusion that 100 acres is the smallest unit which a man can farm efficiently in this country. In other words, in using machinery the Department of Agriculture has come to the conclusion that 100 acres is the lowest acreage that can be handled efficiently under the conditions of farming in this country. Now, you will admit at once that the man with 40 acres might very reasonably and prudently wish to extent his area; second, that if he has a family and children coming along, there will come a time when it may be necessary to mortgage his farm in order to acquire other farms for his children; it sometimes comes down to a question that land must be purchased at a particular time or it can not be purchased at all—land which may adjoin his small tract—and it therefore happens that sometimes a man must foresee and be prepared to make a purchase; otherwise the opportunity will pass and he would be cut off under the restrictions of the bill from accepting these exceptional opportunities.

Mr. HAYES. Why?

Mr. Moss. Under this clause, to complete the purchase of agricultural lands mortgaged. Now, under that provision, strictly applied, he could not mortgage 80 acres of land to buy an additional 40.

Mr. HAYES. I think that is a very narrow construction.

Mr. Moss. It is a very obvious one. It is possible to work a very great hardship upon a person with a worthy purpose. A farmer under its provisions would be denied the privilege of purchasing that additional acreage to bring his farm up to the area recognized by the Department of Agriculture as the smallest unit which can be farmed efficiently.

Mr. Woods. Mr. Moss, can you tell us how they came to that conclusion?

Mr. Moss. I do not know how they came to that conclusion, but I can tell you why I will concur in that conclusion. In the first place we have gotten to a point in this country when forestry must be recognized. Every man must have a part of his land in forest, and a part of it must lie in pasture; you should have a rotation of crops; and you can not take less than 100 acres of land and divide it in fields so that you can handle machinery efficiently and organize a rotation of crops. I will put my reputation back of that statement.

Mr. BULKLEY. In that connection, Mr. Moss, in order to have it for the record, you are a practical farmer yourself, are you not?

Mr. Moss. Yes, sir. I might say here, I was born on a farm, and I am living on the same farm on which I was born. What higher education I have was secured at Purdue University, which is an agricultural college, so that in my life, with the exception of my service in Congress and State senate, I have spent all of my time on the farm and associating with agricultural people.

Mr. Woods. Do you not think a farm of 60 acres is as profitable as a farm of 100 acres?

Mr. Moss. If you will take the word "profitable" and substitute the word "economical," I will say yes. A hundred acres is the minimum. That is what I am speaking about. As a matter of fact, if I have 80 acres of land I would give more than the adjoining 80 acres was worth in order to get a farm of 160 acres, which can be worked more economically than a farm of 80 acres. In my section of the country a man would not willingly buy 80 acres of land for a farm. He would want a larger body of land.

Mr. HAYES. You are speaking now of the ordinary farm land?

Mr. Moss. Yes.

Mr. HAYES. In my State 20 acres would be the unit. Of course, I am not speaking of a farm proper.

Mr. Moss. In answer to the question of the chairman, my judgment on the limitation of the loans is that the limitation has been put too low in this bill. Twenty per cent of the capital stock means a bank must have 75 borrowers borrowing at the maximum capacity in order to make the lowest issue of bonds it can make. In other words, suppose we take a bank with \$10,000 capital and that bank issues \$150,000 in land bonds, which they have the right to do, the largest amount it can loan to any one man under this bill would be \$2,000, and therefore it would have to have 75 borrowers in order to loan up to its maximum capacity.

Now, prudence does not require that \$10,000 of capital shall be divided among 75 men as the fewest number there could be, nor is it reasonable in order to protect the bank. In addition, the maximum loan is too small. When I call your attention to the fact that in short-time loans Prof. Thompson gave it that the average loan to farmers was \$644—that is, the average short-time loan—you can see that \$2,000 is certainly too low for the maximum loan. If you take a bank with \$100,000 capital or \$250,000, that objection entirely disappears. I would suggest that the maximum be raised.

Mr. HAYES. I should think \$3,000 would be little enough.

Mr. Moss. You are right about that.

Senator HOLLIS. Mr. Moss, do you think the same reason applies for limiting loans on real estate as applies to commercial loans?

Mr. Moss. Yes; but, Senator, not in as large a degree, because there is a much greater hazard in commercial loans than in real estate loans. As this bill is written, the same limitation applies here that applies to national banks, and it is entirely too low. I will not say now what the limit should be, but it should be raised over the limit placed in the bill.

Mr. BROWN. Mr. Moss, is not \$2,000 more than the average farm mortgage?

Mr. Moss. Dr. Coulter will come before your committee. He is an expert from the Census Bureau and can give you the figures exactly, and I can not. My understanding is that \$1,700 is the average farm loan in the United States, but I would prefer that you wait until you can ask the question of Dr. Coulter.

Mr. PLATT. Mr. Bathrick gave the average as \$1,700.

Mr. Moss. As regards the average loan that could be made, I am just stating that a bank would have to have about 75 borrowers, each taking a maximum loan, before it could lend to the maximum capacity of its funds. That is the matter I am speaking of.

Mr. BULKLEY. Mr. Moss, there is one other question in connection with that same thing: A number of Members have been somewhat concerned because they fear that any system which will materially reduce interest rates will have as its principal effect an increase in land values. Now, would not we eliminate that by placing a limitation upon the amount that any one man could borrow? Would not that in itself tend to limit the use of these funds for speculative purposes?

Mr. Moss. That is true. But the purpose I had in mind in advocating a limitation, Mr. Chairman, was another and different purpose than that. I am going to discuss the rise in value later. My purpose was this, that in existing systems of mortgage loans, it has been a very simple question to get the small loans. The tendency has been to make large loans. If you do not limit the size of the loan, you will find when the system goes into operation, that the funds will flow toward the big borrower and not toward the little one. Now, then, in order to prevent that result, it is necessary to place a limitation on the size of loans in order to compel the banks to accommodate small borrowers. That situation has been so acute in some of the older systems, that banks have been organized by the Government expressly for the purpose of taking care of the little borrower. It is not any trouble for the big man to get a loan. I would advocate a restriction, but it occurs to my mind the restriction is too low at \$2,000.

Mr. BULKLEY. You have not fixed it positively at \$2,000?

Mr. Moss. Under the present terms of this bill, that is the largest loan that could be gotten in a minimum bank. Of course, with a bank having \$25,000 capital, it would be quite different, or with a bank having \$50,000 capital, etc. Of course, 75 borrowers would exhaust the capital in any bank—

Mr. BULKLEY. I understand that. But in addition to this restriction as to what any one bank can loan, should there not be the restriction on the amount of money itself that any one individual can borrow?

Mr. Moss. If you did that, I think it would make the system entirely feasible and workable. I think that a good suggestion, Mr. Chairman.

Mr. BULKLEY. Have you any thought as to what that limit should be?

Mr. Moss. I have not, Mr. Chairman. This feature of the matter was discussed back and forth, and the figures on that phase of it Dr. Coulter, as an expert from the Census Bureau, can give better than I.

Now, coming back just a moment, I have in my hand the comments of the agricultural press on this bill, so far as I have been able to

get them. It is well known that this bill has been given very wide publicity, and I have taken particular pains to secure the editorial comments of the agricultural press, so far as they have been made, both for and against the bill. I have done that because it is a difficult matter to get a correct expression of the agricultural thought, because the farmers are not organized. There are certain persons whom I have met, claiming to speak for the farmers in an official capacity, some representing the grange and other farm organizations, and they are asking for certain features to be incorporated in this legislation. I came into possession of a letter, which I presume had been widely sent out suggesting that the farmers begin writing letters to their Representatives, a suggested copy of which was inclosed, in order to secure the passage of a certain bill.

If you wish it, I will publish in the record those editorial comments, or the committee can read them. I call your attention to that feature in passing.

Mr. HAYES. Will you state, in a general way, Mr. Moss, whether they are generally favorable to this bill?

Mr. Moss. Yes. There is absolutely no criticism of the principle of the bill in any sense of the word in any of them, and in nearly every instance they are entirely favorable to the bill. The bill is not referred to as being a perfect one. Among the papers from which I have collected editorial comments are American Agriculturist, National Stockmen, American Farmer, Farmer's Review, Pennsylvania Farmer, Farm and Home, the Country Gentleman, Field and Farm, New England Homestead, the Orange Judd Farmer, the Georgia Farmer, the Nebraska Farmer, Campbell's Scientific Farmer, Farmer's Stock and Home, and Indiana Farmer. That is a list of papers which have made editorial comment upon it.

Mr. BULKLEY. I think those would be very interesting, Mr. Moss.

Mr. HAYES. I think I have received a clipping from a paper sent me by a farmer, with a very strong indorsement, which you have not named there.

Mr. Moss. Yes. Now, coming back to the discussion, we might leave out from our discussion of this matter to-day the demand for farm loans by the National Government. That was discussed yesterday by Senator Fletcher. However, I want to call your attention to one or two additional features which, it seems to me, should preclude legislation, even if such legislation were constitutional. I am not a lawyer and will not discuss that phase of it. The first objection and the supreme one is that the credit of the United States ought to be reserved for the purpose of maintaining the life of the Republic. The power that enables the Government to go out and borrow money at a low rate of interest is its unlimited power of taxation over its people. And if a war were to come—which I trust may never happen—but if a war were to come, the only means for providing for the defense of this Nation is its power to tax the people.

My second objection is that in any country which is ruled by the power of the people through its representatives, a financial obligation of the people to the government is more of a moral one than a legal one. I mean to say if there were a million people holding farm mortgages from the Government, and the Government desired to collect its money, no power on earth could compel the Government to go out and distrain the property of the people in times of adversity.

Mr. HAYES. And therefore it would not get anything?

Mr. MOSS. It would not. This has been tried in France. When the failure in grape growing, due to phylloxera, caused bankruptcy in certain districts, there would have been a revolution in France if the Government had undertaken to collect its loans. The minister of France said to me privately—he would not put it in the record, but yet he said this in the presence of other gentlemen—that while the loans were legal, the obligation became purely a moral one; that the Government held the debts of its own people and it could not go and distrain the property of its own people in time of distress. And I am satisfied that you would find in our own country if a war were to break out and the Government should call a million men into the field, that we could not call the men away from their own farms and thus destroy their only means of discharging these loans, and, at the same time, compel them to pay their obligations to the Government. Anyone knows that to be true.

And so the credit of the Government ought to the last moment to be sacredly kept for the defense of the Government.

Mr. BULKLEY. What would happen to those agricultural banks under those conditions, Mr. Moss?

Mr. MOSS. I am glad you spoke about that. The agricultural bank is the only institution in Europe that has stood the stress of warfare without any assistance whatever.

Mr. BULKLEY. How does that work out as a practical matter? Do they give additional time to the men called into the field?

Mr. MOSS. As to that I can not speak; but I think you will find in Europe that much of the work on the farm is done by women, and I doubt very much if war causes so great a strain on the income from the farm and the people were able to carry on their payments and to meet their obligations.

If the National Government were to make a low rate, say 3 or $3\frac{1}{2}$ per cent, which is clearly below competitive rates, it will give the National Government absolutely a monopoly of this mortgage business. There is no question about that. It would have to make all the loans. And if it creates a monopoly of this business, it means that the credit of the National Government must borrow all of the money that would be needed; and I doubt, under those conditions, if even the National Government itself can borrow a sufficient amount at these very low rates. In other words, if we are to use the credit of the National Government, if it is to borrow billions of dollars, it will be a different proposition and rates will rise. We might notice that in time of war the rates of interest rise. While I was in Europe there was a war scare, and this scare raised the rates of interest to all European governments.

Mr. PLATT. Every farm in the United States would have a mortgage on it under a scheme of that kind, would it not?

Mr. MOSS. I can not see any reason why that should not be the ultimate result.

Now, then, in making a uniformly low rate on mortgage loans below that at which money is had in other industries, then at once you will cause a rise in the price of lands. That is without any doubt one of the chief objections which this proposition presents. It is not possible for the National Government to loan money to its citizens unless it loans to every one that meets all the conditions laid

down; and as these conditions will of necessity be uniform all over the United States, and the rate is below what private money can be obtained for, you will cause a general rise in land values beyond any doubt. That is absolutely sure.

Senator HOLLIS. Mr. MOSS, can you see any reason why the Treasury Department ought not to be authorized to use its discretion in depositing certain Government funds with these banks?

Mr. MOSS. No; I do not. I favor that provision, and it is contained in this bill.

Now, I am going to call your attention, as an illustration, to Austria. Austria is one of the countries where mortgage loans are made by the Government. I mean the bonds of the bank are guaranteed, not by the National Government, but by the provincial governments. Under this condition private mortgage banks have been driven out of the land-mortgage business, and yet the interest rate, even though the bonds are guaranteed by the Government, is no lower than it is in Germany, where they have purely competitive systems for the business. The interest rate the Austrian Government is paying for national purposes is also higher than that that the German Government is paying. It has been less than a year ago that the Austrian Government made a loan for national purposes in the United States at $6\frac{1}{2}$ per cent.

Mr. PLATT. You do not think, then, Mr. MOSS, that this system would necessarily drive all land-mortgage banks out of existence?

Mr. MOSS. No. I am sure it would not, and that is one of its admirable features.

The next question I shall discuss is the separation of the mortgage and personal loan. Upon that I have a very pronounced idea there should be a separation. Our commission at the beginning was divided upon that point, and the bill you have before you (S. 2909), by Senator Fletcher, was a bill combining the two propositions.

These systems of banking should be kept separate for the following reasons:

The first is, and it is brought out most admirably by Prof. Thompson, deposits for personal loans are always from local funds. I think Prof. Thompson made the statement before your committee that only $5\frac{2}{3}$ per cent of the deposits for personal purposes come from out of the State in which the loans are made. And that is natural. The loans are only \$250 on the average for tenants. It is upon personal security, and naturally the funds must come from local resources. For this very reason I fear that an effective system of personal credit for farmers at some point must have Government aid.

I am not going to discuss it further than that, because I have not settled in my own mind—and our commission have not, although we are going to attempt to submit presently to you a bill in a tentative form—just what should be done; but it is to be a more difficult task to draft an effective bill upon personal credits than it is for mortgage credits. It must be recognized that any system for personal credits must reach out to those sections of the country where there are no local funds; where the lands are in the undeveloped stage; and where there are no stores of accumulated capital; the people are all borrowers; there are not depositors of idle funds; and there comes in the field where the Government must decide

this question of what it is willing to do in the matter of loaning funds to aid agriculture. When it comes to the question of mortgage loans funds naturally flow all over the United States. Prof. Thompson has told us that the great insurance companies in the eastern part of the United States are loaning a large part of their funds in the corn belt—a large percentage of it, 31 per cent of their total loans, in the State of Iowa. Because of this mobility of loanable funds, there is no reason on the face of the earth for Government aid for mortgage loans, but the question of personal credits, which is a purely local matter, presents a worthy suggestion for national aid. I shall not discuss it any further at this moment.

We have in this bill permitted a limited-amount deposit—only 50 per cent of its capital. I think there is a good reason for that. In a business between the bank and its clients, there will be some funds left there—there will be some deposits that remain after the payment of the interest. There has been a new relationship created and it would be almost a necessity there should be a limited line of depositors. It is entirely arbitrary where you fix a limit. I would put it so small that the banks could neither compete largely with commercial banks, nor be subjected to temptation of going far out into the wide commercial field of bank activity.

There are in Europe what are called mixed banks—they have both pure and mixed mortgage banks—and the mixed mortgage banks are limited to the issue of \$10 of bonds to \$1 in capital; while the pure mortgage banks can issue from \$15 to \$20, thus recognizing the fact there is a hazard in accepting commercial business and that such banks must be closely restricted in the volume of their bonds.

The next question is a decentralized system of banking. You must make a choice between a centralized and decentralized system, and I shall discuss that question with you for a moment.

I will call your attention to the German experience. Germany has the decentralized or competitive system of banking, in that mortgage loans are made by three or four different agencies. First, they have the *landschaften* association; next are savings banks; next are the joint-stock banks; and then come the insurance companies. Those are four big factors, all of them organized as separate or independent institutions.

The *Landschaften* Association have out \$850,000,000 on rural loans (and I might say here, in passing, that the *landschaften* association is limited to rural loans alone); the savings banks have a like amount, \$850,000,000 on rural loans; the joint-stock banks have \$154,000,000 on rural loans; and the insurance companies have only \$12,000,000 on rural loans.

Now, you will see that where the institutions are competing side by side for mortgage business the savings banks in Germany make as large a proportion of the rural loans as the *landschaften* associations; that the *landschaften* association and savings banks have each 46 per cent of the rural mortgage business while less than 8 per cent is made by the joint-stock banks.

There are 23 *landschaften* associations. One was founded in 1770. There were 17 founded between 1825 and 1896.

There are 37 joint-stock banks, one of which was founded in 1850, and 27 were founded between 1862 and 1896.

Of this \$154,000,000 in rural loans by joint-stock banks, 91 per cent of it was made by only 7 banks, 1 Prussian bank and 6 Bavarian

banks. It is not necessary that land-mortgage institutions shall make all mortgage loans. It is not even desirable. There will be free competition, unless you establish a monopoly by law, or unless you grant national loans at such a low rate that private capital will not compete. It is entirely possible to have competition between private capital and mortgage banks, and the land-mortgage bank will act as a regulator of the rates and bring about a generally lower rate and more uniform conditions which are, in my mind, desirable results to be secured.

Mr. PLATT. How many of those German institutions have amortization plans? Do any of them besides the landschaften?

Mr. Moss. Yes; all mortgage banks demand amortization; savings banks do not.

I invite your particular attention to the fact that the bill limits the loans to be made on local real estate. I consider that an absolutely fundamental and vital feature of it. It is a matter of experience that any institution having a right to loan both upon rural and urban property places a large majority of its loans upon urban property.

I will call your attention to the figures. Let us take the savings banks in Germany. There are 2,844 public savings banks in the German Empire, having 7,404 branches. They control \$4,100,000,000 of deposits. Of that \$4,100,000,000 deposits, 20 per cent of it only is loaned upon rural real estate.

The joint-stock banks in Germany have loans upon real estate now to the enormous extent of \$2,575,000,000; and out of that vast total less than 8 per cent, or only \$154,000,000, is loaned upon rural real estate.

The landschaften associations are compelled to loan upon rural real estate, and of course their entire loans are upon this class of security.

The savings banks do not have the amortization feature and can not make loans for a fixed period. They make recallable loans. Their rates are higher than the landschaften association's rate, and yet with the higher rates and with harsher terms these banks loan practically as much money on rural real estate as do the landschaften associations, and very much more than the joint-stock banks, for this reason—and this suggests one of the fundamental features of this bill—the savings banks in Germany are limited by law to making loans on land in the immediate neighborhood where the banks are located, and only under certain conditions can they make loans out of the restricted area.

The landschaften associations also make loans in a restricted area, each one being confined to a Province in Germany which, in some instances, is no larger than counties in some of our States. In so doing the cost of the appraisement is very much less than in those national loan associations, and there is practically no cost whatever for supervision. Thus, due to this fact that the cost of inspection and the cost of supervision is so much less where local loans are made than in the case of those banks where the loans are not limited to a particular locality, all of the small loans practically go to the savings banks which seek to loan their funds upon local properties.

The joint-stock banks and other national institutions, having the right to loan anywhere in Germany and having a right to loan both upon urban and rural real estate, if they were to assume to carry out their operations all over the Empire, the cost of appraisal and cost of supervision on small rural loans would destroy their margin of profits. The margin for administration is kept low by competition, and hence they accept urban and large rural loans.

But, in the beginning there was a feeling of the commission—some members of it—that we could establish a national bank, and you will recall that Senator Fletcher's bill provided a bank to operate all over the United States. Later on it was believed it would be well to have as many central banks as we have States, and we worked out a bill very carefully, having one central bank in each State and to give that bank a monopoly of issuing bonds in that State.

We worked out a tentative bill upon that subject, and I am told a bill has been introduced in Congress containing essentially, if not identically, the same terms as the draft of the commission bill. I may be mistaken, but I know the bill was presented with the statement that it was to be introduced, and I am told that a Member has introduced the bill practically as the commission worked it out.

But the importance of the figures as you have them from Germany is that the banks there loaning on rural real estate are local banks, and banks loaning in a particular locality are the ones which are able to meet competition and are the most successful.

Now, turning to France, you will find there practically a monopoly created by law. The *Crédit Foncier* started out with Government aid in the foundation capital, and was given an absolute monopoly for 20 years. Later on this monopoly was continued by reason of certain privileges, such as freedom from decennial registration of mortgages, speedy right of foreclosure, etc. Above all else, the bank was given the right to attract deposits by the lottery system—a system of prizes. The result is that the *Crédit Foncier* is able and has been able to secure the savings of the French Republic in deposits, and that has been one of the great sources of its funds for making loans. This absorption of deposits was so complete that when France attempted to organize a system of personal credit, not being able to attract deposits in local banks, it became necessary to use money advanced by the National Government in order to make personal loans to the French farmer. The Bank of France has to divide a certain proportion of its profits, which is turned over to these personal-credit banks in France, to be loaned to farmers exclusively; and that necessity has been created in large part in that old and thickly populated country of France because this great land bank is given a monopoly and has been given the exclusive right, by a system of lottery and prizes, to attract the savings of the nation in order to feed and perpetuate this monopoly. This result is quite to be expected.

If you create a monopoly, you must give it a special privilege in order to exist. Monopoly never has lived, can not live, and never will live in any country unless it is given special privileges. That is the price of monopoly. If you are going to create a central bank and want to create a monopoly by it, you must give it special privileges in order for such bank to be successful.

Your commission has come before you with a purely competitive bill. It has been prepared with the idea of creating competition, not only between different institutions, but between different types of institutions; but if your committee adopts the monopoly idea, if you are to accept the central-bank plan, then you must strike out of this bill or any bill that you report either cooperative banks or joint-stock banks. Joint-stock banks and cooperative institutions can not exist together; they can exist as competitive institutions, but they can not be combined together in a monopolistic joint institution.

Some criticisms have reached me by private correspondence and through the press in which this bill has been referred to as a bankers' bill—as a measure largely in the interest of bankers. As a matter of fact, there can not be a freer banking system, but I will speak later on about that feature.

Now, coming back to the general features of the bill. It offers you a competitive system of banks that can go in operation at once in every State of the Union under conditions as they now exist. At the same time it is a bill that, whenever certain local laws are changed to bring about certain results, then the bill can go into operation in those States under more favorable circumstances. So it is a bill, as I have said, which goes into operation under present State laws, and yet one which constantly offers a premium to the States to encourage a much-needed improvement in many of the present State laws on this subject.

One of the great benefits to come from Federal legislation in aiding the farmer is in providing an incentive to the States to make better laws controlling the terms under which agricultural mortgage loans are made and under which land titles are transferred. One of the best features of the bill is that it can go in operation to-day in every State in the Union, and yet it does offer a perfectly legitimate incentive to every State which will improve its land laws; and the bill not only offers the several States an incentive, but even suggests along what lines this improvement ought to be made, and lodges the power on the part of the Nation in a bureau of the Federal Government, by rules and regulations, under conditions which shall be uniform and applicable to all banks and to all States alike.

It is not necessary, I think, to speak particularly about compulsory amortization, as it was discussed fully on yesterday by Senator Fletcher. A point, however, I wish to call your attention to particularly is that amortization is really a savings feature and any bank having amortization is really a savings bank. The thought of the commission was not only to provide safety for the funds, but to promote safety to the borrower by denying to him an opportunity to go in debt for a long period of time without making an adequate provision for its payment.

I shall venture to give my own definition of amortization. Amortization, as the word is used here, while it refers technically to payments—of course, upon the principal—really means a series of payments that shall be uniform for a certain length of time and at the end of the time that the debt itself shall have been extinguished; and so fixed that whatever series of years you may adopt, the borrower, by paying a uniform rate during that series of years, will owe nothing at the close of that time.

One good feature of this bill is that the National Government is charged with the duty of providing standard tables of amortization, which shall be adopted by all of the banks governed by its provisions. This would give a uniform rate all over the United States for both public and private banks and would most effectively standardize the mortgage loan business. And, as I said before and say now, if this legislation is enacted and there was not but a single bank established under it, this one feature would be of vast benefit to the people of the United States. It would absolutely check any practice of usury by means of using false tables and give any bank the proper rate of interest to charge in order to mature their loans within any given time at any given rate.

Mr. PLATT. You would not say that amortization would give the borrower a cheaper rate of interest than he could get a loan without it, would you?

Mr. MOSS. No; amortization can have no influence on interest, except as it will influence the rate favorably by reason of strengthening the security on which the loan is based.

Mr. PLATT. With equal security?

Mr. MOSS. It gives additional security, and it gives the borrower the additional protection of being constantly saving against his debt.

Mr. PLATT. My only point in putting that in was the people get altogether false ideas of this thing by reading about it in the newspapers. They have an idea that some miracle is going to be worked, and I think that impression ought to be corrected.

Mr. MOSS. In connection with that idea, Mr. Platt, the basic idea of this system is really devising a credit instrument to secure funds to be loaned. Now, the best credit instrument that has yet been devised is a bond, free from taxation, based upon absolute security, with frequent and regular interest payments. It is the credit instrument that has fought every kind of a war that has ever been waged; it has constructed all of our public improvements, and it finances all public undertakings. This bill is really adopting that credit instrument, free from taxation, placing it under Government supervision, and making it available for individual use on the farm; whereas heretofore it has been working exclusively for community interest. This bill, therefore, gives the farmer every advantage in the way of obtaining credit by the cooperation of 10 persons subscribing a minimum capital that the community now has with practically unlimited capital. An advantage is going to come to him in the compulsory amortization by inducing a savings deposit, and as a matter of fact you permit the farmer, by organization, with small capital, to take advantage of the most favorable credit instrument that the wit of man has yet devised.

Senator HOLLIS. Now, Mr. MOSS, do you mean that those tables should be at a uniform rate for the whole country, or do you mean they should be based on different rates of interest?

Mr. MOSS. Oh, different dates of interest, Senator. I mean to say that the table would indicate, if you take a note for 25 years at 4 per cent interest, the proper annual amortization charge which is necessary to mature the note, it would show him and every other man in the United States under like circumstances just exactly what payment will discharge his debt. Another feature in this bill is

there is no sinking fund permitted, and payments made by the farmer must be at once turned over to the bondholder. This has been done in the interest of absolute safety, especially for the bondholder. I think you will agree with me, after our experience with the insurance companies with vast sinking funds, that it will be vastly better to make these moneys active by turning them over immediately to the holder of the bonds to whom they rightly belong, giving the banks the right to recall bonds at any time, than to permit these banks to accumulate a vast hoard of money which must be handled by them as trustees for the ultimate benefit of the bondholder.

Senator HOLLIS. I wish you would give the arguments for that, Mr. Moss.

Mr. Moss. The argument is this, Senator, that under this system it regulates itself with mathematical certainty. There is no risk to be assumed. You may assume as a fact very safely that there will always be a larger demand for these loans than possibly can be supplied. Therefore the volume of the business will be controlled by the sale of the bonds.

If, then, there is an active demand for the bonds, there will be no hardship whatever on the bank by reason of the prompt payment and retirement of outstanding bonds, because the bank can immediately issue new bonds to meet this demand; as a matter of fact, the prompt calling of bonds and paying them off at par will have a tendency to uphold them in the market. If, as a matter of fact, you issue a bond for 35 years or for 30 years and they circulate for that entire period, under certain conditions it might be that such bonds would fall below par. In fact, if there is a general rise in interest rates, it is sure to go below par; but if there is a general fall in interest rates it is equally true that the bond will go above par. I think we all agree upon that proposition.

Now, then, if this bank, as a farmer comes in and pays the money, even if it can reinvest, unless it invest in land-mortgage loans, it would have the same hazard as other commercial investments. There could be no possible advantage in permitting a sinking fund to be invested in a new mortgage loan, because a new issue of bonds could be made to do the same thing. The only possible advantage in a sinking fund is the power of compound interest. Therefore it is in the interests of safety and does not in any way create a hardship, except in the prohibition of compound interest.

Mr. HAYES. Let me see if I understand. As I read the bill, the payment that the mortgagor makes in the mortgage will not apply on the bond that is issued at all. His bond runs the full 25 years, if it is to run for that period, unless the bank chooses to take it up and does take it up and retire it?

Mr. MOSS. As it either chooses or is compelled to.

Mr. HAYES. How can it be compelled to?

Mr. MOSS. It must keep this volume—

Mr. HAYES (interposing). Yes; I can see it might under certain circumstances.

Mr. MOSS. Of course it would take this money and at once reinvest it in bonds, and it is not in any sense of the word a sinking fund.

Mr. HAYES. Not at all; but you made a statement here that led us to believe that you had some other idea.

Mr. MOSS. Oh, no.

Mr. SELDOMRIDGE. If it could use its surplus. But suppose the bank finds itself without any demand from the borrowers; it must invest its funds in some form in order to keep up its interest.

Mr. MOSS. It always has the right to recall bonds and pay them off at par, and that always makes a satisfactory investment for whatever funds it may have. Now, the bill permits the bank to loan and reloan its capital, deposits, and surplus under certain conditions. If it is permitted to reloan its capital, there can be no question of surplus funds tied up in the bank, because if they are not invested under these provisions the bank can call in and cancel the bonds at par, and the interest on the mortgages thereby released will accrue to the bank.

Mr. PLATT. The section you refer to is on page 16, is it not, clause 4?

Mr. MOSS. Yes—

that as the amortization payments are credited upon the first mortgage or first deed of trust, farm loans so deposited as security, the national land-bank bonds issued by the bank and secured thereby, shall be called and paid or purchased in the open market and retired, to the extent of the credits made upon said first mortgage or deed of trust farm loans held as security for the same, under rules and regulations made by the commissioner of farm-land banks.

Under that provision we have made it mandatory upon the bank to retire its bonds in proportion as the mortgages are paid off.

Mr. HAYES. You do not allow them to use that money that comes in to make new bonds?

Mr. MOSS. No, sir; we have no provision in the bill for a sinking fund, absolutely none.

Senator HOLLIS. Mr. Moss, you do not feel hurried in giving your testimony, do you? We have plenty of time, and you go so fast that I find I can not follow you.

Mr. MOSS. Thank you, Senator, for that courtesy. I was afraid I might tire the committee.

Senator HOLLIS. I wish you would not; I wish you would take your time and take it easy, because we are not going to find many witnesses who can give us the information you can.

Mr. MOSS. I was afraid I would tire the committee, as there are many things I wanted to speak about. I thank you for the suggestion.

The idea that the commission had in this matter was to make the bondholder absolutely safe, and one of the great elements of security about the bond is that as the farmer pays in his money it immediately reaches the bondholder, and thus there is no risk between the time the money is paid in by the borrower and the redemption of the bond. If the holder of the canceled bond is satisfied with the investment, the bank will always have another bond of equal value to offer to him, and therefore there is no hardship upon the bondholder and no hardship upon the bank, and it will make the circulation of securities more active.

Mr. HAYES. Let me get your idea a little further. You do not mean to say if I owed one of these banks \$3,000 and I came in to pay it that the bond that was issued on my security—that identical

bond—must be purchased, or they must go out and purchase the sum of \$3,000 worth of bonds?

Mr. MOSS. The bank will call in \$3,000 worth of their bonds, without distinction as to any particular bonds.

Mr. BROWN. Let me understand this. Are these bonds redeemable at the option of the bank?

Mr. MOSS. Yes; they necessarily would have to be. In Europe I think it is the common custom to draw these bonds by lottery, where they are redeemed before they are due.

Mr. PLATT. I was going to ask you about that. You do not provide for any method.

Mr. MOSS. No, sir. It is left to the bank. I am going to speak in a moment of the reason for it.

Senator HOLLIS. You would leave that to the board or commission to prescribe regulations, based upon their experience?

Mr. MOSS. Yes, sir. One of the most important subjects connected with land-mortgage bonds is to provide a prompt market for them. For instance, a person buys a bond for five years and he draws his interest, and then desires to get his money back; he must be able to go out and sell again, and at the same time to sell for as much as he gave for it. That is the crucial test of this proposition. Unless a bank that issues the bond is prepared to buy it on demand of the owner, there may be times when land bonds might become a drug upon the market. My own idea is to make the circulation of the bond pretty active, so that they are taken out of the first holder's hands and retired at the bank's counter pretty often. In that way they will circulate at par and be held up to that price with less difficulty than if issued for a long period of time and not paid off until maturity.

Mr. HAYES. Let me suggest, I think the provision in there leaving the matter in the discretion of the directors what bond shall be paid off is desirable. Here is a man who wants his money and he can notify the directors what bond he holds and that he would like to have his money, and they can have that in view and in that way accommodate him, and also in that way keep the price of the bond up.

Mr. MOSS. I am glad that you approve that provision. In the beginning we thought there ought to be no restrictions put in this bill unless it was absolutely necessary to secure safety and that many regulations necessary to enforce the provisions of this bill might be left to the discretion of the division of land banks created by the bill.

Now, the next provision I desire to call especial attention to is the payment of the mortgage in money or in bonds. My attention was called to that provision by a farm publication, which stated that it was the joker in this bill; that if you examined any important bill you would always find a joker and there was the joker in this bill; that the farmer was enticed to borrow his money on the provision that he could repay it at his option, and then when the time came and he attempted to exercise his option, the bank might say to him, bring in the bonds, and as the bonds might not be on the market, he could not get hold of them to pay it off and he could not discharge his debt. Of course, the committee understands precisely the meaning of the provision. A man, after five years—and it was fixed at five years because it was believed that the bank ought to have a reasonable return in the way of administrative charges or profits for the

trouble in making the loan and therefore the loan ought not to be paid off under five years—that after five years, at any interest period, the borrower could have the right to repay his loan, either in money or in bonds.

Now, the mere matter of fact of giving the option of paying in bonds is not to deprive him of the privilege of paying in money, but if the bonds fall below par—that is the proposition—under this bill the debtor can purchase the bonds and the moment he presents them at the bank's counter they cancel the mortgage. If the bonds are below par this option gives the borrower the advantage of discharging his debt upon the lowest possible terms and the profit goes to the borrower instead of to the bank. Either the bank or the farmer must purchase the bonds under the terms of the bill.

Senator HOLLIS. And it has the tendency to keep the bonds up in case they commence to go below par?

Mr. MOSS. Undoubtedly. Now, how any intelligent writer can refer to that as a joker I do not see.

Mr. HAYES. You do not think any intelligent writer would, do you?

Mr. MOSS. I doubt it, but this writer did it.

Mr. PLATT. Is that done in any European banks?

Mr. MOSS. Yes; it is nearly uniformly done, and it is one of the very elements in the whole system.

There is another reason, too, for making the redemption after five years, and that is that it absolutely protects the borrower against a general fall in interest rates. Now, in this country where interest rates are higher than in the old country, it is said we can reasonably look forward to the fact that as the country grows in wealth there will be a general fall in interest rates.

Senator HOLLIS. Is not that questionable, now? It is the old theory, but I think the idea now is that that we will probably never have such low interest rates as European countries. I would like to get your individual judgment about that, because you undoubtedly have studied it.

Mr. MOSS. My own individual judgment is that of a certainty interest rates will fall in the undeveloped sections of the United States.

Mr. HAYES. That is true.

Mr. MOSS. Now, without this optional provision, no prudent man is going to tie himself up with a mortgage running for 25 or 30 years in any section of the United States. No prudent man would do it. But, if he gives a mortgage for that length of time, with the privilege of paying it off after five years, he is absolutely protected against any fall in the interest rate, and then he has accumulated his amortization payments for five years as a saving. He makes amortization payments upon the principal, and a man who takes advantage of the proposition knows he is getting his loan at the best terms that money can be had, and after five years he can discharge all or any part of his debt. That, I submit, is a very important feature of the bill.

Mr. HAYES. You do not contemplate—I do not recall whether the bill does or not—you do not contemplate loans for less than five years?

Mr. Moss. Yes, sir. This bank is given the privilege of making loans for any shorter period of time, but is prohibited from issuing bonds on loans for less than five years. I would like to take up the reason for that. The main purpose of this bill is to encourage the savings feature in connection with farm loans. I am speaking of the amortization feature now as a savings feature.

Second, there is absolutely no disadvantage in making a loan for longer than five years, if you have the option to pay it off after five years. The only question is that during the five years the borrower makes heavier payments on account of the amortization feature. Therefore it works no hardship, at least, not to give the right to issue bonds against five-year loans. The bank has the right to make five-year loans, but it does not have the right to issue bonds against it. National banks loan money for five years without issuing bonds. It would at once be a discrimination to give this bank the right to make five-year loans and issue bonds against them, whereas the national bank right across the street is permitted to make similar loans, but is not given the right to do that. Where competition is open no favors should be granted. We seek to make competition in the five-year loans. This bank has the right to loan its capital and deposits on five years' time, just as other national banks. This, I believe, is eminently fair; but I think it would be unfair to give them the right to issue bonds against the five-year loans, it would also militate against the main purpose of the bill which is to create a savings feature in connection with farm loans.

Mr. Woods. Mr. Moss, suppose farmer A secured a loan for six years, would he be barred from paying any portion of that loan until the end of five years?

Mr. Moss. I think that is true, except his amortization payments.

Mr. Coulter. Anything over five years would call for amortizations.

Mr. Moss. Yes; that is the provisions of the bill.

Mr. Woods. The amortization feature does not enter until after five years.

Mr. Coulter. Oh, yes, sir; they start in paying right off.

Mr. Woods. At the end of the first year?

Mr. Coulter. Yes; right off.

Mr. Woods. What becomes of that money after the first five years?

Mr. Coulter. It is used to buy the bonds.

Senator Hollis. That is, if the loan is over five years, the amortization plan must apply to it; and if he does not want that feature, he could agree to pay within five years, or less.

Mr. Hayes. For a six-year loan or less he would not pay an equal amount, but he would pay approximately one-sixteenth of the principal at every interest period. Of course it would be a little less than that at the beginning and more at the end.

Mr. Platt. Of course, when bonds had issued on loans of more than five years which have the amortization feature, no doubt some of them would come in and be paid off within the five-year period.

Mr. Moss. The bond itself can be called in at any time the bank chooses; and therefore while the borrower would be repaying the obligation to the bank, the bank can call in its corresponding obligation at any time after it is issued, under the terms of this bill.

Senator Hollis's observation is correct. The borrower, if he desires to escape the amortization feature, must choose a five-year or under loan. He can then make his contract with the bank regarding partial payments with the same freedom he would enjoy in dealing with any other bank or loan agency.

Another feature in this bill is the special reserve for interest guaranty. I think the committee will at once concede that there is no reason for holding a special reserve against the principal, because under these provisions the amortization is at once credited on the bond, and at the end of the time the mortgage is paid off and the bonds will be retired. Therefore, so far as the principal of the bond is concerned, there is no necessity for a special guaranty reserve.

But the question is met in connection with the payment of the interest on the bond. It is reasonable to presume that there will be a number of defaults among the borrowers in paying the interest (to the bank) on the particular day on which it falls due. Or, in instance of a foreclosure, there would naturally be a period in which there would be no interest payments. I think you will find on careful study that, although it is not required in European banks, practically all of the prudent banks do ordinarily carry a special reserve of 5 per cent for this purpose, recognizing the fact that the bondholder ought to have his interest promptly when it falls due, as without that the bond itself can not be considered a first-class investment. Hence the commission wrote into the bill a provision that out of the net profits of the bank, before any dividends can be declared, there shall be set aside a special reserve of 5 per cent, based upon its annual interest charge, and I think you will agree with me that this will be very prudent. I have no doubt that every bank would carry such a reserve, anyhow, so far as that is concerned; if it was well managed it certainly would do so. But that provision was written in here in order to make sure that the bondholders would be protected.

Senator HOLLIS. Yes; I think it would give the system a black eye if the bondholders did not get their interest promptly when due. They get a low rate of interest, and they ought to be sure of getting it when due, and it ought not to be made possible for any cry to be raised in any part of the country that the bonds were not a good security.

Mr. MOSS. Yes, sir. These banks being given the dignity—and I think the prestige of the national name and national supervision—it ought to be made absolutely sure that there will be no default in the payment of principal or interest, and that it is necessary to have a prudent reserve, because a bank might be—

Mr. HAYES (interposing). Short of funds?

Mr. MOSS. Yes; short of funds for the moment to pay the interest when due.

Mr. SELDOMRIDGE. Where is that reserve provision contained in the bill?

Mr. MOSS. It comes in under the heading of "dividends."

Mr. HAYES. It is on page 35, line 10.

Mr. MOSS. Yes; the bill reads:

Provided further, That a special reserve fund shall be maintained by each national farm-land bank, which special reserve fund shall be created out of the net earnings of the bank and shall at all times be equal to 5 per cent of

the total annual interest charge on the land-bank bonds which are outstanding against such banks at the close of the last fiscal year. Such special reserve fund shall not be disbursed for any other purpose except to meet arrears in interest payment on land-bank bonds issued by said bank.

Mr. SELDOMRIDGE. While we are on that subject let me ask you another question. Is there any provision in this bill regarding the failure of a mortgage to meet the interest payment as to what should be done?

Mr. MOSS. No, sir. That is a question of contract between the bank and its borrower and would depend upon the terms of the contract; it would also be controlled by the laws of the State.

Mr. SELDOMRIDGE. Well, suppose a man defaults in the payment of interest?

Mr. MOSS. The special reserve fund will meet that contingency. The next feature that I will call attention to is the investment of the capital. This bill is drawn upon the theory that every holder of a bond will have three sources of protection. The first and primary source, of course, is the value of the land that is mortgaged; second, the capital of the bank; and third, the guaranty—the liability that the stockholders assume.

Mr. HAYES. Would there not also be after awhile a surplus?

Mr. MOSS. Yes; but the surplus would be counted as capital, and therefore it would not count as a guaranty.

Mr. HAYES. Yes.

Mr. MOSS. Now, we have prohibited the permanent investment of the capital in the main business of the bank; that is, in the long-time loans upon which they are issuing bonds. I think, if you permit that, the capital would not be the most certain protection to the bondholder. We have, however, provided certain profitable forms of investment for the capital. It can be invested in five-year loans; it can be invested temporarily in long-time loans, which must be replaced later by the proceeds of land bank when they are issued and sold; and there are several other forms of investment. But the capital of the bank itself is used on the outside and in separate lines of venture from the main purpose, which is the issue of long-time loans. That provision was put in the bill in order to make the capital an absolute protection to the bondholder and at the same time giving the bank an ample opportunity to invest it so as to make a reasonable interest upon its capital.

There is one feature, Mr. Chairman, that I overlooked, and if you will pardon me I will now go back to it. It is in regard to the liability of the stockholders. We have made this an American banking bill and have provided that every stockholder in the bank shall assume a double liability, the same as is commonly assumed by persons holding shares in other national banking institutions. But in the case of a cooperative bank there is a provision made for a larger liability, if two-thirds of the stockholders care to assume it.

There was a very wealthy man—a good business man—from New York who appeared before the commission and suggested that we ought to make a banking system which would have a small cash capital and a very large credit capital; that is, to permit persons of wealth and financial responsibility to underwrite a series of bonds similar, I was told, as the Lloyds do, for instance, in marine insurance; in other words, putting up a certain amount of cash capi-

tal and then assuming a large credit liability, which credit liability would guarantee to the outstanding bond. This credit liability would not be called except on failure of the mortgagor to pay his obligations upon which the bonds or liability of the underwriters was based. The commission did not approve that idea. And yet the landschaften associations permit an unlimited liability to be assumed by the shareholders, if they care to do so.

Mr. PLATT. Is it not in principle an unlimited liability which you suggest?

Mr. MOSS. Yes, sir. In principle I do not believe in unlimited liability, and I do not think that the farmers of the country will take kindly to it—at least without years of operation of the system. The whole system of credit capital as a guaranty of obligation is to be one of growth and development. I expect Dr. Coulter to speak particularly of the cooperative feature of the bill, and I am not going to speak at length upon it, because Dr. Coulter has studied that subject as much as or more than any other man in the United States; and this cooperative feature in the bill is particularly his feature, and I feel that Dr. Coulter will discuss that feature much more entertainingly and much better than I can.

But under this provision, if two-thirds of the stockholders in a cooperative bank desire to do so, they can assume a liability of three or four or five times the value of their shares, and even an unlimited liability, and thus, if they cared to do so, put a larger credit capital behind the bond, with the object of giving them a greater security and sale. This puts the question up to the business judgment of the individuals. The cooperative land bank under the provisions of this bill may, with the consent of two-thirds of its stockholders, organize a new landschaften association after the German model.

Now, that is the widest variation that comes in the bill; you can assume, in a cooperative bank, just precisely the same liability as in a joint-stock bank, or you can extend the liability as far as you like, giving an opportunity for growth of cooperative ideas in banking.

At the beginning, I do not think I violate any confidence in saying that I was opposed to the writing of the cooperative idea in this bill. And yet, after a careful study of the matter and after coming into contact with what I believe to be the very best thought at the present time, I wish to say that it would be a very grave mistake to strike it out of the bill; and I am going to make the prediction that the great growth in the future among farmers toward better business methods is going to be along cooperative lines.

Mr. HAYES. In some places I think that is true.

Mr. MOSS. And that is one of the reasons that you can not put this system or any system of personal credit into operation in a day. There is not any thought of trying to do that. We ought to build for the future; and just as farmers come together in a cooperative way on business lines and find that they operate on cooperative lines very much better than individually, and with absolute safety, so will their cooperation and their business ability grow along those lines. And it was thought a good plan to give them an opportunity to do this in this bill. And there are some places where, perhaps, this cooperative system can go into immediate effect, because we have in a great many centers—and you would be surprised, gentlemen, if

Dr. Coulter should take the time to show you in how many sections of the United States there is cooperation now among farmers, and how actively they are at work; of course, Mr. Hayes, you are familiar with cooperative conditions in California, which is a very apt illustration—and there are a great many other centers where cooperation in rural industry is already practiced. The more you study the matter the more you will be surprised at the extent to which the cooperative idea has grown among the farmers of the country.

Mr. HAYES. Nearly all of our fruit in California is marketed by means of cooperation.

Mr. Moss. Yes. Now, I am getting down to a subject on which there will be some controversy, and that is permitting cooperative banks to do a banking business for and with their own stockholders. You will find it at the bottom of page 17 of the bill H. R. 12585. I will read that provision; but before I read it I will say that it can be stricken out of the bill and still leave the bill as a land-mortgage bank measure intact. The provision reads as follows:

Provided, however, That farm-land banks, cooperative, may, for and with their stockholders, also do and transact the business now possessed and exercised by national banks under the laws of the United States, under such rules and regulations as may be prescribed by the commissioner of farm-land banks.

This provision is already enacted into law in the Indiana State building and loan association act, the last law that was passed on that subject in Indiana, and which is said to be the most forward and progressive act in the United States on this subject.

If, as a matter of fact, this committee reports out a bill on personal credit loans, then I can see no reason why this provision should not be stricken out of the bill. It does not permit the banks to do anything more than a banking business with their own membership. It would permit them to take deposits from any stockholder in the bank. It would permit them to make loans for personal purposes to their own members. That is all it would permit; so that it would give an opportunity for these cooperative land banks, so far as their own bank membership is concerned, to do a full banking business and retain the profits of their own banking in their own hands.

Mr. HAYES. Do you not think that is dangerous? Take the trade of a small bank, where the men at the head of it are not skilled in commercial banking.

Mr. Moss. I will give you my reasons why, as a member of the commission, I favored putting this provision in.

At the present time there are 9,000 banks in the United States with a capital below \$25,000 each. These banks are located very largely in farming sections of the United States. For instance, in Connecticut, I do not think there is a bank chartered which has a capital less than \$25,000. I think in the great State of New York there are but three banks appearing in the bank directory which have a capital below \$25,000. Yet, in the State of Missouri, you will find that there are 850 of such banks. If you will take that group of States there in the Middle West, which is the best group of farming States in the Union—Oklahoma, Iowa, Missouri, Kansas, North and South Dakota—those six States—

Mr. HAYES (interposing). And Nebraska?

Mr. Moss. And Nebraska and Minnesota, you will find that in that group of States there are 4,000 banks, at least, with a capital so small

they can not enter the Federal reserve system. That means that these banks can have no direct advantage of the rediscount feature of that Federal reserve system.

And it seemed to me it might very well be an advantage in many rural sections to give these cooperative banks the right to do a banking business among their own members. And yet I admit that the question is well open to debate. The system in the Indiana law has not been tested. It has gone into effect but has not yet been tested sufficiently by actual experience.

If that provision were stricken out of the bill by the committee I should not mourn very much, although it seemed to me that it would be a good provision in the case of the cooperative bank.

Mr. HAYES. Mr. Moss, you agree with me, do you not, that if there was a bill providing for cooperative banks to make personal loans it would be better to confine this to farm-lands loans?

Mr. MOSS. I agree with that perfectly. At the moment this was written into the bill the commission was of the opinion that they would not attempt to work further upon the matter of personal credit at this time on account of the difficulties involved. I wish to say that the more I study the question of personal credit the more I am impressed with the difficulty in the way of it at this time; and I believe that personal credit among farmers is something that will have to be the subject of growth. It is a question that in nearly every other country sprang up after the land-mortgage banks had been established. The land-mortgage banks appeared to be a forerunner of the personal-credit loans.

And along that line, and while we are discussing that feature, I do not think I violate any confidence in saying that Dr. Coulter has a great many doubts as to being able to work out, under present conditions, a system of personal credit; and he is a very competent man to pass judgment on this question. And yet that provision was put in there by the commission. And I agree at once with you, Mr. Hayes, that if the committee is going to consider the question of personal credit this question of doing business for their own stockholders ought to be stricken out of the bill.

Mr. PLATT. Would you say, Mr. Moss, that that was a matter that might better be left to the different States?

Mr. MOSS. What matter?

Mr. PLATT. The matter of the personal-credit associations.

Mr. MOSS. Well, I would prefer at the present time not to express an opinion on that point. I will say this, that this whole system of land-mortgage banks can very well be chartered by the States. There is no reason why land-mortgage banks should not be splendidly chartered under State legislation.

Mr. HAYES. Is there not some reason to suppose that they will not be?

Mr. MOSS. Yes; and that is the only reason for the Federal Government taking this action. Now, as a matter of fact, all students of our Government will agree that there are very many things that the States can do if they care to; and if the States fully exercised their sovereign powers, there would be very much less for the National Government to do. And at the beginning of this work I was very much of the opinion that the subject ought to go back to the

individual States; and yet to-day that would simply throw away, as Mr. Hayes has suggested, in a great many States, all hope of carrying out the proposition and of securing to the farmers located in such States the advantages of rural credit.

Senator HOLLIS. Now, Mr. Moss, you feel very strongly, do you not, that it would not be wise at this time to undertake to pass a personal credit bill? You would confine it to the land-mortgage bank, would you not? The section you have referred to seems to look a little in that direction.

Mr. Moss. If this legislation were to be enacted just as it is drafted, with no additional legislation, I should feel that the situation had been very well met at this time.

Now, on the question of taxation, I desire to speak at some length upon that subject. And first I feel myself compelled to criticize the bill a little on that point. As Dr. Coulter is going to follow me, I will not have very much more to say upon this bill to-day.

Dr. COULTER. I do not know that I have anything in particular to say at all. I am merely an onlooker here.

Mr. Moss. But I desire to discuss the question of taxation, Federal agents, and a few other propositions contained in the bill. I will leave it to the committee as to just how much time I shall occupy.

Mr. HAYES. So far as I am concerned, I want to hear everything that Mr. Moss has to say.

Senator HOLLIS. Yes; I also want to hear everything he has to say, and in the greatest detail, too.

Mr. BULKLEY. By all means, Mr. Moss, take all the time you need to present this matter.

Mr. Moss. Thank you, gentlemen, for your courtesy and patience. So far as the question of taxation is concerned—you will find that on page 20—I do not find myself in complete harmony with all the provisions of section 18. I should oppose exempting the income of the banks from taxation. I believe in an income tax, and I think it would certainly be a very dangerous precedent, after having just enacted an income-tax law, for Congress to create a corporation and exempt it from the income tax. I was opposed to that in the commission, and reserved the right, I remember, of criticizing that feature of the bill. And I hope when the committee considers the proposition that they will be willing to strike out of the bill the provision exempting the net income of the bank. I can conceive of no possible reason why you should create a corporation and give it valuable franchises and very favorable opportunities for doing business and then, when you are taxing every citizen of the United States and every other corporation on their respective incomes of a certain volume, exempt this corporation from like taxation. It would be a bad precedent to begin with. Other corporations will then ask to have their income exempted; and it seems to me that the provision for exempting the income of the bank from taxation ought to be stricken from the bill.

But while I feel that the net income of the bank ought to be taxed under the income-tax law, you understand that I am just as strongly in favor of exempting the bonds and the mortgages securing them from taxation. I think it will be admitted by every student of the

subject that a tax upon a debt simply adds to the interest rate which the debtor pays.

There is a curious prejudice in this country and a feeling that an exemption of an instrument of credit from taxation is an exemption in favor of the man who holds the instrument: and there is no doubt that this provision of the bill will be criticized by some ignorantly and by others malevolently along that line—that you are exempting the bondholders from taxation. And yet there is no student of the subject whose opinion is of value that will not admit the fact that taxing a mortgage or any other debt adds to the interest rate. But under the system provided in this bill there are created or provided two credit instruments to cover one transaction. If both these credit instruments are taxed there is such a load of taxation that the system itself falls to the ground.

Mr. HAYES. Is it not also true that in most of the States there is a double system of taxation now? The mortgage is taxed and the land is taxed besides at its assessed value.

Mr. Moss. Yes, sir; that is true. Now, dealing with real estate, which is the basis of these credit instruments, it is one thing that can not escape from taxation under our present system of State taxation.

Mr. HAYES. Yes.

Mr. Moss. All the property involved in these transactions will be subject to certain taxation; and by leaving these bonds and mortgages exempt from taxation you simply make it possible for the individual in an organized capacity to borrow money for individual purposes on precisely the same terms that the community now borrows upon. In Indiana we are wonderfully proud of our good-roads system.

I remember that the editor of the *Indiana Farmer*, Mr. Kingsbury, did me the honor once of coming down and staying overnight with me on my farm. We had at that time wonderfully villainous roads; and in driving from the station to my house he commented on the bad roads. I said, "We could build better roads if we wanted to, but we do not care about them."

And he said, "Well, the fox does not care for the grapes that hang too high."

But under the system of issuing bonds which are tax free we have built the most magnificent system of roads of any State in the Union, spending at least \$75,000,000 for them; and it would not have been possible to build these roads if bonds had not been issued and exempted from taxation.

I was in the State senate at the time that exemption was made, and I voted for it. At the same time I tried to get the mortgages exempted; and yet, such was the prejudice at the time against such a measure that it was impossible to get them exempted, although we finally did get a partial exemption. I think Senator Hollis also stated that in New Hampshire mortgages are exempt at 5 per cent interest or less?

Senator HOLLIS. Yes; if the mortgages are on New Hampshire land and bear 5 per cent interest per annum or less, they are exempt from taxation; and that system has worked admirably.

Mr. Moss. Yes. In Mississippi a mortgage is exempt from taxation if it bears 6 per cent interest or less.

Now, in this particular matter, bearing in mind that the mortgage is one credit instrument and the land bond is another credit instrument covering the same transaction, unless you exempt both from taxation you will have double the burden of taxation on the debt.

Mr. HAYES. And the farmer will have to pay it?

Mr. Moss. Yes; the borrower will have to pay it.

Mr. PLATT. It would be a triple taxation, I should think, at least in some States.

Mr. Moss. That is entirely true. So that the system rises and falls with this one paragraph of the bill. But there is no necessity whatever to extend that exemption from taxation to the income the bank may have. So the point I want to make clear is, that I am criticizing the exemption of the income of the bank and at the same time making as strong an argument as I possibly can in favor of the exemption of the land mortgage and the land bond. And unless the committee sees fit to extend that exemption so far, you had just as well throw the bill in the wastebasket.

Mr. PLATT. I do not think there will be any doubt as to our attitude on that question.

Mr. HAYES. How about the capital stock? Does not the same reasoning apply to that?

Mr. Moss. Well, as to that matter, there was no one feature of the bill to which so much thought was given as to the question of the exemption from taxation. We first worked this out upon the principle that whenever the State exempted from taxation the mortgage, then the National Government should exempt from taxation the bond. And our thought ran around this cooperative action on the part of the State and the Nation, until finally the legal minds on the committee decided that this was a better system; and this language was copied from the Federal reserve act—but I now recall that it is not the ordinary Federal reserve bank that is exempted; it is the regional reserve bank that is exempted from taxation upon capital stock and surplus.

Senator HOLLIS. Mr. Moss, I wish you would please tell me this: What is the rule in regard to taxation on the capital of the national banks themselves? Perhaps you know, Mr. Hayes?

Mr. HAYES. They are taxed. That is what I say, that the same principle should be applied to taxation of the capital and surplus as to taxation of income.

Senator HOLLIS. In our State they are not taxed on capital and surplus.

Mr. PLATT. Is it clearly settled that the United States Government can exempt the stock of a corporation from local taxation in a State?

Mr. HAYES. I would like to get a little more definitely, if I can, Mr. Moss, your view as to the exemption of capital and surplus from taxation, if there is any reason for that.

Mr. Moss. I say the language in this bill follows that in the banking and currency bill regarding the regional banks. Now, my own thought about it is this: It is going to be a rather difficult matter to

organize these banks throughout the United States within any short time. It would be a favor to that extent—and that is the only extent it would be favored—if it were exempted from taxation on capital and surplus.

Now, considering that we are undertaking a great work to aid agriculture, and that it is a national industry and one upon which all other industry is based, it seems to me that we might overlook the favoritism and extend that favor to these banks; if you do not do it upon that ground, there is absolutely no other ground upon which you can do it.

And to this extent, and to this extent only, would it be a favor extended by the Government to these banks, and to this extent it would be an indirect subsidy to the system.

Senator HOLLIS. But why, on principle, is it not just as proper to do that as it is to exempt the regional banks—on principle, not expediency? I think it is.

Mr. MOSS. Yes. That provision in the bill was taken from the regional-bank provision, and the exact language contained in that act was written here to extend the same favor to those banks which is shown to the regional banks, without creating any precedent.

Senator HOLLIS. You see we did not need to encourage the incorporation of national banks, because we already have 7,500 of them; but here we are undertaking to go into a new field and encourage the establishment of banks that are sorely needed, and therefore I think we should have this exemption. Now, I am not sure that we have the power to do that; but I will find out about that.

Mr. MOSS. Yes; the commission thought it was commendable to offer every possible advantage that could be offered to these land-mortgage banks with perfect safety, in order to encourage them to organize; and, recognizing the fact that it was not creating a new precedent, as the regional reserve banks had the same exemption, we copied the language of the banking act exempting the regional-reserve banks, and gave these banks the same exemption in the way of taxation which the regional banks are given by that act.

Mr. PLATT. I think it is everywhere recognized that national-bank stock should not be taxed at a local personal property rate. I do not know that that is true in all the States; but most of the States have a tax on national-bank stock that is much lower than the local State tax on personal property.

Mr. SELDOMRIDGE. Mr. Chairman, I move that the committee take a recess until to-morrow morning.

Mr. BULKLEY. Well, I want to do exactly what the committee desires; but we have a pretty good attendance here to-day, and I think it would be a good idea for us to continue until about 20 minutes of 1. if that is agreeable to the committee.

Mr. SELDOMRIDGE. Well, we want to allow Mr. Moss to finish, and we then want an opportunity to ask him questions.

Mr. MOSS. If the committee desires to adjourn at this time, that will be very agreeable to me. Dr. Coulter is to follow me to-morrow.

Mr. PLATT. Personally, I think all of this personal credit ought to be exempted from taxation.

Mr. BULKLEY. Those letters to which you have referred, Mr. Moss, will be printed with the record of the hearing.

Mr. Moss. Yes, sir. I will put them in without any exception; those that are favorable and those that are not favorable to the bill. (The papers referred to are as follows:)

[Editorial from the American Agriculturist, Feb. 7, 1914, vol. 93, No. 6, p. 176.]

FARM-LAND MORTGAGE BANKS—FLETCHER-MOSS BILL.

LET CONGRESS ACT PROMPTLY.

The administration's bill for a national system of farm-land mortgage banks has been introduced. Only harm can arise from delay. Farmers are ready and eager to avail themselves of the new system. The commission has done well in framing this measure. If its plan for local savings and short-time loans is as good, that body will be entitled to the fullest praise.

[Editorial from the National Stockman and Farmer, Feb. 7, 1914, v. 37, No. 45, p. 1163.]

FARMERS' BANKS: AN OPPORTUNITY FOR FARMERS TO FINANCE THEMSELVES.

THE RURAL CREDIT PLAN.

The administration's plans for a rural credit system appeared last week. Two kinds of farmers' banks are provided—cooperative and profit-making. [Abstract of bill given.] Just how a bank can accumulate a surplus and yet reward its stockholders under one clause of the bill the editor can not see. The whole plan is simply an opportunity for farmers to organize banks and provide credit for themselves, which is all it should be.

[Editorial from the Farmers' Review, Feb. 7, 1914, v. 46, No. 6, p. 115.]

LAND BANKS: LEGISLATION.

CREDIT BILLS.

Bills for the extension of rural credits have been introduced into Congress by members of the commission sent abroad to study foreign systems. These bills provide for long-term loans. Short-time loans will be covered by separate measures, to be considered later. [Abstract of bill is given.] Whether such legislation will provide the best solution of the long-time loan problem remains to be seen. There are many varying opinions as to its practical value. Land banks must be worked out cooperatively by individuals and communities to meet business needs, which vary in different places. Methods which have been successful in other countries may fail here. Legislation alone can not provide long-time credits.

[Editorial from the National Stockman and Farmer, Feb. 7, 1914, v. 37, No. 45, p. 1163.]

MONEY CAN NOT BE MADE CHEAP BY LAW.

CHEAP MONEY.

Money can not be made cheap by law or any other artificial means. It will flow naturally into the channel most advantageous to its owner. It can not, therefore, be cheap where the demand exceeds the supply. Foreign credit systems have the advantage that money is normally cheap, the result of centuries of accumulations. The systems of rural credit proposed may make money cheaper by improving the security on which it is loaned, but they can not perform the miracle of making it absolutely cheap.

[Editorial from the Pennsylvania Farmer, Jan. 17, 1914, v. 35, No. 3, p. 50.]

CURRENCY LAW: UNJUST TO FARMERS.

FARMERS AND THE CURRENCY LAW.

The farms and the men operating them form practically the only class that is barred from doing credit business with the national banks. This condition existed under the old banking law, and it was not remedied in the bill recently passed. The lawmakers recognized the injustice of the provisions of the currency bill, but were not willing to rectify it. Instead, they are now preparing to pass a rural credit bill or establish special banks for farmers.

[Editorial from Farm and Home, Feb. 1, 1914, v. 35, No. 736, p. 98.]

LAND-MORTGAGE BANKS: ADVANTAGE TO FARMERS.

LAND-MORTGAGE BANKING REFORM.

If farmers can win the present fight in Congress for a national system of land mortgage and cooperative banks, the American people will enjoy the best financial system in the world. It will be a great improvement upon the European system.

[Editorial from the Country Gentleman, Feb. 7, 1914, v. 79, p. 244.]

RURAL CREDIT: FARM LANDS AND THE MONEY MARKET.

RURAL CREDIT BOILED DOWN.

Net results of the agitation of the past two years on rural credit and the trip of the commission to Europe are awakened public interest; a 900-page report on European systems; and a bill in Congress to establish land-mortgage banks. Our rural-credit problem is money for development and improvement. The commission has done good work in starting public opinion and the wheels of Congress toward the end of putting agriculture on the same basis as the railroads, manufacturers, etc. The owners of land asks no special privileges, but he has a right to expect that farm land will be made equal to city real estate in the money market.

[Charles A. Conant in the Country Gentleman, Feb. 7, 1914, v. 79, p. 235.]

FEDERAL BANKING LAW: BENEFIT TO AGRICULTURE.

UNCLE SAM FINANCES THE FARMER.

In addition to the general advantages which the agricultural producers will share with others, the new Federal banking law embodies several provisions inserted for the special benefit of the farmer. Among these are the following: The farmer may get money to buy supplies instead of taking pay in store credits; notes drawn for agricultural purposes, or based on live stock, may run for 6 months instead of 90 days when presented to a Federal reserve bank for discount; the farmer can get his money at once on a draft for goods exported instead of having to wait for a return from abroad; the farmer may borrow money on his lands from national banks.

[Editorial from the Field and Farm, Feb. 7, 1914, v. 29, No. 1462, p. 4.]

FINANCING THE FARMER: NECESSITY FOR LONG-TIME LOANS.

HELPING OUT THE FARMER.

The present Congress must give the farmer better banking facilities or there will be great dissatisfaction. The manufacturer can hasten production, the storekeeper can restock his store several times a year, but the farmer's dates

are fixed by nature. Loans long enough to cover the period of production are a necessity for the farmer. "People's banks" serve this purpose abroad, and Congress can do the country a good turn now by enacting legislation to meet this need.

[Extract from the New England Homestead, Feb. 7, 1914, vol. 68, No. 6, p. 162.]

FARM-LAND BANKS: EVERYONE SHOULD TRY TO AID IN PASSAGE OF BILL.

NATIONAL FARM-MORTGAGE PLAN.

Acting for the rural credits commission sent abroad last summer, Mr. Fletcher, of Florida, introduced into the Senate, and Mr. Moss, of Indiana, introduced into the House, the administration's bill for farm-land banks. This bill provides for long-time loans only; later on another will be introduced to provide for cooperative savings and loan banks and short-term personal credits. Everyone who is interested should write for a copy of the bill, and, after studying it carefully, write his suggestions to his Congressman or Senator. [Abstract of bill is given.]

[Extract from the Orange Judd Farmer, Feb. 7, 1914, vol. 56, No. 6, p. 188.]

MONEY MARKET: INTEREST RATES LOWER.

THE MONEY MARKET.

Interest rates on money are lower at this time, and it is the general consensus of opinion that money will work easier for some weeks or perhaps months. This state of affairs should facilitate the carrying out of the proposed farm finance plan which Congress has before it.

[Extract from the Nebraska Farmer, Feb. 4, 1914, vol. 56, No. 5, p. 135.]

LAND-MORTGAGE BANKS: TO HELP TENANTS TO BUY LAND.

LAND-MORTGAGE BANKS.

Bills have been introduced into both Houses of Congress to provide for the organization of land-mortgage banks. These bills are supposed to represent the views of the administration on this question. [Abstract of bill.] It is questioned whether any land-mortgage system would help tenants to buy land, because making it easier to buy would increase the demand and raise the price, thus offsetting the advantage of cheap money.

[Editorial from Campbell's Scientific Farmer, Jan., 1914, vol. 7, No. 1, p. 12.]

FARM CREDIT: NEED FOR LEGISLATION.

NOW FOR A FARM-CREDIT LAW.

The farmer, with the best and most permanent assets in the world, has heretofore been kept outside the railings of the national banks. If he wanted to borrow money, he had to pay 10 per cent and a commission besides. We hope this régime is about to end. If President Wilson can release farm credit from its 60 years of bondage he will have accomplished a great good.

[Editorial from Farm, Stock, and Home, Jan. 15, 1914, vol. 30, No. 2, p. 38.]

RURAL CREDIT—HISTORY OF MOVEMENT.

RURAL CREDIT MATTERS.

The work of the American Credit Commission to Europe divulges nothing new. A certain amount of publicity was accomplished, however. The history of the rural-credits movement began by the appointment of a committee of

the Tri-State Grain Growers in 1912. The report of this commission was published in *Farm, Stock, and Home* in a series of articles called "The road to cheaper money." The next move occurred at the Chicago convention on marketing and credits in 1913 when, through Prof. Spillman, of the United States Department of Agriculture, a Federal investigation in the rural credits was secured. Congress has the material in hand to work out a system suited to the needs of the American farmer.

[Extract from *Farm and Home*, Feb. 15, 1914.]

ONE STEP NEARER TO VICTORY.

The national farm-land bank bill, submitted to House and Senate at Washington January 29, is fine. Changes that will be made will further perfect it can be made before it is enacted. The United States commission has done a good job. Congratulations. Now let Congress enact it into law before May.

[Extract from the *National Farmer and Stock Grower*, February, 1914, vol. 31, No. 2, p. 13.]

NATIONAL FARMER AND STOCK GROWER STARTED RURAL CREDIT AGITATION.

FARM LOANS AND CREDITS.

The agitation originally started by the *National Farmer and Stock Grower* on the subject of the "High rates of interest on farm loans" is about to bear fruit. The administration rural-credit bills were introduced in the Senate and House on January 29. [Abstract of bill given.]

[Editorial from the *Pacific Rural Press*, Feb. 7, 1914, vol. 87, No. 6, p. 163.]

FARM-LAND BANKS WILL MAKE MONEY CHEAPER.

THAT CHEAPER MONEY IS COMING.

President Wilson has commended to Congress the establishment of a bureau of farm-land banks. These banks may do only agricultural business. These banks will insure cheaper money.

Mr. SELDOMRIDGE. Did you say there had been an effort made to institute a campaign against this bill? I have had two letters from people in my district protesting against the passage of the Moss bill as being a banker's bill.

Mr. MOSS. I know there has been such an effort. I have the information, and if the committee cares to have to do so I can put the letters showing that in the record to-morrow.

Mr. HAYES. I notice the *Practical Farmer*, which seems to be a high-class publication, has an article commending the Moss bill.

Mr. MOSS. I have seen that editorial. It is quite favorable. I would like to withhold the editorials until I can go over them again.

Mr. SELDOMRIDGE. It occurs to me that if Members of Congress are going to become the recipients to any great extent of those antagonistic letters we ought to have those letters which favor the bill inserted in the Congressional Record.

Mr. HAYES. They could be printed in the record of these hearings.

Mr. PLATT. And we can send them a copy of the record.

Mr. SELDOMRIDGE. But it will be some time before this record is available, and they will not all see that.

The CHAIRMAN. If we are going to insert all the letters commending or protesting against the measure, we will have the printing bill out of all proportion. I am getting letters every day on the subject from people from every State in the Union. But these letters that Mr. Moss has presented here to-day are newspaper comments upon the bill, and they have some responsibility behind them, and I think they ought to be printed with our record; but while I think we may from time to time have further documents and papers presented that will be worth printing, I would not want to consider printing individual letters in the record of the hearing.

Mr. SELDOMRIDGE. Well, I do not want the Members of the House prejudiced against this bill.

Mr. BULKLEY. I think Mr. Seldomridge is right in the purpose he has in mind, but it would not be practicable to encumber the record with too many letters from individuals.

Mr. HAYES. His thought is that if we could get the letters where they could be read by the Members of Congress and the people it would stop that campaign.

Mr. BULKLEY. I hope that Mr. Moss will explain fully to the committee all that he knows about any campaign against this bill, because that is part of the subject matter before us.

Now, gentlemen, it is near the time for the funeral services in honor of Senator Bacon to begin, and without objection the meeting will stand adjourned until 10.30 o'clock to-morrow morning in this room.

(Thereupon, at 12.35 p. m., the committee adjourned until to-morrow, Wednesday, February 18, 1914, at 10.30 o'clock a. m.)

(The following additional statement of Mr. Moss was made at the session of the committee on February 18, 1914, but is placed at this point to preserve the continuity of his argument.)

STATEMENT OF HON. RALPH W. MOSS—Continued.

Mr. Moss. Mr. Chairman, with the permission of the committee, there are two things that we passed over yesterday which, after reflection, I should like to discuss a little more fully.

The first is, briefly, the length of time of the loan. It has been placed in this bill at 35 years. The statistics before your committee, furnished by Mr. Thompson, indicate that 74 per cent of the farm mortgages are renewed. It is a matter of common knowledge that a great many mortgages are not paid at the time they are due, and yet are not renewed; but where statutes of limitations protect the holder of the mortgage and make it still a valid claim against the land after maturity, they are permitted to run on from year to year until final payment is made.

The significance of that is that, under present conditions, five years is a shorter time than that in which the average man repays his loan.

Now, while I am perfectly willing to admit that 35 years seems to be a long time—and in my correspondence on the bill that feature of it has been criticized—I want to call the attention of the committee to the fact that amortization works best under a comparatively long period of years. Amortization is not well suited to a

short-term loan, because the rate of repayment would be relatively too high.

The provision in this bill giving the borrower the right to repay all or any part of his indebtedness at any time after five years gives the borrower every protection; and if we are to adopt compulsory amortization, we should do so under conditions most favorable, which is to permit the loans to be made for a relatively long period of time. Otherwise, the rate of annual payments will be so high as to prevent the plan from going into general operation. So that I feel that the term of years is an important matter on that account.

Mr. HAYES. Well, without studying these statistics very extensively, it has occurred to me that 20 or 25 years would be as long a period as they would ever be called upon to make loans for in this country. Have you any statistics showing whether any farm-land loans have ever been extended beyond, say, 20 years?

Mr. MOSS. Well, that is not the primary question. The primary question is this: The annual rate of repayment that a borrower can make in justice to his earning power. Under amortization, if the loan runs for 20 years, the periodic payment must be fixed at such a rate as to entirely extinguish the loan within 20 years.

Mr. HAYES. Certainly.

Mr. MOSS. And the periodic payments must be correspondingly high. The result is that there would be many persons in some sections of the United States who would not be able to make with safety as heavy a periodic payment as would be required with a short amortization.

Mr. HAYES. Of course.

Mr. MOSS. Therefore, it is not a question whether the borrower would be able to pay in 20 years or not; but the question is whether the people will go into the plan under an amortization system which involved heavy forced payments.

Now, in France, Germany, and other European countries, they have a provision whereby they can make loans with amortization that for the first term of years—say, five years—there shall be no amortization payments made, but that amortization payments shall begin after the expiration of the preliminary term.

If the committee sees fit to adopt that rule and put it into the bill, then it may be possible to reduce the term of years from 35, as fixed in the bill. But the point is that amortization payments naturally lend themselves to loans for a long period of years, because the amortization payment adds to the amount of each interest payment made, and a great many persons will accept these loans at a longer period who would not accept them if they were forced to make a high rate of payment by reason of the short term. And the criticism that has reached me from farmers upon this subject is that the amortization would cause such a high rate that the farmers would not enter the system.

Mr. HAYES. I want to ask you, Mr. MOSS, if you think it is desirable—you have given this matter more study than I have—to encourage a man who could not pay off his mortgage in, say, 20 years, or who thought he could not pay it off in 20 years, to borrow money? For instance, take the case of a man that thought he must have 35 years in which to pay up; do you think that would be a healthy thing to encourage in this country?

Mr. Moss. Well, Mr. Hayes, under American conditions we have been in the habit of paying our loans upon land mortgages in a much shorter time than that; but the price of land has been much lower than it is now. Land values have doubled in the United States in 10 years. They will probably go higher in the future. And as the land increases in value, naturally the period of repayment out of the proceeds of the land will be longer. And having that view of the matter in mind, I can see no reason why a farm-land bank should not be permitted to undertake a mortgage for a 35-year period when the borrower can pay it off as much earlier than that as his interest would make desirable to him.

There is one feature that I would be perfectly willing to see incorporated in this bill which is not now in it, and that is that where a loan has been made for a long period of time, with fixed periodic payments, the bank should not be permitted to reloan to the man his savings, which are represented by his amortization payments.

In Europe it is a constant practice for a man to return to the same institution to renew his loan to the original amount, and thus it is a constant temptation to a person in debt to draw his savings back from the bank and put them in his business instead of paying his loans. That is on the same principle as where a life insurance company will lend a person money on the security of the paid-up value of his life insurance policy. This makes the system popular, but strips it of its savings feature. When a loan is made to the farmer, and then the institution encourages him to make supplemental loans and keeps him perpetually in debt, the practice might become a real fundamental objection to this system. We did not attempt to meet it in the bill; but I want to point out that it is the one objectionable feature; and if the committee can see any way to check that practice, it would strengthen this bill.

Mr. HAYES. The thought I wanted to suggest is whether it would be a healthy thing to encourage men to run in debt and use the money they borrowed as their working capital for such a long period of time as 35 years as a practical proposition. Is that a healthy thing, to pay interest for 35 years on the mortgage?

Mr. Moss. I am confident, Mr. Hayes, that there is no valid objection to that, where land is selling for \$250, as it is in the corn States, and in the trucking sections very much higher than that, and where purchasers must assume these very heavy capitalization risks, together with the necessary improvement that will be made—it seems to me that if a person could pay for a farm even in 35 years he ought to be encouraged to undertake the purchase.

But that is not the point in this question of permitting this provision to remain in the bill. The condition I want to urge upon the committee is this, that if you limit the period to 20 or 25 years you compel the farmer who borrows the money to make very heavy periodical payments, and you will deter a great many people from assuming that debt, because their first payments would be too heavy. The amortization feature lends itself very readily to loans for a long period of time. I do not believe, however, that you should name a period longer than 35 years.

Mr. BULKLEY. The provision in the bill means that 35 years is the outside limit for which loans may be made, does it not, Mr. Moss?

Mr. Moss. Yes, sir.

Mr. BULKLEY. And they may be made, of course, for a lesser period. Is that at the option of the borrower?

Mr. WEAVER. The bill provides, at any time after five years the loan may be paid off at the option of the borrower.

Mr. PLATT. Is not the long period of amortization going to increase the price of the land to the purchaser? For instance, if I am selling a piece of land, will I not be apt to say to the man who desires to purchase, "You do not need to pay this off for 35 years; consequently you can afford to pay me \$12,000 instead of \$10,000 for the land." Would it not have that effect?

Mr. MOSS. I do not see how it would have that effect, because the man who buys the land receives his credit from the bank, and the purchase money is paid to the seller in cash. The purchase of the land is made upon a cash basis, the credit being given by the bank, which has no interest whatever in the land before it is sold.

Mr. HAYES. I do not recall whether your bill provides that at the end of five years the mortgagor may pay off a part of the debt?

Mr. MOSS. Yes, sir; any part.

Mr. HAYES. Well, that would remove one objection to the long time of the mortgage.

Mr. BROWN. It is all optional after five years?

Mr. MOSS. Yes. The 35 years named in the bill is the maximum time; and it could be paid in a much shorter time than that.

Mr. HAYES. Well, if that provision was made, that the borrower could pay any part of the debt after five years, that would remove much of the objection I spoke of.

Mr. COULTER. The European period is longer than 35 years; it is 50 or 60 years.

Mr. MOSS. Yes; it is 50 or 60 years, and sometimes as high as 75 years. But, then, the difference between European conditions and our conditions is the high price of land. Referring back to Mr. Brown's question, the time of repayment must be fixed in the contract and can not be changed, because the periodic payments remain always the same.

Mr. BROWN. The same; yes. I see.

Senator SILAFROTH. You say, Mr. Moss, that Europe has lands that are very high in price. Do you know about what the agricultural farm sells for per acre in Europe?

Mr. MOSS. Yes, sir; agricultural lands in Europe have a value of \$200 to \$700 an acre; and from \$300 to \$500 is a common price on agricultural lands in Europe. I inquired about that when I was over there.

Senator SILAFROTH. In what country was that?

Mr. WEAVER. Were you in Holland and Belgium and that part of Europe?

Mr. MOSS. No, sir.

Mr. BULKLEY. Why do you limit the period to 35 years? What would be the harm of having a longer period?

Mr. MOSS. Just exactly on account of Mr. Hayes's objection. It seems to me that we ought not to encourage a longer period than one in which the average time of repayment can be met by the average farmer. I take it that the average farmer's income in America is greater than the average European farmer's; and therefore the American farmer ought to repay in a shorter period than the European

farmer; and the farmer in America ought to accumulate as much in 35 years as the European farmer in 54½ years; besides, the price of land is lower here than over there.

Mr. HAYES. Probably more.

Mr. MOSS. Yes, sir.

Mr. PLATT. As these amortization payments are made, the mortgage still stands recorded for the full amount of the loan, does it not?

Mr. MOSS. Yes, but under this bill the credits are at once made in favor of the borrower by the Government agent; a man can not lose the payments he has made, although on the record it will remain the same.

Mr. PLATT. Then there would not be anything to prevent the borrower from going to another source—for instance, a savings bank or some other kind of bank—and borrowing more money on a second mortgage?

Mr. MOSS. Oh, no; he could do that, of course. He has that privilege now, and this bill would not influence the practice of negotiating second mortgages in any respect. Now, in the mortgage itself under this bill, there is set out on the face of the mortgage the periodic payments that must be made; and every payment that is made is credited on the instrument itself.

Mr. PLATT. On the mortgage?

Mr. MOSS. Yes; on the mortgage; and the Government agent is compelled by the bill to see that the credit is given, as well as to see that the money when paid is turned over to the bondholder. The Government agent must protect both the borrower and the bondholder.

Referring to the question of Mr. Bulkley yesterday, concerning the limitations on loans, I wish to discuss that and present some statistics which I have gathered.

I stated yesterday that I was certain the limitation was too low in this bill. The chairman suggested a double limitation, in which I fully concur.

The average amount of loans on mortgage in the United States is \$1,700. But that is not of as much importance to you as if you had the actual face value of a large number of mortgages; and I have taken the pains to go over some mortgage statistics, both in Austria and in Germany, to secure this result.

I have here the loans made by the National Small Holders Institute of Hungary. I wish to say to the committee that there are two great mortgage institutions in Hungary, one that is created by the nobles for large holdings and the other is created to make small loans.

I have selected the one that makes the small loans. They had on their books 66,264 mortgages. Now, the average loan of the 66,264 mortgages was \$868. The loans amounting to \$400 or less comprised 53 per cent of the total number of loans. Between \$400 and \$2,400, the loans were 41.2 per cent of the total loans. The loans of \$2,400 and over comprised 5.67 per cent of the total.

As I have stated, that is not a fair example, because it designedly comprehends only the small holder, and the figures are therefore below a fair average.

Taking the Hungarian Land Mortgage Institute, which is adapted to the larger landowners, the average amount of their mortgages was \$6,400.

I have here complete statistics of three credit associations in Germany; and, as it will only take a moment, I should like to read them to the members of the committee.

Taking the Bavarian Agricultural Bank that had on its books at the time I visited it 25,327 mortgages, those for amounts up to \$250 comprised 1,835 mortgages, or 7.24 per cent of the total amount—I mean in number. Those mortgages aggregated \$353,550 in amount; and that was 0.86 per cent of the total amount of money that this institution had loaned.

Taking the mortgages between \$250 and \$750, there were 7,885 of those. That comprised 31.13 per cent of the total number. Now, remember that there are two percentages, one in the total number and the other as to the total amount. The aggregate amount for this class of loans was \$4,257,950, and amounted to 10.37 per cent of the whole amount of money they had loaned.

Between \$750 and \$1,250 there were 6,599 mortgages, aggregating \$6,865,850, which comprised 16.72 per cent of their total business. This amount was 26 per cent of the whole amount.

Between \$1,250 and \$2,500 there were 5,556 mortgages, aggregating in amount \$10,495,750, or 25.54 per cent. It is between these limits that the large amount of business is done.

Between \$2,500 and \$5,000 there were 2,449 mortgages, amounting to \$8,886,775, which was 21.64 per cent of their total amount of business.

Between \$5,000 and \$12,500 there were 882 mortgages, aggregating \$6,186,000, which comprised 14.87 of their business.

Between \$12,500 and \$25,000 there were 129 mortgages, aggregating \$2,275,400, or 5.33 per cent of their business.

Over \$25,000 they had 42 mortgages, aggregating \$1,833,000, or 4.47 per cent. There are some other figures here which it is not necessary for me to read.

Now, it seems to me that any mortgage institution in this country ought to have the right to loan up to \$5,000—

Mr. HAYES (interposing). Do you think that is high enough?

Mr. MOSS. No; it is not high enough. But I say "any mortgage institution." In this bill we commence with \$10,000 capital; a loan of \$5,000 would mean 50 per cent of its capital. But in the case of a larger institution, one with \$50,000 or \$100,000 or \$150,000 capital and surplus, if you made it that rate the loans could be too large. My suggestion to the committee would be this: To permit any bank organized under this system to loan up to 50 per cent of its capital and surplus, with a limitation on any individual loans to \$10,000. Larger banks should loan at least \$10,000 on their initiative, and may be permitted to loan higher amounts with the permission of the commissioner of farm-land banks or the national bank examiners after they had examined into the matter.

There are no limitations upon the amounts of loans of European land banks, with the exception that the large loans can not be made by the directors of the bank, but only after consultation with the governmental authority over the bank.

Mr. HAYES. Well, do you not think that the purpose of these land-mortgage banks might be entirely defeated by allowing the banks to make too large loans?

Mr. MOSS. That is true.

Mr. HAYES. I should think that \$10,000 would be about the limit of what they should be allowed to loan to one borrower.

Mr. PLATT. Have not the European banks a limit of the amount of loans, in proportion to their capital?

Mr. MOSS. No, sir. European banks are not limited, except that very large loans are made only with the permission of the Government. But I want to call your attention to the fact that land-mortgage banks in European countries were first organized among the nobles who held large estates, and it was at first only the wealthy class that could take advantage of the loans; and hence the first loans were very large.

Now, the intensive work on these small farms and the growth of democratic principles has forced the amounts of the loans down. But the trouble has been all the time in Europe to get the benefits of the mortgage loans to the small landowner. And you will find that the average loans made by these land-mortgage institutions in Europe are larger than they ought to be in this country, because small loans there are handled largely by the savings banks, which are more democratic than these other institutions were in the beginning.

In drawing this bill the commission, knowing these facts, sought to overcome that trouble by making it possible to organize small banks and to bring this system at once under the influence of the average farmer, and in that way avoid the years of struggle which they had in Europe to carry the system from the big landholder down to the small landholder.

For this reason I think that any bank ought to be permitted to loan a small amount of money; but even a bank with only \$10,000 capital ought to be permitted to make a loan at least to the extent of \$5,000, which is of itself only half the value of 40 acres in the corn belt or even 10 acres in the trucking section.

And I think that a bank which is somewhat larger ought to be allowed to handle \$10,000 loans. And that being true, you can fix a limit based upon the capital stock and surplus plus an absolute limitation. And if the committee will agree to larger loans than that limit I would suggest that the larger loans should be accepted with the permission of the national bank examiner or the commissioner of farm-land banks, or some other governmental authority.

Mr. BULKLEY. Do I understand you to say, Mr. Moss, that a limit should be placed upon the amount of money which any one individual could borrow from the farm-land bank?

Mr. MOSS. Decidedly so.

Mr. BULKLEY. But you have not reached a conclusion as to how much that limit should be?

Mr. MOSS. I was just about to say that if I was drafting this bill finally I would not give the directors of the bank the power to make a loan of their own initiative for an amount larger than \$10,000 to any one individual; but I would not absolutely limit it to \$10,000; but if the bank desired to make a larger loan than that to an indi-

vidual they should call the matter to the attention of some governmental authority—for instance, the commissioner of farm-land banks—and get their permission to make a larger loan in that case.

Mr. BULKLEY. Would you put any limit on the amount of a loan to any one individual which the commissioner of farm-land banks could permit the bank to make?

Mr. MOSS. I would not think that necessary, if you were going to call in a governmental authority.

Mr. WOODS. Mr. MOSS, your referring to this class of loans reminds me of the statement I understood you to make yesterday, that the establishment of a system to loan on farm mortgages was established in all the European countries before the personal-security credit system was established in those countries.

Mr. MOSS. That is true.

Mr. WOODS. Well, a little further investigation of that question would be a good thing, because I think you are entirely wrong about that. The first statement in your report, with regard to France, shows just the contrary—that the personal credit was established first.

Mr. MOSS. Well, Mr. WOODS, in that matter I do not want to argue—

Mr. WOODS (interposing). That it was established several years before the other.

Mr. MOSS. Yes. I do not wish to take issue with you upon that matter; I will just let your remark stand in the record. As a matter of fact, however, the present personal-credit system, which is working well in France, has been put in operation since 1895. That is a fact.

Mr. WOODS. That is what it says here [indicating].

Mr. MOSS. Yes.

Mr. WOODS. And that the land-mortgage bank was established in France after that.

Mr. PLATT. Oh, no.

Mr. MOSS. No; not after that.

Mr. WOODS. That is one of the first statements contained in these printed reports.

Mr. MOSS. No; the land-mortgage system was established in 1850 or 1852, showing that the land-mortgage credit preceded personal credits in France by nearly half a century—not quite that.

And, going back, the first land-mortgage association in Germany was founded in 1770, whereas the Raiffeissen Bank and the Schulze-Delitzsch Cooperative Societies were founded almost within the memory of living men.

Mr. WOODS. That is true in Germany.

Mr. SELDOMRIDGE. Mr. MOSS, what policy is pursued by European countries in the handling of their land-mortgage institutions to eliminate the land speculator?

Mr. MOSS. I do not quite understand what you mean by "land speculator."

Mr. SELDOMRIDGE. I mean the preventing of men going out and buying farms—one man buying several farms and carrying mortgages in those banks on those farms.

Mr. MOSS. Yes, sir.

Mr. SELDOMRIDGE. And then putting the farms in the hands of tenants.

Mr. MOSS. There is nothing that would prevent that practice. But that is overcome by the method by which the land itself is transferred. For instance, in Germany, when any large farm is offered for sale and the owner of the farm comes to an agreement with the buyer, before that transfer can be made it must be reported to the Government, and then if any cooperative society desires to buy the farm for the purpose of dividing it up among small holders the cooperative society has the first opportunity of buying it at the same price which was offered by the private individual; and it would therefore be bought up for the purpose of division among small farmers rather than permitting one person to buy it in its entirety. To be specific, I am speaking now of the Kingdom of Bavaria.

But the whole system in Europe is worked with the object of dividing the farms up into small holdings. That is just one of the ways by which they undertake to do that.

Mr. SELDOMRIDGE. I can conceive of a policy here that might permit men, for the purpose of speculation, to go out and buy farms that have been mortgaged for one-half their value and, by the payment of 5 or 10 per cent of the purchase price down, getting possession of large tracts of land and then leasing those out to tenants—a policy which we do not wish to favor.

Mr. MOSS. They could not do that under the provisions of this bill, because the loan is limited to 50 per cent of the value of the land and the purchaser would have to put up 50 per cent in cash in order to buy the land and obtain possession of it.

Mr. HAYES. And he could not make a second loan; one loan is all he could make with these land banks.

Mr. SELDOMRIDGE. He could not get the second mortgage from the land bank, but he might secure it from other sources?

Mr. HAYES. Yes; of course.

Mr. SELDOMRIDGE. We have a very inventive class of people in this country in the real estate business, and it seems to me that we ought, if possible, to put in the bill safeguards that would prevent those speculative practices.

Mr. MOSS. Yes.

Mr. BROWN. Is there as much real estate speculation abroad as there is in this country? Do the farms change hands as rapidly there as they do here?

Mr. MOSS. No, sir. That is one of the reasons that makes farm-land mortgages such good security, because the farms have passed through the stage of speculation; the value of the land, as a rule, is settled. I am confident that there is not nearly the same change in land values in European countries that there is here.

Mr. SELDOMRIDGE. Could we not put a provision in the bill preventing the giving of a second mortgage on any of the land upon which loans are made by these banks?

Mr. MOSS. The banks have not the power to do that under the provisions of the bill.

Mr. SELDOMRIDGE. But I mean loans by some other institutions.

Mr. PLATT. We could hardly do that.

Mr. Moss. No; you could not do that, I am reasonably sure. Now, coming to the point where we finished yesterday, I should like to call attention to the Federal agents.

Mr. SELDOMRIDGE. But could you not provide that the first mortgage should become due if a second mortgage was given?

Mr. HAYES. You could do that, if it was desirable.

Mr. SELDOMRIDGE. Yes; or a percentage of it.

Mr. Moss. The fiduciary agent provided here in the bill is a broad original feature which I do not think you will find in any mortgage system anywhere.

Mr. HAYES. What page is that on?

Mr. Moss. Page 20. It is quite evident that there must be some governmental authority, or some third party that would either take physical possession of the mortgage or in some way guarantee the holder of the bond that, as the mortgage is paid, he will get his money.

Under the Woodruff plan, which has been referred to in these hearings, Mr. Woodruff deposits his mortgages with a trust company in Chicago, which holds possession of the mortgage and guarantees that the bonds are protected by these mortgages, and the money passes really through the central trust company in Chicago.

Now, that makes the holder of the bond absolutely secure, of course, because there is a great trust company holding the security; and yet you could not organize a general system on that same central-holding plan; and the commission believes that, by authorizing a fiduciary agent who can neither be an officer or a director in the bank, but who may be an employee—for instance, there is no reason why he should not be a bookkeeper—having him appointed by the Government, and making him in all senses of the word responsible to the Government and having no financial responsibility whatever to the bank: his sole official duties are to see that the mortgages are credited with the payments made on them, and that the money is turned over to the bondholders, and having him stand there as an agent between the two parties—the commission believes, I say, that that would solve all of the difficulties and make it practically easy to put this system into operation.

We have given this agent the powers enumerated under section 19, which it is not necessary to read now. You will notice, however, that the Federal agent certifies to every national land bond that is issued, and that no national land bond can be valid without his signature.

That is for the protection of the buyer of the bond.

Second, that section provides he shall have joint possession and control with the bank of the mortgages and deeds of trust which are deposited as security. And that, again, is for the protection of the bondholder.

And third, it provides that he shall have supervisory control of all entries in the mortgage ledger kept by the bank; and it is made his duty to see that the payments are credited to the borrower. That is for the protection of the borrower.

So that this man, the "Federal fiduciary agent," stands there as a Government agent in the bank, protecting alike the bondholder and the mortgagor; and under a system, I say, that would make this feature entirely workable.

I would not say that this is the very best system that could be devised, but it is the best system that the commission could devise to meet this situation.

Mr. Woods. Did the American commission join the United States commission in this report, Mr. Moss?

Mr. Moss. No, sir. They neither joined in the report nor took any part in the preparation of the report or the bill.

In the first place, the American commission had no funds with which to keep a committee here to help in working out this matter.

Second, they, after careful study, decided that their responsibility was to their respective States or to the respective institutions which had commissioned them. And they were making their reports directly back to the bodies and not making a report to Congress.

The resolution under which the United States commission was appointed made it its specific duty to make a report to Congress; it did not make it the specific duty of the commission to frame a bill, of course, but the commission felt that if we were going to make a report we should make it along specific lines, so that there would be something tangible to work upon, and that it would be better to make it in the form of a bill than in the form of general suggestions.

Mr. WEAVER. What sort of cooperation was there between the United States commission and this American commission, Mr. Moss?

Mr. Moss. Well, the cooperation was to this extent: The money that was appropriated by Congress was spent very freely to carry out the educational activities of both commissions. As a matter of fact the American commission raised \$1,200 for each delegate; \$900 of that was spent for travel and other minor expenses. The commission was at quite a heavy expense in assembling the commission; and it appeared that this \$300 that was to have gone toward the payment of expenses for educational activity in Europe was practically spent before the commission started.

As a matter of fact, the United States commission, not entirely, but in large part, met stenographic expenses, for instance, and divided with the American commission the expenses of headquarters, and we have borne quite a large expense in preparing this joint report which is going out—which is entirely legitimate, because we were ordered to cooperate, and we were working on a joint report; that is the extent to which we cooperated—the funds of each commission being expended jointly to secure a common result.

The American commission gave us every advantage they could and all the material they gathered was placed at our disposal; and all the material we gathered was placed at their disposal; and, as a matter of fact, the officers of the American commission were chosen directly from the United States commission. I believe I am the only member of the United States commission traveling with the American commission that was not given an office in the American commission; but there were some reasons for that, I believing that, as a Member of Congress, I had a somewhat different responsibility from the others, and that I ought not to accept a position of that kind. I believed that I ought to remain free from any other responsibility. There was the very closest cooperation between the two bodies and the utmost expression of good will between them through their travels in Europe.

Mr. Woods. Now, this joint report that you speak of; what is that? Has it been published?

Mr. Moss. The joint report is this document [indicating document on table].

Mr. BULKLEY. Senate Document 214.

Mr. Moss. Yes; Senate Document 214 is the joint report—not the complete joint report, because there are some other matters to follow.

And I may say that the United States commission in its official capacity did nothing except to study the financial feature of the situation—the financial institutions. The American commission, however, made a very much broader study; they took up the study of country life, markets, general cooperation, and educational matters. And while the members of the United States commission as individuals worked with the American commission in this broader field, yet the distinctive work of the United States commission was limited to the financial field; and so we made a report only upon the financial features, and the American commission reported upon the broader field that they covered; and we, uniting our financial data with that gathered by them, called that a joint report. And this special report of ours was called the United States Commission Report. But, as I understand it, there is no criticism of this report from any member of the American commission, except such criticism as has been made by certain members of that commission in their minority report.

The next question to which I wish to call the attention of the committee is the admission of existing institutions. We feel that the bill is broad enough in this way and provides a further protection against possible monopoly. "Any existing institution" will include a certain class of building and loan associations; and I want to say on this point that the Woodruff institution would have no trouble whatever in organizing under this statute if it were enacted into law as drawn by the commission.

Mr. Woodruff traveled with us quite a good deal in Europe. I have a personal acquaintance with him and am familiar with his ideas; and I say that, so far as the Woodruff institution is concerned, it would have no trouble whatever in operating under this law; and I am confident that the commission's plan would also appeal to a great many trust companies at the present time in the United States, and to practically all of these mortgage-loan associations in the United States.

Mr. HAYES. Well, there is no objection to their reorganizing under this statute, is there?

Mr. Moss. No; on the contrary, it is to be desired; and that provision was put in the bill as an express encouragement for them to join the system.

Mr. HAYES. Yes.

Mr. Moss. So that not only would new organizations be formed under the bill, but there is the broadest possible opportunity given for the reorganization of existing institutions, making it as highly competitive and as attractive to as many institutions as possible. There has been every effort made in framing the bill to prevent these institutions from coming into competition with existing commercial banks, and, on the other hand, to make it of great value to all of those institutions that are loaning upon real-estate security;

that is, to standardize loaning on farm mortgages. But there is a provision in the bill in regard to trust funds, and some of the Members of the House have spoken to me about that, and I would like to discuss that matter for a moment.

Whenever the State legislation in any State shall meet the approval of the Federal authorities, so that the banks in that State are working under such conditions under State laws that, in the opinion of the Federal authorities, give ample protection to the holders of their securities, it is provided that the bonds emitted by these banks shall be available for the investment of all funds that are so-called trust funds that are under the control of the Federal courts, and also shall be available for State trust funds where it is permissible under State law.

Now, there are two purposes in view in this provision, not only to broaden the market for the bonds, but particularly to make them more attractive to the private investor. There are a great many private investors who would purchase a bond if it were recognized that it were a good enough bond for the Government and the State to accept it as security for trust funds.

And it seems to me that the United States Government ought not to give its sanction and its supervision to the issuance of a bond that of itself would not be good enough and safe enough to be taken as security for the investment of trust funds under the protection of the Government. And I feel that this is quite an important feature of the bill; beyond any question, all the land-mortgage bonds issued by the continental countries of Europe are made available for trust funds, except in certain countries where they reserve that investment field as a monopoly for Government operations. So that there is nothing unusual in the preferment here given.

The other feature is the value of the buildings. Under this bill the amount loaned upon the buildings is limited to 20 per cent of the appraisement, which means that 90 per cent of the loans must be made upon the value of the real estate. Then it is provided that the buildings must be insured for the benefit of the bank holding the mortgage. Now, these provisions may be overcautious on the part of the commission.

With regard to that limitation of 20 per cent on the buildings, it seems to me that when we consider the very poor character of the buildings on the average American farm, the fact that the improvements on those farms are often short lived, and considering the long time for which the loans will be made, we must put a rather small limit upon the amount to be loaned on the value of the buildings; and we believe 90 per cent of the loan should be upon the land itself and that is a conservative provision. In Europe the buildings are very much more substantial than in this country.

Mr. HAYES. They are generally constructed of stone and brick, are they not?

Mr. MOSS. Yes; generally of stone and brick. And in Europe they have almost eliminated entirely the fire hazard. In fact, one of the greatest differences which you will observe in traveling through Europe is the high character of the improvements upon the farm, and the almost negligible loss that comes from fire and decay. Their buildings are very much more substantial, and are better fire risks than ours.

Mr. SELDOMBRIDGE. Excuse me, Mr. Moss, for interrupting you, but I should like to ask a question at this point.

Mr. Moss. Certainly.

Mr. SELDOMBRIDGE. How do the rates of fire insurance in Europe compare with the rates in the United States?

Mr. Moss. Farm insurance in Europe is, I think, almost all carried by mutual risks. That extends so far as to include the farm animals.

With regard to cities, I was told by the American ambassador at Rome that he was carrying a policy of \$10,000 on his household effects in the city of Rome; and he said he had forgotten the fee, but it was so small he did not see how the insurance company could afford to write the policy for the small amount which he was paying to insure \$10,000 on his furniture. He said he had been in Rome four years and did not recall having seen a fire there in that time.

And everywhere in Europe the fire risk has been almost totally and absolutely eliminated by their system of buildings. I noticed particularly the barns. They were generally made of stone or concrete; they were of one story, and if you inquired why they did not have a second story they said if there was hay above the first floor it might catch fire and drop down and burn their animals, and therefore they have eliminated that danger. The risk of fire is almost entirely eliminated.

And I think the committee ought to take these facts into consideration in fixing the limit which may be loaned on buildings.

And that brings up the question whether or not you ought to make any provision for the deterioration of the value of the property mortgaged. I am sure you will reach that question before you perfect the bill. It is the conclusion of our commission that it is not necessary to provide for it under this bill. And I wish to say that I consulted briefly with Secretary Houston upon that point, and Secretary Houston's opinion coincided with that of the commission, that if you limit the amount of the loans as rigidly as they are limited in this bill, with an amortization feature, you can safely loan 50 per cent on the average value of the American farm without any great fear that the deterioration of the farm itself will overcome and destroy the value of the security.

I should like to call the attention of the committee now to the question of postal savings funds, sections 40 and 41 of the bill. There has been quite a movement in this country, by some persons who are worthy of consideration, for the adoption of a law providing that the postal funds should be made wholly available for loaning upon farm property. You know the Government has about \$40,000,000 in the postal deposits now. But under the new Federal reserve act, those funds can only be deposited in national banks. I call attention to that provision in the new bank law. A change has been made in this bill to remove that limitation of law and permit these funds to be deposited in this system of banks.

Mr. COULTER. It is in section 16 of the bill, under the heading, "Specific powers."

Mr. Moss. Yes, section 16. It is under subheading (a). It reads as follows:

Every national farm-land bank shall have the following specific powers:

(a) To accept and pay interest on deposits to an amount not exceeding 50 per centum of the amount of its combined paid-up capital and surplus; to re-

ceive deposits of postal savings funds to the same extent, and to pay interest thereon at the rate required of other banks receiving such deposits. The trustees of the Postal Savings System are hereby authorized and empowered to select national farm-land banks as depositories for such funds, which banks, when required by the Secretary of the Treasury, shall act as fiscal agent of the United States.

You will notice that there is no preference given to these banks over existing banks with regard to receiving postal savings on deposit. There is, however, a provision in the bill requiring these banks if they receive postal savings funds to use them to make loans on real estate; they can use them for no other purpose.

It was the opinion of the commission that, in order that there should be no charge of favoritism, it would be well at the present time to give the new banks just the same right to receive postal deposits as other banks, and leave it with the postal authorities to make an equitable distribution between banks of postal funds. Certainly land banks ought not to be prohibited from receiving those funds on deposit; but if they receive them under this provision, they must invest the funds in farm-land mortgages; they can invest them in no other securities.

Senator SHAFROTH. What section of the bill is that you have just been reading?

Mr. MOSS. That was section 16, but you will find in section 41, Senator Shafroth, this language:

The postal savings deposits held by any such bank, except the 5 per cent reserve, may be invested only in first mortgage or first deed of trust loans on farm land.

So that, under this provision, the trustees of the postal savings system could easily divert postal savings fund, if they desired to do so, and make them available for farm-land loans. It is not mandatory, but permissive, under the provisions of this bill.

Mr. PLATT. Mr. Moss, would this bill permit the Government to divert the postal savings funds away from the neighborhoods in which they were deposited?

Mr. MOSS. I should not think that it would. The only modification in the law here is that it makes it permissible to deposit those funds in these banks to the same extent that they can deposit them in the Federal reserve banks; and the restriction in the case of the Federal reserve bank is that they shall be deposited in the immediate locality in which they are received.

Mr. PLATT. Yes; I see. Would it not be well to repeat that limitation in this bill, somewhere?

Mr. MOSS. That would be entirely agreeable to me personally. Would it be agreeable to you, Dr. Coulter?

Mr. COULTER. Yes, indeed.

Mr. MOSS. I wish to say that this section was written by the commission at our last sitting, because the law had been changed in regard to postal savings funds, and it was necessary to rewrite it, and that specific thought had not occurred to the commission.

It is not necessary, I believe, for me to speak of the reserves in this system. We adopted the same system of reserves of deposits that is used under the new banking and currency act, namely, 12 per cent of checking deposits and 5 per cent of time deposits.

I want to call the attention of the committee to the charges provided for administration. In this bill these charges are fixed at 1

per cent. It is not the feeling of the commission that the administration charges will amount to 1 per cent, once the system is actually in operation. The Credit Foncier and, I think, some other institutions are limited to 0.60 of 1 per cent. But competition regulates this charge, and almost universally in Europe 0.35 per cent in joint-stock companies is the charge made for administration expenses, and in the purely mutual associations it drops as low as 0.15 per cent.

As this is a very competitive bill, involving widely competing institutions, we may safely accept that competition will finally control the charges of the bank. Banks in Europe charging 0.35 per cent for administration and limited to the issue of 15 times their capital and surplus in bonds were making anywhere from 9 to 15 per cent annual profits and dividends. So that there is no question about reasonable profits. And yet those European banks have a somewhat better opportunity to make money than these farm-land banks in this country will have, because the joint-stock banks have the right to loan upon all classes of real estate, and they also do business with cities, a communal business, that banks in the United States would not have. Cities in Europe do a loan business through mortgage banks that would be done here through the issuance of municipal bonds.

Mr. HAYES. You would not hold out the hope that the cost of administration could be reduced in this country under anything like present conditions to anywhere near 0.35 per cent, would you?

Mr. MOSS. If the commission had thought that, we would have put that limit in the bill. We thought we ought to be liberal in fixing maximum charges and allow competition to name the minimum. The opinion of the commission is that competition will bring it below 1 per cent. The point I want to make is that we put it at the maximum and leave it to competition to regulate it. I think it would be a serious mistake to put the administration charges too low.

Mr. HAYES. Yes; of course, a man must have some hope of profit or he will not go into this business.

Mr. MOSS. Yes; and I do not believe that under present circumstances 1 per cent is too high.

I want to call particular attention, however, to the fact that these administration charges are to be computed on the principal sum remaining unpaid. Now, there is a difference between this plan and the Woodruff plan. Under the Woodruff plan their administration charge is based upon the par value of the original loan, and that runs all the way through the life of the loan. But under the provisions of this bill as we have drawn it the administration charges will fall with each payment upon that part of the principal which is unpaid—which I think is undoubtedly the correct principle—and will not remain upon the par value of the loan. The committee, of course, will decide which it deems to be the best. But it seems to me that administration charges ought to be upon the sum the borrower owes the bank and not upon the original sum which he borrowed, and much of which may have been repaid to the bank.

Mr. PLATT. Will not that be a complicated thing to determine?

Mr. MOSS. No; one system is as easy of computation as the other. It is a question of mathematics, and while I am not an expert mathematician I can figure it out easily; there is not a bank in the United

States that will be troubled in the least about making the computation, Mr. Platt.

Mr. HAYES. Well, it just occurs that there might be a variation as to that; but your bill applies to each individual case?

Mr. Moss. Yes. And I want to call the attention of the committee to the fact that the amount and number of payments to be made by the borrower are set forth in the mortgage and can not be changed, so that each instrument will bear upon its face just what sum the borrower has to pay in order to meet his periodic payments, which, I think, is a very good provision, as it enables the borrower to understand precisely the nature of the obligation he is entering into at the time he makes it.

I would not speak of the appraisement committee if it were not for the fact I have received in my correspondence from critics of the bill certain criticisms of the appraisement committee as organized under the terms of the bill.

The appraisement committee is to be composed of three persons, who shall be directors of the bank. However, the provision is that they shall appraise, or cause the appraisement to be made; therefore they are given full opportunity to employ an expert or to seek outside advice, if they care to do so. But the three directors must be the responsible committee to the bank, which is entirely right and proper; but under the language of the bill they may make the appraisement themselves or cause it to be made by others. Therefore the persons who are criticizing that feature certainly have not read the language of the bill carefully upon that point.

In regard to the examinations, we have provided for the same examinations that are given national banks, and have provided also that they shall be made by the same examiners, provided the Treasury Department wishes that to be done. I would probably feel that if the system becomes widely extended there would be special examiners appointed, and such provision is written in the bill; but in the early stages, where there would be just a bank here and a bank there, certainly it would not be economical to detail a special examiner to go out to make these examinations; and so, under the provisions of the bill, any regular bank examiner may be detailed by the Treasury Department to make the examination, or the Treasury Department may select, if it cares to do so, a special examiner for this work.

There is one other question under the head of "privileges" that I would like to discuss; and then I want to sum up the whole matter. The word "privileges" probably ought not to appear in the bill. It would be very much better to have the word "powers" rather than the word "privileges." As this bill is constructed the banks have two powers. One is general, and every bank organized under the bill will have certain powers. That is set forth in section 16. There they are given general powers, and they are also given specific powers that are inherent in every bank that is organized; and it makes no difference in what State the bank may be located, all banks stand equal. There can be no objection to that. But later on in the bill, section 34, there are certain other powers which are here called "privileges." I am going to suggest that the word "powers" would be very much better than the word "privileges."

Mr. HAYES. Excuse me, Mr. Moss, but the word "powers" would hardly cover it.

Mr. PLATT. No; that word would hardly cover it.

Mr. MOSS. You are, perhaps, right; but I was fearful lest the language might be construed to mean special privileges, which would be in violation of good public policy. The bill reads:

The foregoing privileges, or such of them as the commissioner of farm-land banks, with the approval of the Secretary of the Treasury, may, by general rules applicable to all banks organized hereunder, from time to time designate, shall apply to national land-bank bonds issued under authority of this act only as when the following conditions (or such of them as the commissioner of farm-land banks, with the approval of the Secretary of the Treasury, may, from time to time, by like general rules designate), are likewise put into effect in any State or States.

Mr. WEAVER. Why can you not use both words, Mr. Moss?

Mr. MOSS. Very well. I am gratified that the committee correctly comprehends the purpose of the language. Now, I want to call your attention to the fact that these privileges or powers, whichever word you choose to use, are given to all the banks in any one State at the same time, and are given to every State at the same time that meets the rules and regulations laid down by the Federal authorities. There is absolutely no discrimination against any bank or against the banks of any State. So that, while at the beginning these general powers that every bank would inherently have would be given to every bank in the United States, these additional powers would be given just State by State as the States may met the regulations and requirements laid down by the Federal authorities. That is a feature that I called the attention of the committee to yesterday, that we were trying to create an inducement or better State legislation.

I think there is no use to speak about the loan agencies or the sale agencies, but I will speak a word or two about the general administrative features of the bill.

It is modeled after the national banking law and placed under the Treasury Department, and gives very large discretionary powers to the commissioner of farm-land banks, but not as great powers as have been given to the Comptroller of the Currency. The national-bank system is the model for the world for efficiency of general administration, freedom from graft, for honesty, and for publicity, I say it is a model for the world in its purely administrative features, and we do not believe you could have any better model than that.

But the commission has no pride about whether you call the ruling Federal officer "Commissioner of land banks" or by some other name; whether you give him \$6,000 a year, or more or less than that sum. That is a matter that I should have no pride of opinion about. But it seemed to us, as the national-bank system has been honest and has been administered so well, that we could not adopt a better system of administration than our well-known American model.

Now, as to the result of the establishment of these banks in Europe. I think it may fairly be said that they have banished usury; they have given to agriculture as low rates of interest as other lines of business, and often as low rates as communities in their organized capacity enjoy.

Mr. WEAVER. Let me ask you a question, just for information.

Mr. MOSS. Yes; certainly.

Mr. WEAVER. With regard to the laws in Europe, with which I am not familiar, with regard to usury, what penalties do they have under the laws there? We have a national-bank act which prescribes a penalty, and all the States have laws on the subject, some of which are very radical. For instance, in the old Indian Territory, where I used to live, a man who charged usury lost both principal and interest; and that was formerly the law also in Arkansas and in some of the other States.

Mr. MOSS. I would not want to speak with definiteness upon that: I presume Dr. Coulter could reply to that more definitely, and I will ask him to do so in a moment. I know, however, that in nearly every country of Europe the statement was made that before these banks were organized the interest ran from 20 per cent to even 100 per cent, and usury was rampant. Dr. Coulter, what are the laws of Europe in regard to usury?

Dr. COULTER. Some of the countries are entirely without any special law on the subject, depending upon their financial system to settle the whole question. Others have special laws against usury, and many of them are very local. For instance, in parts of Russia I found that the local administrative officers decided what was the proper or legal rate of interest. But the practice in Europe is so varying that it would be very difficult to answer the question exactly.

Mr. HAYES. The conditions are the same in this country. In some States there are no usury laws. We have none in California.

Senator SHAFROTH. And we have none in Colorado.

Mr. MOSS. I wanted to say that the fact that impressed me most in Europe was that there was very lax Government supervision. The banks in Europe have either a large capital or a high degree of responsibility to the shareholders. They have eliminated speculation by declaring the purpose of the loan, as a rule; and these facts have been a great protection, without the necessity for governmental supervision. They do not have the degree of governmental supervision that we have in this country.

Mr. PLATT. It is usually agreed by students of finance that usury laws are out of date, and are either detrimental or inoperative.

Mr. MOSS. Yes.

Mr. WEAVER. I would not agree with that if all the political economists and financiers in the world agreed to it. Of course, as a general proposition, you can not fix the value of money by a statutory enactment; but you can put penalties that will have a deterrent effect on some cold-blooded shylock who wants to take his pound of flesh.

Mr. HAYES. Did you ever know of a case where usury laws had any effect?

Mr. WEAVER. Yes; in our State.

Mr. HAYES. I have lived in States where there was a high penalty for usury; and I have never seen any difference resulting from them.

Senator SHAFROTH. I think the difference is in having a high usury rate.

Mr. WEAVER. Yes.

Senator SHAFROTH. I advocated a usury rate of 12 per cent, when was high enough to allow for extreme and unusual cases. But, as a matter of fact, some of the borrowers did pay that.

Mr. HAYES. They will all do it; they will all find some way to get outside of the law.

Senator SHAFROTH. But there is always a tendency for a man to keep within the law and have his actions lawful, if he can.

Mr. WEAVER. We had an illustration of that in Indian Territory, where a man who had loaned money at usury lost both interest and principal.

Mr. HAYES. But he can put the transaction in the hands of a broker, and have the broker charge a commission, and accomplish just the same thing.

Mr. PLATT. Yes.

Mr. MOSS. I think the usury laws in the District of Columbia have been generally disregarded. But it is the universal testimony that in Europe competition under this system of banks has driven usury out of those countries; that the power of usury has been broken down, not by law, but by competition, which is much more effective than if it was a question of law.

Mr. HAYES. That is the only way to prevent it.

Mr. MOSS. These banks have been very much greater foes to usury than all the restrictive laws that might be enacted.

Mr. BROWN. One is a natural restraint and the other is an artificial one.

Mr. HAYES. Yes; one naturally enforces itself, and the other can not be enforced against the people who do not want it enforced.

Mr. MOSS. These banks have also had the effect of checking emigration from practically every country where these banks have become established. And you have only to look over the report of the United States Commissioner of Immigration to see that a very small proportion of our immigration comes from the countries we are now discussing, but nearly all of it comes from the southern countries of Europe where these banks and the development of agriculture are not well established. There is no question that this system of banks, in connection with short-time personal credit, has been one of the great factors in checking emigration of those who are desirable citizens.

Mr. HAYES. I was just going to suggest that thought.

Mr. PLATT. Is there a difference between northern Italy and southern Italy, for instance, in the organization of these banks?

Mr. MOSS. The line of credit in Italy is a question which I myself did not study. While I was in Italy I was just taking my first lessons in Europe, and was looking around generally over the subject. In fact, I went to Italy prejudiced against Italy and its institutions, and believing that there was nothing in Italy worthy of study; I gave my attention there almost exclusively to personal credits; and through a mishap at the last moment, I think, no member of the United States commission accompanied the subcommittee of the American commission that went through southern Italy to make a study of land-mortgage credits.

Mr. COULTER. None of them went south, but we got practically all of those reports.

Mr. MOSS. None of them went south; and I am basing my opinion on my personal studies, and therefore I can not answer your question as to Italy.

These banks have increased the production of European farms. There is no question that in this country intelligence is more widely diffused than it is among European farmers, and yet, even under existing conditions there, they are not only excelling us in production, but the principal thing is that their production has increased almost exactly in proportion as this system of rural credits has increased in those countries.

The system has given to the European farmers permanent improvements on their farms—I spoke of that a few moments ago—as compared with the improvements of American farms. An American farmer is surprised at the permanent character of the improvements on farms in Europe; when they construct a house or a barn they build it for the ages to come, and not merely for the few years to come. It has stocked their farms with a very much better quality of live stock than the farmers have in this country. No person can go through Europe without being struck with the immense superiority of their live stock over ours; and while you might expect to see that superiority upon the larger and better farms, you will be surprised to find to what large extent the high quality of live stock there has extended; and I was told that this spread of the best quality of live stock has been one of the direct results of and has been almost in proportion to the spread of the system of rural credits.

The system has led to better business methods among the farmers of Europe. I spent 10 days out in the country, away from a railroad, among the farmers of Germany, living in one of their homes, to which Mr. von Engelken, of Florida, a native of Germany, and who can, of course, speak their language perfectly well, introduced me. You can go into one of those communities where they have their cooperative banks and where they have their mutual life insurance companies and will be surprised at what you observe. I was present on the day, which occurs once a year, when the stock was to be brought up to be reappraised; every horse in that community had to be presented to an officer of a farm company to show the exact condition it was in. And those farmers can tell you in a moment the exact condition of their local bank; and all the way through this system of banks had led to better business methods among farmers in Europe than you will find among farmers in America.

It has encouraged cooperation in all lines of rural business. You will find in the countries I visited a very much closer cooperation among the farmers in business methods than you will find among farmers in the United States. It has given birth, as I have said, to personal-credit systems.

And, finally, it has broken up or is breaking up the large estates and subdividing them or parceling them out into smaller farms. We must remember that Europe inherited certain disabilities from its political systems, its feudal systems, and its systems of entailed estates. It is overcoming these disabilities by having the power to break down entailed estates. It has overcome other disabilities by breaking down the feudal systems there and, to some extent, the monarchical institutions. Wherever you go in Europe you will find that even the highest officers of the Government are carefully studying the question of how to apply this rural credit system and make it reach down to the peasant class. This system is, more than any other one

force at the present time, standing between the organized Governments of Europe and the absolute control of these Governments by socialism. If you take away this union among farmers in Europe, their cooperation along business lines, socialism would sweep over Europe at the very first election. One of the great benefits that Government itself is receiving—organized government as against socialism: I am not, of course, using the word socialism as referring to an overthrow of government; but you will find that the control of the Governments of Europe to-day rests upon the solidarity of the agricultural classes that have been knit together by this system.

And, lastly, the system has caused a permanent rural population—something that we do not have. By a permanent rural population I mean a people who expect to live and die upon the particular farm which is their home, and give it to their children, who in turn will live and die upon it.

Mr. WEAVER. Right there, is there any tendency in those countries, as there is in this country, for the men to get away from the farms and into the cities?

Mr. MOSS. Just the same kind of growth of the cities there as here. There is no question that the tendency is there; it is apparently world-wide. It has been checked more in France than it has been checked in Germany. But it has been checked in France by certain laws more of a social nature than of an economic nature. There are three laws recently passed in France which are said to be largely of a social purpose or origin. One is the Government loaning money at 2 per cent interest in small amounts to any person for the purpose of buying a farm home. The second is that any person living on a farm until he has reached the age of 65 years shall be entitled to receive the same pension as if he were a Government official; and the third is that if any person's crop is lost by hail the Government itself, without any insurance fee, meets the loss. Those three laws were passed by France in order to check the immigration into the cities.

Mr. WEAVER. When were they passed?

Mr. MOSS. Just a few years ago. How long was it, Dr. Coulter?

Mr. COULTER. They have hardly gone into effect yet.

Mr. MOSS. I think the one relating to hail has just gone into effect.

Mr. COULTER. Yes.

Mr. MOSS. The minister of agriculture said that, after the Government of France had pensioned all Government officials when they reached the age of 65 years, he noticed some husky boys on farms trying to get Government positions in order to be in line for that pension. So it suddenly occurred to him that it would be a very good thing to give the pension to the man on the farm, so as to take that temptation away from the farmers. And so they have provided in France that if a man remains on the farm until he is 65 years old, he shall draw a Government pension to the same degree as if he were a Government official. [Laughter.]

Mr. SELDOMRIDGE. What has been the effect on the rural population of Germany of the military conscription program which they have?

Mr. MOSS. Upon that question I spoke more with the United States consuls than with any other persons, and I was surprised to

find, without exception, that the United States consuls are in favor of enforcing compulsory service in the Army, stating, without exception, that the man who was in the Army and came back was a better citizen. His army life taught him sanitation: it taught him self-control; educated him along broader lines; and that he came home a better citizen and a better business man than the person who did not go into the Army.

Mr. SELDOMRIDGE. Do these men who go into the Army come back to the farm willingly and remain there, or do they seek the cities?

Mr. MOSS. They generally stay on the farm in Germany. In France it was noted that when they came back there was more of a tendency to go to the city.

Mr. SELDOMRIDGE. Let me ask you another question. What is the condition of female labor on the farms of Europe?

Mr. MOSS. I think that the general employment of female labor on the farms in Europe is the one great blot on European agriculture. The thing that makes it impossible for an American to go there and come away without a feeling of utter disgust is the extent to which women work on the farms, the long hours of labor, and the hard tasks they are given to do. As a general rule, women do vastly more work on agriculture than the men.

Mr. SELDOMRIDGE. Do you think that female labor has been a contributing factor to the success of German agriculture?

Mr. MOSS. Not at all. It has been a contributing factor to the industrial supremacy of Germany, because it has set free a great deal of their man labor on the farm and transferred it to the factory. You will find in Germany men living 30 miles from the city where they work, going back and forth daily. They may live 30 or 40 miles away from their work. I saw men who lived 6 miles from the railroad station; they rode to the station on wheels and then went on the train into the city, worked through the day, and then returned to the farm at night. The work on the farm was done by the women, so that where the woman labor has displaced man labor on the farm, that condition has increased the industrial output of Germany, but it has not made their agriculture more effective.

Mr. PLATT. Have you any evidence that it does the women any harm?

Mr. MOSS. Sir?

Mr. PLATT. Have you any evidence that it does the women any harm?

Mr. MOSS. Well, I am not a judge of women; I do not care to express any opinion in regard to that.

Now, there are no national difficulties in the way of this bill here. We have a great Nation, but the difference between our States and between the different sections of our Nation are no greater than the differences between different nations in Europe. This system is really a continental system; it is modified a little here and a little there, but if you adopt the State as a unit I am certain there are no inherent difficulties in our way, because our States do not differ from one another more widely in agricultural conditions than do European countries.

And I call your attention to the fact that, in my judgment, this legislation should be enacted without any unusual delay.

Mr. Woods. Do you know of any European countries which have established this system that do not directly or indirectly grant considerable Government aid?

Mr. Moss. Oh, yes.

Mr. Woods. Which ones?

Mr. Moss. There is very little Government aid given in Hungary; very little. In Austria, where they started with two national credit institutes, the Government contributed a certain amount of foundation capital and then a certain other amount was contributed by nobles in "foundation shares," but all the foundation shares have been repaid and of the Government capital a small amount has not been repaid. There is no other aid given in Hungary except merely the small contribution toward the foundation capital. Is not that true, Doctor?

Mr. COULTER. Yes, sir.

Mr. Moss. In France the Government contributed \$2,000,000 to the Credit Foncier at the beginning, in 1862, and there has been no further monetary assistance given, either directly or indirectly, to the Credit Foncier since 1850. It has, however, certain privileges, which I spoke of as giving to it a monopoly; that were granted by law.

Mr. PLATT. How about loans in France? Is there not a considerable amount the Government loans?

Mr. Moss. There are Government loans for special governmental purposes. I will speak about that in a moment. I am now speaking about the Credit Foncier. The vast volume of real-estate loans are made from private capital by the Credit Foncier.

Mr. BULKLEY. Does the French Government deposit funds with the Credit Foncier?

Mr. Moss. No, sir. The deposits of the Credit Foncier come largely from the system of lottery. They have a drawing that takes place, we will say, every six months, or oftener, as the case may be. A ticket is really a bond. You buy a ticket, and that is really a bond of the same par value as the price of the ticket, repayable, we will say, in 75 years, and it bears a low rate of interest, payable semi-annually. There is no security given except the good will of the bank. Now, then, when the drawings take place, if your particular ticket draws a prize, then you surrender your bond at once and get a large cash payment; but there are only one or two who get these large cash prizes or bonuses. If you do not draw a prize you would have the bond, which is a note of the Credit Foncier, payable in about 75 years and drawing interest every six months. It has no lottery feature except in that way—not in the sense that you put something in and get nothing back. You put something in and you may get a great deal back, and you are sure of getting a small rate of interest and at the end of 75 years getting your money back. And the gambling instinct of the French nation has been so great that it has in fact enabled the Credit Foncier to secure the great bulk of the savings of the French nation.

The Credit Foncier emits two distinct classes of obligations to secure loanable funds, neither one of which is payable on demand. The first class of these obligations represents deposits, and under the terms of this bill would be either demand or time deposits. The French bank, however, sells lottery tickets. Each ticket is a bond or long-time note against the bank, bearing interest payable semi-

annually. The bond itself usually matures 75 years after the date of issue. The obligations have no security except that of the good will of the bank. In this manner the French bank escapes carrying a long line of demand or short-time obligations and can loan its deposits very freely on long-time amortization mortgage loans. The risk, whatever it may be, is carried by the holders of the lottery bonds.

The second class of obligations is land bonds, similar in every feature to the same class of obligations issued by the banks under the terms of this bill, excepting that the French bank can issue 20 times its capital and surplus in land bonds, whereas under this bill banks are restricted to 15 times.

The investment of capital and surplus is similar in both instances. The capital must be permanently invested in Government bonds, short-time real-estate loans, or in promissory securities, which are permitted to be rediscounted by the Government bank.

It is perfectly obvious that the American public would not invest in such securities as the low-interest, long-time, unsecured lottery bonds; nor will the moral sense of our people permit the legal authorization of the lottery scheme to attract funds even for as laudable purpose as the reloaning of these funds for the benefit of agricultural development. We have written into this bill every commendable feature of the French bank which is well adapted to our environments and our national ideals.

Mr. WOODS. What does the Bank of France do with the franchise tax?

Mr. MOSS. The Bank of France has to make a certain proportional payment of its profits which is based upon the discount rate. As the discount rate rises, the percentage rises that it pays over to the minister of agriculture to be used for the benefit of agriculture, and then it is loaned to the regional bank to be reloaned to the farmers in the way of personal credits.

Mr. SELDOMRIDGE. Mr. MOSS, have you any personal observations to make upon the opportunities for investment in Germany, France, and Austria in industrial corporation shares or railroad stocks, as compared with the opportunities in this country?

Mr. MOSS. No.

Mr. SELDOMRIDGE. Is it not a fact that the savings of the people or the money free for investment very largely has to go in real estate in order to make a return? Or is there an opportunity in the way of stock investments, such as we have in this country?

Mr. MOSS. I am quite sure your observation would not be wholly true, by the fact that the German savings bank is one of the greatest institutions in all the world. The fact that the savings banks in Germany have a deposit of over \$4,000,000,000 only illustrates one way they invest their savings.

Mr. HAYES. They do not loan on real estate entirely or largely. even; they loan on bonds and stocks.

Mr. MOSS. Oh, yes; only 20 per cent of these savings funds are loaned on rural real estate.

Mr. SELDOMRIDGE. Is there such a market over there for stocks and bonds as there is in this country?

Mr. MOSS. I could not answer that question accurately. Such stocks and bonds are quoted in all financial publications.

Mr. PLATT. Oh, yes; the German industrial enterprises are financed in numerous countries.

Mr. HAYES. I think France beats all other countries. I think there are more industrials financed in France than any other country in the world.

Mr. PLATT. I doubt that; I think it is Germany.

Mr. HAYES. No; I think it is France.

Mr. SELDOMRIDGE. Are they both colonially and locally?

Mr. HAYES. Both colonially and locally. The people in France are the greatest savers in the world and invest their money all over the world.

Mr. MOSS. Everywhere I went in Europe they said France is the greatest nation to hoard its earnings in the world. Everywhere the credit was given to the women of France for this result.

Mr. HAYES. I have seen them working side by side with their husbands at all stages of the proposition.

Mr. SELDOMRIDGE. And they have solved the problem of utilizing waste to a considerable extent.

Mr. MOSS. Now, gentlemen, I want to speak of a matter that was touched on yesterday, in regard to the influences working against this legislation.

Mr. HAYES. Before you leave the subject, Mr. MOSS, I want to see if I am correct about this: In Germany, where these credit associations have reached the highest financial state and where they first began, there is no financial Government aid at all.

Mr. MOSS. It is true in regard to land mortgaging. The Raiffeisen institutions for personal credit in Germany absolutely refuse Government aid and work against it. There are, however, a large number of the personal-credit associations which have been compelled by the German Government to be federated together and to accept certain Government aid.

Mr. HAYES. Somebody spoke of the *Landschaften* and Raiffeisen societies. They never have received Government aid and do not want it.

Mr. MOSS. That is true. The land-mortgage associations in Germany are absolutely without Government aid. In Hungary they did receive Government aid in order to get started, but nothing to extend their operations. In France the *Crédit Foncier* received Government aid to get started, but nothing after organization.

Now, in Austria you have the country where the land-mortgage business is being conducted under Government auspices absolutely. It is not under national auspices, but each of the Provinces in Austria guarantees the bond and thus gives the local association a monopoly.

When Dr. Coulter comes before you he will speak to you about Russia and those countries I did not visit. I think, however, in Italy—and, as I say, I did not study their mortgage banks—there was a foundation capital given to some of the banks to be loaned on mortgages.

But, in the case of land-mortgage banks and institutions, in no sense of the word in continental Europe has it been generally developed or is it being generally sustained by Government aid—absolutely not.

Now, if there are any other questions, I am at the service of the committee. If not, I am going to speak of some influences which have come to my mind working against this legislation.

First, I am going to call to your attention resolutions which have been passed in two States by farmers' congresses and call your attention to the important features of such resolutions.

Here is a resolution passed in Colorado. I will read it complete, as I desire to have it in the record:

Whereas we recognize the great importance and necessity of cooperative effort among our farmers; and

Whereas we recognize the vast difference in conditions, environment, and temperament of the European farmers (among whom cooperation has proven so successful) and the American farmers; and

Whereas we believe that cooperation can be more generally employed by the American farmers in much of their endeavors to their own advantage and the advantage of the consumer as well: Therefore be it

Resolved, That we heartily indorse all legitimate and conservative means toward cooperative effort in the rudimentary branches of their endeavors, cautioning them at the same time against the risks that would be involved in assuming liability for credit purposes: Therefore be it

Resolved, That the Colorado Farmers' Congress hereby heartily indorses the views and recommendations expressed in the minority report of the American commission and urges caution in cooperative credit undertaken by the farmers, which has as its foundation the mutual liability feature.

I might call your attention to the fact that at the time that resolution was adopted the report of the United States commission was not public and, so far as I know, the minority report of the American commission was not public; it was absolutely not available. There is no question that the farmers of Colorado or anybody else could have known nothing about the views of the minority members of the commission, and yet here is a resolution bravely adopted by the State indorsing the views of the minority on a proposition that had at that time no publicity and which is not yet promulgated, and certainly was known probably only to one man in the State of Colorado at that time.

Mr. WEAVER. Maybe there was a leak through some of the august body.

Mr. Moss. The gentleman I refer to is a very competent banker and a student of this subject, but when you come to the question of the farmers of the State getting together and adopting these resolutions they were following one man, a banker of Denver. I do not know just what part of this is a rudimentary proposition, and then they have heartily indorsed certain views which certainly had no publicity at that time and which I am told will now have to be very radically changed before the authors themselves will consent to its publication. And I think Dr. Coulter will bear me out that he has received a request to change the minority report before publication.

The next resolution comes from the State of Nebraska. It is equally interesting:

We note the recommendation of the President of the United States that Congress speedily pass such legislation as shall provide an adequate system of credit for the farmer, to be commensurate with the resources and operate for the reduction of interest rates to a level with those given to other enterprises.

While this Congress commends the patriotic recommendation of the President, we believe that the farmers of the country are not yet sufficiently informed on this subject nor sufficiently represented at Washington to bring to

the attention of Congress the information and influence which is being exerted by the powerful banking interests toward similar ends.

We believe that the subject of rural credits has its proper foundation in the local community and that it is a legitimate subject of State rather than of Federal legislation until it has been developed satisfactorily in its preliminary stages.

We therefore express our conviction that Federal legislation upon this subject at this time is untimely and may possibly operate to defeat the ends it is designed to serve, and we call upon our representatives in the Senate and House of Representatives to proceed with due caution and decline to act upon such measures as are or may be proposed until they shall have been submitted to representative farmers' organizations for their approval or rejection.

Mr. PLATT. It sounds like good Democratic doctrine to me.

Mr. WEAVER. Who were the people that passed that resolution—how many?

Mr. MOSS. This was a State farmers' congress of the State of Nebraska.

Mr. WEAVER. Of the whole State? When was it passed and where?

Mr. MOSS. I do not know that.

Mr. WEAVER. Some of these meetings will just be simply of a few farmers—may be 5 or 6 or a dozen—and they pass resolutions like the people of London who said, "We, the people of London," when there were only three tailors.

Mr. MOSS. Now, I have no objection to the statement that farmers should be represented in Congress. In fact, I have tried to convince the people of my district that it was eminently proper to send a farmer to Congress.

Mr. WEAVER. And you succeeded in convincing them?

Mr. MOSS. But I will submit to the committee, if this legislation be deferred until the farmers in this country have a majority of Representatives in Congress—it may be indefinitely postponed. The whole matter only shows that resolution was passed and was framed, not in the interest of promoting this legislation, but for the purpose of defeating it.

Mr. PLATT. Would you say if the Congress was largely composed of farmers that the work would be done any better?

Mr. MOSS. No; I have never believed, gentlemen, in class legislation or class representation. I have never seen any reason, however, why farmers, as a class, or why a farmer who by natural ability is endowed and who has by education fitted himself for the responsibility—I can see no reason why he should not be sent here as a Representative; and I do not believe the interests of that class or of the Nation would be imperiled by the election of such men. I would not say the interests of the Nation would be promoted by the election of a large body of farmers, as a class, but they certainly would not be imperiled.

Mr. HAYES. Do you not think all classes should be represented?

Mr. MOSS. Surely.

Mr. PLATT. Do you think a body of farmers would be likely to pass any better farm-credit legislation?

Mr. MOSS. Oh, no. I regret to see that at the present time the farmers are not organized and have no effective methods of getting together and exchanging views. They pursue their business in isolation and along individual lines; and a great many farmers have not sufficient business experience to pass on a subject of this kind.

I regret it, but I am going to say that just as surely as this legislation is enacted, just as surely as any legislation is enacted which makes it favorable for cooperation, you will thereby create an interest by the farmer in business of the farm. You will find their interest in public affairs will grow and their ability to discuss and comprehend public questions will grow, and they will have a profoundly larger power in shaping public opinion. After all, gentlemen, it is public opinion that rules in this country. It is not any particular class of citizenship; it is public opinion.

Now, I will call your attention to a letter written by a Member of Congress upon this subject; and as the chairman has expressed the desire that there should not be any individual letters introduced, I shall cut out the name and just read the body of the letter into the record as showing the proposition. It is written under date of February 3, 1914, and reads:

Replying to your letter just received, suggesting a Nation-wide movement among farmers having mortgages on their farms to petition Congress for the enactment of my bill (H. R. —) providing for direct loans to the farmers, will say I think it an excellent idea, and that if you will carry it out it will result in the passage of my bill or one similar to it.

Permit me to suggest that you have a form of petition printed on separate slips, and also in all agricultural papers throughout the Union, reading something like this:

"I ———, a farm owner of your congressional district, urge you to support H. R. —, creating a genuine rural-credit system and providing for the loaning of Treasury notes by the Government direct to the farmers at 2 per cent interest on gilt-edge real-estate security."

Mr. PLATT. Do you think it is necessary to leave the blank in there?

Mr. WEAVER. Don't you think they have the rate of interest too high?

Mr. MOSS. Now, gentlemen, I have spoken to your chairman, Mr. Bulkley, privately, and I want to make the statement publicly to the committee that I, acting on my own behalf and, I am certain, for every member of the commission, have not any degree of pride of authorship in this measure. We have given to this matter the very best conscientious study we can give it. We recognized the fact that so far as this country was concerned there was no legislative guide upon the matter and that we had to pioneer along some lines. We are interested in having wholesome legislation on this subject passed, and wherever the committee can suggest any improvements in our labor, or can in any way make it better or secure additional information, we should be glad to have you do so; but we would appreciate, because I think the country expects it, a prompt report on the subject matter treated in our report. As soon as the committee may find its way clear to put the matter in official form before the country, the sooner you can present your bill so that the people will understand it is the bill that is to take the fire of criticism, the quicker the attention of the country will be focused on some particular proposition.

At the present time, I am free to say, this measure the commission has created has been the one that has had, of course, this public discussion and criticism. If you were to take some of these other bills and give them the same publicity, criticism would be directed against them; and, while I do not certainly know it, my opinion is that such criticism would probably be fiercer than it has been of this bill.

Our commission do not believe there is anything in the history of the mortgage credit, or anything in the development of it in

Europe, that has stood the test of years that justifies the conviction that Government aid is necessary or desirable in order to introduce the system successfully into the United States. And it is not desirable that there shall be any one institution that shall have an absolute monopoly of real-estate loans. Real estate of itself is one of the very best securities in the world and ought to be the foundation investment for the savings of the Nation, in connection with Government bonds; and all we can hope of this matter is to create a credit system that will standardize loans on real estate and make such securities attractive and secure; which will obviate a great many of the present difficulties; which will do away with a great many of the costs attaching to it now. Its inevitable effect will be to standardize this business; it will lower the rates in certain sections of the country, draw those sections gradually toward a common level, developing their agricultural resources and enriching their farmers; and will benefit the whole Nation without damaging any one business. There must be the very closest connection between the city and country; between that section that has accumulated capital and that section that needs capital; and I think you will find in the world's history that the most successful mortgage institutions are those which have been developed as local institutions, whose bonds are taken in large part by local investors. And I could not fail to be impressed in Europe by the fact that the savings of the city flowed out to assist in financing the country, and thus it is that there is a strong community interest between the farm and the city. There is no necessity of creating any monopoly or favored institution whatever and you will avoid it if you will avoid the evil of direct national aid of subsidizing any one interest in this country at the expense of every other interest.

I believe, unless there are some questions, I have nothing further to say upon this subject.

Mr. WOODS. Mr. Chairman, it seems to me that to bring those resolutions and that class of matter in in the consideration of a bill of this kind brings up a rather serious proposition. I do not know of any reason why these agricultural societies or farmers or any other class of men or any Congressman should not try to work up a campaign for or against any bill. Of course, I believe it is right if this bill or any bill before this committee can not stand any criticism, we had better go out of business.

Mr. BULKLEY. It seems to me there is no doubt about that; but it seems if Mr. Moss receives those things he might also have an opportunity to reply to them.

Mr. PLATT. That is true; but at the same time there is an impression we are too timid about being criticized. I take it that is not the purpose of Mr. Moss at all.

Mr. MOSS. Mr. Chairman, if there is any objection, I ask permission to withdraw the resolutions from the record.

Mr. PLATT. I do not object. I do not want them withdrawn from the record.

(After informal discussion.)

Mr. SELDOMRIDGE. Mr. Chairman, I think it is well to show in the record these criticisms have not been the outgrowth of great study of those measures pending or the one Mr. Moss presented, and really do not permit them giving proper consideration to the matter; that

they are not the outgrowth of deliberation, and are really the presenting of outside suggestions.

Mr. HAYES. And would not carry conviction to anybody.

Mr. WOODS. And not aimed at this bill even, but are general in character.

Mr. SELDOMRIDGE. I have resolutions similar to those presented by Mr. MOSS, which are directly aimed at this measure, presented by this farm-credit commission. They simply say it is the product of the bankers' syndicate.

Mr. WOODS. Nobody has a right to say that on the evidence here.

Mr. MOSS. In this connection, as a final word, I feel the commission's work ought to be criticized in the most severe sense it can be. I feel, however, the criticism ought to be directed to what the commission recognizes rather than what it does not recognize, just as I believe your deliberations and report should be criticized. It is not a fair criticism against the commission's work to say that this bill is a bankers' bill. There is not a banker on the commission, so far as I know. And in my own life and my own connections I have not had any connection whatever with any banks. But if I were a banker or if there had been a banker on the commission, acting under his high sense of responsibility, I am satisfied he would take just as patriotic a view as our view of this subject and aim to frame legislation which would be workable along this line, as much as any other. The harshest criticism is in suggesting that some selfish interest is trying to gain control of this class of business; that public men are being led by those influences, which, I am free to say, are less potent now than probably at any other time in this generation.

The only manner in which bankers can secure business under this bill is by loaning money at a lower rate of interest than is now extended by the creditor class. That is the purpose of the bill; not to prevent reasonable profits on this class of business, but to encourage the funding of existing debts into lower rates of interest. In every such instance the farmer will gain and not the banker. It may be that the interest charge will be paid to different money lenders, but to the extent that the total charge is reduced the farmer gains and the lender loses, as compared with existing conditions.

I want to thank the committee very much for its kindness and the attention which it has given me. I have taken a longer time than I intended, but Senator HOLLIS is responsible for that.

Senator HOLLIS. I am very glad to take the responsibility.

Mr. MOSS. I will ask the committee to give Dr. Coulter an opportunity to appear and discuss this matter, and I am satisfied you will find Dr. Coulter not only extremely well informed on the subject and very entertaining but that his contribution will have a very high educational value. And if the members have not read the report that has been written on this by the United States Commission I would again ask, before you pass upon this bill, that you give this report a careful reading.

Mr. BULKLEY. I am sure, Mr. MOSS, we all feel very much indebted to you for your instructive presentation.

WEDNESDAY, FEBRUARY 18, 1914.

HOUSE OF REPRESENTATIVES,
Washington, D. C.

The committees assembled in joint session at 10.30 o'clock a. m., Hon. Robert J. Bulkley presiding.

Present: Messrs. Brown, Stone, Seldomridge, Weaver, Hayes, Woods, and Platt.

Present also: Senator Shafroth, of Colorado.

Mr. BULKLEY. Senator Hollis sent word that he is obliged to attend to some business, but would be present later in the day, if possible, and he asked me to preside in his absence. Mr. Moss, you may proceed with your statement.

(The continuation of the statement of Mr. Moss may be found at page 103, proceedings of February 17.)

Mr. BULKLEY. Mr. Fischer, we will now hear from you.

**STATEMENT OF GEORGE W. FISCHER, OF REDFIELD, S. DAK.,
SECRETARY OF THE NORTHWEST LAND & HOME BUILDERS'
UNION, A STOCK CORPORATION.**

Mr. FISCHER. I want to say, Mr. Chairman and gentlemen, that Federal legislation on rural credits is absolutely the only kind of legislation that will be of any benefit to the agriculturists up in our country and that the principle of compulsory amortization is the key to bringing order out of chaos, as the conditions existing in the Northwest are such that legislation of this kind is an absolute necessity.

It is not so much a proposition of low interest rates. What I mean by that is 2 or 3 or $3\frac{1}{2}$ per cent. It is a proposition of amortization of the principal. I speak from the Northwest standpoint. That the amortization should be uniform is most essential, and Federal legislation is the one and only way to do this.

Now, in relation to that, we had in our State a very large permanent school fund. The law was put into effect in 1892. The loans are made on a 6 per cent basis east of the river. What I mean to say by that is the Missouri River divides the State. West of the river it is $6\frac{1}{2}$ per cent. They are made for five years, and if the borrower can not pay that loan he has to pay an extra penalty of one-half per cent.

Now, coming back to the fact that this was started in 1892, the conditions are these, as I found them: In our own country, in our own county, I should say, 60 per cent of these loans have been renewed, some of them as high as three times. West of the river and in a certain county there, Sully County, which lies close to the river, they run as high as 85 per cent.

Mr. WEAVER. Is that the Missouri River?

Mr. FISCHER. That is on the east side of the Missouri River. The west side of the Missouri River is, of course, practically new. We are opening no reserve there except the Black Hill.

Mr. BULKLEY. Are those interest rates fixed by statute?

Mr. FISCHER. Yes, sir.

Mr. BULKLEY. How do you justify the discrimination in favor of the land east of the river?

Mr. FISCHER. It is an older country. They look upon the valuation of the land there.

Mr. HAYES. Do I understand those rates are fixed by your legislature?

Mr. FISCHER. Yes, sir.

Mr. WEAVER. It is an entirely different character of land?

Mr. HAYES. It is no wonder they do not have any money out there.

Mr. FISCHER. I want to tell you that is right, too.

Mr. PLATT. Mr. Fischer, you represent this Northwestern Land & Home Builders' Association?

Mr. FISCHER. Yes, sir.

Mr. PLATT. And some other associations, did you say?

Mr. FISCHER. No, sir; I did not say some other associations, but I make a great many loans for insurance companies.

Mr. PLATT. Is this Home Builders' Union a large affair?

Mr. FISCHER. Oh, no; not yet. This was organized on the 8th day of June, 1911, and, unfortunately, because of the failure of crops for the last three years it has not built up very strong. But what there is of it is patterned along the lines of this bill you have before you. We are making a successful fight and pay 4 per cent semi-annual dividends to our stockholders and do it easily.

Mr. PLATT. It is an incorporated association?

Mr. FISCHER. Yes, sir. I will go further and say that if you will pass this bill, or one similar to it, and it will be put into law, you will have done more for the masses, and especially so in raising the standard of agriculture and those connected with it, than anything else. That the "back to the land" movement will then be a reality goes without saying; whereas at the present time it is a farce.

Now, the question came up here about the farmers leaving the land. It is not alone the farmer that leaves the land. He can't keep the boys and girls there.

Mr. SELDOMRIDGE. Can he get labor?

Mr. FISCHER. We get labor when the proper time comes for harvesting. The railroads bring in an immense crowd of people. They just start in Texas, you know, with the harvesting of the crops and they keep coming north until they get into Canada. You understand we are always 10 days behind as you go farther north. They put in 10 days in the South, and then they come through Kansas, and then they hit Nebraska and then they hit our country, North Dakota, which is 10 days later, and then they strike the Canadian country.

Mr. SELDOMRIDGE. Are there any statistics available as to how large that army is?

Mr. FISCHER. That army is a vast army, if you would see it.

Mr. WEAVER. Do you want some of them in Colorado?

Mr. SELDOMRIDGE. No; I was just wondering when they are done harvesting the crops out in that country if they drift into the cities and constitute the population to be fed and to be taken care of which makes the so-called "bread line."

Mr. HAYES. A good many of them take their vacations that way in the summer time.

Mr. FISCHER. I want to say this that on the return the cities get them. They do not save their money. About 25 per cent of the men who come in there will save their money, not any more. The balance of them are hunting up saloons or gambling houses, or the red-light districts just as fast as they get their money; and when they get through, why Minneapolis, St. Paul, Chicago, and Omaha get the bulk of them. The Chicago, Milwaukee & St. Paul Railroad takes them up by the thousands on their freight trains, free of charge, just so the farmers can get the help.

Mr. PLATT. Ought not the railroads to be prevented from giving free transportation in this way?

Mr. FISCHER. They cannot be. There are so many of them, and it has caused so much trouble that they finally concluded the easiest way out of it would be to let them get into the box cars and go.

Now, my experience in forming this organization I got from the principle of amortization, and the first time I put it into practice was on a \$7,000 loan on a half section of land. The man who purchased that half section of land did not have funds sufficient. He wanted it, and he was a good man, of good character, and a farmer well equipped, and it was good land. Unless I could make a 10-year loan with amortization of the principal, \$700 each year, he would not do it. I sat down and figured that thing out and finally got him to purchase. I got the money from the insurance company. After the first payment was made they decided that that was a better plan than what they were working under, and we get the money right along in that way now, outside of what we do not have ourselves.

Mr. WOODS. What was the actual cash value of that farm when you made the loan, Mr. Fischer?

Mr. FISCHER. \$55 an acre. He had the balance in cash.

Mr. WEAVER. How much did they loan on it?

Mr. FISCHER. How is that?

Mr. WEAVER. How much did they loan on it?

Mr. FISCHER. We do not figure that way. We just take it as a whole.

Mr. WEAVER. One hundred and sixty acres?

Mr. FISCHER. Three hundred and twenty acres in this instance.

Mr. HAYES. It was a little less than \$25 an acre?

Mr. FISCHER. Yes; a little less than \$25 an acre, but we do make loans as high as \$25 an acre on the same basis.

Now, your proposition in this bill of a special reserve for interest rates, for the interest, is very appropriate, especially up in our country where failures of crops are more in evidence than good, big, large crops, making it impossible for a man to pay his interest in those years. That is, they manage to get it but it crowds them. They must deny themselves of a lot of comforts around the house in order to do it.

Now, the question of personal credit, we think—that is, our directors there—will adjust itself to these conditions if once put into effect. You won't have any trouble. The way we do that—here is a man who has a \$2,500 loan; when he comes around in the spring and in the fall and needs a little money we loan him up to 10 per cent of the amount of his loan that we have on the land and give him three months' time to pay it in. If he is not able to pay it at that time—the whole thing—he pays 20 per cent, and we extend another three months, and so on; just making it the whole year as it is now. It gives him the opportunity to pay it; and they do pay it if you give it to them in the right way.

Mr. WOODS. How about the renter? What rates does he pay—the man who does not own any land?

Mr. FISCHER. Oh, my! That poor fellow gets skinned from one end to the other. The same way with the homesteader. Sixty per cent of the homesteaders lose their land, whereas 99 per cent of them come there with good intentions to make it their future homes. The little banker follows right in the wake just as soon as the lands are open. He does not loan any more than enough to prove up the land when the proper time comes, and if they have got any personal property he will keep feeding them \$25 or \$50 until he gets that; and then the fellow walks out, or rides out if he has got anything to ride out in. That is the condition there. Our lowest interest rate we get now east of the river is 6 per cent, and that is due to the life insurance companies beginning to put in their money there. They are the real factors that brought down the interest rates on the east side of the river, but they give the fellow on the west of the river no chance. They do not go over there.

Now, to show this committee I brought along some of the tables. Now, the 1 per cent on all unpaid balances—we do that differently. The expense feature there is figured at \$5 a year. You see, here is a 20-year \$1,000 loan [exhibiting paper]; here is the principle amortized; here is the interest; here is the expense; and here is the first payment; and here is the last payment [indicating].

Mr. HAYES. What do you figure for expense?

Mr. FISCHER. Five dollars a year.

Mr. HAYES. That is a half of 1 per cent?

Mr. FISCHER. Half of 1 per cent; yes.

Mr. PLATT. What did you say the rate was west of the Missouri River?

Mr. FISCHER. It is as high as 20 per cent.

Mr. PLATT. You said something about your school fund being loaned?

Mr. FISCHER. The school funds—if our State legislature would have enacted legislation along the lines you people are proposing now for the whole United States, why our west of the river people would be in far better shape than they are now; they could stay on their homesteads. But, as it is, they have to get off, and then the other fellow comes.

(The table of payments above referred to by Mr. Fischer is as follows:)

[\$1,000 loan for 20 years at 6 per cent]

	Principal.	Interest.	Expense.	Total.
First year.....	\$50	\$60	\$5	\$115
Second year.....	50	57	5	112
Third year.....	50	54	5	109
Fourth year.....	50	51	5	106
Fifth year.....	50	48	5	103
Sixth year.....	50	45	5	100
Seventh year.....	50	42	5	97
Eighth year.....	50	39	5	94
Ninth year.....	50	36	5	91
Tenth year.....	50	33	5	88
Eleventh year.....	50	30	5	85
Twelfth year.....	50	27	5	82
Thirteenth year.....	50	24	5	79
Fourteenth year.....	50	21	5	76
Fifteenth year.....	50	18	5	73
Sixteenth year.....	50	15	5	70
Seventeenth year.....	50	12	5	67
Eighteenth year.....	50	9	5	64
Nineteenth year.....	50	6	5	61
Twentieth year.....	50	3	5	58
	1,000	640	100	1,740

Principal, \$1,000; interest, \$640; expenses, \$100; total, \$1,740.

Mr. FISCHER. Now, here is a 15-year loan. There is a 7 per cent rate [exhibiting slip].

(The paper referred to is as follows:)

[\$1,000 loan for 15 years at 7 per cent.]

	Principal.	Interest.	Expenses.	Total.
First year.....	\$66.67	\$70.00	\$5.00	\$141.67
Second year.....	66.67	65.31	5.00	137.01
Third year.....	66.67	60.66	5.00	132.33
Fourth year.....	66.67	55.99	5.00	127.66
Fifth year.....	66.67	51.32	5.00	122.99
Sixth year.....	66.67	46.65	5.00	118.32
Seventh year.....	66.67	41.98	5.00	113.65
Eighth year.....	66.67	37.31	5.00	108.98
Ninth year.....	66.67	32.64	5.00	104.31
Tenth year.....	66.67	27.97	5.00	99.64
Eleventh year.....	66.67	23.30	5.00	94.97
Twelfth year.....	66.67	18.63	5.00	90.30
Thirteenth year.....	66.67	13.96	5.00	85.63
Fourteenth year.....	66.67	9.29	5.00	80.96
Fifteenth year.....	66.67	4.63	5.00	76.29
	1,000.00	559.66	75.00	1,634.66

Principal, \$1,000; interest, \$559.66; expenses, \$75; total, \$1,634.66.

Mr. HAYES. In these figures that you give here, the initial payment is much larger?

Mr. FISCHER. The initial payment is higher.

Mr. HAYES. You do not divide it equally?

Mr. FISCHER. No, sir. You see, the idea was to give that man a chance—to make it easier for him every year.

Senator HOLLIS. Is it done for that purpose, Mr. Fischer, or was it done so that your first payment would make the loan safe, so you could loan more money?

Mr. FISCHER. The idea was this was to give that fellow a chance on personal credits, too. We do not loan over 60 per cent of the valuation of the land and 40 per cent of the buildings, combining the two;

and just as fast as he makes a principal payment you are in just as good shape to lend him on his personal credit, as you have everything he has, anyhow.

Senator HOLLIS. And do you do that sometimes—loan him on his personal credit?

Mr. FISCHER. We are doing that right along.

The only salvation that country is ever going to have is diversified conditions of farming, and they are doing that in the past five years.

Now, here is our 10-year table [exhibiting slip].

(The slip referred to is as follows:)

Our rural-credit plan.

[Loan of \$1,000 for 10 years.]

[Loan of \$1,000 for 10 years.]

	Principal.	Interest.	Expenses.	Total.
First year.....	\$100	\$80	\$5	\$185
Second year.....	100	72	5	177
Third year.....	100	64	5	169
Fourth year.....	100	56	5	161
Fifth year.....	100	48	5	153
Sixth year.....	100	40	5	145
Seventh year.....	100	32	5	137
Eighth year.....	100	24	5	129
Ninth year.....	100	16	5	121
Tenth year.....	100	8	5	113
	1,000	440	50	1,490

Principal, \$1,000; interest, \$440; expenses, \$50; total, \$1,490.

Average rate of interest, \$44 per year, or 4.4 per cent, or 4.9 per cent counting in the expense money—less than 5 per cent.

Senator Hollis asked me the other day how we got our money. We sell three savings contracts, built on the expectancy table of life-insurance companies, the same tables that all life-insurance companies now use. Our contract called "class B" we sell at \$6.25 a month for 10 years. It matures for \$1,000 at that time. We take 75 cents out of that for expenses.

Senator HOLLIS. That is, Mr. Fischer, as I understand it, you have adopted the endowment feature of insurance, cutting out the death part?

Mr. FISCHER. That is it exactly.

Senator HOLLIS. That is a pure endowment plan without any modifications?

Mr. FISCHER. No modifications except in so far as if the owner of that contract dies they get what has been paid into that loaning fund plus 6 per cent for the average time.

Senator HOLLIS. I am glad you mentioned that, because I did not get that the other day.

Mr. HAYES. You charge a higher interest on the 10-year plan than you do under the 20-year plan?

Mr. FISCHER. Yes. I am just showing you the rates of interest. On the 10-year loan we make a higher rate of interest.

Mr. HAYES. That makes it harder for the 10-year man?

Mr. FISCHER. That is the only way it will help them. We had to educate our people to this proposition. They did not grasp it, but now as it is going they prefer the 20-year loan, which is also lower than the 10.

I also have a table we expect to use on a 40-year plan, applying your 1 per cent of this bill on all unpaid balances. You see that shows the payments to be made on a 40-year plan. [Exhibiting slip.] (The paper referred to is as follows:)

Loan of \$1,000, and the payments to be made each year by the borrower:

First year	\$75.00
Second year	73.75
Third year	72.50
Fourth year	71.25
Fifth year	70.00
Sixth year	68.75
Seventh year	67.50
Eighth year	66.25
Ninth year	65.00
Tenth year	63.75
Eleventh year	62.50
Twelfth year	61.25
Thirteenth year	60.00
Fourteenth year	58.75
Fifteenth year	57.50
Sixteenth year	56.25
Seventeenth year	55.00
Eighteenth year	53.75
Nineteenth year	52.50
Twentieth year	51.25
Twenty-first year	50.00
Twenty-second year	48.75
Twenty-third year	47.50
Twenty-fourth year	46.25
Twenty-fifth year	45.00
Twenty-sixth year	43.75
Twenty-seventh year	42.50
Twenty-eighth year	41.25
Twenty-ninth year	40.00
Thirtieth year	38.75
Thirty-first year	37.50
Thirty-second year	36.25
Thirty-third year	35.00
Thirty-fourth year	33.75
Thirty-fifth year	32.50
Thirty-sixth year	31.25
Thirty-seventh year	30.00
Thirty-eighth year	28.75
Thirty-ninth year	27.50

And the 40th year, the last year of payment, the amount is \$26.25, and the loan is completely wiped out.

Senator HOLLIS. Now, explain just what that 1 per cent is you refer to, generally, Mr. Fisher.

Mr. FISCHER. That is for the expense, the administration expense.

Senator HOLLIS. And is it your experience that that 1 per cent is sufficient?

Mr. FISCHER. Yes, sir; it is a plenty.

Senator HOLLIS. Therefore the 1 per cent in the bill before the committee you think is enough?

Mr. FISCHER. It is correct. You will be able to reduce this in years to come. Competition will do that, just as Congressman Moss has said here.

Mr. SELDOMRIDGE. Your interest amounts, in 10 years, to almost the rate of $7\frac{1}{2}$ per cent a year?

Mr. FISCHER. With the amortization feature on the 40-year plan it is just $7\frac{1}{2}$ per cent. On the 20-year plan here it calls for a trifle more. The people do not object so much to the interest rates if they can get the amortization of the principal and can reduce their payments each year. That is the feature.

Mr. SELDOMRIDGE. If they were borrowing money without that plan, what would they have to pay?

Mr. FISCHER. They would have to pay a straight 6 and 10, and for periods of three to five years. While the fellow prospers it is all right, but just about the year he has got to pay that principal along comes a failure of crops, and there he is; and if they have him, they want the money. Now, he has got to get down and beg, and the result is he pays an extra commission.

Mr. SELDOMRIDGE. He saves all those extra charges under your plan?

Mr. FISCHER. He saves extra commissions with us, and he saves all of those extra charges.

Senator HOLLIS. Mr. Fischer, if this bill goes through, or a bill similar to it, is it your intention to organize a bank?

Mr. FISCHER. It is our intention, just as soon as ever it does, and our desire—just as soon as ever this bill is passed and put into effect we want to be the first bank of that kind in the country.

Senator HOLLIS. You think you and your friends will probably organize more than one?

Mr. FISCHER. I do not know as to that. They are mostly insurance men that are connected up with this. It took a long while for us to get them to catch the idea.

Senator HOLLIS. Have you familiarized yourself with the commission bill sufficiently to offer any criticisms on it?

Mr. FISCHER. I can not find any criticism. The only criticism I can find is that the homesteader is not taken into this bill, the very fellow that needs it the most. Now, here is a young man or a young woman going out here on the plains. You gentlemen have probably watched this thing, but not as much as we do out there, or I have. Here comes an army of people into Aberdeen when they opened up Standing Rock Reservation—thousands of them, from the age of 21 clean up to 80, you will find people—and they want that home, and they expect to make it their home. But there is no way of those people keeping that if they have not \$2,500 to carry them through for the 14 months. That is the idea. Now, our idea was that there might be a feature put into this bill. Here is a man going out there, or a woman, and they break 10 acres of land. Mind you, the Government owns this land. The homesteader does not own it until he has proved it up. Now, he breaks 10 acres, as required. That costs him \$50. He ought to have a credit somewhere for \$25, so that he could proceed again. It would be an encouragement to go farther; and, as he improves this farm, let him have a 50 per cent credit from those banks or some other source.

Now, we do not believe in direct loans; I mean the loaning of money direct by the Government to the farmer. That is absolutely no good at all. It would kill your farming industry, in my individual opinion.

Mr. HAYES. And the country, too?

Mr. FISCHER. Yes.

Mr. PLATT. Do you think it is wise, Mr. Fischer, to start a man out on a farm who has not got a cent saved up?

Mr. FISCHER. Oh, well, now, he has got to have the \$16 to make his filing, you understand, or the \$14. They usually have anywhere from \$100 up. About 15 per cent of the people have sufficient to carry them through, but the balance have not, and then they have got to borrow. When the 14 months are up, 70 per cent must borrow the money to prove up.

Mr. PLATT. Are they all farmers?

Mr. FISCHER. They are just like the fellows that struck our country when I came there 27 years ago. Like myself, they did not know a darn thing about farming.

Mr. PLATT. That is the reason why they fail?

Mr. FISCHER. No; that is not the reason why they fail. That would be no reason why our fellows failed. A good many of them are there yet.

Mr. PLATT. Do you think the average man who does not know a "darn" thing about farming can go on a farm and make a success of it?

Mr. FISCHER. I saw a good many up there in my country do it. Now, I did not go; and I will tell you the reason why I did not go. I was not tall enough to harness a horse. That is the only reason I did not go on one of those homesteads, and at that time when they could take three claims. And after I sat down and figured it out I was not a bit sorry I did not go there.

Senator HOLLIS. I was going to ask, Mr. Fischer, if you thought it was practicable for us to take care of the homesteader in a bill of this kind, knowing as we do that the homesteader does not own the land?

Mr. FISCHER. Yes; with the Government owning the land I think it is very practicable; and you can make it so, too.

Senator HOLLIS. Will you work out something along that line and send it to us within a week or two, so we can look it over?

Mr. FISCHER. I will not promise within a week or two, because I do not expect to get back within that time.

Mr. WEAVER. We want it as soon as we can get it, because, while we want to hold full hearings, it is our desire to get to work on a bill as soon as possible.

Mr. SELDOMRIDGE. Let me say in that connection, I represent a constituency that is very vitally interested in this matter of taking care of the homesteader, and we have been face to face with problems in my section that are just as equally acute and require as much thought and consideration as those presented by Mr. Fischer; and I will welcome any suggestion that he or anyone else could offer whereby the interests of those people can be lawfully conserved in this legislation.

Mr. FISCHER. My reason for saying that the thing is practicable is this: When you open up a new country to-day, you appraise the land. You put a fixed price on that. Do they do that in your country?

Mr. SELDOMRIDGE. I beg your pardon?

Mr. FISCHER. The Government appraises the land before the man can file his homestead entry to-day, you see, under existing laws. Do they do that in your country?

Mr. SELDOMRIDGE. I do not think that is done in Colorado.

Mr. HAYES. If they open up a reservation, I think it is.

Mr. SELDOMRIDGE. There is no reservation in our State.

Mr. WEAVER. Not any Indian reservations at all?

Mr. SELDOMRIDGE. No.

Mr. FISCHER. When you do that you put a fixed value on the land. Now, that man as a matter of fact ought to have a personal credit of the amount of that price per acre that the Government puts on it. That is the way we look on it.

Mr. PLATT. Why should not the Government sell the lands outright and abolish the whole homestead business. Is not that the best way?

Mr. SELDOMRIDGE. I am in favor of that myself.

Mr. FISCHER. The hunger for land for the homesteaders is greater to-day than it ever was, in my estimation.

Mr. PLATT. That is for purely speculative purposes?

Mr. FISCHER. No.

Mr. PLATT. They simply take up the lands to sell again at a higher price and go on to others?

Mr. FISCHER. The speculator is the man that loans them 75 per cent.

Mr. PLATT. He would not take those risks if he did not expect to speculate on the value of the land?

Mr. FISCHER. The speculator comes in after the banker crowd. After they get about 60 per cent, and they are all united on the proposition, then they can boost the land and can sell it for \$20 or \$25 an acre.

Mr. SELDOMRIDGE. And then some blackmailer comes along and contests the filing and it takes six or eight months to get a decision, or even longer.

Mr. PLATT. The Government would get more money and the people would be better satisfied if you stopped the whole business.

Mr. BROWN. And sell direct?

Mr. SELDOMRIDGE. On long time?

Mr. HAYES. Sell on long time; that would be all right.

Mr. WEAVER. They sold agricultural lands in Texas on 40 years' time.

Mr. FISCHER. I know you do, and so they do in Minnesota—sell their agricultural lands on 40 years' time—and I guess there are three States in the Union which do that.

Now, Wisconsin has established a long-time farm-loan credit system. I have here the text of the bill, and I notice in Marionette, Wis., they have organized the first association of its kind. When I leave here and go West again I was going to stop there. But the States won't adopt this thing. Wisconsin might and Oklahoma might, in my estimation; but if you take the rest of them the bankers control your legislation, and anything that tends to lowering the rate of interest they do not want.

Mr. HAYES. I am afraid they do not in some States, brother.

Mr. FISCHER. I do not say that, except in our Western States.

Mr. HAYES. They do not in California.

Mr. FISCHER. Don't they?

Mr. HAYES. No, sir.

Mr. FISCHER. Well, they do with us.

Mr. WEAVER. The railroads, I am told, have control of what rates are charged in California.

Mr. HAYES. They have not had for some years. If there is any State in the Union that is free from domination by railroads or other corporations, I think it is California to-day.

Mr. WEAVER. I would not make any reflection on a State without having actual knowledge.

Mr. FISCHER. We are free from railroad domination.

Mr. HAYES. I was one of the pioneers in that fight in 1898.

Mr. FISCHER. The bankers, or the banking fraternity, as we call them, and the lawyers—they do. Now, that is no reflection on you gentlemen; but, nevertheless, it is a fact that there are three classes in our State that have practically beat the good legislation. This banking fraternity and the legal fraternity, they put in themselves. They have put in one officer after the other one. Right in our county there are 15, and through manipulation in the legislature there are five of those fellows—and we cast a vote of 3,500 in that county—that hold five of the public offices.

Mr. BULKLEY. Mr. Fischer, would it be convenient for you to come back to-morrow morning?

Mr. FISCHER. Yes; I am at the convenience of the committee.

Mr. BULKLEY. Then we will adjourn at this time until 10.30 o'clock to-morrow morning, to meet in this room.

(Thereupon, at 1.10 o'clock p. m., the committee adjourned until to-morrow, Thursday, February 19, 1914, at 10.30 o'clock a. m.)

(The following additional statement of Mr. Fischer was made at the session of the committee on February 19, 1914, but is placed at this point to preserve the continuity of his argument:)

STATEMENT OF GEORGE W. FISCHER, OF REDFIELD, S. DAK.— Continued.

Mr. FISCHER. I want to submit the figures of the Spectator's compound-interest table, showing the amount of money that must be invested annually at compound interest to amount to \$1,000 in a definite number of years. On the reverse side of the sheet are our plans for making loans, giving the party the choice on city property of anywhere from 10 years to 30 years in which to repay.

Mr. BULKLEY. Do you want to put those tables in the record, Mr. Fischer?

Mr. FISCHER. I do not care particularly about that. I just wanted the members of the committee to see how that plan worked.

Mr. BROWN. I think it would be a good thing to have that incorporated in the record, Mr. Chairman.

Mr. FISCHER. This shows how the plans worked out.

Mr. BROWN. It shows how much a year a man has to pay under the plan.

Mr. BULKLEY. The tables will be inserted in the record at this point.

(The tables referred to are as follows:)

COMPOUND INTEREST TABLE.

The following table shows the amount of money that must be invested annually, at compound interest, to amount to \$1,000 in a definite number of years:

Length of time invested.	At 4 per cent.	At 4½ per cent.	At 5 per cent.	At 6 per cent.	At 7 per cent.	At 8 per cent.	Amount to—
10 years.....	\$80.09	\$77.88	\$75.72	\$71.57	\$67.64	\$63.92	\$1,000.00
15 years.....	48.02	46.04	44.14	40.53	37.19	34.10	1,000.00
20 years.....	32.29	30.50	28.80	25.65	22.80	20.23	1,000.00
25 years.....	23.09	21.47	19.96	17.20	14.78	12.67	1,000.00
30 years.....	17.14	15.69	14.34	11.93	9.89	9.17	1,000.00
35 years.....	12.06	11.74	10.55	8.47	6.47	6.76	1,000.00

A \$1,000 loan costs you, on the 10-year plan, \$162 per annum, or \$13.50 per month; on the 15-year plan, \$132 per annum, or \$11 per month; on the 20-year plan, \$120 per annum, or \$10 per month; on the 25-year plan, \$108 per annum, or \$9 per month; on the 30-year plan, \$102 per annum, or \$8.50 per month.

Loans made on farms, payment is made annually.

Loans made on city property, payment is made monthly.

Privilege is given to pay any indebtedness at any time after the tenth year, subject to six months' notice.

No commissions charged on loans of \$1,000 and over.

Mr. FISCHER. I would like to say, Mr. Chairman, that the farm papers and the cooperative magazines have done a great deal to educate people along those lines. We have also now the farm experts; they are doing a lot of good; each county has its own expert. But the great bulk of the people are so deeply in debt, and at such high interest rates, that their minds are not in a condition to receive the teachings of these people. Consequently, intensive farming is not being done and can not be done until you pass a measure of this kind to relieve the situation.

Senator HOLLIS. What do you mean, that the farmers have not the means to do it with, or that they are so loaded down with debt that they are discouraged?

Mr. FISCHER. Their minds are burdened with this debt so that they can not give the attention to it, and instead of imbibing the teachings of these men their minds are absorbed in what they have got to pay.

Mr. BULKLEY. Is that because of a fear that they will be foreclosed and put out of their farms?

Mr. FISCHER. Yes, sir. Now, that is the condition that confronts us, with a large percentage of the people. I do not want the committee to understand, of course, that we are all poor out there. There are some men that have made a grand success of it, and as was said here yesterday, the homesteader who went out on those lands and went into that country about the time that I did, while he did not know anything about farming, is the successful man there to-day, the man who held out. If there are any questions the committee desire to ask, I will be glad to answer them.

Senator HOLLIS. As I understand it, Mr. Fischer, you make these attractive loans to the farmers who have this security, and whom you consider honest and enterprising, and then you sell the loans to the insurance companies?

Mr. FISCHER. Yes, sir; that is the way we do.

Senator HOLLIS. So that your system corresponds very closely with what we want to do?

Mr. FISCHER. Yes.

Senator HOLLIS. That is, we want to establish a bank that will make attractive loans to farmers on favorable terms, and then will make those loans the basis of bonds to be sold to investors—and the investors are the insurance companies in your case. And you have actually tried it and found that it works well on a small scale with you; so that you think if you could incorporate a bank under the terms of a bill like the one now under consideration, you could do a larger business and have a better standing, because you would have the national banking laws behind you; is that your position?

Mr. FISCHER. That is my position exactly. It brings the relief under this bill that our people need.

Mr. BULKLEY. Do you feel satisfied with this Fletcher-Moss bill?

Mr. FISCHER. I certainly do, so far as I am personally concerned; and the gentlemen who are connected with me do also. You can not effect everything. Of course, as I said yesterday, we would like to see the homesteader taken in, but I can not conceive of anyway by which you can do it.

Mr. BULKLEY. I wish you would tell us about the operation of that school fund which is loaned directly to the farmers in your State.

Mr. FISCHER. We have the best opportunity there in that State to do what you are trying to do in a national way; they could have done it in a State way, but they did not do it. Just as I said yesterday, the moment the matter of interest rate comes up, or a reduction of interest rates, the banking committee sees that that thing is pigeonholed and does not come out of the committee.

Mr. BULKLEY. They lend State funds at 6 or 6½ per cent, and that is lower than the market rate, is it not?

Mr. FISCHER. Well, that helps to keep the interest rate down. But land is going up; it is higher priced; the mortgage indebtedness grows larger, and consequently there is not enough to go around; and these fellows that had it—as I said, in my county 60 per cent of those that started to borrow and have borrowed since 1892—have to renew. Fifty miles west of us, in Sully County, it is up to 85 per cent.

Senator HOLLIS. And what percentage of the mortgages are foreclosed?

Mr. FISCHER. As far as the percentage of foreclosures is concerned, I have not the figures with me, but I can tell you in this way: Last fall the Rapid City Guide, which is one of our Black Hill papers—that is right on the edge of the big reservation—I picked that up in a hotel, and there were 26 foreclosures in that issue of that paper.

Senator HOLLIS. You mean there were that number of foreclosures advertised, do you not?

Mr. FISCHER. Yes, sir; advertised; and none of them were for over \$250, and the majority of them were for about \$100.

Mr. BULKLEY. Are those school-fund loans?

Mr. FISCHER. No; that was where the banks were following up these homesteads. They get these lands for practically nothing in that way.

Senator HOLLIS. That is, they loan a small amount of money on the farm and foreclose the mortgage, and the man's equity is wiped out and the redemption lapses, and then they own the land?

Mr. FISCHER. Yes; and then they own the land.

Senator HOLLIS. And they get it very cheaply. And that is part of their policy, as you understand, to give these small loans and make a foreclosure, and in that way steal the lands; is that correct?

Mr. FISCHER. Conditions show that that is true. They practically do steal the land. If there is a way to help that homesteader as this Government helps the Indian on that same reservation it should be done.

Mr. BULKLEY. Is there any favoritism in passing on applications for loans from the school fund?

Mr. FISCHER. Oh, well, you can not say that. It is done by the various counties, the various county commissioners. I would not accuse anyone, so far as favoritism is concerned; I would not think of that.

Mr. BULKLEY. Have there been any complaints along that line?

Mr. FISCHER. The complaints are along the line that there is not enough money.

Mr. PLATT. That is a pretty universal complaint, is it not?

Mr. FISCHER. Yes. You see, the rate east of the Missouri River is 6 per cent; the length of time is 5 years. If you do not pay it—and you pay this interest in advance—but if you can not pay that loan, one-half of 1 per cent penalty is added by the State itself, on its own taxpayers, who, not through any fault of their own, have lost out and could not pay on account of climatic conditions or sickness—

Mr. BROWN. Or failure of crops?

Mr. FISCHER. Yes; failure of crops. West of the Missouri River they charge 6½ per cent, and the farmer is in a still worse condition than the one east of the river; and if he is prevented by climatic conditions or by sickness from paying when due, he is screwed up another one-half of 1 per cent penalty.

Mr. PLATT. Does the State ever foreclose those mortgages?

Mr. FISCHER. They have not yet; but the time is coming when they will. They do not dare to do so now, as that would raise an awful howl.

Mr. PLATT. Are the mortgagors behind on their interest?

Mr. FISCHER. They are.

Mr. PLATT. That is an example of Government loans direct.

Senator HOLLIS. I suppose your crop failures result from drought, do they not?

Mr. FISCHER. Yes; generally.

Senator HOLLIS. And you have had two or three bad years?

Mr. FISCHER. Yes; they just happened to have two or three bad years.

Senator HOLLIS. Yes.

Mr. FISCHER. But instead of adding a penalty, they might have done it in some other way.

Mr. PLATT. By foreclosure, for instance?

Mr. FISCHER. No; what I mean to say by that is, not by foreclosure, but they ought to give these people a better layout and not add that penalty. It is hard enough not to be able to pay the interest; but when you add on top of that the penalty, that makes it worse.

Mr. PLATT. Are not some of the people who borrow this State money men who have had no experience in farming?

Mr. FISCHER. No. I will tell you there are very few of them who get the State money who have had no experience in farming; the State looks out for that. They have some very strong applications, just the same as we have. Now, for instance, a man makes an application with us; he has to tell the State what that money is going to be used for, and he has got to swear to it before a notary public.

Senator HOLLIS. Now, what do you think of that feature? Do you think that is a useful or a harmful feature?

Mr. FISCHER. Do you mean where they must state the purpose in the application?

Senator HOLLIS. Yes; making the applicant state what he wants the money for?

Mr. FISCHER. I think that is the very thing that ought to be done.

Mr. PLATT. Do they always use the money for the purposes stated?

Mr. FISCHER. They certainly come pretty near doing so. Ninety-nine per cent of them do, because they could not come back and get any more money if they did not.

Mr. BULKLEY. Mr. Fischer, in the light of your experience in South Dakota of loans of school funds by the State direct to the farmer, what are your objections to direct Government loans?

Mr. FISCHER. Well, I certainly object. I can not express it any better. I know that it is a failure.

Mr. BULKLEY. Well, in what respect is it a failure?

Mr. FISCHER. For instance, there are many people who can not be supplied; there is not enough of the money to supply them all; of course, it is growing all the time, getting larger.

Mr. BULKLEY. That is not a very fundamental objection; if the United States Government went into the business, you would not doubt that it would have enough money for them all, would you?

Mr. FISCHER. I do not doubt that; but I would much prefer to do it through private means with Government supervision. Our State, of course, could not do that. As you have this bill drawn, in my estimation, and as far as our State is concerned, it will fill the requirements.

Mr. BULKLEY. I understand; but we have a number of Members of Congress who are urging direct Government loans, and I would like to hear what specific objections there are to that.

Mr. FISCHER. I had not any specific objections, only I know that this is a better proposition to do it this way than in that way.

Mr. BULKLEY. Well, is there not something in your South Dakota experience that would throw more light on that, and show us just why the direct-loan plan is a failure?

Mr. FISCHER. Well, we have not had experience enough in that, so far as I am concerned, for me to give any idea upon it. Now, I do not want to say that it is a failure; I do not want to be misunderstood; I say it has been a vast help, the same as it has been a help for the life insurance companies' money to come in there in the past six or seven years. It has helped the people.

Mr. PLATT. Does the State, in lending its money, always give as much attention to the matter of security as the life insurance companies do, for instance?

Mr. FISCHER. They certainly do.

Mr. PLATT. The State loans are all good, are they?

Mr. FISCHER. I should certainly call 95 per cent of them as good as any life insurance company's. There are restrictions placed around the loan to such an extent that there is no loss there, or if there was any, it would be a minimum.

Mr. PLATT. The State is losing interest on a lot of them, is it not?

Mr. FISCHER. I would not say it was losing interest on them; they have simply got to carry these men.

Mr. PLATT. But they are losing the interest now?

Mr. FISCHER. They are losing the interest now, but eventually the man will have to pay it or deed his land over to the State.

Senator HOLLIS. Mr. Fischer, there are a great many applications for the State loans, are there not?

Mr. FISCHER. Yes, sir.

Senator HOLLIS. Therefore the State is enabled to select only the very best ones, and therefore there would be no excuse for it not to have good security, would there?

Mr. FISCHER. There is no excuse whatever for that.

Senator HOLLIS. But if it were thrown open, so that if they had to go down through the list and consider what loans were really sound, the class might not be as high as it is with a limited amount to loan; is that not true?

Mr. FISCHER. Why, you might look at it in that way, too, and it would be the right way to look at it.

Senator HOLLIS. Yes.

Mr. FISCHER. But you take the life insurance companies, and they find no trouble.

Mr. PLATT. There is no favoritism in making the State loans, is there?

Mr. FISCHER. No, sir; I have never seen any.

Mr. PLATT. And no politics?

Mr. FISCHER. Well, politics might cut some figure once in a while.

Mr. WOODS. Does the State loan on lands west of the Missouri River?

Mr. FISCHER. Yes; it loans on lands west of the river in this way, that if you buy those State school lands, they allow you to buy them in a way that leaves a certain amount due on them, under a mortgage or deed of trust. They charge you $6\frac{1}{2}$ per cent interest, and in case of failure to pay that interest they add an additional penalty of one-half of 1 per cent.

Mr. PLATT. Is not that $6\frac{1}{2}$ per cent lower than anybody else would loan at on the same land?

Mr. FISCHER. I will admit that. But in order to build up the country, they ought to have a better rate of interest. The insurance companies do not go west of the river up to the present time, at least not to my knowledge. They all stay east of the Missouri River.

Mr. WOODS. Would you consider that the State loans assist in keeping down the rates of interest?

Mr. FISCHER. They have assisted in doing that. I certainly must admit that.

Mr. WOODS. Yes.

Mr. PLATT. Has the value of the lands west of the Missouri River increased, generally speaking?

Mr. FISCHER. No. You see the failure of crops the three last years there was very unfortunate, and there is no increase of value. In fact, where four years ago we paid as high as \$4,000 for a quarter section of land, after it was proved up you could buy that same land for \$500 to \$800.

Mr. PLATT. Then you would not say that it was always a safe proposition to lend 50 per cent of the value of the land, would you?

Mr. FISCHER. Well, it is not in the beginning, but when these mortgage companies get hold of this land and go to the little newspapers in the country and boost it up, there is no danger of that land ever coming down unless there is a continuous failure of crops for more years than three.

Mr. PLATT. Lands have sold in South Dakota for less than the value of the mortgages, have they not?

Mr. FISCHER. They have sold for less than it cost to prove them up under the land laws. [Laughter.]

Mr. BULKLEY. Mr. Fischer, have you concluded all that you want to say?

Mr. FISCHER. Yes; I did not want to occupy any more of the time of the committee.

Mr. BULKLEY. Well, we thank you very much for your statement; it has been very interesting indeed.

Mr. FISCHER. Well, I want to thank you gentlemen for giving one of the humblest citizens of the United States a chance to tell what he does know.

Senator HOLLIS. We feel very much obliged to you, Mr. Fischer.

THURSDAY, FEBRUARY 19, 1914.

HOUSE OF REPRESENTATIVES,
Washington, D. C.

The committees assembled in joint session at 10.30 o'clock a. m., Hon. Robert J. Bulkley, presiding.

Present: Senator Hollis and Representatives Brown, Stone, Sel-donridge, Weaver, Ragsdale, Hayes, Woods, and Platt.

Mr. BULKLEY. Mr. Fischer, you may continue your statement.

(The continuation of the statement of Mr. Fischer may be found at page 144, proceedings of February 18.)

STATEMENT OF JOHN LEE COULTER, SECRETARY OF THE UNITED STATES COMMISSION TO INVESTIGATE AND STUDY RURAL CREDITS.

Senator HOLLIS. Give your full name and position and so on, please, so that it may go into the record.

Mr. COULTER. My name is John Lee Coulter. My present position is in the Department of Commerce, although my principal interest is that of farming in Minnesota.

Senator HOLLIS. How long have you been in the Department of Commerce?

Mr. COULTER. I have been employed there off and on since 1909, but not continuously employed.

Senator HOLLIS. In what line of work?

Mr. COULTER. For about three years I have had charge of the agricultural statistics in the Census Bureau, the compiling of the 1910 census of agriculture.

Senator HOLLIS. In how much land are you interested in Minnesota?

Mr. COULTER. Well, I am directly and indirectly interested in considerably over 1,000 acres there, and through my wife, in some land in Texas, also some in Oklahoma, and personally, to a small extent, in some land in Florida.

Senator HOLLIS. Do you personally direct the farming operations?

Mr. COULTER. No; I do it by correspondence largely. Although I visit the farm——

Senator HOLLIS (interposing). You have done it personally, however, have you not?

Mr. COULTER. Oh, yes; until 1910 I scarcely ever spent a summer away from the farm; and I have directed the farm labor with from 50 to 75 hired laborers on it. I have also done the work from 5 o'clock in the morning until 8 or 10 o'clock at night as a regular thing.

Senator HOLLIS. Dr. Coulter, you were a member of the United States commission that went to Europe last year, were you not?

Mr. COULTER. Yes, sir.

Senator HOLLIS. And you actually went to Europe, did you not?

Mr. COULTER. Yes, sir.

Senator HOLLIS. And were with the commission throughout the trip?

Mr. COULTER. Yes; that is to say, we divided up, more or less. I was not personally with the large body of the American commission very much, and I do not think I was with other members of the United States commission more than half the time at most, because I had previously made a study for several years of conditions in Italy, Germany, and France, particularly, and I wanted to study at first hand, after merely seeing the illustrations in those countries, the Russian policy, and that of some of the other countries; and I did that principally because of the talk in this country of Government loans. I knew that Russia was the leading country of the world in that respect, and I wanted to find out why and something about how it worked, and some of the conditions existing there.

I also knew that Holland, for instance, was one of the countries where the *Landschaften* system, the purely mutual societies, seemed not to have gotten a stronghold. I knew that there were in that little country 50 or 75 joint-stock mortgage companies that did business with farmers, and I wanted to see how it was working out; and so in Belgium and Denmark, and some of the other countries.

But I did spend some time with Mr. Moss and the others in Italy and France, Germany, Austria, and Hungary.

Senator HOLLIS. You may now proceed with your statement, Dr. Coulter, in your own way.

Mr. COULTER. Before taking up that matter, I might say a word, if the members of the committee would like to get details, with reference to State loans on farm lands. I think I could very easily get together some material on that subject.

About six years ago I made a careful study of that problem in several States, and have the manuscript which I wrote up for people interested at that time, giving the detailed experiences of some of the States—the States that do the most of it.

Minnesota does an immense amount of that sort of thing, with its school funds. North Dakota, since statehood, has loaned millions and millions of dollars to the farmers on farm land, and some other States have done the same thing. I see Mr. Norton here from North Dakota; he knows all about the details in that State; and he is a Member of the House of Representatives. But I have all of those details, if the members of the committee wish to have them at any time.

Senator HOLLIS. Will you not give us your conclusions on the subject?

Mr. COULTER. Well, I think that so far as States have trust funds, such as school funds, or university funds, or capitol funds, or other such moneys, it is a very good use to make of such funds to invest them in mortgages. I think it is very much better than for the States to continue holding the land and trying to rent it out. I personally inspected a good many pieces of land in connection with this point. For instance, in North Dakota a few years back a great many lands were leased out by the State; the State wanted to hold the land until it could get a higher price for it; and they were getting a fairly

good income in the meantime by renting the land. I remember interviewing farmers all around these patches of land, and the farmers were disgusted with the system, because it was entirely a renting proposition. The people operating those rented lands did not try to keep down the foul weeds, like the mustard and wild oats. And farmers around there occupying their own lands had to do everything in the way of keeping the roadside clear, and in spite of what they did, the weeds went across the road. A quarter section of this rented land had to be thrashed, and the machine, after it left there, carried in the separator all sorts of foul weeds; and the wagons driving across picked up the weeds and scattered them; and farmers generally were disgusted with the whole idea of the renting system.

Senator HOLLIS. That is, unless a man actually owns the land, or expects to do so——

Mr. COULTER (interposing). He is not interested.

Senator HOLLIS. He will skin the land and will not keep it in shape?

Mr. COULTER. He will not keep it in shape, and he will not do his road work around it or he will do it in a slovenly manner. He will not take care of the fences and the buildings unless he knows that he is personally interested—or unless as they do in some European countries, the tenant is compensated when he leaves for all additions and improvements or benefits which he left on the farm; but that is a very difficult thing for the State to go into.

On the other hand, I think the States does well to lend the funds; and I personally heartily approve of the idea of lending them to some extent to farmers. I think they should be offered to any applicant with as good security as these municipal bonds, or county bonds, or where there is absolutely good security—that is, for the benefit of the schools.

Mr. BULKLEY. In connection with what you are just saying about the care which a tenant gives to his land, Mr. Coulter, have you observed any difference in the care taken by mortgagors and persons who hold their land free?

Mr. COULTER. Yes; I have. I have personally been so interested in it that I have spent a great many hundred dollars in looking into it. My father is now getting to be so old that he has to quit the farm, and somebody has to run it, and it is very difficult to get a manager. In the family we have several hundred acres that have either got to be patched out to tenants or sold, or else I have got to go back and live on the land, and there is one of the "back to the farm" problems.

And I have tramped up and down the United States trying to figure out what is the best way to operate the land if you do not want to live on it yourself, and I must confess that unless you adopt a system of long-time leases and have a contract arrangement whereby the tenant is going to get and knows that he is going to get the benefit of any good that he does to the farm itself at the termination of his lease I think the leasing proposition is a mighty poor business.

Mr. BULKLEY. What I want to know is this: Does a man who owns his farm, free of encumbrance, take better care of it than the man who has a big mortgage on his farm?

Mr. COULTER. I do not know that there is much difference between the owner who is free and the owner who is mortgaged; but I think there is a very decided difference between the owner and the tenant.

Now, on the other question, since you ask, the State of Wisconsin, about two years ago, through some State officers, asked me to investigate that question to some extent.

The census report showed that Wisconsin had more mortgaged farms, a larger proportion of mortgaged farms to owned farms, free from encumbrance, than any other State in the Union; and they wanted to find out whether the State was going to the dogs or whether investigation would show that the farms operated by owners with mortgages were as well managed and operated and kept up as the others.

I will give you just one simple result that I found for the United States. I took the matter up not as a local question but as a national question. The results of the census showed that there were about 2,250,000 farms operated by owners, free from debt, and something over 1,000,000 farms operated by owners who had mortgages.

Senator HOLLIS. Do you mean in the entire United States?

Mr. COULTER. Yes; in the entire United States. Now, I compared those two groups so that you could not say that it was any special condition that would offset general conclusions; and I found that the "owners mortgaged" had larger farms than the "owners free from debt." In other words, they had purchased lands with their borrowed money. They had an average of 10 acres more per farm for the whole country.

But what was more significant, the "owners mortgaged," had more improved land per farm. The owners who were free from mortgage had 64 acres per farm for the whole country, while the owners with mortgages had nearly 82 acres per farm. There were 18 acres more per farm being cultivated by those farm families who had mortgages.

It seemed that they were using that money to improve and develop the farms. I found that the average value of land per farm free from debt as \$3,588, and for those which were mortgaged it was \$4,913. In other words, it was \$1,400 more per farm; the farmers with mortgages have more valuable farms.

I wanted to find out why that was; and so I took the question of buildings per farm.

For the whole United States the "owners free" have buildings on their farms with an average value of \$1,093. The "owners mortgaged" have buildings with an average valuation of \$1,284; that is to say, there is nearly \$200 per farm more invested in buildings by the mortgaged farmers than the free farmers; but I raised the question do they cultivate better; do they farm better—

Mr. BULKLEY (interposing). May I interrupt you a moment, Dr. Coulter? Does that make the value of the land the same in the two cases?

Mr. COULTER. No; it is higher for the mortgaged farmer.

Mr. BULKLEY. It is higher for the mortgaged farmer per acre?

Mr. COULTER. Yes; higher per acre. The average value per acre for all land in "owned farms free from mortgage" is \$26.46, and for mortgaged farms it is \$33.87. And, as I say, I raised the question, Does the farmer who has a mortgage farm better than the farmer who is free? Are they likely, after all, to turn out to be, generally speaking, more progressive and to be the farmers who have more business knowledge? And I found this fact: That the average value of imple-

ments and machinery per farm, the equipment of the farm for farms owned free from debt, was \$194, and for farms mortgaged \$271. There was over \$75 per farm more of equipment for the mortgaged farmer.

On the question of value per acre, the average value of implements and machinery per acre of unimproved land—assuming that all of the implements and machinery are used on the improved land, and bearing in mind that this is an average for two and one-quarter million owned farms free and over 1,000,000 owned farms mortgaged—the value of implements and machinery per acre of improved land for owners free was \$3.01—of course, that is getting down to details merely by division—and for owned farms, mortgaged, the value was \$3.33. In other words, the farmer with a mortgage had 32 cents per acre more invested in implements and machinery than did the farmer free from mortgage, thus showing the more intensive cultivation.

I merely cite that fact because I know that that question is likely to come up in such investigations; and hence I offer that as an illustration.

I made the same study for Wisconsin, as an individual State—

Mr. BULKLEY (interposing). Excuse me for interrupting, but have you any facts showing as to whether the mortgaged farmers use up their soil more than the free farmers do?

Mr. COULTER. The only thing I could say on that would be to show the extent to which they seem to actually cultivate their land. The mortgaged farmers seem to be better equipped. I could not, for instance, get information showing whether they used more fertilizer. I have not the details of that, nor of many other similar facts; but they seemed to be better equipped with live stock, with implements and machinery and with buildings, and there were more improvements. Out of each 100 acres they had more improved land and in every way they seemed to be the most successful farmers.

I have just finished another study; there is no printed report on it so far, but I asked the Census Office to authorize me to do the work. The actual age of each farmer was ascertained in connection with the census, and I made a little study to see whether farmers with mortgages were younger men, or older men; whether they were the new farmers just coming on and who were better acquainted with business methods, etc., or the older homesteaders, the early farmers.

And it seems that the owners mortgaged, generally speaking, are the younger farmers.

Senator HOLLIS. Well, possibly by the time they get older they have been able to pay off the debt.

Mr. COULTER. Yes; they have been able to pay off the debt; that is an offsetting item I was going to mention.

Senator HOLLIS. Yes.

Mr. COULTER. It seemed absolutely impossible to prove anything further by gathering these facts; but from observation I feel that, generally speaking, the farmer who understands the business well enough to take chances on a mortgage, a man who takes out a mortgage because he sees an advantage in it, will be able to pay it off.

For instance, my first experience with a mortgage was a determination to straighten up the current outstanding obligations and pay cash for absolutely everything the day it was bought. If it were a

thrashing machine, we paid down \$3,000 in cash and got all the discounts going, and found it was a distinctly profitable method of conducting farming.

Mr. HAYES. As it is of conducting every other business.

Mr. COULTER. I think it must be, although I do not know as much about other kinds of business.

Mr. HAYES. I have been in a good many businesses, and I think so.

Senator HOLLIS. Well, there is an interesting statement in the newspaper this morning which comes from Mr. James B. Forgan, the banker, of Chicago, in which he says that the up-to-date merchant now, instead of paying for his goods by notes, borrows money at the bank and gets the advantage of the cash discounts, and that he finds it profitable. That is just an illustration.

Mr. HAYES. Cash within 10 days; that is the general rule now.

Mr. PLATT. On the whole, it appears from your statement that oppressive rates of interest have not oppressed the farmers very much. The younger men have mortgages and they are able to pay them off as they go along.

Mr. COULTER. I think that is an interesting illustration of the extent to which age enters into this problem. When I was an infant in arms the subject was widely discussed by Henry George and others, and I used to have the idea that the young man now had no chance at all. Evidently that was so from the writings of such men, and that the young man could not get along at all and the country was rapidly filling up with tenants, and it was necessary for the Government to jump in and do something to prevent that.

I have before me now the first concrete evidence that I have obtained, outside of general observation and study, that the condition is not so very bad. But, as to ages of farmers, I wanted to see how the farmers were distributed between owners and tenants, and I find that of all the farmers under 24 years of age—

Mr. BULKLEY (interposing). Is this throughout the United States?

Mr. COULTER. This is for the whole United States. Of all farmers under 25 years of age, only 23 out of each 100 own their farms, either free or mortgaged, while 76 per cent are tenants. In other words, the young fellow evidently does start in as a tenant; even if he is the son of a prosperous farmer, his father does not give him the farm to start with, but he has to operate it for a while as a tenant and demonstrate that he can do this.

With each age group a higher percentage become owners and a lower percentage tenants.

For instance, of farmers from 25 to 34 years of age, for the whole United States, 44 per cent are owners and 56 per cent are tenants or managers. Of the younger class, 76 per cent, as I said, are tenants or managers.

Out of every 100 farmers between 35 and 45 years of age, 62 are owners of the farms and only 38 are tenants or managers.

From 45 to 55 years old, 73 out of every 100 are owners and only 27 are tenants.

From 55 to 65 years, 78 out of every 100 are owners and only 22 are tenants.

Of all farmers 65 years old and over, 85 out of each 100 are owners and only 15 are tenants.

Now, the question arises at once, what are you going to do about those 15 farmers who remain tenants until they are 65 years of age and over? The National Government might make them owners in some way. I suggested this recently at a meeting of the State Farmers' Institute at Richmond, Va., to an Englishman who makes annual trips, I believe, back to England and Ireland, and he says, "For God's sake, don't suggest that." He said, "We are trying now to make an owner out of every Irishman," and he added, "I am surprised that there are not more than 15 per cent that you could not make an owner out of permanently, no matter how long you tried." And then he went on to say that we ought to recognize that, just as some men are tall and some men are short, and just as some men are fat and some are thin, and some have long hair and some have not any, and some blue eyes and some dark eyes, etc.—so there would always be men who would not be capable of becoming permanent farm owners; and it would be surprising that there were not more than 15 or 20 per cent who never did become farm owners.

Mr. HAYES. And never could.

Mr. COULTER. And probably never could, even if the Government annually gave them some assistance.

Mr. BULKLEY. Dr. Coulter, how old are these figures?

Mr. COULTER. This is from the census of 1910, and it is the first time that any such figures have been compiled by the Government; they have not been printed yet; it is just a little subsidiary inquiry which I thought could be compiled from the figures in the office. An official report on this subject will soon be published.

Mr. BULKLEY. It has been stated a great many times, Dr. Coulter, that tenancy is increasing in this country. What do your figures show in that respect?

Mr. COULTER. Tenancy is increasing in this country. And in case that question should be asked, I thought I would bring with me to-day figures showing the actual increase for the whole country.

In the last 10 years, all the farms in the United States increased only 11 per cent.

Mr. BULKLEY. From what year?

Mr. COULTER. From 1900 to 1910, the farms increased 11 per cent. During that time the farms operated by owners increased only 8 per cent and evidently, therefore, the tenant farmers increased faster than the owners.

Mr. HAYES. Three per cent?

Mr. COULTER. Or taking the total for the group of tenants, 16 per cent.

Mr. BULKLEY. You can not go back to 1900 and make a comparison of these figures according to the age of the farmers, can you?

Mr. COULTER. No; I do not believe I could, for each age group.

It has seemed to be a practical question, right off, to see whether tenants continued as tenants until they became very old men.

I should state here that there is a further point that I have not had time to look into in connection with this inquiry. I expect that some one will at once say that these tenants, whenever they find that they can not succeed and can not buy the farms drift to the cities. That is to say, that the increase in the city laboring class comes from failed tenants who never would become owners. I do not know that

there is any way to prove or disprove that statement, if it should be made. My observation is that that is not true.

Mr. HAYES. No.

Mr. COULTER. It seems to me that the men that leave the farms are not always the ones that would not become owners. It is, I think, unfortunately true that it is too often the other way.

Mr. HAYES. Yes.

Mr. COULTER. The men demonstrate that they can move much faster and do not stick to that particular community. However, we have, so far as I know, no facts on that question.

Senator HOLLIS. Dr. Coulter, your figures as to the increase in farms do not necessarily indicate that more land has been taken into cultivation in that ratio, but that the larger farms may be split up, do they not?

Mr. COULTER. That is actually what has happened. The actual land in farms increased only 5 per cent, while the number increased 11 per cent, showing that there has been a cutting up of a great many farms.

Senator HOLLIS. Do you not think that is a very encouraging condition?

Mr. COULTER. Yes; I think it is very encouraging and a movement in the right direction.

Mr. PLATT. And that in itself would give rise to an increase in tenancy, would it not?

Mr. COULTER. It is very likely to do so. And the parts of the country where tenancy has increased more rapidly are the sections where the size of the owned farms has decreased.

Mr. SELDOMRIDGE. Can you tell us where the tenancy has increased?

Mr. COULTER. Yes; I have the figures for each State. Possibly it would be better to give it by general divisions of the country.

Mr. SELDOMRIDGE. Yes; that is what I had in mind. You need not take up the time of the committee by looking it up now, but you might make up a little statement which we can put in the record.

Mr. COULTER. I would rather do it that way.

(The statement referred to is as follows:)

INCREASE OF FARM OWNERSHIP AND FARM TENANCY IN THE UNITED STATES
BETWEEN 1900 AND 1910.

For the United States as a whole there was an increase of about 11 per cent in the number of farms between 1900 and 1910. Tenants increased somewhat more rapidly than owners; thus there was an increase of only about 8 per cent in the number of farms operated by owners, and about 16 per cent in farms operated by tenants. This is a very much better showing than during preceding decades. Thus, between 1890 and 1900 the increase in the number of farms operated by owners was less than 14 per cent, while the farms operated by tenants increased over 56 per cent. The same statement applies with reference to the movement between 1880 and 1890. During that decade the farms operated by owners increased less than 10 per cent, and farms operated by tenants increased over 26 per cent. It would seem that the country had commenced to establish itself on a basis of normal progress, under which young men generally start in as laborers and tenants and gradually become owners, through a series of steps of progress.

Turning now to the various divisions of the country, it might be noted that there was a decrease in the number of farms in the New England States, and this decrease was almost entirely in the tenant class. Owners decreased in number only 143, while tenants decreased in number nearly 3,000. In the Middle Atlantic States, including New York, New Jersey, and Pennsylvania, even a better showing is made for owners, since there was an increase of over 1,300 owners and a decrease of nearly 19,000 in the number of tenants. In the group of States from Ohio to Illinois, inclusive, and includ-

ing Wisconsin and Michigan, the reverse movement is shown. There was a decrease of 2 per cent in the number of farms operated by owners, and an increase of nearly 2 per cent in the number of farms operated by tenants. In the group of States west of Wisconsin and Illinois there was an increase in the number of owners of about 21,000, and an increase in the number of tenants of about 28,000. In the Southern States extending south from Delaware and west as far as Texas there was an increase of over 170,000 in the number of farms operated by owners during the last 10 years, and at the same time an increase of about 300,000 in the number of farms operated by tenants. This represents very largely a breaking up of the large plantations and the addition of improved land in the same.

In the mountain States there was an increase of 75,000 farms operated by owners, and only 7,000 operated by tenants; while on the Pacific slope, including California, Washington, and Oregon, the number of farms operated by owners increased over 43,000, and the farms operated by tenants increased only 4,800.

Mr. COULTER (continuing). I might say that it is literally the fact that tenancy has decreased in a dozen or 15 States; the percentage of the total number of farms operated by tenants has actually decreased in a considerable number of States. It has increased rapidly in the Southern States, where the colored farmers and the poorer white farmers have been taking part of what were formerly the big plantations. In other words, the tendency seems to be that farms through the North are operated by hired labor and are smaller than in the southern districts where the big plantations are divided up and operated by croppers, standing renters, and other classes of tenants rather than by the hired labor. For instance, in Mississippi less than 20 farmers out of 100 hire any labor at all. In Massachusetts 85 farmers out of every 100 hire some laborers during the year.

Mr. SELDOMRIDGE. Can you make any comparison, Dr. Coulter, as between interest rates in the sections where the tenancy is lowest and in those sections where it is highest?

Mr. COULTER. It is the fact that the interest rates are the highest in some parts of the country where tenancy is also highest, and where tenancy is increasing; but I do not know that there is the relation of cause and effect there.

Mr. PLATT. You would not say, would you, that the movement toward dividing up the farms rather than hiring laborers is a step backward; it is rather a step in advance, is it not?

Mr. COULTER. I think it is a step in advance.

Mr. PLATT. I think so.

Mr. COULTER. But that, of course, is a matter of opinion and might not hold in all sections of the country at all times.

Mr. PLATT. They are more likely to become owners ultimately where they are tenants than where they are hired laborers?

Mr. COULTER. I think so.

Mr. PLATT. Certainly that is true.

Mr. HAYES. How about the Far West; tenancy must be decreasing there?

Mr. COULTER. It has not changed materially there. There is no big upward movement of tenancy. There seems to be approximately the normal number of farms operated by tenants as the young men come in and as the old men become retired owners. I must say this, although I think you could pick up some articles which I wrote when I had no business writing anything, where I said that this terrible tenancy evil was coming over the country. I thought everybody should be an owner from the day he started operating. That was the natural inclination, if you read what was being written at that time

But it seems to me now that that is a sensible movement. Every man has to start in, unless he is unfortunate enough to inherit something, and work his way through; and I think it is best that it should be that way; and I think it is not at all a bad thing, I repeat, that there is a fair proportion of tenants in the country, especially if they are people who will go right on through the various stages, become owners, and pay for their places.

Senator HOLLIS. That is, the result of your researches did not agree with the theories which you originally held?

Mr. COULTER. No; and it seems to me that we are not getting into any terribly bad condition as yet.

Mr. PLATT. If it were possible to make such a study as the chairman suggested, of age groups, with one of the previous censuses so as to show whether or not the chances of a man going on a farm are better now than they were 10 or 20 years ago, it seems to me that that would be a very valuable thing.

Mr. COULTER. I think it would be, if we could do it. I shall look into that and see if it is practicable.

Mr. WOODS. You have no figures, have you, showing the death rate among the tenants as compared with the death rate among the owners of farms?

Mr. COULTER. I have not.

Mr. PLATT. Generally speaking, there is no great increase of tenancy in the Eastern States, is there?

Mr. COULTER. In what States?

Mr. PLATT. In the Northeastern States?

Mr. COULTER. No. As a matter of fact, there is an actual decrease in most of the northeastern part of the country.

Mr. PLATT. Yes.

Mr. COULTER. And there is a very slight increase in some of the States; in Wisconsin, for instance, there is a very slight increase in tenancy; it is almost insignificant.

Mr. PLATT. Yes.

Mr. HAYES. Well, there is not much tenancy there, anyhow, is there?

Mr. COULTER. No; the tenancy is very low there. I might say that I took that question up further in this way: I have not quite completed the study yet, but it seems to me that you can say for practically every State in the union that the States where the highest percentage of farms operated by tenants will be found, are the States where you have the lowest percentages of mortgages.

For instance, Wisconsin, and two or three other States, where 50 out of 100 owners have mortgages, in those States, you find the lowest percentage of tenancy. Take the Southern States, where there are very few mortgages comparatively—not 20 farmers out of 100, on the average, throughout 15 or 20 Southern States have mortgages—in those States from 50 to 70 per cent of the farms are operated by tenants. In other words, if a system is provided so that young farmers could start in as tenants, could buy the farm, and take a mortgage on them, you would reduce tenancy even now.

Those are matters of exact statistics, and not matters of guess.

Mr. PLATT. Might it not be a good plan to require, where a man wanted to buy a farm and borrow money on it through some such

system as we might provide, that he should rent a farm and prove his capacity to run it first?

Mr. COULTER. I am not sure that it would not be worth while; that is to say, he would have to actually operate a farm independently.

Mr. PLATT. Yes.

Mr. COULTER. I really think that there is more or less risk in a man jumping in and starting to run a farm and going into debt heavily to do it, unless the man has had some experience. I know I made a great many mistakes in the beginning as a farm boy.

Mr. HAYES. Would not most men who had to put up 50 per cent of the value of their farm be men who had had some experience?

Mr. COULTER. Probably so.

Mr. HAYES. They would probably be men who had had experience before they applied for a loan under the system.

Mr. COULTER. But it is easy to see how some one from the city—a bank clerk, for instance—might get a few thousand dollars and go out and buy a farm and pay half the value of the farm and give a mortgage for the remainder and be a complete failure. He might be a magnificent bank clerk, but until he tried it out for two or three years as a tenant and really learned the fundamental principles he might make a complete failure as a farmer, and we would have another wreck on our hands.

Mr. HAYES. Of course, there would be comparatively few cases of that kind, would there not?

Mr. COULTER. Yes; I think there would be few of them.

I think that those questions are all related to this general subject and naturally are preliminary to it. But my interest in this particular question of agricultural credit arose in a special way about two years ago, when I was asked the question, whether I thought any new system of agricultural credit was necessary; and I had merely my own views at that time, from studying the question from a personal and purely selfish standpoint. I had never thought of it as a national question or from anybody else's standpoint. And I started in to see whether certain State legislation would not be desirable in my home State and one or two others in that section.

I found out very soon that the subject seemed to divide itself absolutely, from the start, into two questions.

One was a matter of personal credit for current business purposes and the other was a matter of mortgage credit on lands.

And I personally gave most thought to the question of personal credit for a year. At that time it seemed to me that on the personal credit question, if the farmers were taught by the agricultural colleges and the agricultural papers and others interested how to use the banks which could be found in every neighborhood; and if, in turn, the banks would use their efforts to show the farmers the needs and to serve the farmers as they deserved to be served, we did not really need any new set of banks for personal credit purposes throughout the country, as a general thing. Many individual communities, I thought, did need banks. I came across some that certainly needed a small bank.

There was only one particular defect that appealed to me, and that was due to the fact that the farmers lived out around through the country away from the bank, and the banker could not intelligently place a good rating on the farmer and did not really know how far

he could trust the farmer: to what extent, in other words, the farmer was a good risk. Now, the banker, not knowing—through no fault of his own, it seemed to me, because he could not afford to hire a livery rig and go around the country all the time—the banker not knowing the character of the risk, and the farmer not having any way to bring his position to the individual banker, there was a missing link, except, of course, for the successful farmers, the bigger farmers, the farmers who were accustomed to drop in and do their business in a business-like way—it seemed to me that the most important thing was for farmers to organize in every little community a local credit union, or something of that sort, to take the place of Dun's and Bradstreet's for that little community; let 100 farmers get together and organize a rating society with an officer, and just list the farmers and their backing and what credit they ought to have according to the judgment of the group, and then, whenever any farmer wanted to get a standing with a bank, it seemed to me that the officer of this society might act as the second signature "in the name of all the group," to certify that he was good up to that point and that they would back him up to that point.

And I thought if they did that it would be the connecting link between the individual small farmer, of whom we have 5,000,000 in the country, and the bank; that is, the small farmers, not the 1,000,000 big ones, big enough to do business directly with the bank all the time.

I studied the situation in the different European countries, and I found that was the general condition over there. For instance, Germany had not any of these little credit associations and the farmers had not any connecting link with the big bank, or banks generally, until they started what is known as the Raiffeisen Bank, after Mr. Raiffeisen, who started the first one.

For many years there were very few of those institutions started. It took a great many years to establish the first 1,000. But when they got up to 1,700, I remember in looking up the report, I marveled at the fact that within 10 years they had 17,000. In other words, all that was necessary was to get the idea started, and then the farmers organized all of these little credit unions which do the little local banking business for the members.

The idea spread to Italy.

Mr. PLATT. Will you permit an interruption, Dr. Coulter? Did those German Raiffeisen societies guarantee each other's credit, as you originally—

Mr. COULTER (interposing). Some of them now are limited liability. Some of them have an unlimited liability; that is, what we would call liability.

Mr. PLATT. Do they rate each other?

Mr. COULTER. They rate each other, and they know how far they will let any farmer borrow.

Mr. PLATT. That is, in their own association?

Mr. COULTER. Yes; in their own Raiffeisen society.

Mr. PLATT. They do not rate the farmers for the purpose of showing what credit they might obtain from a bank outside the association, do they?

Mr. COULTER. No; but the banks do not now do any business with the small farmers at all; those farmers do their business through

the Raiffeisen societies; that is to say, only the big farmers now deal directly with the outside big banks. The great mass of smaller farmers deal through their own society, and they practically all do that. In other words, in Germany, which is not as big as Texas, they have 17,000 of these little credit societies, or Raiffeisen societies.

Mr. WOODS. What rate of interest do these farmers have to pay when dealing with these societies?

Mr. COULTER. I think we found that generally throughout Germany it was between $3\frac{1}{2}$ and $4\frac{1}{2}$ per cent; what would you say to that, Mr. Moss?

Mr. MOSS. I think it would be safer to put in Germany at $4\frac{1}{2}$ per cent.

Mr. COULTER. Four and one-half per cent. There are many individual cases, however, where they would say, "We pay $3\frac{1}{2}$ per cent interest."

Mr. HAYES. That is, on the short-time loan, of course?

Mr. COULTER. Yes; on the short-time loan.

Mr. PLATT. Very small ones?

Mr. COULTER. Very small ones; yes, generally speaking.

But that idea of the little local farmers having a connecting link, to make use of their local funds and then get outside connections, appealed to me.

I found that that had spread practically all through Italy, under another name, because it was another man who started the thing in Italy—a Mr. Wollemborg, whom we had the pleasure of meeting and discussing the subject with. He was the one who first started and successfully operated such an association, and he is now in one of the highest positions in Italy, a close adviser to the King of Italy.

The same thing is true of Austria. The societies there spread by the thousand.

And they are now introducing the same thing in Ireland. They call them there "credit unions." And so they are all over Europe, all over Russia, under different names, and with slightly different connections. In Belgium, you find the same thing. In France, they draw funds directly from the Government. I found them operating in every community I went to, all over Europe.

Mr. BROWN. Dr. Coulter, while we have the information in the published volumes, and can read it there, for the purpose of getting it concisely stated in the record of these hearings, will you tell us how those credit unions, or societies, are formed?

Mr. COULTER. Yes, indeed. Now, as to how they are formed. We have seen the number of them and the way they exist all over Europe; they are very small, and they are of many kinds, and with many variations. Little groups of 10 or 15, and sometimes not more than 7 or 8 farmers, will get together and form what they will call a credit union, or credit association, or whatever name they wish to give it.

In some countries they are now required to have a small foundation capital. Generally speaking, it is insignificant, although in some countries it amounts to \$2,000 or \$3,000, on the average.

In some countries they actually assume unlimited liability for all transactions approved by the society. That is to say, a member can not do anything he wants to and have them back of him, but every transaction which is approved by their society they get back of with their entire resources.

In other districts they have limited liability. Double liability is our rule in this country, in the case of banks, but I saw every kind of liability in Europe—five times the amount of paid-in capital in some of these little societies, in some 10 times the capital, and in some 25 times. I remember one was 100 times the capital. Doubtless there they did not want to make it absolutely unlimited, but to put it to a point where there was no question at all that they were back of it.

Senator HOLLIS. Dr. Coulter, any limitation of the liability of the members of a voluntary association in this country must be statutory, must it not?

Mr. COULTER. Yes; in this country.

Senator HOLLIS. How is that abroad?

Mr. COULTER. Many of them have no statutory limitations at all. They may not have any.

Now, Austria has a new idea up, in which they are suggesting that a law be passed which will be uniform for all of them, requiring a small liability and then what is called a proportional liability for future payments. In other words, no individual member could be attacked and made to bear the responsibility for the whole credit union, but any outside creditor could come upon the union for the entire amount due, and this would have to be distributed over all the members, in proportion to some rule which they might adopt. That would encourage, as they said, the big man in the community to join the union with the little men, knowing that, at best, he would never have to bear any other than his proportional liability.

But, generally speaking, the liability is just unlimited. Any member can be called upon for the full amount.

Now, as to the number of members, they are down as low as seven. As to capital, it may be almost nothing, or it may be \$1,000, or \$2,000, or \$3,000, eventually. As to liability, it may be strictly limited or absolutely unlimited, or any degree between these two.

Almost universally the rule is that no loan is made to anyone who is not a member. In other words, they must know what becomes of the money that they lend out that they are liable for.

For instance, in Italy and other countries, clear up to Belgium, where the Catholic Church is strong in the country districts, I noticed this situation—the problem seemed a rather peculiar one—that the local priest would be a member and he would probably be the local officer. They did not have a separate bank building and there was practically no expense. He might be the local officer. He was good at figures and he could keep their records for them in good shape. I asked a number of them the question whether they could borrow, and they would probably say, "Yes; so far as being a member is concerned, I can borrow. Of course I am a member and I can borrow. But there is another rule of the society, so that even if I am a member I can not borrow unless I am actually a farmer and want to borrow the money and use it on the farm."

They adopt rules that they will not lend to anybody but a member, and if they happen to have a school teacher or a priest, or somebody else who is a member but not a farmer, they will not lend to him, and even where the member is a farmer they will not lend to him unless he is going to use the money on his farm.

Senator HOLLIS. What is there in the membership for the school-teacher, then?

Mr. COULTER. Oh, he might get \$25 a year as an honorarium; possibly \$10.

Senator HOLLIS. Would he get any dividends?

Mr. COULTER. There would probably not be anything of that sort. He is likely to have a few acres of land, as a matter of fact.

Senator HOLLIS. Yes.

Mr. COULTER. The priest becomes a member in order to keep in touch with his flock.

Mr. PLATT. Is that the case in Ireland; do the Catholic priests become the local officers there?

Mr. COULTER. On this question, in Ireland, they are all working together; there is no dissension at all. I sat around the table at a meeting with priests and Protestant leaders; also with men like Sir Horace Plunkett and some others who have not any politics at all; and they all worked together on this matter of rural credit and cooperation.

Senator HOLLIS. Yes; I see.

Mr. COULTER. And once in a while I asked a question that bordered pretty close to a political question in Ireland; and one of those present said to me, jokingly, "We had better leave that until we get on the public platform, where we can say things to each other."

But on the question of rural credit and cooperation, there is no question of party, or church, or anything else in Ireland. That is why the movement is spreading so rapidly. I might say that in Italy you find a much more noticeable question of politics or religion. There the Catholic Church is actively engaged in organizing credit associations among the farmers, and the socialists are doing the same thing, claiming that the church has not any business to do that. The socialists may be Catholics on Sunday, but they say that the church should not go into this business at all, and so the socialist party is organizing farmers into these same societies. And so are the neutrals; there are many who sit on the barb-wire fence and say "We will not join either group in their contentions," except that they do agree that it is a good thing to have these societies.

Mr. PLATT. Are the societies established by funds; is any outside capital used to establish them?

Mr. COULTER. No: they are purely local, mutual organizations.

Mr. PLATT. Are not some of the societies started by a gift or loan of funds from individuals or charitable organizations, or something of that kind?

Mr. COULTER. Practically never.

Mr. PLATT. I understand that the Hearst fund, or something of that kind is being used in the State of New York to form credit unions?

Mr. COULTER. Well, in this country there are a few cases where they are trying to make a start in that way, by small loans or gifts of funds. But in Europe there must be 50,000 of these credit unions all over Europe, and I do not believe I ever heard of outside money coming in to start these little community societies. In this country, I know of those cases to which you refer, and have all of the details concerning them.

Mr. PLATT. You would not think that anything of that sort was necessary in order to get them going, would you?

Mr. COULTER. I would not think anything of the sort was necessary; it may be a good idea here in a few instances. The one that you refer to is the Jewish Agricultural Organization Society. They have 17 unions started in this country, purely mutual societies; there are no State or National laws under which they are incorporated. They are just societies, like they are in Europe. They get a loan from the central organization. Those institutions are, I think, a good idea; but I think that farmers generally could go ahead and start these societies without any gift or loan. In fact, I think they could go ahead and start them without any law; it is not necessary to have any special law on the subject, except that they do not know how to go at it.

Mr. BROWN. Do these societies just lend their credit to each other, or is it secured by mortgage in any way, by a joint security of any kind?

Mr. COULTER. In lending, they lend only to members and it must be for a specific purpose; the application must be made for a loan, and that application, you see, is in the nature of a note.

Mr. BROWN. Yes; I see.

Mr. COULTER. And that application must, almost universally, be seconded by some other person, and not necessarily by a member, in some sections; the local butcher, who may not be a member, may second that application, merely to concentrate it and make it specific.

Probably, generally speaking, no other security is given than that application, which is in the nature of a note, but in some countries, in many communities, I found that the farmer will also give a short statement that he has a certain amount of land unencumbered, which statement is supplementary to the application; and there are all sorts of variations of that kind in the application.

Mr. WOODS. You spoke awhile ago, Dr. Coulter, about the fact that in order for a member to borrow money it was necessary for him to have a farm. You did not mean that it was necessary for him to own a farm, did you?

Mr. COULTER. No; to be operating a farm. That was the rule. In fact, I found cases where every member was a tenant, even in Italy. And, by the way, there is a large stretch of Italy where the farms are operated almost identically the same as the big plantation systems in the South, where all are tenants, and where groups of these tenants, 30 or 40 on a big estate, will have their own credit union, and their own store, etc. Those tenants may independently organize their unions, or they may join with the owners. And I struck many special little rules there. Sometimes where the members of these credit unions come from the whole countryside the unions are pretty big. I struck one with 1,500 members and another with only 7.

Mr. SELDOMRIDGE. These were entirely for loans on personal property?

Mr. COULTER. Yes; for loans on personal property, one society had about 1,500 members. But in that case if a tenant applied for a loan he had to have as his second signature the owner of property. That just happened to be a special rule, and I mention it to show the variations.

Mr. SELDOMRIDGE. What happens in the event that the loan is defaulted?

Mr. COULTER. I asked them that, and they said they did not know what would happen.

Mr. SELDOMRIDGE. They have never had a default?

Mr. COULTER. Probably the man would renew, and finally make it up.

Mr. SELDOMRIDGE. Is there any tangible security given for the loan, such as we have in the way of mortgages—

Mr. COULTER (interposing). Chattels?

Mr. SELDOMRIDGE. Yes; chattel mortgages.

Mr. COULTER. I could not find anything exactly like chattel mortgages in Europe, but it was generally understood that the man gave everything he had, as you might say, as his backing.

Mr. SELDOMRIDGE. Is there any chattel-mortgage business being done in Europe?

Mr. COULTER. Well, I should say, in the case of these institutions that it is understood that these chattels are recognized as part of the security. I could not find a special chattel-mortgage business like we have in this country. Did you look into that particularly, Mr. Moss?

Mr. MOSS. I think there are no exemptions whatever in Europe from executions for debt, and that they can take everything a person has; and when a man goes in debt there he practically gives a mortgage for everything he has.

Mr. BROWN. I was just going to ask whether there are any home-
stead or exemption laws in Europe?

Mr. COULTER. Practically not, in any country. You may know of the present Egyptian controversy. The Government is trying to work out an exemption system there. First there was an executive order issued, providing for an exemption for the poor tenants there,

I have not all the details of that, but that is a very recent problem that has arisen.

Mr. SELDOMRIDGE. Do they exercise supervision over their members in the matter of the proper use of the loans?

Mr. COULTER. Throughout Europe?

Mr. SELDOMRIDGE. Yes; in these societies.

Mr. COULTER. Yes; they do. In the application for a loan they have to specify just what they want the money for; for instance, \$7 to buy a pig; \$7 to buy a goat, etc. They have the goat already in mind and have already made the bargain; and then, of course, the application goes on up to some bigger items, but they often get down to very small items. I saw one application for a loan in which the man wanted only about \$15 to \$18, and he had nine items set forth as to what he was going to do with the money.

And they do that with their money. Now, of course, that will be the type that might apply to a mass of very poor tenants, such as colored tenants, or others of that kind.

On the other hand, they have in Europe some of these credit unions which are very large and prosperous, where the loans are fairly large, which would be more the type that you would expect to grow among a prosperous group of farm owners. You have there as here every type of farmer.

Mr. PLATT. Are the loans always exclusively agricultural; do they not sometimes make loans in the villages?

Mr. COULTER. These societies, I think I am safe in saying, are practically exclusively agricultural. The cities have sister societies, known throughout Europe under the general name of "people's bank." In Germany they are under the name of the Schulz-Delitzsch Co-operative Societies.

Mr. PLATT. They are all in the lending business, are they?

Mr. COULTER. Yes; and they do some business with the farmers.

Mr. SELDOMRIDGE. And they issue a note to the party. Are these credit society banks mutually or severally responsible for those funds?

Mr. COULTER. No; I might say there that these little societies have regular systems of deposits, generally speaking. Now, I think you will find more variation there than you will in many other points. In France, for instance, I think I am right in saying they do not have any deposits, although in France there is a second exception; there are many credit unions there which are known as the Durand Bank, or the Durand type of credit union. These are independent of the general system of credit unions; there are a few hundreds of them. In France, then, these little societies do not have deposits.

Mr. MOSS. I think they are willing to take deposits, but they get very few of them.

Mr. COULTER. I think that is right. They are willing to take deposits, but the French peasants put their money in Government securities and get interest on every penny. Besides that, they know that they do not have to deposit if they do not want to. They know they can get money by the discounting process up through the regional bank and up through the Bank of France, through the commercial banking system.

Mr. SELDOMRIDGE. Do you think the community life of the peasantry in Europe has contributed in any way to the success of these societies—the fact that these people live together in close association in the villages?

Mr. COULTER. I found that they had these credit unions where they did not live together in villages. The village community is not universal in Europe, you know. In fact, in some sections of Europe they live entirely scattered throughout the country, and in those districts they have these same little credit unions. Russia now is taking the necessary steps to get rid of the community life within the next decade or two. It is so insanitary and it is so uneconomic. They are helping the peasants to move out and build their independent homes in the country. As it is now, it takes the poor farmer nearly half of his time coming from and going to his little patches of land, which are scattered around; and the Russian Government is now helping to make them into little solid farms, and helping them to build their homes out there on those farms. And about 1,000,000 farmers, I understand, up to date, have gone out from the communities which are so insanitary and so uneconomic; and I think there are many indications that the little community will not survive with the farmers with their better roads and more economic living outside, and more sanitary conditions and with the development of rural mail delivery—which they have in Europe, too.

Mr. HAYES. There is also the safety from brigandage, and all sorts of things of that kind.

Mr. COULTER. Yes; and with the safety from brigandage, which they now have, and with better ways of communication. I do not know

that community life in those villages will altogether disappear, but I do not think it is an essential feature.

Senator HOLLIS. How is that system working in Utah? I was in Utah some 25 years ago, and where the people gathered in villages and did the farming outside; are they continuing that process?

Mr. COULTER. There is more or less of that, I think, in the irrigated sections, where the farmer has a small number of acres.

Mr. HOLLIS. That is true.

Mr. COULTER. And for the country as a whole that might be a good thing in irrigated areas.

Mr. HAYES. As a general rule, that is not now true of Utah, is it?

Mr. COULTER. No. That is not a normal thing; it is exceptional. Of course we know that the village community in Europe does not exist for any present-day reason. It is a survival of the old necessity for protection, when they had to live in communities, centuries ago, and they built very strong walls around them, and they had to stay there in the villages in order to be safe. As you drive through the country districts of Europe you strike these communities every few miles, and they are all walled in with great stone walls; and it would be expensive for the inhabitants to move out to the independent farms which they operate.

Mr. HAYES. You have not told us where these credit unions get the funds which they loan to their members.

Mr. COULTER. I started to say that in France there is very little deposited. In some other countries, however, there are very large amounts of money deposited.

Senator HOLLIS. In the shape of savings deposits?

Mr. COULTER. Little savings deposits, left both by members and, in some districts, by nonmembers. In other words, although they limit the loans to members, many of them will take deposits from nonmembers, and the nonmembers deposit because they know it is absolutely secure. And generally that is one of the very best reasons why they have the unlimited liability, in order to attract the loans from the outside.

I have before me what seemed to me to be two or three statistical facts that would show about the extent of that particular feature of deposits.

If you take Germany—I have the facts for 17,000, approximately, of these little credit unions; and I asked the question and tried to get up the facts to show where they got their working capital. I found that their working capital at the date I got this, a few months ago, was a little over 2,000,000,000 marks.

Now, to ascertain where they got that seemed to me to be important. I found that only 1.2 per cent of it came from share capital. You will see that 1.2 per cent is almost insignificant; that is the share-capital feature. They had also accumulated what we would call surplus here. They call it "reserve," and 2.6 per cent of the total working capital was reserve. The reserve, in other words, was more than twice the amount of the share capital. Thus the bank's own funds amounted to only 3.8 per cent of the total working capital. Of the rest, "deposits on current account" amounted to only 9.7 per cent. In other words, that is not much of a current account

Evidently, however, these societies are the local savings societies for the community, because 78 per cent of these 2,000,000,000 marks represented savings deposits.

Mr. BULKLEY. You do not mean 78 per cent; it is 7.8 per cent, is it not?

Mr. COULTER. No; 78 per cent of the total working capital.

Mr. BULKLEY. Oh, yes; I see.

Mr. COULTER. Only 9.7 per cent represented deposits on current account.

Mr. PLATT. Those savings deposits, of course, draw interest, do they not?

Mr. COULTER. Those savings deposits draw interest. The margin they do business on is something wonderful to behold. Of course, they have practically no expenses.

Mr. PLATT. Yes. They must pay as much interest as the savings banks, I suppose—or do they not?

Mr. COULTER. Well, I think you will have to study the individual country. It would be pretty hard to tell. The rate of interest, however, I should say is very nearly the same. You find little variations of all kinds, but they are in very small fractions.

Senator HOLLIS. But do they not, in addition to that, as a society, borrow some money from the banks for their members?

Mr. COULTER. Now, there is a very small percentage left, 8 or 9 per cent, that they must get from outside. In Germany these credit unions have their own regional institutions and central institutions of many kinds, and they do a great deal of exchange in that way; a sort of a clearing for them. In other countries they have other ways; for instance, some of them in Italy deposit any surplus with the savings banks or the people's banks and borrow any additional money they need from those banks, and in different countries they have different ways. France, for instance, gets all of theirs from the regional bank, and then, by rediscounting process, from the Bank of France.

There are all sorts of ways of getting outside funds, when needed. In some countries, for example, in Austria and Hungary, deposits are less important; they get much more from outside sources.

Senator HOLLIS. And they pledge their community capital and get funds at a low rate of interest for disposal among their members, do they not?

Mr. COULTER. Yes; and for that reason, generally speaking, bankers generally do not have any objection to them. I have talked to bankers on the subject. Many of them said, "They are fine things; we could not go out and fool around to make a loan of 17 cents, or something like that, for a farmer who wants to buy a chicken; but, all told, we get a very large amount of business with these local societies."

Mr. PLATT. Right there, did you come to the conclusion that your original idea that the little societies might take the place of Dun's and Bradstreets' among the farmers would be impracticable?

Mr. COULTER. No; I think we need them in this country; I think the farmers ought to form these little credit unions. That is the way to carry the bank closer to the comparatively poor American farmers.

Mr. PLATT. I understood you to say that your original idea was that they could form societies to give each other ratings and then do business with the present banks?

Mr. COULTER. Either that, or actually do a part of the business themselves. I think it depends on how prosperous the community is, and how much they do. There are so many different conditions in this country—from the negro croppers in the Southern States to the big successful farmers in some other parts of the country—that it is impossible to work out a uniform system for them all.

Mr. SELDOMRIDGE. Does a man have to establish a reputation for honesty and integrity before he can be admitted to one of these societies?

Mr. COULTER. Yes; he has to be known by the members and they have to pass on him.

Mr. HAYES. They do not take everybody that lives in the neighborhood in, do they?

Mr. COULTER. No; they pass on each applicant for membership?

Mr. PLATT. The supervision they give of the farms, of course, is valuable in part, and an additional security?

Mr. COULTER. Yes; but this is purely mutual. There is no person hired to supervise it; but it works out this way: Suppose I am passing John Doe's farm out in the country and I know he borrowed some money to buy a pig with, and I stop in to see the pig. If he has not the pig, I am surprised.

Mr. SELDOMRIDGE. Do they perform any other service for the farmer than the mere financial relief? Do they give him any assistance in these cooperative societies in the way of marketing his produce and selling what he has to sell; helping him to dispose of it, and buying supplies for him?

Mr. COULTER. Yes; and there, again, we have every kind of experience in the different countries. My first example was in Italy. I stopped in a little village and I asked them if they did any other business; and they would answer, "No" at once. They would say, "No, our credit union is strictly a credit union." And when I asked them how they did in these other matters, they said that there was another society that had the same members which had this store or supply house. The other society would buy their fertilizer, their machines and seed, and so on; and the little credit union would do all the financial business for the little supply house. Then I asked them, "What do you do about selling your produce?" In that community they dealt in silk worms and cocoons; they had a little cocoon drying establishment, which was entirely financed by the credit union. In the same community I had seen a great many grapes grown between the mulberry trees. I asked them who sold their product for them. They said, "Yes, we have a plant for making wine, a little factory, which is purely cooperative; it has the same members as the credit union, but it is an independent unit."

I asked them why it was not all one unit. They said that was for two reasons: In the first place, some of the farmers who raised grapes did not raise silkworms, and they were not interested in the silk business, cocoons, etc. That is to say, that all the farmers were not interested in all phases of the local industry. Second, they thought it more practicable to have the bank do only a banking business.

In the same general part of the country, however, you go into the bank and stumble over bags of fertilizer and supplies. That is to say, the same institution will actually handle and do the business in

a regular businesslike way, selling the small things for sale and buying the supplies.

Mr. BROWN. Do you think the European systems that you have mentioned are practicable in this country, and would meet the larger demands of our people?

Mr. COULTER. I think that for the great mass of our farmers something along this same line would be a very valuable thing, and very necessary for the farmers. We have two and one-third million tenant farmers working toward ownership, and we have a couple of million very small farmers who own their farms. It would take a great many different kinds of organizations to carry the system into effect, according to the community. In my home district we sell carloads of wheat. In other districts they may sell one or two animals at a time. It depends on the type and extent and character of business being done. But absolutely the same conditions were found in every part of Europe. Farmers who had large farms and fine driving horses and beautiful lace curtains on their windows and fine pianos, etc., were frequently members of credit societies. In other districts, away off in the heart of Russia, these same societies were formed under either national or local direction or suggestion—these same credit institutions.

Mr. SELDOMRIDGE. Have these societies raised the standard of living over there?

Mr. COULTER. Of course, I have not inspected the country "before and after," but the question was asked, time after time, and they all contended that it had; that they could do many things which they could not do before; they had many things which they did not have before; they were more satisfied than they were before; they would not leave the society for anything; they were afraid to do anything that was out of the way for fear they might offend and get in bad with the society. They did not take any chance of being expelled once they became members. Then there were social advantages; they could all get together at their meetings once in a while.

The economic advantages were considerable.

Mr. WOODS. Do you think the establishment of such societies in the United States would encourage thrift and savings, or not?

Mr. COULTER. I think they would. I think it would make it possible for those men, gradually, through their savings, to become better citizens, and better farmers, and to improve their condition in every way. I think it clearly tends in that direction.

Mr. PLATT. Well, the establishment of such societies in this country does not depend upon law, and clearly is not a subject for national legislation, is that not true?

Mr. COULTER. Well, that is the next question that I think comes up. You do not have to have a law to provide for them, that is clear. But if a law were passed outlining how they could be organized, giving the whole scheme and an officer provided for, or some inspection office of some sort which would have typical forms, constitutions, by-laws, rules and regulations, and all necessary information to furnish to the farmers, I believe the plan would spread very rapidly and take hold.

Mr. PLATT. Why would not an agricultural bulletin do just as well as a law?

Mr. COULTER. Well, I think there is a great tendency in this country to have legal recognition for any organization. For instance, in

Minnesota we did not have practical, well-founded mutual insurance companies among the farmers for our mutual protection until the farmers obtained the enactment of a law providing for township mutual companies. Now, I suppose, practically every farmer in the State belongs to a mutual insurance company. We do our own insuring entirely. We report to the State insurance commissioner once a year on a little form which is furnished, and it looks very businesslike, and it is a very pleasant thing for a farmer to belong to those mutual companies. Under the law we have to report every year, and we do a great business in the State.

Mr. PLATT. Well, the States are passing such laws, and several of them have already passed such laws.

Mr. COULTER. On credit unions?

Mr. PLATT. Yes; on credit unions.

Mr. COULTER. There are four States which have passed laws on credit unions. Massachusetts has had one for several years; it was a very general law. There have been about 30 or 40 credit unions started under that law. They have all been town unions, I believe—little town societies. New York passed a law just a short while ago.

Mr. PLATT. Yes; last spring.

Mr. COULTER. And they have found a few defects in that law, and they are now planning to amend it at the next session of the legislature, in a month or two.

Wisconsin passed a law a few months ago, and I had a letter from there recently saying that nothing has been done under it.

And Texas passed a law a few months ago, and I received a letter recently saying they had had no applicants and no organizations started yet.

Those are the four States which have laws on the subject, but the movement has started in different States. Now, there is the question, of course, whether it would result in a great many different kinds of State laws, and whether a great many of the States will not pass laws on the subject.

Mr. PLATT. Would it not be better, in view of the diversity of conditions, to have the laws passed by the several States to correspond with their own needs, rather than to try to do anything through the National Government?

Mr. COULTER. My personal judgment has been, and I have recommended it in the past, that the States should pass these laws; that there is no place for Federal legislation in the matter.

There is one question, however, that I have not finally decided in my own mind; and I do not know what others may think of it.

I think that probably it will be necessary for some arrangement to be made whereby these credit unions can be connected up in some way with the Federal reserve system, which has just been established by the Federal Reserve Act, and which I think is an admirable system.

Mr. RAGSDALE. Pardon me, Dr. Coulter, but why do you say there should be no Federal legislation on the subject?

Mr. COULTER. Well, first, I think that my experience in the different parts of Europe has led me to believe that. And that experience has taken me over a greater variety of country than anything we have in the United States—from near the North Pole in Russia to the southern part of Italy.

Conditions are very different in different parts of this country. I have spent days and weeks on plantations in the Southern States with friends, and the system of farming there, with those croppers, who are as dependent or more dependent in some parts of the country than the average farm laborer in other parts of the country. On the other hand, I have been in other sections of the country, where almost every farmer who calls himself a farmer is worth from \$10,000 to \$200,000. I doubt if there is a farm owner in my home township who is worth less than \$10,000. Many farmers do not talk in terms of a few acres; they say, "I think I will put in 400 or 500 acres next year in this crop, or that crop." The different types of agriculture are so distinct and different that I have doubted whether it would be possible to form a national law which would fit all the needs of the different States. In other words, it has seemed to me, aside from this one question that I will raise, that the needs, and problems and characteristics of agriculture are so different. I found so many variations in Europe in the needs of the different sections that my inclination has been very strongly that it should be a matter of State law, and I would not even advise the farmers to wait for a State law. I would advise them to go ahead and form these unions, without laws; but if they wait for laws, let us have State laws.

But let us connect up with the Federal reserve system, so as to have an outlet during harvesting and thrashing seasons.

Mr. HAYES. I would like to ask you just how far your idea goes? Do you refer to those little credit unions or do you refer to organizations among farmers for the sake of getting credit generally—short-time credits?

Mr. COULTER. I think the next step is to secure personal credit generally. Many farmers now own their own small banks. I think they should do that too, the bigger and more prosperous farmers, at least.

Mr. RAGSDALE. But in the system we have under consideration at this time, it is presumed that the land itself will stand as a guarantee of payment, will it not?

Mr. COULTER. I am speaking now entirely of personal credit.

Mr. HAYES. And not land-mortgage banks?

Mr. COULTER. No; not land-mortgage banks.

Mr. RAGSDALE. I know. But do you think the States ought legitimately to govern that system also?

Mr. COULTER. No; on the matter of mortgage credit, I am very much in favor of national legislation.

Mr. RAGSDALE. That is what I wanted to draw out.

Mr. COULTER. Yes.

Mr. RAGSDALE. Whereas, in the case of personal credits you think the States, on account of differing conditions, ought to control, you believe that in the case of land-mortgage loans the Federal Government should control and regulate them?

Mr. COULTER. Yes; I feel that very strongly.

Mr. RAGSDALE. Under the conditions you have learned in this country and abroad, do you not think that in order for them to be a perfect success, the Government must extend some aid itself?

Mr. COULTER. No; I feel very strongly that it is absolutely unnecessary, in the first place, and it would be a very bad thing if it was

necessary; I am glad it is not necessary. I would feel sorry if our country was at the point where that was necessary.

Mr. RAGSDALE. If those communities in which there is a heavy demand for money, greater than the local supply can furnish, how would you get this money in those communities?

Mr. COULTER. I would let the bank organized in those communities for that purpose issue bonds, properly secured by mortgage, and let those bonds go to markets where the money is available.

Mr. RAGSDALE. Do you mean banks that would receive deposits?

Mr. COULTER. I think it would be very doubtful whether they should be regular deposit banks.

Mr. RAGSDALE. Then they would not be banks, in the ordinary acceptance of the word in this country, would they?

Mr. COULTER. I think they might be called banks, and given a special definition.

Mr. HAYES. Let me say that this bill provides for such banks that are not banks of deposit.

Mr. RAGSDALE. Yes; I know.

Mr. HAYES. And that is what the bill calls them.

Mr. RAGSDALE. I do not think they ought to be called banks. They might be called trust companies or something of that kind. My idea is that in the national system there ought to be a clear discrimination in the use of terms that apply to those institutions which receive deposits and those which do not receive deposits.

Mr. PLATT. Do you not think the word "trust" is in rather more disrepute than the word "bank" nowadays?

Mr. RAGSDALE. It is not a question of that, but it is a question of devising a system that would be as easily understood as possible.

Mr. COULTER. Of course, you could call them "companies."

Mr. WOODS. Dr. Coulter, you spoke about connecting these personal credit societies with the national banking system. Would not that require national laws to do that?

Mr. COULTER. I think so; and that is the one point that I am not clear on myself—as to what should be done. In fact, I have been studying the matter for some time; with Mr. Moss, Senator Fletcher, and others I have been studying that, and have been trying to frame some kind of a scheme whereby these little local banks might organize a national bank which could come in as a member bank in the Federal reserve system, but I have nothing to recommend on that at the present time, except that were it not for the desirability of having these local credit unions, or whatever they are called, attached in some way to that system of Federal reserve banks, I would prefer them to be developed by the various States, under the State laws, or without any laws. But in order for them to have the advantage of the Federal reserve system which has just been established I think it may be necessary or wise for some national legislation to make it possible for them to organize a national bank which would become a member bank.

But that is a matter I had not intended to be drawn into. I have discussed that with Mr. Moss and we have been trying to work out something. I have not any final judgment on it.

Mr. MOSS. Dr. Coulter, if you will excuse me a moment, I wish to say for the record that the subcommittee of the commission feels that it is necessary to have some such legislation.

Mr. COULTER. Yes. I think that all feel that it is necessary to get some connection, but how to bring it about and whether it is necessary to organize these little credit unions under Federal act, or whether—I made this suggestion for what it is worth some days ago—the national-banking act might not be merely amended so as to provide that instead of from 7 to 10 natural persons joining to form a national bank, that the same number of credit unions, or farmers' credit societies, or any other similar organizations, might also organize to form such a national bank, is the question. But if you did that, you would have to regulate these credit unions.

Mr. RAGSDALE. I was going to say that would open the door so wide that it would not be advisable.

Mr. COULTER. It goes back to the question of providing something; but I have studied that subject, and have not reached any final judgment on it. I think there must be some method to connect them up, but how I do not know.

Mr. PLATT. The States have got to do something to take care of the small banks they have now, with \$5,000 or \$10,000, that are shut out of the Federal reserve act.

Mr. COULTER. That is another thing I wished to discuss. There are at the present time between 7,000 and 9,000 State and other small banks with a capital of less than \$25,000. My own feeling is very strong—and I have expressed it to the commission that has been studying this subject—that there should be provision made for national incorporation of banks down as low as \$10,000 capital. I think that they ought to have the advantage of connection with the Federal reserve system. We have written hundreds and hundreds of letters to those small banks, and it is perfectly clear that they can not afford to increase their capital to \$25,000. The communities are such that they can not afford to do that, and therefore they can not go into the system.

Mr. PLATT. Some of them are very similar to those people's banks in Europe?

Mr. COULTER. Yes.

Mr. PLATT. And some of them are almost purely farmers' banks?

Mr. COULTER. Yes; some of them are almost purely farmers' banks, and I know some where the stock is all owned by farmers.

Mr. HAYES. There is nothing to prevent the States from organizing and taking care of those banks, the same as the Nation has provided for the Federal reserve banks.

Mr. COULTER. Well, but there you fall into 48 kinds of laws.

Mr. HAYES. That is true, but the conditions are different in the various States.

Mr. COULTER. And yet if you take the digest of the State banking laws, some of the good digests and examine them, you will find that, as an illustration, State banks were allowed to lend money on real estate; and yet you study the laws in all the States and the practices in all the States, and they have imitated the precedents of the national banks. Even if you authorize them by law to do a certain thing, they know in practice they must follow the general system of national banks, because they must deal through national banks and have finally to turn to them; they know that their paper on land is not good; they are modeled after the national banks in their business forms and business methods and you can not get away from that.

Mr. HAYES. That is sound and proper.

Mr. COULTER. I think it is, and therefore I think they ought to be allowed to incorporate with a Federal charter down to \$10,000.

Mr. WOODS. Referring to those associations in foreign countries, you spoke about the fact that the local credit associations were obliged to get money from outside sources?

Mr. COULTER. Yes; sometimes.

Mr. WOODS. Do they rediscount their paper or borrow on their own note directly, or issue bonds?

Mr. COULTER. Generally they borrow directly, or rediscount their own paper.

Mr. WOODS. Yes.

Mr. COULTER. But it is interesting to know that in Italy the idea of issuing bonds arose 20 years ago, but instead of the little locals issuing the bonds they went to the savings bank or people's bank and gave their paper as security, and these savings banks or people's banks issued bonds.

In Hungary at the present time I believe that the reason that the Hungarian Government is so active is because they have to get much of the money necessary from other countries and provide for central institutions to issue the bonds. The locals, I think, have never issued bonds, but rediscount their paper, or borrow directly.

To summarize, on the personal credit side then, if it were possible to get the small State and county banks under Federal charter, it would be, it seems to me, a long step in the right direction, and then if the little locals were established all over the country, I think that would be the second big step.

Now, I do not think that it is necessary to try to connect them up with the Federal reserve system until you have some of them.

It occurred to me that after we found a way to adapt them to our needs in this country then they might be federated, in some such way as we have provided now for the national banks, and in that way the connecting link be provided.

Mr. HAYES. But if the national bank was allowed to organize down to \$10,000 capital, those little banks in the country would take care of your unions, would they not?

Mr. COULTER. Probably they would, and they could get all their connections there.

Mr. HAYES. Surely.

Mr. COULTER. But, as I say, I do not know what is the best way. I do not like a national law to create these little credit institutions of so many different kinds, because, as I say, in many districts they should do the buying and the selling for the farmers, etc. But that is a point I have not any final judgment on.

I wish to add that throughout Europe, probably in every country—and this is a thing that Mr. Moss suggested along this line—just the same as you have now through your Federal reserve act organized a definite system, so that all of these national banks all over the country may work together with big centrals, so, all over Europe, the little credit unions have organized into federations. They are organized into federations, so that they have clearing houses and centrals, and then bigger centrals. So that they have independently done the very thing in Europe which you have done here in the United States by your legislation.

Mr. PLATT. Are these credit unions organized in such countries as the Balkan States, or Turkey?

Mr. COULTER. Yes; they are organized there, as I understand. I did not get down to the Balkan States, although I got close to the border, in Hungary. But off among the Magyars, and among the Croatians, I was up among the various Russian groups—among the Polish people, both the Austrian Poles and the Russian Poles. I found these unions everywhere; and I found them among the little Russians, who are considered the most illiterate Russians; and some of those unions were 15 or 20 years old. So they are not barely starting; they are old enough to do business. And they have worked out—

Mr. SELDOMRIDGE (interposing). Dr. Coulter, do you think it would be practicable for the Government to give the country an object lesson in the matter of organizing a few of these unions in different parts of the country and see how they could be worked out with actual supervision?

Mr. COULTER. I think it might not be out of place for the Department of Agriculture to do that very thing.

Mr. HAYES. You mean, assist them to organize?

Mr. SELDOMRIDGE. I do, yes.

Mr. COULTER. In other words, show them how, send out demonstrators.

Mr. SELDOMRIDGE. Yes; send demonstrators abroad to European countries and get the facts which Dr. Coulter has gathered together here and put the Government officials in charge of one of these organizations for a few months and demonstrate practically just what could be done.

Mr. HAYES. That is a splendid idea.

Mr. COULTER. I think such demonstration should be made. I think it is just as legitimate for the Department of Agriculture to teach the farmers how to get money at 6 per cent, instead of 12 per cent, as it is to show them how to make two blades of grass grow where one grew before or to get two drops of milk where they got one before.

Mr. PLATT. Could that be done under the Smith-Lever bill which has just passed?

Mr. COULTER. Not unless the Department of Agriculture takes up this phase of work. They have not done so in the past, but I think it would be admirable if they could and would do so.

Mr. BULKLEY. To what extent are these European unions organized under national law and to what extent under provincial or local law?

Mr. COULTER. Practically not at all under national law, except in some of the newer countries, where they are commencing to be introduced. They arose spontaneously, either under local or provincial laws, or without any law. In Italy Mr. Wollemborg just got one started in his own little community because he had studied what they had been doing with them in Germany, and the system spread over Italy.

Mr. BULKLEY. The land-mortgage banks are also under local laws, are they not?

Mr. COULTER. Yes; the land-mortgage banks are generally under local law, I think you may say, although in some countries—

Mr. RAGSDALE (interposing). Pardon me, Dr. Coulter; but under the term "local law" what do you mean?

Mr. COULTER. Provincial law.

Mr. HAYES. The law of the Province?

Mr. COULTER. The Province, yes. For instance, in Germany, it would be the different States——

Mr. RAGSDALE. Now, to what extent does either the provincial or the local law in those countries control the financial situation or the issuing of money in that particular Province?

Mr. COULTER. Do you mean the personal-credit instruments?

Mr. RAGSDALE. I mean in the issuing of money.

Mr. COULTER. Every big country has its own personal credit system. So the Provinces or States have nothing to do with the personal credit.

Mr. PLATT. Do you mean nothing to do with the issuing of currency?

Mr. COULTER. Yes; with the issuing of currency.

Mr. RAGSDALE. That is what I want to develop. There is an entirely different condition which obtains there from that which obtains in this country. Does it not seem that where all the money comes from a national source they have got to look to that source for the issuing of money, and also for the final handling of the credit system?

Mr. COULTER. I think in this country the issuing of mortgage bonds, or whatever they are called——

Mr. RAGSDALE. Yes.

Mr. COULTER (continuing). Should be entirely under Federal act. That is so that they will all be of a definite type; the National Government should specify a definite type.

Mr. HAYES. A standard.

Mr. RAGSDALE. Yes; a standard. And do you not think there ought to be some legislation that would provide for their acceptance in the Treasury upon some terms which would be specified, just as other paper?

Mr. COULTER. I think so.

Mr. HAYES. Do you mean for security?

Mr. RAGSDALE. Yes.

Mr. COULTER. But in Europe you find a great many provincial laws; you find even with the land banks all sorts of local practices.

Mr. RAGSDALE. Yes.

Mr. COULTER. On the other hand, in Italy, for instance, aside from the savings banks, which is a lot of mortgage business, the institutions are under national law; but they apply to specific provinces; for instance, it will be a law for the Province of Latium, or the Basilicate, or Sardinia. In Russia there is just one big national system for the mortgage business. In France there is practically one big mortgage institution.

Mr. RAGSDALE. Yes.

Mr. COULTER. In Germany they are scattered. Belgium has both the mutual and the joint-stock institutions.

Mr. RAGSDALE. Yes.

Mr. COULTER. Holland has about 70 joint-stock banks.

Mr. PLATT. Dr. Coulter, Mr. Moss yesterday, in speaking of institutions that were allowed to loan both in the cities and in the country,

said that they practically never made loans in the country, or very rarely did so. Do you think that is due to the fact that the growth of the cities has been a pronounced phenomenon of recent times? Do you think that movement is likely to be permanent? For instance, if farming should become relatively more profitable, would there not be a tendency for organizations like building and loan associations to loan on farms rather than on urban property?

Mr. COULTER. If that time were likely to be close at hand, it seems to me—

Mr. PLATT (continuing). Or do you think the growth of cities can keep on at its recent rate without any check; do you not think that is a condition that is going to pass away?

Mr. COULTER. Well, farming is constantly being done more efficiently, with the improvement of machinery and farm methods—take for instance, if you introduce a cotton-picking machine in the South you could send 1,000,000 negroes to the cities in a few years.

Mr. PLATT. In other words, you think the people have been driven to the cities, rather than going there of their own accord?

Mr. COULTER. Well, frequently they do not need to stay in the country, and there probably is not work there for them. And then there is another thing; work which was formerly farm work has now become city work. Farmers used to make all of their cider and whisky and beer.

Mr. BROWN. And shoes.

Mr. COULTER. Yes, and their own shoes and their own clothing. My grandfather did, in my own day; I have seen him do it.

Mr. HAYES. I have seen the same thing.

Mr. COULTER. And I am young, too. But now we are getting to where what was formerly farm work is now done in the cities. As that continues, the country people will go the cities to do what was formerly farm work. And then, in addition to that, the work which is done on the farm is being done so much more efficiently, that that releases people from the farm. And although I do not like the movement toward the cities at all—I do not think it is the best thing for the country—still it looks to me to be a very definite tendency, and it seems to be going on. In the last 10 years the farm population of this country has increased only 10 or 11 per cent, and the city population has increased 35 per cent.

Mr. HAYES. Is that not owing largely to immigration, which goes almost entirely to the cities?

Mr. COULTER. That accounts for part of it.

Mr. PLATT. But the same thing is true of Europe.

Mr. HAYES. But not to the same extent.

Mr. COULTER. I think nearly to the same extent. I was dumbfounded by what I learned over there. There was city after city in Russia, bigger than the city of Washington, and yet I had never heard of those cities. I would tell the people I wanted to take a train to-night and go inland to the big center of agriculture; and I would ask if there were any towns off there that I could stop at in the morning. They would probably name three or four and when I asked them the size of these towns they would say they had 400,000 or 500,000 population. And I confessed my absolute ignorance. And there is Russia, which has great cities, thriving cities, beautifully lighted with electric lights, with street car systems, and great fairs

being held as big as any of our great State fairs, and all that sort of thing. I confess I was amazed. And it seems to me that people all over the world are going to the cities to do the work that used to be done in the country.

Mr. RAGSDALE. Do you know what the rate of increase or decrease of the cities and country population has been in Canada during the last 10 years?

Mr. COULTER. I do not know. I could look it up.

Mr. PLATT. Would you say that conditions in Russia, generally speaking, are more nearly like those in the United States than those of any other country in Europe?

Mr. COULTER. Yes; in many respects. Germany, for instance, has 65,000,000 people and is not as big as Texas; that is to say, it is very thickly settled; so it is with France and other countries; but Russia is a great, big country, like this, comparatively sparsely settled.

Mr. PLATT. And with a great many different nationalities?

Mr. COULTER. Yes; and with a great many different peoples; and you get off in the interior of Russia and you find as bad roads as anything we have in this country—I do not believe they are worse.

Mr. HAYES. They could not be worse than we have in some places.

Mr. COULTER. It has great stretches of country, people scattered all over it; it is an immense, thinly settled country, still in the rough state, it seems. They have not built up industries, I think, as far as we have; so they have probably had a smaller movement toward the city. Still, they have a great many big, fine towns and business centers doing an immense business. I found big bank buildings there as fine as anything in the United States—off in the center of Russia, where we read about peasant revolts. There are a few of those, of course.

Mr. PLATT. Generally speaking, are the people of Russia not as active in pushing ahead and apparently not any more hampered by the Government than people in other countries?

Mr. COULTER. I think the great mass of peasants are less educated than in other countries. In that respect they are far behind. I think it is 67 per cent of the peasants of Russia that can not read and write. They say that themselves. But they have also started to establish a complete system of schools, and within six or seven years every country community of Russia will have a school and every child will be in the school, so there is not much difference in that way. The people are generally physically a great, big, fine, well-built people and a good neighboring people.

Mr. SELDOMRIDGE. Is the land entailed there?

Mr. COULTER. If you are going into the land question, you will find that they are trying to do the things that we have been trying to do in this country. That is to say, we came into this country and killed off the Indians and distributed the lands to the people. Over there the people were already in the country and instead of killing off the Indians—

Mr. SELDOMRIDGE. They killed off some of the nobility, didn't they?
[Laughter.]

Mr. COULTER. Instead of killing off the nobles they decided to make the people pay for the land through a period of 50 or 60 years and pay the nobility, and then let the nobility invest the money in other ways,

or spend it, if they wanted to. Those that spent their money have gone to the dogs, and those that did not spend it have maintained smaller estates.

Mr. HAYES. Is this going on in Russia now?

Mr. COULTER. Yes. Russia has a magnificent set of land-mortgage banks. They have the nobility land-mortgage bank, which takes over the estate from the nobles, and then they have a sister society that divides the estate up and sells it in small lots to the peasants, and gives them a long period of time in which to pay for the land; and the land is gradually passing from the nobility to the peasant, except that each nobleman retains a considerable estate.

But away off in the heart of Russia, it was not uncommon to see a big farmer, one of the nobility, and go into his house—and his little girl would greet me in English and say she wanted to see me because she wanted to know what an American looked like; the children have English governesses and learn English in that way. Many of the nobility are selling off their land, and are using the money in part to educate their children. The children are generally able to speak English, French, and German.

Mr. PLATT. In general progress, Russia is going ahead as fast as the United States, is it not?

Mr. COULTER. I really think so.

Mr. PLATT. And perhaps a little faster?

Mr. COULTER. I stopped in a farmers' club in the town of Kieff, which we have all heard of on account of an alleged ritual murder. I stepped into the club there, and one of the officers spoke to me in good English, and said, "By the way, according to the papers, you are from Minnesota. Our society maintains an expert in Minnesota." And he gave me the name of the expert and his address in Minneapolis.

He said that the business of the expert was to find out everything that our experiment station covered in Minnesota, and send word to them about it. Now, there is a farmer's club in Russia with an expert watching us so as to report to them what we do.

Mr. HAYES. There are similar climatic conditions?

Mr. COULTER. Yes.

Senator HOLLIS. We ought to have a farmer in Russia watching to see what they were doing. [Laughter.]

Mr. COULTER. Our Government, of course, maintains experts around the world, but our farmers' organizations do not. But over there the Government has not in the past been doing much along that line. They are starting now to establish all kinds of experiment stations, extension work, etc.

Mr. SELDOMRIDGE. Have they good railroad facilities?

Mr. COULTER. Yes; good railroad facilities.

Mr. PLATT. Yet we have not any treaty with Russia, and do not do any business with her.

Mr. COULTER. No; they poked a good deal of fun at me about my ignorance of Russia. The prime minister of Russia, who resigned a few days ago on account of ill health, said: "You Americans are a marvelous lot of people; you are so busy over there with your own affairs that you have not time really to look into conditions in other places, and know how to deal with them." He was quite good-natured about it; he laughed about it.

Now, gentlemen, we have only touched the question of personal credit. Probably I should not have gotten started on that subject. Most of my studies, so far as national legislation is concerned, bear upon land-mortgage credit; and I would like to speak on that subject at some length later.

Mr. BULKLEY. The hour of adjournment having arrived, I should like to know the pleasure of the committee upon this question: I should like to say that under the plan which Senator Hollis and I have mapped out, we wanted to get through with what the members of the United States commission had to say this week, as we had some other plans for next week; and if it would be agreeable to the committee, we would like to have the committee meet again to-morrow morning, although that is an extra day.

(Thereupon, at 1.10 o'clock p. m., the committees adjourned until Friday, February 20, 1914, at 10.30 o'clock a. m.)

FRIDAY, FEBRUARY 20, 1914.

HOUSE OF REPRESENTATIVES,
Washington, D. C.

The committee convened at 10.45 o'clock a. m., Hon. Henry F. Hollis presiding.

Present, Senator Lee and Representatives Bulkley, Brown, Stone, Seldomridge, Weaver, Ragsdale, Hayes, Woods, and Platt.

STATEMENT OF JOHN LEE COULTER—Continued.

Mr. COULTER. I want to say a few words, taking not more than three or four minutes, further, concerning personal credits, before leaving it. I want to give not so much my own views as to let the committee know what the views of two or three other people may be and why certain movements are on foot.

Mr. Moss turned over to the committee a resolution introduced by the farmers of Nebraska. I know a great deal about the movement that resulted in that resolution. Sir Horace Plunkett, the great international authority on this whole question, spoke to the farmers in Nebraska. The whole tenor of his talk was that so far as personal credit was concerned, it would be wise not to go too rapidly in the establishment of either a system under Federal legislation or otherwise; that they had best get together and understand each other and talk the thing over and thrash it out and get acquainted with the problem. But Sir Horace Plunkett did not advise against either a State or a National system of legislation for land-mortgage banks of any kind. In fact, he wrote a very short article for one of the Nebraska farm papers, that is very brief on that point; and I talked with him here in Washington afterwards, and I know that the Nebraska resolution came out of his talk there and also the talk of Mr. Jones, from Colorado, who was at that same meeting. I have letters from Mr. Jones to the same effect.

The whole point there is this, that the Nebraska resolution pertains to personal credit and is based upon the recommendation that the farmers go slow in going into that. Sir Horace advised them to proceed slowly on that one point.

Mr. WOODS. What experience has Mr. Plunkett had to give him actual knowledge of the needs of the people who desire personal credit?

Mr. COULTER. Sir Horace has, I think, the experience which would make it possible for him to speak with some authority both at home and in this country. He does not know hardly which to call home.

Mr. WOODS. What is his experience?

Mr. COULTER. In the first place he lived in this country with the ranchers and among the farmers of the West, on account of his health. He was in very poor health for 10 or 15 years and lived with the

frontier ranchers. He was a well-to-do man, sufficiently well-to-do so that he was able to travel and live around among the farmers generally and study the tenant situation.

Mr. WOODS. But he never had to make a living for his family off of a tenant farm?

Mr. COULTER. No; but he has lived with those people under conditions so as to thoroughly study their needs. This resulted, on his return to Ireland, in the establishment of a department of agriculture, in his helping the poor tenant farmers establish little credit unions, and in the establishment of a service similar to the service which has just been started in the Department of Agriculture here. He did that beginning back in 1885, I believe.

Then he has gone right out and worked with his workers and has given his personal fortune, of a good many thousand dollars, to help the poor tenant farmers, who had absolutely not a cent, establish these little credit unions. He sat with them at their meetings, he helped them with their books and reports, and has gone through all the stages of trouble with them. They came to him if they wanted to buy a chicken sometimes and asked him the best way to proceed, and asked if he thought they should get the credit in their little credit unions.

He has also helped to establish cooperative creameries in Ireland and helped them to build up little egg marketing societies, and he has dealt with the problem in such a minute and detailed way that he understands even the matter of classifying the eggs in the little egg marketing societies and understands the way of separating the rots from the cloudy and the musty eggs and in getting the right colors together and the right sizes together, and when to sell by the pound, and when to sell by the egg, and so forth. And he has studied the whole thing thoroughly from the ground up.

I really believe he understands the position of the poor struggling tenants as well as any man either in official or unofficial circles in this or any other country possibly could. There is always a question whether any man who has a high position can understand the struggles of the poor fellow in the ditch. I think it is a very great question whether any of you gentlemen here can fairly and really understand the questions of the poor fellow who has struggled for years; but if that is possible, I believe Sir Horace Plunkett will equal in that respect any man in any of the States in an understanding of the problem.

It is because of his knowledge of the subject that he advises the way he does with reference to these little credit unions, and that is the reason he talked to the Nebraska farmers the way he did. He knows if they jump into it head over fist, as he expresses it, because it looks like a grand scheme, that unless it is pretty carefully supervised by proper inspectors, and so forth, the thing may fail and result in another quarter of a century of setback. He was in this country during the Granger and Alliance days, and knows how a too enthusiastic visionary plan may result in a flat failure and a quarter of a century's delay in getting things going gradually. For that reason Sir Horace Plunkett advised the Nebraska farmers, on this matter of personal credits, to go slow; to get together and talk about it and study it and get the idea and to be prepared to act; at the same time to organize other kinds of marketing societies.

Now, that judgment was based upon a further point which ought to be mentioned. The point is this: With these little credit unions—each very small but large in numbers if the farmers generally start to organize them—will the expense of supervising and inspection, of seeing that they are run right and do not fail—will that expense not be so great as to make the thing nonproductive and result in such a curtailment of inspection as would leave the credit institution in the hands of untrained farmers, not accustomed to do this sort of business?

I would suggest in this connection that there is a lot of weight to his argument, although I am heartily in favor of these farmers starting these credit societies. I know, for instance, that a recent study was made in one of the most progressive States of the Union with reference to the country school system. The school commission felt that there was such a poor financial arrangement for managing the country schools that some reform was necessary. An examination of the records of 200 or 300 school treasurers or the clerks of the school boards was made, and I think that they found that 70 or 80 out of each 100 such records were full of errors. Frequently the school clerk or treasurer had paid out \$10 to \$100 or \$150 from his own pocket, unknowingly, for the support of the school in addition to the local taxation contribution. In other instances the clerk or treasurer had, equally unknowingly, taken from \$10 to \$300 of the school money by errors in addition and errors of all sorts. There is no inspection and no supervision and they just do the best they can.

Now, because of that lack of training in arithmetic and in business methods on the part of farmers, my belief is that the really big start must be through the rural schools, through education, through training the boys and girls in the arithmetical part of the question of partial payments and the value of farm products, and so forth, and then when they become young men and young women you will have a thoroughly trained set of men and women to manage these institutions. In the meantime, of course, I think many farmers could go on and organize and familiarize themselves with the business.

Now, the explanation of the Nebraska resolution applies equally to the Colorado resolution, because Mr. Jones was at the Nebraska meeting—Mr. Jones, of Colorado. He was there and heard Sir Horace Plunkett. He understands the subject very thoroughly, because he is a Colorado banker and a thoroughly successful one; also because he was a member of the American commission which studied in Europe. He is able to use his own position as a banker to discourage the idea of farmers going into something that might result in failure; and that is also the position taken by the very best possible friends of the farmer—men like Mr. Plunkett. The Colorado resolution, then, is a direct side result of the Nebraska meeting, and neither of these has anything to do with the land-mortgage-credit proposition. In fact, Mr. Jones, from Colorado, is enthusiastically in favor of it, but he has certain recommendations to make concerning long-time credit, adopting, as he does, practically all of the details of the suggestions of the United States commission, except that he would like to have a central bank for each State tacked to it to issue the bonds, and I think he is justified in that position in his State. I am sorry that the member of your committee from Colorado is not here (Mr. Seldomridge).

I believe that it is a fact that the far Southern States and the mountain States would find it decidedly to their advantage to have some kind of a central institution (at least a State institution) to look after the bonds which their local institutions may issue. They are forced to come to the eastern and northern markets for their money. In order to get funds they have to go to the North and East. It is not surprising, therefore, that a man from the mountain States or from the far Southern States, desiring more credit assistance than his own State affords, should want to have a State bank or a central bank. It might not even be bad, from their standpoint, to have the National Government guarantee bonds from those sections, placing them on the same basis as those from the old-settled parts of the country, because it would bring their securities up to a par with those of the old-settled, stable districts, where values have established themselves—where values have proven themselves and there are fewer uncertainties.

The position, then, of the Colorado people was that it would be wise to go slow in the matter of further personal-credit legislation; that land-mortgage legislation should provide for some sort of a central institution to take care of the bonds issued by banks in the localities where the local investors and buyers and lenders do not suffice.

Mr. WOODS. Could we get copies of Mr. Plunkett's speech at that time, Mr. Coulter?

Mr. COULTER. I shall try to get copies and send them to the members of the committee.

Senator HOLLIS. I have a copy of the address I think he made to your commission. Is that a commission report?

Mr. COULTER. He delivered an address to the commission with his recommendations and he also delivered an address directed to the farmers of Nebraska.

Mr. WOODS. You think this resolution was the result of that talk?

Mr. COULTER. Yes; I know it was, in fact, because I have talked with people who asked me what I thought of Sir Horace Plunkett's address.

Mr. WOODS. Then in order for us to understand what was meant by this resolution it would be well for us to know what was in his speech?

Mr. COULTER. It would be well. My knowledge of it came from my talk with him afterwards, before he left for Ireland. He is now in Ireland trying to establish harmony between the north and south of Ireland.

LAND-MORTGAGE CREDIT.

Taking up now the question of long-term credit, I would like to say, first, a few words with reference to the need, if there is a need. I believe that there is a very great need, and I believe that there are several reasons that might be given to show that there is the need.

The first point is that in the United States as a whole only about one-half of the land surface is in farms. Now, much more would be brought into farms if there was a system of long-term credit, which would make it possible for the farmer to take the land and bring it into farm use. If this land was all Government land, you might say that a long-term credit scheme would have little place so far as bringing more land into farms is concerned. But we must remember that the

National Government, in its early days, granted hundreds of millions of acres to the railroad corporations and that lumbering corporations have millions of acres of forests. Now, much of this is cut-over land. Many investors have purchased large tracts of land which now may be purchased from them.

All told, I know from some study of that point there are literally hundreds of millions of acres of land which could be purchased, which is on the market for farmers, or young men wishing to become farmers, had they some way of borrowing and paying in a long period of time for the land purchased. I believe that some kind of a system of long-term mortgage credit would result in bringing much more land into farms. That would be good for the country from the standpoint of the consumer who wants food and clothing and beverage materials. It would be good for the country from the standpoint of our young farmer because he wants an opening; it would be good for the country because it would get out of the hands of these great holding corporations, as they might well be called, the lands which they now possess; it would be good for the country because it would give employment to this great mass of unemployed we sometimes hear about. From every standpoint it seems to me it would be good for the country to have some scheme of long-term credit in order to bring land into farms which is not now in farms.

Second, if we take all of the land now in farms, the last Government report shows only about one-half of it is improved. In other words, the present farmers of the country, six and a third million in number, own and operate great tracts of land, only one-half of which is improved.

Mr. HAYES. You mean by "improved" actually tilled?

Mr. COULTER. Actually tilled or in hay or pasture and rotation or lying fallow.

Mr. RAGSDALE. Used for regular agricultural purposes?

Mr. COULTER. For regular agricultural purposes—even improved pastures and hay land.

Mr. HAYES. What is the balance?

Mr. COULTER. The balance of it is woodland, swamp land, and some of it is stumpy land and some of it is stony, and there is some of it that is wild grassland where the hay is used as an outlying pasture.

Mr. RAGSDALE. You do not count that for regular agricultural purposes?

Mr. COULTER. Not unless it is regularly cultivated or plowed in rotation, or regularly mowed as improved grassland would be.

Mr. PLATT. A great deal of that land, however, is put to a really useful purpose.

Mr. COULTER. But poorly so.

Mr. PLATT. What would you say if they have land in forest?

Mr. COULTER. I think the woodlands and forests are very poorly used. I think it could be highly developed. For instance, I have in mind a few hundred acres in a certain farm where the timberland is used for protection for the stock, and at the same time makes good pasture land out of it. But the farmers can not do that without money or credit. My idea is that if the farmers could borrow money for a long period of years, paying it back gradually, they could clear

the stump land, the cut-over land, could remove the stones; drain the swamp lands; in areas where irrigation is necessary they could irrigate; they could either bring the water on or take the water off and improve the land which they now have in farms.

I think it would be easily possible to bring several hundred millions of acres into bearing in a good active way if the farmers could secure this money.

Now at that point I want to bring out a suggestion I have never heard made, and it is this, that the biggest defect in our present rural-credit system forgets that the farmer must make out of the farm absolutely everything that he needs. He has not any outside income. Building and loan associations expect laborers who earn their money outside to bring money into those enterprises, and all other financial agencies and institutions generally depend upon the people to bring in more money. I have belonged to a variety of associations where you might pay in a small amount, premiums on insurance or little amounts per year, and all of it comes from the outside. The farmers must pay for the farm from the farm and a system of credit must be evolved so that he will be given a long enough period of years to get out of the farm sufficient to pay for the farm; and each generation must pay for the whole agricultural property. It must pay for itself, each generation.

Now, that is a revolving process and any system of bringing more lands into farms, or the improvement of land now in farms, must contemplate that the farmer is going to pay back the loan out of the property which is improved.

I think we need this long time credit for a third reason, and that is to improve and make the farm more productive by improved equipment on the land which is already improved. That is to say, we know that half of the land of the country is in farms and only half of that in farms is improved, and that which is improved is only about one-half productive, considering what the rest of the world is doing. Now we are going to need to double our yield from the farm as we go on increasing our population and we must provide a system of financing that improvement; farmers must plow deeper, and must equip better, must drain better and must provide the best methods of doing the work.

Mr. HAYES. And fertilizing the land?

Mr. COULTER. And fertilizing the land either naturally or artificially.

Mr. RAGSDALE. Have you arrived at any definite period of time, as a result of your researches, for which the loan should be made?

Mr. COULTER. Yes, sir: I have. I think in this country, a young, growing country like this, it is very doubtful whether they should be for a longer period than 35 years. I have taken the age of 25 years when a young man starts in and if you allow him to take up to the maximum of 35 years for the period of the loan, it will make him 60 years old when the whole thing is paid out. I would like to consider that a maximum. And an older man who wants to borrow, say, would take a loan for 20 years, and he would pay it out before he is ready to retire.

Mr. RAGSDALE. From your researches, what would you say would be a fair rate of interest to be charged?

Mr. COULTER. I think you would have to leave that to general competition throughout the world to determine. My first reason for saying that is a remark that was dropped to me in Germany. I asked a German officer concerning these farm-mortgage institutions, and I said to him, "How does the farm-mortgage bond compete with such bonds as Government bonds, for instance?" "Well," he said, "The Landschaften bonds"—that is, the farmers mutual mortgage bonds—"The Landschaften bonds actually sold better in the open market than the Prussian Government bonds during a recent flurry when the German Government was having a little controversy with some of her neighbors." Actually the farmers could borrow cheaper than the Prussian Government. Now, I say, if that is so, all you have got to do is to create an instrument—a land-bank bond, for instance—that is absolutely safe and sound and put it on the market and it will sell at par for a low rate of interest.

Mr. HAYES. Especially if you exempt it from taxation.

Mr. COULTER. Especially if you exempt it from taxation, which I would like to do.

Mr. WEAVER. That was the cooperative credit societies' bonds?

Mr. COULTER. Yes, sir; but the others were selling so nearly the same that the difference was immaterial. The reason they sold better than the others was because, I believe, of the unlimited liability of the members who issued them. In other words, besides the property actually mortgaged through these societies, the members in many cases also gave all of their property as a final security in order to prove that there was no possible chance for loss.

Mr. HAYES. Do you not think, as a matter of practical experience, that 25 years will be plenty of time to allow for the repayment of these loans?

Mr. COULTER. I think a young man starting in might well be given the full period. I think, for instance, of a brother who is operating a pretty fine looking farm now. He has not inherited a cent, because my good folks are living and still farming, and I hope they may long continue to so. There is my brother, he wants to raise a family, and he wants to do other things as well as pay for the farm. He has 9 or 10 children, and he wants to send them to school and he wants to dress them properly, and once in a while he wants to take a vacation. And I believe he is right in doing so. Why pay for the farm, the whole thing, in the first year or two unless he wants to accumulate great wealth? He has no such ambition: he wants to live well and he wants to have a farm entirely paid for, so that when he is old enough to want to quit, and to have to quit, he can quit. And he also wants to educate his children so that when they start out they will not be afraid to tackle the same job and do it for themselves and not depend on inheritance. That is a personal, concrete illustration, and I think he ought to have 30 or 35 years to do it in.

Mr. HAYES. Take a case like this: Here is a farmer who goes out and buys a 100-acre farm and he gives a mortgage on it for \$50 an acre. He has a \$5,000 debt. Five per cent on that is \$250 per annum, and 4 per cent amortization would be \$200 more. He would only have to pay \$250 interest and \$200 on the principal, which would make an average payment of approximately \$425 to be paid out in 25 years. It would not be that much, but nearly that. Now, a

100-acre farm on that basis is not beyond the reach of the young farmer of intelligence.

Mr. COULTER. No; I think not. He probably could pay it out in 15 to 20 years.

Mr. HAYES. And maybe 10.

Mr. COULTER. Yes; maybe 10. But I think you must allow for the maximum period, because of the very fact that on many of these farms they may have years of some setbacks, and they may have other sources of expense. They may want to improve their homes and put in running water and things of that sort, and might not want to pay it all back at once. And I do not believe they ought to be obliged to.

Mr. HAYES. Of course not, but the question is how much?

Mr. RAGSDALE. Aside from that, if we are going to bring several millions of acres into farming which are not now in cultivation it would take some years before any of that land would return anything on the investment?

Mr. COULTER. That is true. But I want to say here, for the benefit of the committee, that the commission that studied it (and Mr. Moss is here, and I would be glad if he would correct me if I do not state it right) considered for weeks a proposition to incorporate in the bill suggested a provision something like this: "*Provided*, That the farmer shall not be required to make any repayment, aside from his interest, for a period of five years after negotiating the loan"—

Mr. RAGSDALE. I think that is very wise.

Mr. COULTER (continuing). "Or provided that any bank may suspend repayment on the loan for a period not to exceed five years."

Mr. RAGSDALE. I think that ought to be mandatory when going on to new lands.

Mr. COULTER. The idea was that the farmers in taking up new lands or just starting in might find it all they could do to pay the interest the first few years, and also that in some districts a failure of crops for two or three years might make it desirable to allow the banks to suspend payment for two or three years. However, we did not include that in the bill suggested. It was discussed more or less, but it was thought possibly that was making it too easy or that it would open a loophole, which might not be desirable. But I think it is a wise thing to be thoroughly considered by your committee.

Mr. HAYES. The reason why I am asking these questions is that I have a little doubt in my own mind whether it is advisable to encourage a system of going into debt by farmers generally for too long a time. Taking the concrete instance you suggested of your brother, is it not very desirable while he is young and his family is young—supposing he is raising a family—is it not desirable that he should limit, or as nearly as possible limit, himself to pay off that obligation to as short a period as possible, so that when his family arrives at maturity and he wants to educate his children he will have the money to do it with? And is it not also desirable, from his standpoint, to pay the debt while he is young and full of ginger and likes to do everything he can, and then after he gets along to 50 years old he would like to let up, and it is desirable that he should let up? Don't you think there is a possibility of running on the wrong side of

this proposition and encouraging the farmer to extend his debt too far into the future?

Mr. COULTER. And yet you ought to consider that during the first 10 years the farmer has no assistance from his family, you might say, and it is all expense, and then when his boys begin to get from 10 to 15 years old they will be able to help.

Mr. RAGSDALE. But, aside from that, why should the farmer be denied what all of the cities and towns and the railroads companies and all industrial companies are entitled to; they have a line of credit and their bonds are accepted into the Treasury as a basis for currency? Why should the only producing class be discriminated against?

Mr. HAYES. That is not the same case; that is a municipality.

Mr. RAGSDALE. He is in the same class as railroads and industrial companies, and he ought not be to discriminated against.

Mr. HAYES. Few of their bonds go beyond 20 years, and 30 at the outside.

Mr. WEAVER. Let me make a suggestion that might prove of some value in connection with the period you suggest of five years when there ought to be no payments on the principal. Now, in Oklahoma there was a large tract of land in southwestern Oklahoma belonging to the Indians which the Government bought from the Indians and sold on partial payments to actual settlers. The farmers who came in there came with enough money to make the first payments, and did, but Congress for three or four different years was compelled by special act to extend the times of the maturing payments of these farmers for the reason they were not able to make out of the farms in the new State, starting off with the raw land, enough to make the payments, and they did not have other resources.

Mr. HAYES. You would not advocate a uniform compulsory provision that no interest should be paid for five years or payments on the principal?

Mr. WEAVER. I am simply referring to partial payments on the principal.

Mr. HAYES. I say you would not advocate any ironclad rule of that kind, but would merely make it permissible?

Mr. WEAVER. Not an ironclad rule, no; but I think it would be very well to provide for it in the bill, because when farmers settle on the land is when they need help the most, as Mr. Ragsdale stated.

Mr. COULTER. My idea was not that the interest should not be paid, but the principal.

Mr. RAGSDALE. As a matter of fact, during that period of time, the amount of improvement that is going on the land more than offsets the payment in the appreciation of the value of the property.

Mr. COULTER. It is very likely, too.

Mr. MOSS. If the Doctor will permit me, I want to give just an instance of my own experiences of the hardships of that kind. I grew up in a pioneer farm home and I have not had a university education because of the fact when I was at the university taking the course, I had to leave to go home to help my father to pay off the mortgage on his farm. It was one of the short-time loans, and it is considered in that country, of course, a disgrace if a man can not meet his engagements. So I went out of the university at the end of two years and went home to help my father pay off the loan. It was some-

thing that could have been paid off very well if he had had personal credit or a long-time loan, and I would have had the advantage of a university education. And I feel very strongly upon the proposition that one of the greatest drawbacks to rural life is this driving and grasping on the part of some people and, in fact, the driving of the whole family, to pay out the purchase price of the farm along just at the time the farmer's family is maturing and going out into life. And I sympathize with the Doctor very strongly on that proposition.

Mr. PLATT. Right there, could not the mortgage have been renewed?

Mr. MOSS. Oh, yes; but a farmer in any community has his reputation and prestige at stake, and if it is necessary for him to renew and continue a loan he loses his standing as a business man and his reputation as a farmer; and I think, ordinarily, when a farmer goes into debt, he likes to meet the terms of his engagement promptly, which is, I think, the rule with any good business man. It is not a question of whether he is going to make that much money, but can he constantly meet his engagements? And so if a person knows he has got to pay for the farm in five years and he feels that way, he, his wife, and children—he drives his whole family to try to make it in five years.

Mr. PLATT. I was wondering if it does not work out in many cases just this same way. Ought not the farmers, as other people do, just make partial payments on the mortgage rather than to let it stand for a good many years?

Mr. HAYES. My objection is largely met by a provision in the bill that the farmer can anticipate any payments if he chooses.

Mr. COULTER. It is very desirable to let him pay the debt off at any interest day, annually or semiannually. And I believe that farmers are anxious enough to get out of debt as a general thing, so that they will pay it if they possibly can.

Mr. RAGSDALE. Just a moment on that. If you were to write that into the bond, unless there was some further provision for handling them, would not that destroy the very purpose for which the bond would be ordinarily sold?

Mr. COULTER. It would have to be provided that an equal amount of bonds would be withdrawn at par whenever the principal of mortgages deposited as collateral was paid off.

Mr. HAYES. Mr. Ragsdale was not present when that was discussed, and for his benefit I will state that the bond is given by the bank, and a payment on the mortgage does not affect the bond at all.

Mr. RAGSDALE. It would, necessarily.

Mr. HAYES. Not at all.

Mr. RAGSDALE. I do not see how a bond issued with the mortgage as security could be left outstanding after the mortgage had been paid.

Mr. COULTER. The bonds must be retired or bought in at par or at the market price in proportion as the mortgage is paid off.

Mr. HAYES. Mr. Ragsdale has an impression that each bond is based on a specific mortgage.

Mr. RAGSDALE. No, I know differently from that, but I mean to say it would have to say on the face of that bond that it could be recalled, otherwise they could not get the bond back.

Mr. HAYES. Oh, no; that would not be necessary.

Mr. RAGSDALE. Unless you put on the face of the bond some such provision, you certainly could not retire the bond unless it was at the option of the holder.

Mr. HAYES. You could go out in the open market and purchase the bonds.

Mr. RAGSDALE. Then you would have to pay a premium?

Mr. COULTER. That would be a very good thing.

Senator HOLLIS. Does not the bill provide that the bond may be paid at any time?

Mr. COULTER. Yes, sir.

Senator HOLLIS. That is a part of the contract, that the bond may be paid at any time. That is the difference between the bond and the mortgage, as I understand.

Mr. COULTER. I think also the bonds should bear on the face, "Subject to call at par."

Mr. RAGSDALE. That is what I say, that it would have to go on the face of the bond and no arrangement in secret not appearing on the face of the bond would be good.

Mr. HAYES. But there would be no provision in the bond for a partial payment.

Mr. RAGSDALE. The partial payments would go to the bank, of course.

Mr. COULTER. Another reason why I think we need a system of long-time credits is the whole argument in favor of building and loan associations in the cities. Farmers need better buildings, not only for themselves but for their live stock. Particularly, that is true in the North. The reason that the farmer's boys and girls very frequently go to the cities is because of the fact that they do not have the kind of buildings that the folks in town have. It is not a pleasant thing for a farmer boy in the North to have to go out in the winter and bring in a few cakes of ice and melt them in an old washtub and go out in a cold room and take a bath, when his town neighbor can merely go to a spigot and turn it on and get warm water.

Mr. HAYES. It was still worse on the farm where I was when a boy. We had to pull the water out of the well with a bucket.

Mr. COULTER. Yes, sir; that is still worse.

Mr. HAYES. I mean to water the stock.

Mr. COULTER. To water the stock; yes.

Mr. WEAVER. It is not as bad as to have to haul it in barrels?

Mr. HAYES. I have done worse than that.

Mr. COULTER. But we need long-term credits now to make it possible for farmers to build up and improve their farms. The farm is a home as well as a place of work. I think we need it in order to make sure that tenancy does not get too far ahead so that we do not get too much tenancy. I do not think we are bad off at the present time in this country. In fact, I think we have an admirable condition for most of the country. The tenancy is not extraordinarily high in much of the country.

I think it not improper at all for a young fellow to start in as a tenant, knowing he is going to have opportunities as a tenant and get the advantages, that all hope for, to become an owner through that process. But we should provide for a system whereby the young man need not depend on inheriting a farm or getting the farm

by saving the principal, who, before he can buy a farm, goes out to some new section which the Government is opening up and takes his chances on what is left.

It was not so necessary to have any system to provide for him in the past, because the Government had plenty of land and gave an opportunity for the young man to go out and take up a homestead. But now we have reached the point where, in the filling in and building-up process, we need the system.

We also need this system of long-term credit in order to make it possible to refund the outstanding obligations the farmers borrowed for short periods for these purposes, so far as the farmers desire to refund them. I think that would be one of the biggest and best things that could happen, because it would tend, I believe, to bring the farmers more nearly on to a cash basis of doing business. If they could borrow a sufficient amount to straighten them out, to be paid off over a period of years, they could start out on a cash basis and get the advantage of the discount in buying for cash, and it would be an admirable thing. I know personally of the advantage it would be to a number of farmers who have written to me or to whom I have talked in the last few months, because I have been in 10 States talking to groups of farmers since I got back from Europe. I know they would take advantage of it for that purpose.

Naturally, there would be raised the question, if the farmers did borrow money, whether it would be used to advantage or not. I think it not improper to include in the bill a requirement that the money should be used for agricultural purposes, for the buying of land, improving it, or refunding of outstanding debts. At the same time, without any such provision, the farmers at the present time have borrowed and are borrowing, and I think it is safe to say that the great majority of the money borrowed, the great bulk of it, is borrowed for proper and useful purposes. There is very, very little of it borrowed for foolish purposes. An occasional farmer will borrow to buy an automobile when he should not have an automobile. Many of them may borrow to buy an automobile, and I think it is perfectly proper, if they find it desirable to buy an automobile, for them to do so. I know of nothing that has come onto the farm where I was brought up that was more useful as a farm tool than the motor cycle. I think it was as useful to the farm as the first manure spreader, and the cost did not differ greatly. The motor cycle made it possible if the separator broke down, or the thrashing machine broke down, to go to town, 6 miles away, in six minutes or a little more, and get the necessary part of the machine, the new cogwheel or whatnot, and to have it back and have the machine running again in a half an hour or so. The farmer used to put the horses in the barn and break up for a day or so until he could drive off to a neighboring city to buy the part, and he would be losing time while his crop was getting too ripe, and a wind might come up and shell out half the price of the farm. I believe the farmers generally will use the money borrowed to good advantage.

Now, I would like to take up the answer to another question. I have been discussing the question, Do we need a system of long-term credit? And I think my answer clearly is, yes; we need it. How, now, are we going to build up a system? The strongest argument that came to me for a number of months was to adapt the building

and loan association, because in some States the building and loan association was extending its activities out to the country districts to some extent. And I first was inclined to think that the building and loan association might do the business pretty well; but after studying it and after interviewing the leading officers of the national building and loan associations in this country, and writing letters and studying it, I have come to the conclusion that the building and loan association is not the organization for this purpose.

MR. HAYES. Excuse me, but is not this bill which has been suggested by the commission a modification of the same principles that underlie a building and loan association?

MR. COULTER. Oh, it takes some of the same underlying principles; yes. The building and loan association as we find it to-day is an organization where the same fundamental principles apply—amortization, small payments, so forth, and so on. But I want to point out why I believe it would be a failure to attempt to extend building and loan associations as found to-day in the cities out through the country districts and have them do both types of business.

First, the building and loan association is a local institution and depends on the savings of the members for the money which is used to negotiate loans. Now, I want to point out that there have been attempts in the last quarter of a century to establish national building and loan associations—interstate building and loan associations, building and loan associations to look after that business in several cities—and every one has gone out of business. But that is an unimportant consideration. Past experience might not be the proper guide for future effort. The point is that the institution is a local institution and can do business only so far as local deposits are concerned. Its local loans and local deposits must equal each other, unless you provide for it a system of issuing bonds to bring money from the outside, or of buying bonds from the outside to use in surplus. But as I have gotten along further I have thought that would not be desirable and practicable.

Second, these associations are based almost entirely upon city needs and city conditions rather than country needs and conditions. A very important characteristic of the building and loan association is monthly, bimonthly, or weekly payments. According to the tables made, the amortization tables, the whole plan is on a large number of small payments. That is proper for the city. Almost everybody in the city receives a weekly or monthly salary or wage; or if he is a storekeeper or in some other similar business, or a lawyer or doctor, his fees and income is regular and normal throughout the year—practically so.

The farmer is in an entirely different kind of business. Except for the dairy farmer and the poultry farmer, you might say, practically speaking, the farmer's crop comes in once a year—that is, the big bulk of it. Provision should be made, generally speaking, for annual payments, although possibly in some sections they could be made semi-annual. It is barely possible that the dairy farmers and the poultry farmers might even take advantage of the monthly-payment idea.

MR. PLATT. Why do you say it is "barely possible"? Is it not a fact that they get their money monthly, as a rule—the dairy farmers?

MR. COULTER. I say it is barely possible that they might make monthly payments, and I think provision should be made for them,

although I think that they could be taken care of in another way. I think as members of the bank they could make deposits as the money came in, and then when the semiannual or annual payment was due they could make their payment.

Mr. HAYES. Don't you think it well to leave that to the individual case?

Mr. COULTER. I think you might require annual or biannual or more frequent payments if desired.

Mr. HAYES. Oh, yes.

Mr. SELDOMRIDGE. To what extent is the value of diversified farming becoming established in the country?

Mr. COULTER. I think we are having more diversified agriculture. But even though it is diversified, the crops still largely come in at certain seasons.

Mr. SELDOMRIDGE. Don't you think it would be a benefit to the farmer that he should be taught the value of having something in connection with his farm that will be a constant source of income to him rather than to depend entirely on the crop?

Mr. COULTER. I think so. And yet they must depend upon the cereal crops, the corn and the wheat, and those two are the principal crops, and then cotton is next, tobacco is next, fruit is next—practically all mature in the fall, and you can not change it. The only change you can make is a little bit of poultry and meat animals and have a few subsidiary crops that might be raised in connection with the others. So that everything we can do in order to perfect any such system will not affect the principal. I am heartily in favor of every chance being given to try to encourage diversified agriculture, so that the farmers will have several crops and sources of income.

Mr. PLATT. Don't you think the dairy farmer in the milk business, as a great many of the farmers in New York, New Jersey, and Pennsylvania are, who sell their products every day and receive checks once a month—wouldn't you say the building and loan association idea would be just as applicable to him as it is to any laboring man?

Mr. COULTER. No; I would not. I think he could adapt himself to the monthly payment plan all right. That is all right, but you have your other point. Your building and loan association has no outlet for its surplus deposits or any source of supply if outside money is needed. That is, you would have places where you need money from the outside with no way of getting it, and you would have other districts which have surpluses and no way of limiting their deposits.

Mr. PLATT. They borrow from the banks sometimes?

Mr. COULTER. That is a very exceptional and rare part of their business. But there is a third point I would like to make. The building and loan association expects the borrower to pay back the loan from the salary or wages received on the outside, or from the small amounts of similar receipts, small payments coming in gradually. And another thing, the money is used, intended to be used, and the home whole plan of organization is to use it in the construction of buildings. In the construction of these buildings I think that the longest term it is reasonable and safe, probably, to make loans would be a period from 10 to 15 years.

Now, I think it would be fairly possible for these building and loan associations to serve the farmers in a few States; in fact, these farmers who wanted to build dairy farms and equip their barns for similar purposes, because there would be first your local deposits, equaling your local loans; second, your monthly payment, possibly; third, your short period and amortization because of your building feature in it; your provision for insurance attached to your loan for protection for the company—all of the characteristics seem to fit in fairly well for the purpose. But for the buying of farms, the buying of land with a long period of amortization, with annual or semiannual payments, for getting money from the outside—it does not seem to me the building and loan associations will serve for the country. I think they are a very admirable institution.

But I want to point out one or two other features, and that is this: The building and loan association is such an admirable institution I would like to help it standardize itself, to get busy and perform its functions. Let me give you one or two facts I think the committee might well consider in this connection. You take the whole United States: There are twenty and a quarter million homes in country and city. A little over 6,000,000 of those are in the country and 14,000,000 are in the cities, villages, towns, and boroughs. Now, in the country, out of the 6,000,000, 3,840,000 are owned and about 2,270,000 are rented. In other words in the country, 63 homes out of 100 are owned and 37 rented.

Now, turn to the city. In the cities of this country, out of 14,000,000 homes, only 5,250,000, or 38 out of each 100, are owned by the occupants, and nearly 8,500,000, or 62 out of each 100, are rented. The building and loan associations of this country have an immense work if they can do it, for 62 homes out of every 100 in the cities are occupied by renters at the present time.

Mr. PLATT. Right in that connection: What do you figure as homes? The whole tendency of modern city life seems to be to house the people up in apartments and tenements.

Mr. COULTER. That is a very small thing yet. The great mass of the people are in the smaller cities and towns and villages, and it is limited to a very few of your big cities where apartment houses have sprung up to any large extent. You generally do not find apartment houses in cities of less than 100,000, practically, at all—at least they are still very, very few in number.

Mr. SELDOMRIDGE. They are coming very fast, Doctor.

Mr. HAYES. Yes; I can show you some in towns of 3,000.

Mr. COULTER. There are very few yet. I looked into this whole question to some extent. I have been trying to find out for the past six months, since the idea first came into my mind, which was at a Milwaukee meeting of the association, just what the situation was.

Mr. RAGSDALE. And is it not a fact that a large percentage of the people who are in apartment houses to-day would be boarding if they were not in apartment houses?

Mr. COULTER. I think many of them would.

Mr. SELDOMRIDGE. But I think there are more and more adopting that kind of a life rather than building homes.

Mr. COULTER. I think it would be just the opposite if the building and loan association performed its function as it could and should

do. The reason many live in apartment houses to-day is because they can not buy homes under present arrangements satisfactorily.

Mr. PLATT. I do not think that is the reason.

Mr. SELDOMBRIDGE. They pay more rent in apartment houses than they would have to pay to live in a home.

Mr. COULTER. I think you will find that the payments they would have to make in buying a home as things are now would more than amount to what they would have to pay as rent.

I have a list here of all the building and loan associations of the United States. There are 6,273 of these associations with two and a half million members. At the present time in the District of Columbia there are 20 such associations with 32,000 members right now. They are building and working that line here. The need for it is immense.

Mr. PLATT. What reason is there why the farmers can not organize these associations in very small villages and hamlets, perhaps, among themselves?

Mr. COULTER. I think they could if the local deposits would be sufficient to handle the demand for loans and if they would change it to biannual and annual payments and extend the loans over a longer period.

Mr. PLATT. They have done that in Ohio, apparently.

Mr. COULTER. No; the Ohio loans are still for short periods. I think they do not extend over 12 years, I do not think any of the loans extend over 12 years, and they are trying the biannual payment. And of course the reason they are doing that is because their deposits exceed the demand for city loans and they are trying to find an outlet out in the country districts; they are trying to make use of their surplus funds in that way. But I feel pretty confident from all the information I have that it is an attempt to hitch up a milk cow and have it do the work of an ox, or possibly to hitch up two milk cows; and I think it would be better to have one good milk cow and one good ox.

Mr. HAYES. I sympathize with your idea about extending the building and loan association to the country; but what do you say to our proposition of standardizing them just as we are proposing to do with the rural credits? Don't you think that would give them a great impetus?

Mr. COULTER. I think it would be an admirable thing. But I want to add one further argument to what I have said. I have taken now all the homes in the city occupied by their owners and have gotten hold of the information of the usual extent to which they are paid for and the extent to which they are mortgaged, and of the people who do have their homes in the city, of this 5,000,000 out of 14,000,000, about one-third of them have mortgages. Now, then, in the first place you have approximately two-thirds of all city families living in rented places and of those who live in their own homes one-third of them have mortgages on their homes. And I think it would be a perfectly fine thing to do to help the building and loan association movement—I am not much on trying to work out city reforms or improvements—but I can not see from my study of it why it would not be just as justifiable to do that for the city as to do this other for the country?

Mr. RAGSDALE. How do you propose to exempt them from taxation?

Mr. COULTER. Let the associations issue bonds.

Mr. HAYES. And let the bonds be exempt.

Mr. RAGSDALE. How could you do that with a municipality?

Mr. HAYES. The lands would be taxed, of course.

Mr. RAGSDALE. The lands would be.

Mr. HAYES. But not the mortgage.

Mr. RAGSDALE. The mortgage would be, too.

Mr. HAYES. It should not be; it is not in California.

Mr. RAGSDALE. It would be, and how in the world is the United States Government going into a proposition of that kind? It would be utterly impossible as a legal proposition for it to go into a proposition of that kind.

Mr. PLATT. They are included in this bill, if you read it through carefully.

Mr. RAGSDALE. For a municipality I think it is impossible.

Mr. SELDOMRIDGE. We are going to exempt mortgages in the States from taxation.

Mr. RAGSDALE. From United States taxes only.

Mr. SELDOMRIDGE. From local taxation—

Mr. PLATT. From local taxation, too. You read this bill and see if it does not extend its provision to those places where they do not allow mortgages to be taxed.

Mr. RAGSDALE. You might do that in one or two cities, but you take the whole United States and it would be impossible.

Mr. HAYES. The taxation of a mortgage is a double tax anyway, and unless the amount of the mortgage is deducted from the assessed valuation of the land it ought to be exempt always.

Mr. RAGSDALE. Still we would have no authority to go in and do it. We could not standardize that.

Mr. HAYES. That is a question. I do not know. It is necessary in the system we are trying to organize, and if the purpose of your system is national in its character I think it is pretty reasonable that we could do it.

Senator HOLLIS. If we have a right to establish these banks as a part of the agency of the Government, I suppose we have a right to exempt them from taxation. But I agree with Mr. Ragsdale that it is something which has got to be very carefully considered, and that we will have to take the very best advice on it.

Mr. HAYES. I know I am not entirely satisfied. I used to think I was a lawyer, but I do not any more.

Senator HOLLIS. Mr. Coulter, in my State the feeling is that building and loan associations furnish splendid investments, but rather a poor place to borrow money; that under the system in vogue it is rather an expensive place to borrow money, but a good place to invest. Is that your conclusion?

Mr. COULTER. It depends on the part of the country. In parts of the country where the surplus is on the side of deposits you have one situation; in parts of the country where the surplus is on the side of demand you have another situation. I had a chance to talk with some gentlemen from Colorado and South Carolina who are keenly interested in building and loan associations and to compare the different views, and they absolutely took opposite positions. Now,

their positions were so opposite that I got to asking questions, and it finally turned out that one was in connection with an institution where they had a hard time to find a place to lend the great amounts of deposits that they could get. The other was hunting for outside money. I said that the difficulty there was merely that there was not a system of interchange between the cities by issuing bonds and letting them be sold in outside districts—of getting money in or getting it out.

Senator HOLLIS. I think the reason is in my State that the savings banks furnish money so cheaply and they furnish such a large margin of the value of the property that loans are made very largely at local savings banks.

Mr. COULTER. Yes, sir. In that connection I think it should be borne in mind that the mutual savings bank is not a national institution in this country. The mutual savings banks are found only in New York and New England and down the line along the eastern coast, but when you get as far west as Wisconsin you only have one or two in the whole State. I doubt if there are any below the Ohio River, and I do not recall now how it is in the Far West.

Mr. HAYES. Yes; we have some in California.

Mr. COULTER. The number is so small when you get out of the old northeastern section that they are not important institutions. And in that district you have a big question as to how badly you need institutions like farm-land banks.

In the north of Italy they have what they call people's banks and savings banks which do practically all of the business. Now, the people's banks and the savings banks are practically not found in the south of Italy, and from Rome south the Italian Government has gone into the business of providing special laws for each Province to provide for a system in the particular Province, because of the absence of these banks; but it must be remembered that there the people's banks and the savings banks in northern Italy, very early in the game, got in the habit of issuing bonds in order to get money and they put their collateral in back of the bonds which take the place of a system for special land-mortgage banks.

Senator HOLLIS. I would like to inform the committee that even in my section, where we have a great many mutual savings banks—for instance, in my own town of only 20,000 people we have one bank with deposits of \$12,000,000, and then we have two other mutual banks not as large, but with millions of deposits; and these banks do not like to loan money to the farmers for the reason, as the doctor has stated, that they do not want to hitch up a buggy and drive out 5 or 10 miles to look at the farm. And I have found they seemed to prefer to invest in western farm mortgages that are looked after by some agent whom they trust than to loan money on local farms right in the same town. I have objected and brought it up in trustees' meetings and insisted that they should loan to local farmers even if there is some little expense attached to it. But there is that disinclination.

Mr. PLATT. As a matter of fact, Senator, don't they prefer to loan money in the city of Boston rather than in the city of Concord?

Senator HOLLIS. I think in the city of Concord they are glad enough to loan money in the city there, but the minute they get out-

side where they can not reach things with the street cars, they are not interested.

Mr. PLATT. In my own town, as I have said in these hearings once or twice before, they have something like \$16,000,000 of deposits, and there has been some considerable complaint that they would rather loan money at 4 per cent in New York City than to loan it in Poughkeepsie at 5.

Senator HOLLIS. I would not say that.

Mr. PLATT. They loan out larger amounts, because it is more easily handled I suppose.

Mr. COULTER. The mutual savings banks in the United States, taking all of them, have resources of some \$3,762,000,000. Of those resources only 42 per cent were secured by real estate, including mortgages.

Mr. HAYES. City and rural both?

Mr. COULTER. City and rural both, and 46 per cent were secured by bonds and other similar securities. In other words, you take, then, all of the mutuals and only about two-fifths of the resources are secured by mortgages and similar instruments.

Now, I think the next question, really—the one that strikes me most forcibly—is whether the National Government or State government shall make loans or guarantee the loans, or merely grant charters to institutions to do that. I would like to say a few words on that, because it is a subject very close to my heart.

Russia finds it is necessary to make direct loans, practically speaking, through the nobility and the peasants mortgage banks of Russia. In fact, the Russian Government will issue her own bonds and raise money in that way in order to lend it out through these banks. But so far as I know very few other Governments have done anything of that sort except in so far as they have had trust funds left in their care and found it desirable to invest them. Some Governments have made certain appropriations or loans to institutions to get them started. Some Governments have also gotten into trouble doing that sort of thing. For instance, it may be that some of the committee have been on the committee looking into the Brazilian coffee troubles. You know that one of the States of Brazil, the State of Sao Paulo, decided that she would help the farmers of that State who were practical coffee raisers to hold their coffee in great warehouses, and the good Lord seemed to be against the State government, for year after year there were plentiful crops and the farmers did not seem to appreciate what the State was doing, because they cultivated deeper and planted more trees and raised more and more coffee because they were getting good high prices for their coffee. And the poor State, which is really a very rich and magnificent State in that great nation, the State of Sao Paulo, was finally nearly forced into bankruptcy and had to call upon the National Government of Brazil to help. And I think we have seen enough in the press and enough of the reports from our consuls and ministers to know of the trials and tribulations which resulted from that particular enterprise.

It is true, and there is no need in trying to deny it, that different nations have attempted to deal directly with the farmers of those nations in various ways.

Mr. RAGSDALE. When you spoke of the system down there in Brazil that would not apply to the loans in this country, because the loans made in this country are made for a different purpose. The loans down there depended on the buying and selling of the coffee, but this loan is made for the purpose of its increasing the production of the land itself, and does not depend on the sale of the product, and therefore the entire principle would be different.

Mr. COULTER. My only point was that the National Government, in going into the business of dealing directly with the individual for the purpose of making loans for any purpose, takes a chance in getting so far in that all sorts of problems have arisen and have been followed by petty revolutions, and so forth. And I would say further, just at that point, that nations that have started in loaning to farmers have found the city folks wanting to borrow also, so as to buy homes—to have homes.

Mr. BULKLEY. Doctor, we would be very glad to have you elaborate that fully. That is a matter which has come up a number of times and we would be glad to have you tell us the extent of their experiences in detail, if you can?

Mr. COULTER. The Russian Government is the best illustration, I think, of a National Government trying to loan directly and to handle directly the problems of individuals, and they have done it purely in order to solve the great social and economic problem in their country. The peasants of that country, 7 out of 10 people of the whole Empire, were absolutely illiterate. It seemed absolutely impossible for the peasants to organize any kind of an institution whereby they could themselves become owners of property. The Russian Empire, then, as a national problem, not leaving it to the separate States to do it, took up the problem and worked it out for all different parts of the Empire. They would say that in a certain State—or they called it a “local government” there—a certain number of acres (or using the Russian unit of measure) was about the right amount for a family to try to farm, because it was very rich land and very productive. In other districts they would say twice as much or 10 times as much should be allowed, and then they would give a long period of time in which to pay this money in. The return payment was really a system of taxation.

Mr. HAYES. Those peasants were all slaves a few years before—practically slaves?

Mr. COULTER. Yes, practically so.

Mr. HAYES. Serfs?

Mr. COULTER. Yes; called “serfs.”

Mr. HAYES. That is the reason for that.

Mr. COULTER. The idea was to make them owners of property and establish them as independent farmers. The Prussian Government found, I think, I am not much on history, that even using the power of taxation and actually collecting the annual payments as they would collect taxes, that in many districts if there was a bad crop they could not collect. They could postpone payment, to be sure. But if the peasants did not do the work they should, and if they could not raise enough money, actually could not get enough money to make their payments, the Government either had to postpone the payments or send the officers out to seize the property. And then what were they going to do? Send the peasants to Siberia? The Government

could not really do anything except to give them land in Siberia. It started out to give a sort of homestead right and there I understand that there has been about 1,000,000 families which settled in Siberia. The Russian Government continued, however, wherever necessary to postpone the payments. Eventually, after the period of time which was originally intended by the Russian Government for all of these serfs to pay out, there had been so many postponements, so many delays, that at that time, which was a few years back, there were still these local uprisings and peasant revolts, and so the Russian Government canceled—the Russian Government had already made the payments to the original land owners—and the Russian Government canceled, I understand, hundreds of thousands of what were originally intended to be sales or loans. That is to say, so many serfs had failed to pay out in that length of time that instead of continuing to try to collect from some, when they had done all they could and worked just as hard as they could, it seemed necessary to cancel all of those and start all over again.

Mr. HAYES. When did they do that?

Mr. COULTER. I think that was about 10 years ago.

Mr. RAGSDALE. If the Russian Government had tried to aid the peasants by loaning through private banks, and then the banks had called upon the law courts to enforce the payments, in the endeavor to enforce those payments would it not have been necessary to use the officers just as it had to do in making the loan direct?

Mr. COULTER. Oh, yes.

Mr. RAGSDALE. Therefore the principle as to whether or not the money was advanced direct by the Government would not apply there?

Mr. COULTER. My point is that the Government went into the business of lending to its citizens and finally gave up trying to collect these loans and canceled them and said, "The land is yours."

Mr. RAGSDALE. The Government had the land just as this country did out in the West, and that is the reason.

Mr. COULTER. But the Russian Government canceled the loans to get rid of them, and got rid of them in that way.

Mr. RAGSDALE. One question right there. Has the Russian Government abandoned the principle of direct loans?

Mr. COULTER. The Russian Government is still trying to break up the large estates and has established or reorganized an institution very recently—

Mr. RAGSDALE (interposing). And is still loaning directly?

Mr. COULTER. No. It has perfected an institution very recently, and I would like to say just a word or two about it, although I can not go into great detail. They reorganized what is known as the Peasants' Mortgage Bank. It is a national institution with a Federal charter, or a national charter, or whatever you call it. Now, there is in Russia what is known as the Nobility Land Mortgage Bank. It is an institution where noblemen have borrowed large amounts of money, and if they do not pay it back, or if an agreement can not be reached, the Nobility Land Mortgage Bank will take over the property. It is not exactly a foreclosure, although in many cases it is really a foreclosure. It in turn will turn that estate over, sell it on the books, to the Peasants' Land Mortgage Bank, which, in turn, before it takes it over, has it surveyed and so forth and divided

up and sold without any original payment, practically, to the peasants and they are allowed a long period of time in which to complete the payments. This is all done through an institution known as the Peasants' Land Mortgage Bank. A more or less detailed description of this is found in the report of the commission (S. Doc. 214).

Mr. RAGSDALE. That institution, however, is controlled by the Government?

Mr. COULTER. By the Russian Empire; yes, sir.

Mr. RAGSDALE. And therefore it is practically a direct loan of Government money to the peasants for the purpose of buying land and securing homes?

Mr. COULTER. The Government does guarantee it. I say Russia is a country which has tried Government loans direct to the individual, which has tried to educate them and tried to establish them on independent farms, and it finally had to give away land which it had to buy from the original owners. Russia attempted to establish them as independent farmers. Now, in another way, that is exactly what England and Ireland are doing. In Ireland in the last few years, they have established about 385,000 farm tenants as new owners. That is being done—

Mr. BULKLEY (interposing). Just one question before you get away from Russia. You stated about 10 years ago there were a good many cancellations. Since that time how has the system operated?

Mr. COULTER. At the original freeing of the serfs, the serfs were given such a small parcel of land that it turned out that few of them could make a complete living on that. They had to work part of the time outside for the former landlords, the heads of the property which was operated by the former owners, so that they were part laborers and part operators. Now, the Russian Government desired to practically completely obliterate the old community settlements and place the individual farmers out on individual farms. In doing this their dealings are through the peasants' bank that I referred to. The idea is that this bank can go out and survey all of the land of the community, divide it up into tracts, make independent farms, and reform or reorganize the whole community and lend the peasant the money to build a home out on the independent farm, so when he leaves the little community center and takes up the independent farm life practically his entire resources except a few acres which he got through a long period of years come through the peasants' bank, which has borrowed on the property.

Mr. BULKLEY. Then the peasants' bank has been organized for about 10 years?

Mr. COULTER. The exact date of that is in Senate Document 214. I have forgotten just the exact date. But during that time if my memory serves me rightly, there have been three-quarters of a million independent farms started; that is, that many have changed from the old community form to the independent form.

Mr. BULKLEY. And have the farmers paid up?

Mr. COULTER. Prior to that time?

Mr. BULKLEY. No; since that time; during the operation of this bank—have the farmers paid up well?

Mr. COULTER. Generally speaking. There are some portions of Russia where they have had pretty hard times. Mostly they have

had comparatively good years and made some progress, and they are paying right along. In some districts land values have gone up faster than in this country. In some places they have doubled and trebled and quadrupled.

Mr. BULKLEY. Would you say on the whole the system is successful?

Mr. COULTER. I would say it is working in that direction.

Mr. RAGSDALE. Even if the Government lost a great deal of money, the operation of the scheme has resulted in bettering the conditions and placing the peasants on independent farms?

Mr. COULTER. You might say so. The peasants were absolutely illiterate serfs, numbering 6 or 8 persons out of every 10 in the whole Empire, and they had no great free lands to give away such as we had. Although my observation of the Russian experience is actually only confined to a few weeks' visit, I believe it is doing a very fine piece of work. But I do not believe the conditions apply at all to this country. I do not believe we have any of the same problems or characteristics in this country.

I think that the only other big illustration of the Government going into a similar task is found in the Irish movement at the present time. I do not think we have any such trouble in this country as Ireland has, and therefore I do not think that their solutions are at all applicable.

Mr. BULKLEY. How has that worked?

Mr. COULTER. The exponents say it is doing perfectly wonderful things and the opponents say it is not doing so well.

Mr. RAGSDALE. That started originally, I believe, by an act of Parliament putting it into effect?

Mr. COULTER. The Government itself took over those estates through its proper officers and looked after a division of the estates and apportioning them out to the tenants and then handling of the collection. They extend the longest period, I believe, of 87 years for a complete repayment for the land itself—87 years.

Mr. PLATT. The tenants on those Irish estates have lived there a good many years?

Mr. COULTER. Generally speaking, they have lived there through years and years. Now, there have been some very hard things come out of it, they say. One man told me that he accepted bonds in the payment for his big estate in Ireland, and that the bonds had gone down to about 87 and he had thought he was selling at 100. But he was getting at the rate of, say, \$87 an acre instead of \$100 an acre. And there were many things of that sort, but I was not long enough in Ireland to pass personal judgment on how it was working out. There seemed to be great deal of personal conflict of opinion. However, the fact is that about 385,000 former tenants are now owners. Of course many of them have 80 years yet to pay out, but they are owners.

Mr. RAGSDALE. There is not any question, without regard to the loss probably to the individual selling the land and becoming the holder of the bond, but what the system, as a whole, is very beneficial to the former tenants of Ireland.

Mr. COULTER. There is no doubt about that.

Mr. RAGSDALE. None.

Mr. COULTER. I think the tenants are much better off as owners and have a much better chance to make progress.

Mr. PLATT. Would you not say that a great deal of the conditions in the South regarding the negroes, for instance, are somewhat similar to the former serfs in Russia?

Mr. COULTER. No; I should not say that the conditions were anything like the same.

Mr. PLATT. The Russians lived in communities and held their land in an entirely different way from anything that has ever been done in this country?

Mr. COULTER. The conditions were very, very different. The conditions here have been such that in a comparatively few years instead of being practically all illiterate as the Russians still are—the Russian peasants are practically still all illiterate—very few of our negroes now are not able to read and write. Comparatively here, in a few years, since they have had the opportunity, the opportunity to buy seems to be perfectly open and free, they are buying by the tens and hundreds of thousands. It is not the same problem.

Senator HOLLIS. I am quite interested in that. I do not remember just the source, but I got the impression that the majority of the negroes can read and write in this country.

Mr. COULTER. Yes, sir; they can.

Senator HOLLIS. Is that an actual fact?

Mr. COULTER. Yes; the statistics show that.

Mr. RAGSDALE. Oh, yes.

Mr. COULTER. Do you know what the percentage is?

Mr. RAGSDALE. No; I do not remember just now, but there is not any question about a large majority being able to read and write.

Mr. PLATT. The percentage of illiteracy among negroes in any State is not over 30 per cent, is it?

Senator HOLLIS. Oh, that is a very small degree of proficiency.

Mr. COULTER. Oh, yes; the percentage of illiteracy is above 30 per cent in several States. There are institutions all through the country that are working for the education of the negro.

Mr. RAGSDALE. The truth of the matter is that the great influx of foreigners coming here to-day is more illiterate than the negroes.

Mr. PLATT. That is not proved by statistics in any way.

Mr. RAGSDALE. I think it is.

Mr. BULKLEY. I think we are getting quite away from the subject, and that is a matter which has a good many kinks to it.

Mr. COULTER. That is a fact that can be proved one way or the other. It is a fact that for the negroes of Memphis—I had a letter the other day on the subject—there is a higher percentage of illiteracy than for the most illiterate borough in New York City.

Mr. RAGSDALE. I know New York is looked upon as one of the illiterate States of the Union.

Mr. PLATT. Its percentage is very low as compared with any of the Southern States.

Mr. RAGSDALE. I am not sure about that, with this recent crowd. I take it to be the fact that it was with the old crowd, but the new crowd is coming up pretty high.

Mr. BULKLEY. Mr. Ragsdale, if you would like to have it, we will have Dr. Coulter insert in the record the statistics on that point.

Mr. RAGSDALE. I have absolutely no objection to it.

Mr. BULKLEY. I do not think it is relevant here, but if you want it we will put it in.

Mr. RAGSDALE. I do not think it is of enough importance.

Mr. COULTER. Russia and Ireland are the best illustrations on the part of a national government attempting to actually go into the business of loaning directly or financing individual farm enterprises. It is true that we have a lot of other small illustrations that could be picked out. At the present time I believe that the German Empire is trying to help establish the Germans on farms in the northeastern part of the Empire and gives them an advantage over the Poles and Bohemians.

Mr. MOSS. I would like to ask Dr. Coulter if in that instance it is not only where the land is about to pass away from the German and over to the Polish?

Mr. COULTER. Yes. It is a matter of protection there. Our other illustration is the illustration that has been raised once or twice concerning our policy with the Philippine Islands. I noticed Mr. Norris's bill, which those who have studied it carefully will see at once, is adapting to the United States the provisions which are now maintained in the Philippine Islands. It so happens at the present time that I have a sister in the Philippine Islands, and her husband is treasurer and this bank falls under my brother-in-law's jurisdiction. I have talked with him many times when he has been over here and I am fairly well acquainted with their activities. In the Philippine Islands there is no doubt but what it is a special bank, but it is part of the treasury, as a matter of fact. There is no clerk hire at all for the bank, because the treasury clerks do all of the work; the institution is run as a sort of adjunct to the treasury. All of the effort is to try to establish titles on a sound foundation. The attorney general's office, or the proper law officers of the Philippine Islands, looks after the straightening out of titles without charge to the institution, and so forth. Therefore, between other bureaus, all of the work is done, so that there is practically no expense to the institution as such.

The last time that I talked with the man that is now in charge of this agricultural bank, the loans were made at 10 per cent, which was the minimum rate of interest. They were talking of reducing it. I have not had time since I saw Mr. Norris's bill to look into the present rates. The total number of loans up to that time was less than 200, the last time, I should say, about a year ago, that I was talking with him about it. And the whole effort is practically to try to bring some system out of chaos. They have not any system of recording their land titles at all, you might say; they have adopted the Torrens system of land-title registration under a Federal act, and there is a very definite effort going on there to straighten out the land question.

I should say that just the same as Alaska seemed to be an abnormal case in the establishment of a Government railroad, so the Philippines seem to be an abnormal case which called for special treatment to provide for the establishment of some kind of an agricultural bank. It does not seem to me to be at all a normal situation.

Mr. BULKLEY. How has it worked out there?

Mr. COULTER. It has worked in this way, that only a very small fraction of those who apply are able to get loans at all, because they have not the property, they have not the title. They could not get things straightened out; they can not prove any right to their land. The total number of loans up to date is insignificant. I doubt

whether it is more than 300 altogether. They have not had occasion to foreclose much. There have been two or three foreclosures; they had to straighten out a few kinks in that way. The loans are comparatively small and they have not done much yet; but it is an incentive and many people are trying to straighten out their land titles in order to get loans. But immediately they get the titles straightened out, then they find they can borrow cheaper elsewhere and go and try to do it.

My information, as I say, is about a year old, but it is from family connections. They are greatly interested in their experiment.

The provisions in the Norris bill, then, of having various other Government bureaus look after the inspections, the titles and so forth is taken from the method established in the Philippine Islands.

Mr. BULKLEY. Doctor, before you go on to another subject—I do not want to interrupt you—but if you are through with that subject, I would like to ask you how the Irish peasants have been paying out on their loans?

Mr. COULTER. They have been getting along pretty well; but it might be said that the amount which they are required to pay annually is very small—they try to adjust it so that it will be just the same, or almost identically the same, as they formerly paid rent to the landlord. The percentage which thus goes on to the payment of the land is so small that the general idea is that it will take them on an average about 87 years to pay out, which would mean their children probably would have to do part of the paying. But they are definitely establishing them as owners on those estates, I should say.

Mr. RAGSDALE. And as I understand it, Doctor, the land is improving under this system; they are better satisfied and the probability is they can increase the amount of their payments after a time?

Mr. COULTER. I should think so. I think probably a part of the improvement in the agriculture is because of the establishment of the department of agriculture. They have now traveling lecturers and local demonstrations and special schools, and they are getting ahead by leaps and bounds.

Mr. MOSS. In that connection, Doctor, is not one of the big things of the Irish agriculture that they are going from grazing into intensive farming?

Mr. COULTER. Yes; they are going into intensive farming.

Mr. MOSS. And but a small part of Ireland has ever been cultivated—in some cases less than 5 per cent.

Mr. BULKLEY. Now, what can you tell us about Government loans in New Zealand?

Mr. COULTER. I really can not tell anything more than a few things I have read, but I could not add anything at all to what you all probably know much better than I do.

I wanted to say just a word about loaning through local associations. Mr. Bathrick's bill and Mr. Huling's bill struck me, I thought, as primarily suggestions along that line. That is the movement that they are now working at in the southern part of Italy. In the southern part of Italy there are special laws for the various Provinces—you understand that the people of the northern part of Italy are very much more highly educated and there is a better system of agriculture than in the southern part of Italy—(I do not know much by personal

visit there, but by talks with others who studied the southern Italian method of long-time loans, I got this general notion of it)—the provisions of law are that the institution established can lend through any kind of a local association doing a credit business. They are encouraging the establishment of little Raeffeisen societies and peoples banks and marketing societies all through southern Italy, and helping in every way they can. Provision is made that the land bank, for instance, will be created for the Province of Latium, or the Basilicate or Sardinia. This institution does business through local associations, the idea being that the local associations will get all of the local information, all of the details there, and will be able to advise the land bank, and will also guarantee the loans and act as a go-between for that institution.

I was sorry afterwards that I did not go further down into that. I did not know about it at first. It is very new, as a matter of fact, and there is very little experience on it. I found, after I had gotten nearly ready to come home, that they were definitely working in that direction.

Mr. BULKLEY. Is that a new thing, Doctor? Is that different from anything that is done in the other countries?

Mr. COULTER. So far as I know there has been very little use of other local units to handle such business.

Mr. MOSS. Would this be a difficulty in that way, that where they are loaning for 50 years and the association that guarantees the loan being voluntary, is not the organization apt to be dissolved during the life of the guaranty?

Mr. COULTER. The organization would not be allowed to liquidate or go out of business without leaving securities to cover its guaranty.

Another thing that might be said of the local societies, which are considered as local units for all sorts of negotiations, is this: They are practically perpetual institutions. In fact, they practically can not die. In the first place, they have got to accumulate a surplus, and then there is no way to get rid of that surplus. They are absolutely prohibited from dividing it among the members and quitting business. If they go out of business, the money must be used for some purpose of public welfare or placed in some sort of a trust fund to take care of the poor people of the community or for some other good work. And therefore those local societies are practically absolutely permanent; they can not die. They have a fund there that is perpetual, and that is their reserve as they accumulate it.

Now, I would like for the few minutes that are left to refer to one other question I have given considerable study to. It may not be a point to which you would want to give much thought. It is the question of whether a central institution is needed, or not.

My office at the present time, temporarily, is studying the matter of State, municipal, county, and other government debt, sinking-fund assets, and related points, in connection with the decennial inquiry. There are in the United States some 3,000 counties, nearly as many cities, towns and villages of over 2,000 population; and there are 10,000 smaller towns and villages. And then there are thousands of road districts and drainage districts and irrigation districts and school districts—even precincts—very, very small units.

Almost all of these in most States have the right to borrow money, if they can get it, for improvement purposes, and they are required,

of course, to create a sinking fund and the debt is paid back by taxation. This was the thing that struck me, that these independent little cities, towns, villages, boroughs, counties, road districts, drainage districts, and so forth, where able, without any great central institution, to dispose of their bonds satisfactorily. Now, the total number of those is immense. There are thousands and thousands of them. I have been perfectly amazed in gathering the information for the use of the Government on that point. And they borrow very small amounts. It is found that these little units will borrow \$5,000, \$10,000 and create a sinking fund and gradually pay them off. Of course, they are backed by taxation and as I say, they borrow very small amounts.

Now a farm land bank with a capital of \$10,000 could issue \$100,000 worth of bonds or even \$150,000 worth of bonds and would be perfectly safe. In some European countries they are allowed to issue 20 times the paid-up capital. That is to say a \$10,000 institution could issue \$200,000 worth of the bonds, obligating the land is all the security that is necessary. It seemed to me at first, I must confess, pretty necessary to have some sort of a central institution, one for each State or one for the United States, until I commenced to see the thousands and thousands of institutions and organizations that were issuing bonds and found a very good market for those bonds.

Mr. HAYES. At 5 per cent, usually?

Mr. COULTER. Some cities because they found the local men willing to take them—

Senator HOLLIS (interposing). And tax exempt?

Mr. COULTER. Yes; tax exempt—issued them at 4 per cent.

Mr. HAYES. The little school districts in my State can sell bonds at 5 per cent at par.

Mr. COULTER. Yes.

Senator HOLLIS. Can you tell us just exactly what per cent of those is sold directly from the district issuing them instead of through bond houses? There is quite a good deal of talk along that line.

Mr. COULTER. I have tried to find the information but I can not give anything accurate at all.

Senator HOLLIS. I saw by the papers that the treasurer of Massachusetts has just sold a large quantity right through the treasurer's office.

Mr. HAYES. At what rate?

Mr. COULTER. They called for bids, and then they picked out the best bid and said now we will sell direct to the people at that bid and give them the benefit of the bid.

Senator HOLLIS. That was rather rough on the bidder.

Mr. COULTER. It was, but that is what they did.

Mr. HAYES. What was the rate?

Mr. COULTER. I do not know—4.37, or something like that. I know it got down into very fine fractions. The bids were very close, some of them, and the best bidder, an underwriting house, agreed to take all at a certain bid and then the State said that is the price we will sell for now and let the public subscribe for them.

Mr. SELDOMRIDGE. At Colorado Springs I think they just placed \$100,000 or more at 4 or 4½ per cent, and they issued them in denom-

inations of \$100 as the lowest, and the people gladly came forward and took them.

Mr. HAYES. In California, San Francisco has been trying to dispose of some bonds for various improvements at $4\frac{1}{2}$ per cent, and they have had difficulty in disposing of them at par.

Mr. COULTER. It may be temporary.

Mr. PLATT. The rate of interest on bonds has shown a greater increase than anything else. For instance, it was not very difficult some years ago to sell municipal bonds in the northern cities, and I think even a good many small cities issued 3 per cent bonds. But now we have to pay $4\frac{1}{2}$.

Mr. COULTER. I think that is a good point, because I think the farm-land banks would beat the cities to it. The farm-land bank would have absolutely better than a sinking fund, because on the repayment of the mortgages the bonds are withdrawn to that extent. The trouble has been with the large cities that they have refunded and refunded and refunded and did not pay anything back. If they created a sinking fund, by the time that sinking fund is equal to the bonds, the property which they improved, the paving which they did or the building which they built has entirely disappeared and they have got to renew it in order to rebuild. Now the farm bonds which have a better market than those municipal bonds unless the municipalities of this country change their methods very materially.

Mr. PLATT. That might very well be true.

Mr. COULTER. The land-bank bonds would likely have a better place. But there is another side on that question - and I have tried to be fair - the Arizona counties and cities found it so difficult to get money at good rates that the State took over all of the county and municipal obligations, outstanding city debts, and refunded them as a State debt and then in turn holds each county and municipality in proportion to the amount which the State took over for them. The State then took over the bonds and sold them as State bonds and gets better rates of interest and gives the counties and municipalities in that State the advantage of this low rate. That is the only State I know of.

Mr. RAGSDALE. You mean by getting a "better rate" that it sells at a low rate?

Mr. COULTER. Yes, sir. Massachusetts tried the nearest thing to that, and that is established the metropolitan district, issues the bonds, and really the State is in back of them. The bonds are based upon the metropolitan districts, but they are not equally distributed through the State; they are handled by the State for the metropolitan districts.

And so we have there two illustrations of States where in order to get lower rates for the municipalities and counties in the States, or other districts of the State, the State handles the question.

With reference to the need for a central institution, then: We have in this country an illustration of the great mass of units not needing central institution, but we see there are some advantages for it. I think there is no doubt but what parts of the country in getting money from other parts would find advantage in a central institution.

Mr. RAGSDALE. Now, those States demonstrated the fact that a State guaranty, a Government guaranty, includes some advantages

by way of lower rates and getting loans more easily than the localities themselves could have secured.

Mr. COULTER. I think those two States, by going into that business, have accomplished something.

Mr. RAGSDALE. They have demonstrated, so far as it has worked up to this time, that it is practicable and profitable?

Mr. COULTER. So far as my knowledge goes. I wanted to bring this point out to show I am not covering up anything I know that will be helpful to the committee.

Senator HOLLIS. I think it is fair to say Senator Bourne, who has been chairman of the Committee on Post Offices and Post Roads of the Senate, has worked out a plan for good roads, in which that is the principal feature, that the States will have the credit of the central government for borrowing money to build good roads. Of course, that has not been adopted yet, but it is the result of his study on the subject.

Mr. RAGSDALE. In my own State, South Carolina, the money lying in the treasury is loaned to the various counties, and we find it entirely satisfactory. In other words, I think it is a function the Government ought to perform. Where the credit of the Government can be safely extended to a locality for general improvement by which all of the people benefit, I think it ought to be done. That is my own view.

Mr. PLATT. Do you know about the early efforts of the State of New York to loan directly to the farmers? There was a large fund loaned directly to the farmers of the State of New York some years ago, and nearly all the money was lost, as I remember it, and it has not been paid back.

Mr. COULTER. There have been such experiences in early years. In fact, every New England State offered a bounty for the growing of grain, in order to make it possible for the New England States to compete with the Middle West when it commenced to grow grain. There have been many of those experiments, but although I have heard of many of them, I have never looked into the subject in detail.

I would like to say a word or two in conclusion about the whole question of Government loans, the need of a central, etc. I think that if the Government would merely authorize associations or companies to form banks (they might well be called banks) that there would be no difficulty in the country, and I believe that these banks would be formed. I think that these associations should be pretty largely limited to land-mortgage business. On the other hand, I think that if a group of farmers wished to get together and take out a Federal charter and call it a farm-land bank, cooperative (if that is the name that might be adopted) that this group of farmers should be allowed to organize such an institution, just using the word "cooperative" tacked onto the rest of the name, just the same as I think farmers should be allowed to organize national banks, cooperative, by adopting their own rules of voting and distributing dividends.

Now, my suggestion is that we use the words "farm-land bank"—I have heard suggested "agricultural mortgage association." Those are three very long words to put up on your window. If you have no other reason for substituting "farm" for "agricultural" it is that this is a land bank as compared with a personal-credit bank.

Mr. HAYES. A national farm-land bank.

Mr. COULTER. It is a farm bank, it is a land bank, it is a bank, and I once in a while used to think of trying to get a simple name that would work. If I used the words "farm-land bank" and "cooperative" freely through the hearing, it is because I have gotten accustomed to talking of "farm-land banks, cooperative," because I believe the farmer should have the opportunity, if he wishes to, to start one of those and take out a Federal charter, under Federal supervision and inspection, and adopt cooperative rules. I do not think farmers should be compelled to, but I think they should be allowed to, and I believe that under a bill such as we have suggested many of them would do so. In fact, I have letters from farmers asking me to keep them posted, that they think it is just the right idea, that they want to organize one if the thing goes through; and I have promised to keep them advised.

Mr. BROWN. An expression you used a moment ago led me to believe you might favor a bank of deposit along with it, or deposit features.

Mr. COULTER. I think if the farmers themselves organize their own farm-land banks, with their own capital, that they should be allowed to do a banking business so far as their members are concerned—only for their own members—because that would give them, then, so far as desiring to do a banking business is concerned, the various advantages found all over Europe in the people's banks which deal only with members.

Mr. HAYES. Do these people's banks make short-time loans and farm loans as well—the same bank?

Mr. COULTER. They are the best illustration of institutions dealing only with members.

Mr. HAYES. How long have they been doing it?

Mr. COULTER. A good many years.

Mr. HAYES. How many?

Mr. COULTER. Of course they are only 30 or 40 years old.

Mr. HAYES. That is old enough to demonstrate whether it works or not.

Mr. PLATT. Have any of those banks the compulsory saving feature connected with them such as a building and loan association, for paying in their money deposits regularly?

Mr. COULTER. No.

Mr. PLATT. They just take them as they have them?

Mr. COULTER. Yes.

Mr. PLATT. It seems to me there is one feature of the building and loan association, that the deposits have to be regular, which is a good one.

Mr. COULTER. Oh, the savings feature, of course, comes in by requiring members to own shares of stock to be members and have some capital. And there is the only other point I would like to say a word on. That is, I think these institutions must have capital.

Now, there is a great deal being said about the *Landschaften* societies, and I want to say this, that the early *Landschaften* societies of Germany did not have any foundation capital, and they ran along without any trouble in selling their bonds until the joint-stock companies, doing mortgage business with a capital, came in. Now,

these banks had a revolving fund. The old *Landschaften* gave the bond to the farmer, and he sold the bond at some bank or some place else. But the land-mortgage banks came in with a foundation capital and had a revolving fund to do business on, and they, instead of handing out the bond to the farmer, would hand out the money according to the current rate of bonds of the denomination which he took. If he took the 4 per cent bond, it might not be selling at par, or if he took a 3 per cent bond it might not be selling at par, and he could take what kind of a bond he wanted and sell it for whatever he chose. The joint-stock banks, coming in competition with the *Landschaften*, forced the *Landschaften* to do what seemed to be the best thing at that time, to form *Landschaften* banks, which are sister societies, with the same members. The bank does this part of it: Negotiates and sells the bonds, looks after the canceling of them, and so forth and so on. In other words, the early form of the old German *Landschaft*—the new *Landschaften*, they are called now—all over Germany has tacked this new *Landschaft* bank to it to do the business of that sort. That gives a revolving fund to compete with the joint-stock banks, and as a matter of fact the joint-stock mortgage banks have not (and I believe as the result of that) extended very rapidly into the country districts. I believe that is one of the reasons why the joint-stock banks have not extended very much into the *Landschaften* territory.

Mr. HAYES. The new bank, you say, is a new arm that does this?

Mr. COULTER. Yes.

Mr. HAYES. They are two separate institutions, are they?

Mr. COULTER. They are, technically, I think, two separate institutions, but really only one institution with the same members.

Mr. HAYES. Something like our trust companies and national banks organized in the next room?

Mr. COULTER. Yes, sir; except they are all one group.

Mr. HAYES. They are all one group here, too.

Mr. MOSS. The liabilities go to the same persons. The same members who take loans out of the *Landschaft* association have the responsibility as a *Landschaft* bank?

Mr. COULTER. Exactly.

Mr. SELDOMRIDGE. Doctor, do you not think in this legislation we will have to provide, under certain rules and regulations, that these farm-land banks, in certain sections of the country, can do a cooperative bank business?

Mr. COULTER. I do. I think if they are cooperative they should be allowed to do so.

Mr. SELDOMRIDGE. It seems to me it will be absolutely necessary, if we are to meet the needs of certain sections, that we shall have to provide for short-term credits.

Mr. COULTER. I think so. I think Mr. Fischer's statement yesterday indicated that. And I think in the case the farm-land bank, cooperative, it ought to be allowed to do for its own members only a commercial business, the same business the commercial bank is allowed to do. I think it is fundamental and can be defended, and I think it is certainly needed.

Mr. PLATT. You mean to loan to the stockholders?

Mr. COULTER. Yes; to loan only to the stockholders.

Mr. HAYES. Our experience leads me to doubt whether it is safe or desirable to combine in the same institution the long-time and short-time mortgage along with the commercial features.

Mr. SELDOMRIDGE. Even if you limited the amount?

Mr. HAYES. No. It is a different institution entirely. It is run on a different basis. The worst bank failures I have ever known, and in fact the only ones I have ever known, were the result of the combining of those two functions.

Mr. SELDOMRIDGE. You will not meet the needs of the agricultural communities if you do not do that.

Mr. HAYES. Let them be organized in separate institutions.

Mr. RAGSDALE. Under the provisions in the old general banking law it was absolutely prohibited, but in the new law we have provided that loans may be made for not more than five years.

Mr. HAYES. I would take it all out.

Mr. RAGSDALE. I say merely this, that it has been provided for national banks to accept deposits and make farm loans for not more than five years.

Mr. HAYES. It is because of my experience and study of this subject that I am bringing this out. I think that no commercial bank that is properly managed can make a five-year loan to a farmer or anybody else; but I want to know if there is any experience in Germany, Italy, or anywhere else that tends to show it is possible to organize a bank which can combine those two functions safely.

Mr. COULTER. Of course my idea is, this bank would lend only to members. It can not go out and do business with others, and its mortgage business would be kept absolutely to itself, and the mortgages would always be placed in the hands of a fiduciary agent who would be the only one to authorize land bonds to circulate. That would be absolutely kept all by itself. But the same group in the same institution could go ahead and do business with their own members. I must say if provision is made separately for commercial credit I would not want it in this measure.

Mr. HAYES. You say it should be allowed to do business with its members?

Mr. COULTER. Yes.

Mr. HAYES. Just how does that affect the proposition?

Mr. COULTER. It affects it in this way, that every member is interested in this—they are all held responsible for each other throughout Europe, and the scheme of having a bank for its own members only is proving to be thoroughly sound.

Mr. HAYES. That is all right if it is organized for that purpose.

Mr. COULTER. No one receives a loan unless he has a share of capital. He is liable then for any loss. The idea of having the bank do business only with its members has proven, wherever tried all over Europe, to be absolutely sound.

Mr. HAYES. Of course that goes beyond my experience entirely.

Mr. COULTER. I do not know of any failure at all. But I think you are right in the point that the bank should not do a general commercial banking business with everybody if it also conducts a land-mortgage business.

Mr. RAGSDALE. Why not? Let us get the reasons for it. The savings banks of America come under this same proposition.

Mr. HAYES. They are not doing a commercial banking business.

Mr. RAGSDALE. Yes; they are.

Mr. HAYES. No; they are not.

Mr. RAGSDALE. I know of some myself where they are doing both kinds of business in the same bank.

Mr. HAYES. They are two different banks.

Mr. RAGSDALE. No; they are all under one charter.

Mr. HAYES. They segregate the business in the bank.

Mr. RAGSDALE. No; they do not. For instance, in my own town we have a bank which does a savings bank and a commercial bank business all under one charter. It has a capital of \$125,000 and the funds are kept all together.

Mr. HAYES. It is a dangerous system, then.

Mr. BROWN. There is one question I would like to ask, Doctor, before we leave this point. If there was a commercial feature in this farmers' loan bank, would you favor loaning in a commercial way anything other than the deposits themselves?

Mr. COULTER. No.

Mr. BROWN. Only the deposits?

Mr. COULTER. Yes.

Mr. BROWN. If you would limit all loans to the amount on deposit with the bank and only with its members, will it not mix that up with the mortgage business?

Mr. COULTER. I merely say that for these institutions for farmers, for farmers doing their own business, they have proved to be thoroughly sound, as far as I could ascertain.

Mr. BROWN. That is, the commercial feature and the bank itself would be separate and apart?

Mr. COULTER. Yes.

(Thereupon, at 1 o'clock p. m., the committee adjourned to Tuesday, February 24, 1914, at 10.30 o'clock a. m.)

TUESDAY, FEBRUARY 24, 1914.

UNITED STATES SENATE,
Washington, D. C.

The committees assembled in joint session at 10.30 o'clock a. m., Senator Henry F. Hollis, presiding.

Present: Representatives Bulkley, Stone, Seldomridge, Hayes, Woods, and Platt.

Senator HOLLIS. Gentlemen, we have with us this morning a number of gentlemen from out of town who wish to be heard. If it is agreeable to the committee we will hear first Mr. Scudder.

STATEMENT OF S. D. SCUDDER, OF NEW YORK CITY.

Senator HOLLIS. Mr. Scudder, will you give your full name?

Mr. SCUDDER. My name is S. D. Scudder; business address, care of Jefferson Bank, New York City.

I have been in the banking business and mortgage-loan business about 25 years, and in farming about 5 or 6 years. While I am still president of the Jefferson Bank, of New York City, we have merged our business with the Century Bank, and we are just simply now liquidating the \$1,000,000 remaining assets of the Jefferson Bank, so that you can put me down as not actively engaged in banking at the present moment. My farming experience in Minnesota was through tenants—wheat farming—but my farming experience for 4 or 5 years in Texas was not by tenancy, but I actually lived on the place, near San Antonio, and farmed it, although I hired considerable help, just as everybody else does.

If you will permit me, Mr. Chairman, in my own way to touch upon one or two points in this bill—the two main questions that occur to me—and then, if you wish to question me after I get through, I will be very glad to answer any questions that I can. I think that method is a timesaver. I have endeavored to anticipate some questions and to answer them.

As a citizen, I am intensely interested in some such legislation, because for over a quarter of a century I have felt it to be absolutely necessary. I mentioned the matter in my talk before the monetary convention at Indianapolis some 20 years ago, where I was sent as a delegate from Texas, and where I introduced the first postal-savings resolution which was ever introduced in any convention in this country. We had a hard fight on that, but it was finally referred to the executive committee for action. I mentioned the matter of rural credits there as being in connection with postal savings, as an outcome of postal savings, as it has been in some foreign countries.

In the eighties, after resigning a good position in the Bank of Montreal, 61 Wall Street, I represented the Scottish American Mortgage Co., of Edinburgh, Scotland, for effecting loans on Minnesota

farms. Later, when my health gave way and the doctors ordered me South, I secured, after my recovery there, the Texas agency of the same company, and in addition several other foreign and domestic connections. Out of about \$2,500,000 loaned during, say, 11 years in Minnesota and Texas, not a dollar's loss was sustained during my administration. There were some foreclosures, but very few. I can conservatively say within two dozen, and these, as a whole, paid out in final disposition of the properties.

Two main questions arise in my mind in connection with the legislation here presented. Our Nation has just given to one-half its population, the commercial half we will call it, represented by its towns and cities, a bill that will amply care for their financial wants. But the farmer, representing nearly the entire other half of the Nation, is still to be likewise looked after, even if only with a reasonable beginning. You may say all you please about the town bank, or the small village bank being a friend of the farmer. I have been there, and can talk right off the bat on that subject. In connection with our mortgage business, my partner, Frank Dyckman, and I established what is to this day known in Minnesota as the State Bank of Sleepy Eye. When we started that bank there were about 100 people in the town. We were mighty glad to have the farmer's business. He was a great friend. But as the town filled up with merchants and business men we found that the money which the farmer was depositing as really going to the merchants. It was quite natural. The merchant was our next-door neighbor, both in business and socially. He could reciprocate by sending us a new customer most every day, and in other ways he could reciprocate, whereas the farmer could not. And the personal contact was such that it was natural; we found our business, the farm business as it began, finally growing into a town and city business. I always regretted that it was so, but that was the fact, and I saw it in other places as well as our own.

The first question which occurs to me, then, is: Will this bill, even if so framed as to secure the 15 to 1 credit line proposed therein, give needed relief to the agricultural sections of the United States, or prove even an entering wedge in that direction? And the second question, like unto it: Where, supposing the farmers possess \$10,000 to invest in the initial capital of such an association—which personally I believe is quite possible now in many sections of the country—from what source, I say, will they be able to secure a credit line of 15 to 1?

To the first question I answer: Certainly this bill is in the right direction, but does not go far enough. No matter how much capital a merchant or a manufacturer has, occasionally some outside help, some bank accommodation is needed. There are, of course, exceptions; but I am talking of the general rule. So with the farmer. And while you are making it possible for him to mortgage real estate in order to buy or improve it, you must, if this plan is to be at all effective, give him some short-term accommodation. This can not be done with the \$10,000 capital he puts up, because that sum is needed for the mortgage turnovers, as a basis for his 15 to 1 mortgage credit. You must give the farmers of this country a chance to trade in money—that is, loose change—among themselves.

This is what they need, and, in my judgment, from actual experience, I think they, as a class in the United States, need this as much as, and more than, they do cheap money with which to buy and improve their places.

This bill in its stock plan provides "for deposits only up to one-half the capital and surplus"—a mere bagatelle, and absolutely useless. Neither are the deposits proposed under this bill adequately circumscribed. What is needed will be a larger deposit line and greater circumscription of these deposits. Ordinarily it requires about \$2.50 of deposits to every \$1 of capital in order to meet the ordinary expenses of any banking proposition, and when the ratio of 5 to 1 is reached there is a fair profit. I am, of course, talking of a small \$10,000 concern, such as this bill creates, and some people will consider my figures even too low. Please do not think that a large income will accrue from the mortgage department of such a concern—these \$10,000 concerns. If in a small community 150 \$1,000 mortgage loans are made in a year, or 75 \$2,000 loans, it will, in my opinion, be "going some." According to the bill, this will only bring in a gross profit of \$1,500—\$1,500 on 150 \$1,000 mortgages. Is that not right, Mr. Moss?

Mr. Moss. Your computation is correct, but I prefer you give your own interpretation, because your interpretation is not mine.

Mr. SCUDDER. Yes. Deduct from this \$1,500 all the expenses of appraisal, bookkeeping, fiduciary care, selling expense, office rental, labor of collecting, interest, and looking after tax payments, and so forth, and if there is very much profit left out of the \$1,500, I would be surprised.

To come to the point, I would recommend that both the stock and the cooperative associations, provided for in this bill, be allowed to take deposits in unlimited amounts. I would throw around it certain strict rules, even so far as paying interest. I believe that I should prohibit interest allowance on demand deposits outside of perhaps Government, State, or county deposits. They are not so liable to be called for arbitrarily. I do not wish to be called ultra-conservative, but I think to pay interest on demand deposits which are subject to call at any time is a dangerous proposition. But more especially would I throw safeguards around the investment of the deposits—such a rule, for instance, providing that this rule does not apply to the purchase of United States bonds or such other savings securities as are approved by the Secretary of the Treasury or commissioner under him: No deposits which are payable within one year shall be used or invested in any paper or obligation maturing beyond one year, and then only after a reserve of 15 per cent has been put by. One-third of this reserve to be in cash, the remainder in cash or on deposit with one or more banks which are members of the Federal reserve system. Such paper or obligation purchased or invested I would make subject to rules promulgated by the commissioner or under the direction of the Secretary of the Treasury, and I would then even require that the paper be initialed by two officers of the bank or two directors or one officer and one director, or one officer and the fiduciary agent of the bank, but make it very strict in the way of the class of investments representing these demand deposits.

I want to call your attention to this fact, that while it is a splendid provision, and I am glad it is in the bill, I really believe that some years will elapse before the "cooperative" or mutual associations would be organized under this bill.

My reasons for that are these: "Cooperation" means close association, "mutuality" means the closest kind of personal association, and we have not got that in many sections of our country yet. In Europe it is all over. Every section of Europe is so thickly settled that you can get that mutuality, that cooperation in every small community over there. But there are very few communities in America that are in that condition at the present time. Everyone must admit that there are only a very few such in the United States.

I think the mutual idea was very well illustrated by that Italian farmer who wrote to one of the American commissions, or of the United States commission, I have forgotten which, in this way: He was asked, as I understand it, to describe his mutual concern and its workings in a few words. "Well," he said, "we are a hundred all spying on each other, to see that no one makes any mistake."

That is a good illustration of the mutual idea. It takes acquaintance, close association, to create a mutual affair that will work out in the banking line. It might not be so necessary commercially, but in the banking line it will be absolutely necessary. Then again, another reason why the mutual concern will not start as long as you have a stock plan, is the fact that our people here have been educated largely to the double liability proposition, and they do not want any "unlimited liability." I asked a farmer which he would prefer, to take \$25 or even four \$25 shares in a "mutual" with unlimited liability, or \$100 in a stock company with only double liability? "Well," he said, "if I had no more than the \$25 I would wait until I had \$75 more and then put it into the 'stock company,' I do not want any 'unlimited liability'—not in mine." And that will be the feeling among especially the intelligent farmers of the United States. A large part of them are now small stockholders in country banks, and they know what "liability" means. They know the meaning of it.

But I think it is a very good thing to have it in the bill, and I have no doubt that the time will come, and that not so very far distant, among the little farmers in America when that proposition will be taken up, and it will come when this country is more settled up and the farms are split up into small acreages as they are in Europe.

I have named so large a reserve as 15 per cent, Mr. Chairman, in my proposition for the demand deposits, because, while I hope some day these farmers' institutions may be all bound together under one whole system, such as the commercial banks now are, this bill does not provide for any such thing as that, and makes them separate and distinct bodies, each one standing on its own bottom; and you must remember that if you establish a system of this kind you must make the "credit" sound—their credit must be absolutely sound, and it will be necessary for them to keep up a larger reserve than the banks would have to do which are under the new Federal system and whose members have some higher source to go to for any extraordinary needs.

And now as to my second question—a ready market for these bonds, sufficiently active—

Mr. HAYES (interposing). Excuse me. Before you pass to that I want to ask you one question: If you are going to allow unlimited deposits, what provision are you going to make for loaning the deposits? The bill provides, as I recall, for loaning only to members. Do you consider that that would be a sufficient market for the loans?

Mr. SCUDDER. No, sir; I would not restrict the loans. The bill in itself provides only that the mutuals or the cooperative associations under this bill shall be allowed to take deposits in unlimited amounts, and the bill refers, in its authority for loaning to that particular class.

Mr. HAYES. But let me understand you. You were willing to allow the stock bank to loan to any person?

Mr. SCUDDER. Oh, yes; as long as it stood by its rules—the rules promulgated for it.

Mr. HAYES. And did you consider whether or not that would destroy the very purpose which we are striving to accomplish?

Mr. SCUDDER. I am coming to that a little later. That is, you are afraid it might disturb things by creating competition with the other banks?

Mr. HAYES. Yes; and bring them into the same situation you were describing when I came in, with reference to banks, where these banks would simply become joint-stock commercial banks rather than farm banks.

Mr. SCUDDER. I am coming to that a little later.

Now, as to my second question: A ready market for the bonds or a sufficiently active market to warrant a credit aggregate of 15 to 1. You will not be able to find this market in Europe; at least, not until we establish the market in this country. That has been the history of all investments—our investments. We have first got to establish the thing here before we can expect any help from Europe, and I make the deliberate statement, after much thought, that “some Government help” to start this thing is absolutely necessary, and it must be in some direction outside of Government “deposits.” I say to start it, because really that is all that is needed just now. And I have what I believe to be a conservative and reasonable suggestion to offer which will prove a sort of compromise between those who ask “that the Government should guarantee the bonds to be issued by such institutions” and those demanding “that the Nation keep its hands off.” It may seem a very small sum to mention, but sometimes a small lever lifts thousands of pounds. There are now about \$40,000,000 of postal savings in that particular fund. These come from the small people all over the United States—many of these people huddled in the cities, but who ought to be out in the country, and I feel pretty sure that some of them, if not many, are going to be induced to go there by this very rural-credit movement. Why should not their money be used for their benefit and not for the benefit of the commercial banks who have enough help and have recently been given added strength and privileges through the national-reserve bill?

I would incorporate in this bill before you a provision requiring that not less than one-half nor more than 60 per cent of the postal

savings deposits shall be "invested," not in the banks nor in their mortgages, but in the bonds to be issued under the provisions of this bill. Of course, due discretion would be given to the trustees of the postal savings banks, so that they could determine purchases of these bonds only after being convinced that the banks issuing them had complied with all the requirements laid down by the provisions of this bill, and such other rules and provisions as may be promulgated by the Treasury Department. If you thing the Government and, I will say, any other holder of such bond should have additional security, you can add to the mortgage security by making the holders of these bonds "preferred creditors" to the extent of the entire capital and surplus of the bank. This would add, even in the extreme case of a 15 to 1 issue, a margin of 6 $\frac{3}{4}$ per cent to the already good margin under the mortgage. This would mean that those people depositing their cash in such banks would need to possess all the more confidence in the management of the banks before they would entrust their funds to them. Personally, I do not believe such a provision would be necessary, because the property margin is already ample, and in most instances some liquidation assets would still remain after payment of all depositors. The very purchase of these bonds by the Government, even in the small way I have mentioned—say, about \$20,000,000 of the \$40,000,000 of postal savings—would, I am sure, establish at once before the world the credit of these farm mortgage and deposit societies. Remember, please, that the postal savings bank is only in its infancy and that even only a slightly better rate of interest would largely increase these deposits. Various States would soon follow suit, through pressure on them from farming communities for some share of the State's investment funds, now going into every other conceivable channel but that of encouragement to agriculture. And in my judgment it would not be very long before foreign as well as our domestic investment channels would recognize the strength of these 35-year bonds and allow them to flow their way. I would certainly leave in the bill that provision authorizing the "deposit" of the United States court funds, and also postal savings; but clearly require that these deposits must be treated like all other deposits; that is, kept liquid, not be tied up in any long-time propositions. If thought necessary, a sufficient number of these short-time loans could be deposited with the Government fiduciary agent to amply protect these strictly "Government deposits."

I am referring, you see, to the Government "deposits," which are in contradistinction to the "investment in the bonds." In my opinion there is no more danger in allowing the institutions created under this bill stock companies as well as the mutuals, to take deposits in unlimited amounts, providing you protect those deposits by proper rules, than there is danger in allowing commercial banks—as you now have done under the new banking act—to make real-estate loans; because you have hedged this privilege about by reasonable restrictions which make for conservatism. The farmers of the country will likely be the only ones to deposit in these institutions, whether they be stock or cooperative, and that is just as it should be. My only concern is, Will there be sufficient of these deposits to make the project really pay? And I will answer this by saying this will be a certainty, at least in a number of communities, and very likely some of the banks now in those localities will even see it to their interest

to come into this rural-credit system. Doubtless a cry will at once go up from some of those very sections, and it may be from other sections of the country, to the effect that their business will be injured. That is just what they said when I proposed the postal savings bank system, 20 years ago. Now, they all agree it is one of the best things this Government could have done.

This same "opposition" was put up by the banks throughout the United States when the new currency bill was submitted. Four thousand delegates hooted me in Boston, at the last annual bankers' convention, because I dared stand for the main principles of the act. Now, listen—nearly every national bank has called for application papers, and State banks in many spots are pleading with their legislatures to make the same thing possible for them. It seems to me, gentlemen, this is a safe rule in the finance or economy of any nation; whatever is of immediate relief and benefit to the whole country will prove a blessing to every particular class in the end. And, mark you, please, the banker never comes in at the tail end; he is one of the first to get his fingers on the beneficent results of any great movement.

My strong impression is that Senator Fletcher's first impression is correct, namely, that these two matters, "long-time credit" and "short-term accommodation," will work together harmoniously. In this country they are meant to go together and not to be separated, as they are in Europe. The beginning will be small, but all great things start out that way. My personal desire would be to have these scattered institutions linked somewhat on the new regional Federal bank plan. Some day I believe it will be so. But for the present, while in its infancy, probably it will be wisest to start the movement somewhat as the Government launched the national banking system 50 years ago—as individual units and with a modicum of aid. But let this aid be a real one, and not only on paper. The simple "deposit" by the Government of the postal savings, as proposed in this bill, would really be most dangerous, because these mortgage associations would at once proceed to tie such deposits up in long-time loans while still responsible to the Government for repayment "on demand." The Government of the United States could instantly break every bank in the land. It is no answer to say that the Government "would not do such a thing"; the very fact that it could would from the very start destroy the "credit" of these banks or farmers' deposit companies before the world. On the other hand, why should not the United States "invest" one-half or even 60 per cent of the postal savings in the actual bonds of these institutions? They are supervised by the Government and have a large property margin, as is herein provided for. Surely the United States is in much stronger position than any of the New England or New York mutual savings banks, which have always made it a practice to invest largely in long-time bonds, including those on railroad security, and even on some industrials. And if such an inconceivable thing did happen as the withdrawal of over half of the postal savings at any one time, our Government's credit would be mighty small if it could not provide for that contingency. I am satisfied that we can not create a market for these bonds abroad until we have established a market for them here. That is the history of all investments. I am also satisfied

that no beginning can be made in the United States unless the Government is willing to give the movement some more effective aid than simply "supervision," and that what I have suggested will be effective enough in the beginning, provided the infant's feet are not amputated by denying the "deposit privilege" to the youngster. No mere real-estate mortgage plan is going to satisfy the American farmer. Place all the restrictions about a deposit and short-term accommodation plan you like, but establish the principle.

There are one or two details in the bill which I would like to mention before finishing. Some of them are comparatively unimportant. But take, for instance, the name——

Senator HOLLIS. Which bill are you referring to now?

Mr. SCUDDER. Either one; the Senate or the House bill. Are they not just alike?

Senator HOLLIS. There is Senate bill 2909 and H. R. 12585 and Senate bill 4246.

Mr. SCUDDER. Oh, yes. This is 4246.

The name is very important. You would not want, for instance, a name that would conflict with the present banking system, National or State. If you called this institution, for instance, First National Farm Land Bank you would have a conflict. You would have the First National Bank on one side of the street and the First National Farm Land Bank on the other side of the street. There will not only be a mix-up among depositors, one being taken for the other, but there would be a great confusion in the mails almost immediately. I think, too, that there ought to be, just as there is in Germany and all over Europe, a very marked difference between the names of the commercial banks and these farm banks, and I have this suggestion to offer, that in the case of the stock banks, stock institutions, you call them "mortgage and deposit companies," and in order to identify them with the national system put the initials "N. A." back of the name. That is done in the national banking system to this day. The Bank of New York, with which I was connected at one time, has the old name established by Alexander Hamilton, the Bank of New York, N. B. A.—national banking association. Everybody knows it is a "national bank." The Bank of Charleston has the name of the Bank of Charleston, N. A.—national association. And so it is easy enough to identify these institutions with the national banking or national association or the national law by taking some such name as that I have suggested.

Mr. WEAVER. Would you not use the word "land" in that connection?

Mr. SCUDDER. I do not see why it is necessary. Nobody would ever think there was any chattel mortgage about it, and you do not want too long a name. It seems to me "First Mortgage & Deposit Co., N. A." is a big enough name.

Mr. WEAVER. There are lots of private mortgage companies.

Mr. SCUDDER. Yes; but none that belong to the national association. First Mortgage & Deposit Co., N. A., distinctly describes that particular institution. There are plenty of national banks. That is just the trouble. I think there is likelihood of confusion, even if you use the word "national," because, supposing you called it the First

National Mortgage Co., you will have a mix-up just as sure as you do so.

Mr. WEAVER. I think your suggestion is good, except I would use the word "national" and the word "land."

Mr. SCUDDER. I just throw this out as a suggestion. For the mutual, I would put the word "mutual" and not "cooperative." The word "cooperative" is rather long and unwieldy; it is more like cooper. For the "cooperatives," then, I should suggest, "Mutual Mortgage Society, N. A.," so that there would be an absolute distinction between one and the other. The stock company, then, would be "Mortgage & Deposit Co., N. A.," and the mutual would be the "Mutual Mortgage & Deposit Society, N. A." That is just simply a detail suggestion.

On page 9, I think, this is rather indefinite where it says "interest rate generally prevailing in the community." I think if you just simply cross that out and say "rate of interest not exceeding the local rate in the State where such corporation is located," that will be so much simpler and will not bring up a dispute as to "what is the prevailing rate in the community." Some mention was made that the amortization 35-year period was too long. I sincerely hope there will not be any cutting down of that; because if anything were done, I should say make it 40 years rather than to cut it down to less than 35.

There seems to be a conflict, possibly, under the clause in the fifth section, page 12, which permits the dismissal of the officer herein described as fiduciary agent. Under the terms of this bill it would be possible to force upon a board of directors a man who might be perfectly honest, but would be disagreeable to them, and I should say he could be put out, say, by a vote of four out of five directors, where there are only five directors, and two-thirds majority vote where there were more than five directors.

Mr. Moss. Did you notice this provision in the bill? [Indicating provision of bill.]

Mr. SCUDDER. Yes; but there might be a dispute there as to whether he was objectionable. That is, somebody might say he was objectionable, and others might say he was not objectionable. It is just a thought. Of course, I would certainly make his removal subject to the commissioner of farm-land banks, but what I wanted to do was to provide that the commissioner could not make a man stay there in the bank if he was objectionable to the majority of the directors.

Mr. Moss. Mr. Chairman, will you permit me to ask a question there?

Senator HOLLIS. Yes.

Mr. Moss. Now, I would like to have you, if you can, discuss a little more fully that feature. The purpose of the commission in framing this bill was that this fiduciary agent was made a Federal agent, and he is responsible directly to the Government in the first place. He must not be objectionable to the directors when he is appointed, but his appointment must come from the Government directly, and his responsibility is to the Government, and why would you have him removed by another authority than the Government?

Mr. SCUDDER. I think in a small bank such a fiduciary agent would be apt to be a bookkeeper, would he not?

Mr. MOSS. Quite possible in a small bank; yes, sir.

Mr. SCUDDER. I do not think it would pay otherwise: the bank would not make enough profit to pay him unless he did some other work.

Mr. MOSS. That was the idea of the commission; that is, that he could be an employee, but not an officer.

Mr. SCUDDER. Well, but imagine a bookkeeper who is objectionable to four out of five directors, perhaps, who, on account of his disagreeable manner, would not be tolerated in the bank, and yet the commissioner would have the right to keep him there.

Mr. MOSS. Would you have the bill so framed that the fiduciary agent would have to accept a position under the bank; for instance, would have to be made an employee of the bank?

Mr. SCUDDER. Well, I think in small places the postmaster might act as fiduciary agent, but I think in most cases the fiduciary agent would have to be in the bank, because the transactions are there, and he would have to initial the books, and perhaps the paper itself; and I think that this bill ought to provide for a deputy, because if your fiduciary agent is sick you have no provision in there for anyone to take his place, and the business of the day might be blocked and could not proceed—could not make a mortgage. I imagine that in most places, in smaller banks, the bookkeeper or some employee of the bank would be the fiduciary agent.

Now, I take up another provision of this bill: I think, where the capital runs up, say, over \$10,000, it is possible that there might be a very large concern started under this bill, \$100,000, or \$200,000, or \$500,000, in which case I think 1 per cent for the running expenses of a mortgage bank is excessive. For small institutions 1 per cent profit on mortgage business is not excessive; but if you come to a very large institution—and I know because I did a very large mortgage business, and I found that as this business grew the profits were proportionately much greater and the expenses proportionately less—and so I would suggest that you have some provision where the capital runs up into large amounts that this percentage of charge which under this bill is fixed at 1 per cent for all be reduced. I think that would be right.

Mr. HAYES. Do you think it is desirable to encourage the formation of large societies of wealthy capitalists?

Mr. SCUDDER. I do not, sir. Personally, I would restrict it to \$50,000.

Mr. HAYES. Why?

Mr. SCUDDER. Well, because you want this system to be operated in the farming communities. You do not want a big institution, for instance, in New York, with a large capital, to come out there controlling, say, a capital of \$500,000 or \$1,000,000. I think it would be a great mistake.

Mr. HAYES. Why? I do not understand why it would not be desirable, and very desirable, to have \$500,000 of money from New York come out in the farming districts. I do not see it.

Mr. SCUDDER. I think if New York wants to put out the money it can buy the "bonds."

Mr. HAYES. That is all right; they may want them, but if they do not want them why should we object to their putting their money out and making it possible to form big mortgage associations? I

would like, if you have any reason except your sentimental reason, to hear it.

Mr. SCUDDER. Well, I think the "expense" of a New York bank—of course they pay big salaries to their offices—could be made to absorb a large "profit" through the payment of large salaries. That is a well-known fact.

Mr. HAYES. Yes; but if they are limited to the 1 per cent I do not see why that should interest the farmer, so long as the farmer would not have to pay any more.

Mr. SCUDDER. Well, I differ with you. The wrong to the farmer might be corrected by that suggestion I made about reducing the amount of charge below 1 per cent against the farm lands. That might correct it.

Mr. PLATT. You do not think that the capital for these banks can be raised entirely among the farmers, do you?

Mr. SCUDDER. Well, I think in time it is apt to be so under this bill. The operation of it will, I think, commence in the country districts. I believe so.

Mr. BULKLEY. Supposing that you limited the amount of the charge in the case of a very large bank, could not that bank, going into competition with the smaller bank, practically reduce the charge all the way around?

Mr. SCUDDER. That is to say, if there were a large bank starting out from Philadelphia or New York that it might do the business cheaper?

Mr. BULKLEY. You compel it to do the business cheaper according to your suggestion.

Mr. SCUDDER. Yes.

Mr. BULKLEY. Then how would the smaller bank get business at all, or would they have to reduce to the same rate as the big bank?

Mr. SCUDDER. Yes; I think that would be true. One result of the bill would be, if you do not limit the capital, that the large institutions would crush the small ones.

Mr. HAYES. Would drive them out of business?

Mr. SCUDDER. Sure; although cutting down their profit source might somewhat operate against their entering distant or smaller fields.

Senator HOLLIS. That is because they can operate with smaller expenses?

Mr. HAYES. That is what I mean. If they were operating on the same basis they would not be able to compete, but if they were allowed or prevented from making profits of, say, above one-half of 1 per cent, of course, they could reduce their loans and drive the small institutions to the wall; they could not get any business.

Mr. SCUDDER. That might be so if they could once get into the field and make such competition possible. Now to proceed: I think I saw some place where the commissioner was not authorized to own any stock. Yes; here it is: "The commissioner is not authorized to own any stock in any farm-land bank." I do not think he ought to own any stock in any bank. He ought to be like the Comptroller of the Currency; he ought not to be allowed to have any stock anywhere. Then, I think where you allow branch banks there ought to be some clause, "under the rules and regulations approved by the commissioner or by the Secretary of the Treasury," or whoever else

has the authority both in that matter and the sales agency matter. It would be well to have it so.

I think that is all. I am ready to answer any questions that may have occurred to you while I spoke.

Mr. HAYES. I would like to have you discuss, if you will, the proposition of whether a general deposit business would not be very likely to destroy the purpose we have in view in organizing these banks.

Mr. SCUDDER. What is the purpose?

Mr. HAYES. Well, the principal purpose is, of course, to meet the needs of the farmer, especially for long-time loans. I think his needs are fairly well met now for short-time loans. Perhaps he has to pay a little high rate of interest sometimes. If the farmer has any credit, he can generally get loans somewhere, but I think the great need is for long-time loans, easy payments, and a low rate of interest. That is what I am most impressed with. The thing that occurred to me is that if you allowed them to take deposits generally and do a general commercial business, such as, of course, is more profitable to the bank, would not that necessarily have a tendency to destroy the long-time loan feature?

Mr. SCUDDER. Mr. Hayes, I think there is a difference between us in the very start off. I believe that there is more necessity for helping the farmer in respect to short-term accommodation than there is to help him in long-term mortgages. I believe that this country requires some such proposition to help the farmer, no matter how much money you furnish to reduce the interest he pays on his real-estate mortgage. You must remember he is mortgaged almost up to the hilt. The farmers of this country owe something like \$3,000,000,000 on real-estate mortgages. Under this bill I believe a big help will be given the farmer in that respect. There will be a refunding—there will be a reduction of interest. But you must go further. He needs more banking facilities. Then, you can not establish a small institution of \$10,000 and make it "pay expenses and earn a fair dividend" by simply doing a "real estate mortgage business." It would be absolutely impossible to form a stock company to do a mortgage business if it were only allowed to take deposits only to the extent of one-half of its capital and surplus. There would not be enough money out of the "profit-and-loss account" to pay expenses. And I am not thinking of big expenses; I am thinking of the expenses that I incurred when I was a little banker out in Minnesota, and I was very glad if I could make \$1,000 gross a year in the beginning. And you must remember you have got a fiduciary agent and inspector to pay, and in some cases there will be an additional bookkeeper who will have to get at least a bookkeeper's wage.

Mr. PLATT. Is that so?

Mr. SCUDDER. Sir?

Mr. PLATT. Building and loan associations are run without any bookkeeper's wages.

Mr. SCUDDER. You would find in this case the responsibility of the business to the Government would require you to pay some salaries. You might be able, as I said, in the start off, in some places, to get the postmaster to act as fiduciary agent; or probably a director of the bank—no; it could not be a director: but in most cases you will

have to have some one in the bank who is connected with the actual business of the bank, i. e., loaning money.

Mr. HAYES. Would you not have an idea that plenty of good, intelligent farmers, in a small community, would be glad to act as fiduciary agent for a nominal salary that would be absolutely trust-worthy and all right?

Mr. SCUDDER. You mind find a farmer, near a village that had a bank, who would be glad to come in and act as such agent; but you have got to have him come in every day—you are making loans every day, or apt to.

Mr. PLATT. The loan associations will not be making loans every day, will they?

Mr. SCUDDER. Well, sir; you figure it out—\$10,000 produces \$150,000 of credit, and it takes one hundred and fifty \$1,000 loans to absorb that credit, does it not?

Mr. PLATT. Yes.

Mr. SCUDDER. One hundred and fifty \$1,000 loans in a small community is doing a considerable business.

Mr. HAYES. Yes; but when you once get it out it takes some of them 35 years to get it back in, and you are only making the loan initially on such a capital as that.

Mr. SCUDDER. Unless the \$150,000 could be kept outstanding all the time there would be very little profit.

Mr. HAYES. That is all very true, but for the reason they are standing out, you would not be making so many loans from your capital.

Mr. PLATT. In this business they run in competition with the building and loan associations in the country, in small communities, which only meet once or twice a month to make loans or transact business, and they pay a nominal salary of \$50 a year, or something like that, for the bookkeeping.

Mr. SCUDDER. You mean, to have an institution that would not be open every day?

Mr. PLATT. No; why should they be open every day?

Mr. SCUDDER. You will have to take the deposit idea away entirely.

Mr. PLATT. Not necessarily. The deposits could be put in at such time as the society had its doors open.

Mr. SCUDDER. Then how would the deposit be paid out? Supposing I deposit in such a bank Saturday and I wanted some money Tuesday, and they did not meet again until the next Saturday?

Mr. PLATT. You would have to wait until the next Saturday, I suppose, unless there was some special arrangement.

Mr. SCUDDER. He has to have his deposit on demand in order to do business.

Mr. PLATT. It seems to me that if these small associations, operating in the smaller communities, are going to compete with the building and loan associations they must keep their expenses down to a very low level, or the building associations can do the business and they can not.

Mr. SCUDDER. You will have to eliminate the deposit feature entirely unless you prescribe hours, or make it possible to let the institution take the deposit and hold it until it was matured and ready to pay it out.

Mr. PLATT. Is it not possible to have some kind of compulsory deposit such as the building and loan associations have? If you join a building and loan association, you agree to put in \$2 or \$5 a month and that is a compulsory deposit, just as amortization is a compulsory payment. It comes along to you every month like a bill.

Mr. SCUDDER. Yes; but I do not believe the farmer could do that, Mr. Platt. I do not believe you could make such a rule for a farming community.

Mr. PLATT. Probably not for monthly payments, but how about semiannual or annual payments?

Mr. SCUDDER. Well, there are some farmers who could not deposit even semiannually. You might make it annually and succeed in providing a compulsory deposit system.

Mr. BULKLEY. Mr. Scudder, in the light of your experience in running small banks in different communities, what do you think would be the actual expenses of one of these \$10,000 banks? I mean in detail and in dollars.

Mr. SCUDDER. If they are allowed to take deposits or if they are prohibited from taking deposits?

Mr. BULKLEY. Suppose we eliminate the deposits.

Mr. SCUDDER. If they were not allowed to take deposits, they would have only the mortgage business from which to get any income, would they not?

Mr. BULKLEY. Yes.

Mr. SCUDDER. That would be, at the most, \$1,500 a year, if they had out the whole \$150,000 in bonds.

Mr. BULKLEY. In that case what do you assume that they do with their paid-in capital stock?

Mr. SCUDDER. Their paid-in capital stock is being used in making these mortgages. Of course, when the mortgages are actually made they would have \$10,000 perhaps in mortgages, which would bring, say, 5 per cent.

Mr. SELDOMRIDGE. Would not this condition arise, that they would be unable to issue further mortgages until they had a ready market for their bonds? The operations of the bank would be immediately stopped—

Mr. SCUDDER (interposing). It all depends on the market.

Mr. SELDOMRIDGE. Unless the market is open.

Mr. SCUDDER. Oh, absolutely.

To answer Mr. Bulkley's question, the income, at the very most, would be \$1,500 to \$2,000—

Mr. BULKLEY. You think it would not be safe to not count on anything from the capital stock?

Mr. SCUDDER. If you did, it certainly would not be over \$500 or \$600.

Mr. BULKLEY. No; I think it could not possibly be more than that. Now, what would be the necessary expenses?

Mr. SCUDDER. I should say that if you did not take deposits, the necessary expenses would be, first, you would have to give the president something. That might not be very much in certain localities.

Mr. BULKLEY. How much do you think that should be?

Mr. SCUDDER. He would look after the institution, supervise the investment of funds, which he would have to do, of course, through

the directors and appraisers, but he would have to give it some personal attention. If he were a farmer, he would not ask considerable for his time, but I expect \$150 at least in the start off. His labor might be less later on, but it would be a considerable work. I do not know that you could find very many men who would do it for \$500 a year in a small place like that. Then there would be the bookkeeping to do, and I doubt whether you could get a president to do all the work. He would have to have some clerical help. He would have the taxes to look after and the interest to collect.

Mr. BULKLEY. What do you think that would cost?

Mr. SCUDDER. Well, I do not know; \$500 would be very cheap.

Mr. HAYES. Do you think so, with the farm-land mortgage feature?

Mr. SCUDDER. Yes, sir; the bookkeeping is going to be considerable.

Mr. HAYES. Is that a fact?

Mr. SCUDDER. With 150 loans, the taxes to look after, interest to collect, to see about insurance, that the property is properly insured—it is a good, big job, gentlemen.

Mr. SELDOMRIDGE. Then you have got the amortization, later on, to come in.

Mr. SCUDDER. Yes.

Mr. BULKLEY. Mr. Scudder, how often should some officer or agent of these banks inspect the several farms on which loans were made?

Mr. SCUDDER. Well, in our mortgage business in Minnesota we at first were not able—we had so much to do in the office that we could not make the inspection as often as we desired to, but we found that inspection was absolutely necessary once a year.

Mr. BULKLEY. Each loan should be visited once a year?

Mr. SCUDDER. Pretty much each loan. Of course, in some instances we depended on our agents. For instance, we would have an agent over in Winona, a very good agent, and we could depend on him, and we paid him a little extra to give us reports on farms that we had loans on in that community, but we found inspection necessary once a year.

Mr. BULKLEY. In this estimate that you are making, do you calculate that the president, whom you are going to pay \$500, will do all of that personally?

Mr. SCUDDER. No, sir; I do not see how he could. You would have to give the fiduciary agent a little more salary for inspecting the 150 farms in the community. I do not care if it is just within one county, it is a big job.

Mr. BULKLEY. Would you have to pay some man and furnish him an automobile or a horse to do that?

Mr. SCUDDER. I think so.

Mr. BULKLEY. How much do you think that would cost?

Mr. SCUDDER. I do not know. It might pay the bank to own one.

Senator HOLLIS. Mr. Scudder, you have seen commercial banks where one man did all the actual work, besides what the weekly meeting of the directors had to do, passing on loans? That is, you have seen a man who would come there in the morning, open up the bank, sweep the floor, receive the money, pay out money, and keep the books? You have seen that, have you not?

Mr. SCUDDER. I have done it myself—for three months only, because my mortgage business got so big I just could not do it.

Senator HOLLIS. And a man like that in a community such as would run a bank of that sort, would do that for a salary of \$1,000 or \$1,200 a year?

Mr. SCUDDER. Oh, yes.

Senator HOLLIS. That would actually run one of these little banks?

Mr. SCUDDER. A commercial bank?

Senator HOLLIS. That would actually run a commercial bank, and if it would run a commercial bank it would easily run one of these farm-loan banks, if there were no deposit features?

Mr. SCUDDER. Do you think so?

Senator HOLLIS. I am asking you. I do not know.

Mr. SCUDDER. I think the farm mortgage business, looking after the mortgage business is really more expensive than the commercial features.

Mr. BULKLEY. You do not consider that automobile expense, do you?

Senator HOLLIS. No.

Mr. SELDOMRIDGE. Do you think, Senator Hollis, that a man could take all the responsibility of running these banks, looking after the bookkeeping, being responsible for the transfer of money, and all of these things, that you could get a man of that kind on a salary of \$1,000 a year?

Senator HOLLIS. Yes; I know that is done.

Mr. SELDOMRIDGE. Any such man as that could go into the city and get \$1,500 or \$2,000—that kind of a man.

Senator HOLLIS. I know they can. I know in my own State where there are a great many small towns that do it. We have a great many small banks that do business just that way, and the men are entirely honest, stand well in the community, and bring up families and educate them on \$1,000 or \$1,200 a year. It does not seem possible.

Mr. HAYES. Less than that sometimes, too.

Senator HOLLIS. Well, I am speaking of those I know. And I am wondering whether it will not be possible to run these farm-land banks the same as suggested by Mr. Platt, on the building and loan plan, by having some business do the banking, to be at the banking rooms three nights a week for two hours to receive deposits. It might look rather curious, but I am wondering whether it could not be run on some such plan as that, because we can all see that the expense is going to be pretty large, especially large proportionately for a little bank.

What do you think of that, Mr. Scudder?

Mr. SCUDDER. Well, if they were savings deposits absolutely—i. e., only time deposits—it might be worked out that way. But for demand deposits, if a man gives a check and the collector of another national or State bank comes to the door and it is closed there would be a "protest." You can not do it. But for simply saving deposits, that might be done. Of course, in your State the savings banks do nearly all of the mortgage business.

Senator HOLLIS. Yes; almost entirely; and they do not like to make farm loans. I will agree with you on that. They do not like to make farm loans. The banks have no facilities for taking an automobile or buggy and driving out 8 or 10 miles to inspect that loan, and they will not make that loan unless somebody will look

at it, and there is that drag on our farm-land business in our State. They loan readily in Minnesota or Kansas or somewhere through an agent that will tell them that it is all right. I do not like that. I have fought against it in what I have had to do with it.

Mr. SELDOMRIDGE. Let me ask you a question. Would it not be possible that the Government should furnish space in the post-office building for office space for these banks?

Senator HOLLIS. In the first place, where these banks would be located the Government does not own the buildings.

Mr. SELDOMRIDGE. Yes; but it pays the rent.

Senator HOLLIS. Of course, that is true.

Mr. PLATT. The Government does not even pay the rent in third-class post offices. The postmaster pays it out of his salary.

Mr. SELDOMRIDGE. In third-class offices they do.

Mr. PLATT. Not in third class—third and fourth, both.

Mr. HAYES. Just a moment in this connection. If I have a correct understanding, all the expenses you refer to are borne by farmers who are interested in the community, without expense to the bank largely.

Mr. SCUDDER. In the stock concerns or mutual?

Mr. HAYES. Well, in both, largely. They are borne by public-spirited men who do not expect to make any profit out of it. That is the way I am looking at it. That is the idea I have arrived at in my mind from my study of the subject. Of course, there are big stock banks in which that would not be true, but I am talking about the small banks in the country places.

Mr. SCUDDER. Well, going back to my experience in Minnesota—in the small places—I do not know of a farmer who would do a thing like that who would not want to be paid for his time.

Mr. BULKLEY. What would be the annual legal expenses of such a small bank?

Mr. SCUDDER. Does the 1 per cent cover the legal expenses?

Mr. MOSS. No, sir.

Mr. BULKLEY. I do not think so.

I understand that it does not cover the examination of titles, but I supposed it covered any expenses that might result from foreclosures, would it not?

Mr. MOSS. I did not catch that.

Mr. BULKLEY. In case of foreclosure, can you not collect attorney's fees?

Mr. MOSS. I judge that would be governed entirely by the note, and I judge the bank would avail itself of the same kind of fee that any person would. They would have to pay the court expenses, just as they do in the case of any foreclosure. That is a matter of contract.

Mr. BULKLEY. The court expenses, but how about the attorney's fees?

Mr. MOSS. In my own State that is a part of the court expenses.

Mr. BULKLEY. I contemplated that the mortgagor would have to pay it.

Mr. MOSS. I take it for granted that the court expenses would always be borne by the man who breaks his contract, and I judge the bank would take advantage of the law to protect itself just as any private lender would do in that respect.

Mr. SCUDDER. You would be apt to get your attorney's fees paid through the foreclosure fees and examination of titles, and so on, which we did in our business when it became large.

Mr. BULKLEY. Do you think that any allowance should be made for rent?

Mr. SCUDDER. I should say so, in a large number of cases. There may be some few cases where there would be no rent to pay. You would have to have an office somewhere, it seems to me.

Mr. BULKLEY. Then, you have spent a pretty fair share of that \$1,500 in this respect. How desirable does that make the stock in the banks as an "investment"? What class of people would you expect would invest in it?

Mr. SCUDDER. I would not expect very much "investing" in a bank that did not do a deposit business. I do not see how it could be done.

Mr. BULKLEY. When you speak of a deposit business, you mean a considerable one? You do not think this 50 per cent deposit would be sufficient?

Mr. SCUDDER. No, sir.

Mr. PLATT. You do not mean deposit business confined wholly to members?

Mr. SCUDDER. No. With the stock company you can not do that. With the cooperative company, you can make such a rule, but I think that the nature of the deposits that would come into such a bank would be the farmers' deposits which now go into commercial and savings banks, because there is a good deal of pride in America—a good deal of community pride. It is not as it is in Europe. In Europe the individual is swallowed by the State, but in America the individual makes the State. That whole principle runs through our form of Government. If you authorize the farmers to establish these banks, there would be little banks starting up everywhere and you would find that the farmers who own the stock would be the depositors, and the depositors would come from the country, and it would encourage saving in the country, such as it has never been encouraged in this country except by "savings banks," which are few and far apart in some sections.

Mr. BULKLEY. Now, Mr. Scudder, suppose some remote community, where there is not an adequate amount of local capital, and the bonds of these institutions would have to be sold somewhere outside, on what interest basis do you think they would sell? I mean the bonds of a small bank such as is provided for in this bill, located, for instance, in Arizona?

Mr. SCUDDER. If the Government did not help in some way to establish the "credit" of that bank, they could not establish it at all.

Mr. BULKLEY. That Government help is sentimental, is it not? You do not mean to say that \$40,000,000 would be enough to make the credit—

Mr. SCUDDER (interposing). It is somewhat sentimental. But show me the bank whose obligation the Government holds and I will show you an institution whose credit is established and whose similar obligations will be taken by the general investing public on any reasonably profitable basis.

MR. BULKLEY. Assume you give them that sentimental advantage, and assume you make them absolutely tax exempt, on what interest basis would they sell?

MR. SCUDDER. Well, in Arizona, I am afraid they would have a hard row to hoe locally, because there are not enough commercial banks or savings banks in Arizona to invest largely in such bonds, or any kind of bonds, no matter how good, because they have other use for their money.

MR. BULKLEY. Do you think that is where the capital would come from, from the larger banks in the same community?

MR. SCUDDER. Yes; largely; and from people who put their money in such banks now at 3 per cent. It seems to me these farm-land bank bonds would not be issued at much less than $4\frac{1}{2}$ or 5 per cent, and it would be quite natural for some money now in the present established banks to be withdrawn for the purpose of buying such bonds, especially if it were known that the Government of the United States owned some of them.

MR. SELDOMRIDGE. Do you think it would affect the volume of time deposits in these commercial banks?

MR. SCUDDER. It would be apt to affect the deposits of savings banks that are paying 3 per cent interest on their deposits.

MR. SELDOMRIDGE. There are a good many national banks that pay 3 per cent on time deposits.

MR. SCUDDER. Yes.

MR. SELDOMRIDGE. Would it not affect those, too?

MR. SCUDDER. I think it would take some money out of National as well as State banks.

MR. PLATT. Do not the savings banks, nearly every one, pay 4 per cent?

Senator HOLLIS. Yes; most of them do.

MR. SCUDDER. The mutual savings banks nearly all pay 4 per cent, yes; but I was thinking of out West.

MR. HAYES. All the banks in my own town pay 4 per cent.

MR. SCUDDER. That is in California.

MR. PLATT. In some places they pay 5 and some places they pay even 6.

MR. SCUDDER. In those sections where banks pay a large interest rate, it might take a little increase to induce the people to take those bonds. Of course, in all banking propositions "confidence" is the foundation. If I get the idea that the Government has confidence in this bank sufficiently to purchase some of their bonds I, as an investor, am going to take the bonds, just on account of that very fact. And no matter in what State that bank may be located.

MR. BULKLEY. On what interest basis do you think they would invest in them?

MR. SCUDDER. If you mean local investors, it would be different in different sections. You take such bonds, for instance, in Minnesota, and the farmers have gotten fairly well off in Minnesota now, I think possibly $4\frac{1}{2}$ per cent might induce some to be taken locally there. Do you not think so, Mr. Coulter?

MR. COULTER. I do not know about that.

MR. BULKLEY. What would you say about the South—say Mississippi?

Mr. SCUDDER. There is a Mississippian here.

Mr. BULKLEY. I am going to ask him, too, but I would like to get your guess.

Mr. SELDOMRIDGE. Ask him about Texas.

Mr. SCUDDER. I could better answer about Texas.

Mr. BULKLEY. Well, all right; what would you say about Texas?

Mr. SCUDDER. In Texas there are some sections where the Germans have absolutely paid off all their mortgages and are loaning to each other to-day; and the rates are fairly low in those sections of Texas. I think that such a bond would take in Texas at $4\frac{1}{2}$ or 5 per cent, in certain sections, if the people knew that the Government owned some of them.

Mr. BULKLEY. Do you think there would be enough money in Texas to take care of the local banks?

Mr. SCUDDER. There are other sections of Texas that would not take them at any price. Texas is very large.

Mr. BULKLEY. Do you think there is enough money in Texas to be "invested" to take care of the local requirements?

Mr. SCUDDER. I think there is enough money in Texas to start many \$10,000 banks on the stock basis, provided you let them accept deposits; not otherwise.

Mr. BULKLEY. Take Mississippi. I assume Mississippi would have to sell bonds outside of the State; they could not sell them on a $4\frac{1}{2}$ per cent basis, could they?

Mr. SCUDDER. No; not locally. I should think, however, that they could sell them outside the State.

Mr. BULKLEY. Could they sell them on a 5 per cent basis?

Mr. SCUDDER. Yes; they could do that, if the Government aid I have suggested would first establish their credit.

Mr. HAYES. I think they would bring 5 per cent in California.

Mr. BULKLEY. What would you say about a State like Idaho or Montana?

Mr. SCUDDER. You would for a while not have many such institutions in those States. The same way with Arizona. You would not actually have very many institutions of that kind there for some time.

Mr. BULKLEY. Those are the very States that need relief, because they are paying too high an interest rate.

Mr. SCUDDER. Montana, of course, is very largely agricultural, and is developing very fast; so is Idaho in certain sections; and doubtless as this development takes place mortgages on real estate will be needed.

Mr. SELDOMRIDGE. The need to-day in that section is more short-term credits.

Mr. BULKLEY. Do you think such a State as that could sell on a 5 per cent rate?

Mr. SCUDDER. Well, in Montana, I am afraid they have so much use for other developments now that locally there would be little investment in such bonds.

Mr. HAYES. I know of some irrigation projects in Idaho and Montana that have sold bonds to do this work.

Mr. SCUDDER. Yes, sir; that is true; but the purchasers of these securities have been outside those States.

Mr. HAYES. And still they are taxable, you know.

Mr. BULKLEY. At 6 per cent?

Mr. HAYES. Yes.

Mr. BULKLEY. Do they sell them at par?

Mr. HAYES. They sell them at par.

Mr. PLATT. All bonds sell on a taxable basis throughout the country, with the exception of a few United States bonds.

Mr. BULKLEY. Of course, these are small institutions, which are independently managed, which we must assume—

Mr. SCUDDER (interposing). Which all stand on their own bottoms.

Mr. BULKLEY. Which stands on its own bottom; yes.

Mr. HAYES. May I suggest one thing more? Have you considered that to join the general deposit business with the farm-land business, that it means a banking business, and it takes somebody that knows something about the banking business to handle that? Have you considered whether it would be safe for us to authorize a combination like that, which is always dangerous? Is it safe for us to do that with men of little experience in banking and in business generally that would necessarily have to be handled in these banks that we propose organizing? Have you considered that feature?

Mr. SCUDDER. I have. The farmers with whom I come in contact personally, of course, have been in Minnesota and Texas; and I will back many a farmer I have known to undertake the management of such a bank—

Mr. PLATT. Where did the capital come from to organize these banks?

Mr. SCUDDER (continuing). Under certain conditions.

Mr. PLATT. Where did the capital come from to organize all the little banks in Minnesota and North Dakota, for instance, the \$10,000 banks—State banks?

Mr. SCUDDER. The whole State of Texas is plastered with \$10,000 State banks.

Mr. PLATT. Where did the capital come from?

Mr. SCUDDER. It comes from the country largely, right there from the farming people. Lots of farmers and ranchmen in Texas own one, two, or more shares.

Mr. PLATT. I do not know anything about Texas, but I do know a little bit about Minnesota. I lived in Wisconsin on the edge of Minnesota, and my information was there were chains of little banks organized all over that country.

Mr. SCUDDER. There have been since I left there, but before I left there there were no "chains of banks" in Minnesota. Each bank was formed in its own little community. I had \$1,500 saved up and my partner had \$1,500, and we started our bank on \$3,000. That is all we had as a banking capital at first. Of course we secured a good mortgage agency. We had the agency of the Scottish American Mortgage Co., and that helped us to start up in business. But we started that bank before there was any State law made. We simply opened our doors and put a sign over the bank and started in to do business. Our business at first was mostly with the farmers, with our \$3,000. There is another thing I want to say in this connection: We soon found when we made our mortgage business go that a large part of our deposits would be from loans. We would make a loan to a farmer for \$2,000. We would say to him, "What do you want

this money for?" "Well, I want to build a barn or I want to put so many acres more in cultivation; to build this or that building." "All right, we will lend you the money, but you have got to leave \$1,000 out of that \$2,000 'on deposit' until your buildings are in such shape, until we can see that you are using the money for the purpose for which we made the mortgage"; and we had to credit his account; it went on the books as a deposit, and that is the way it will have to be under this system. If a mortgage is made you can not use your "bond" until your mortgage is actually made; and if you only allow "half of the capital and the surplus" to be in deposits your loans will soon fill you up; you would find that your own cash, the cash you are furnishing to the farmer, must under such a rule be deposited elsewhere, because you have got his mortgage, and you are bound to deposit his money somewhere until it is checked out for improvements or to make final payment for the land.

Mr. WEAVER. That will be checked out in a little while.

Mr. SCUDDER. Yes; certainly. That will be checked out in time; but every day and every week it happens, and you will soon accumulate these deposits.

Senator HOLLIS. When was this that you had this experience in Minnesota?

Mr. SCUDDER. In the eighties.

Senator HOLLIS. That was before they had this serious trouble that our eastern banks got in from the western banks—I think that was in 1893.

Mr. SCUDDER. Oh, yes, sir. I went to Texas in about 1886.

Senator HOLLIS. Most of our Eastern States passed restrictions after the experience in 1893 about farm loans, but they are doing a large business now.

Mr. MOSS. Mr. Chairman, let me ask Mr. Scudder a question or two.

I want to say that I am very much interested in his analysis of the earnings matter, because our commission gave a good deal of live attention to that. Under the banking laws the national banks very frequently have an arm of the business, a trust company doing an entirely different business. Do you see anything in this bill that would prevent one of these mortgage banks from being operated in connection with or on practically the same scale with a small bank which is doing a general banking business? I do not mean precisely the same capital, but is there not the same relationship that there would be in the national bank and trust company under the existing law?

Senator HOLLIS. You mean to have two separate organizations under the same roof?

Mr. MOSS. I wanted to get, Mr. Chairman, Mr. Scudder's idea. We know that there is considerable consolidation of skill already in banking. For instance, that where one bank does one kind of business and is prohibited from doing another, that there is a community of interests. There is no question but that one of the very pertinent questions about this legislation is the question of supplying personal credit in the mortgage-loan business. I want to call Mr. Scudder's attention to this feature: The question has been revolving around in my mind quite a bit, leaving the provisions here prohibiting deposits, except in just a sufficient volume to do their incidental business, and

making them a pure mortgage bank. Does that, of itself, prohibit, if there was a bank of \$10,000 capital in a community later on authorizing the formation of a small bank to take up the personal credit, using the same skill and clerical help, to carry on these two businesses even if they in the law were kept separate in some way, just as the national banking business is now carried on?

Mr. SCUDDER. Well, theoretically perhaps, but you would have to go still further down to answer that question. If a national bank of \$25,000 as now organized under the Federal system were allowed to own such an institution of \$10,000, and manage it, that would be quite possible. It could take, say, 51 per cent of the stock of this \$10,000 concern, and let it have office space and practically conduct it that way. You mean that, I take it?

Mr. MOSS. No, sir. That was not the meaning that I had in mind at all.

Mr. SCUDDER. How are you going to run the expenses of the bank without the other bank being interested in that way?

Mr. MOSS. I feel very much this way, Mr. Chairman, in working out this plan. In the first place, the profits of the business, I believe, would be fixed. We found no banking institution doing a mortgage business in Europe on the process outlined in this bill but what had capital income. Part of that income comes and always will come from incidental expenses connected with the mortgage business. There is always a profit in the buying and selling of bonds, where they fall below par, and there is always some incidental profit that will always come with the mortgage business. I believe when personal credit is finally established, it will be established entirely, I think, upon separate lines, and will be an association among farmers and one for the mortgage business. There will be close relationship between those who conduct those two businesses, and I think it is entirely possible and entirely legitimate, and so I believe, Mr. Scudder, in talking about income and going into a community where there is possibly no growth, where there is no bank, but possibly where it can be organized, that it is not taking the most charitable view that can be taken, because there are but very few communities where a bank will be finally limited to \$10,000 and no growth; and in this community there will be very little chance for deposit business, anyhow, and in those communities, when the personal credit is finally passed, it would probably be well to be joined together by men interested in the same business.

Mr. SCUDDER. Is it not a fact, Mr. Moss, that under this bill the "cooperative plan" allows unlimited deposits?

Mr. MOSS. Only from its own members.

Mr. SCUDDER. I am asking that question.

Mr. MOSS. Yes; limited, but only from its own members.

Mr. SCUDDER. Under the cooperative plan, then, these deposits can be taken in "unlimited amounts." I believe that therein lies the solution of the rural-credit system. Why not also allow the "joint-stock plan" the same privilege? I believe that is the very thing that is going to solve the whole problem in this country.

Mr. MOSS. That is the practice of the joint-stock business, because of the view of persons that hold stock in the joint-stock banks.

Mr. SCUDDER. There are four stockholdings to one, comparing these two plans side by side, so that if it were possible to carry out

such a rule the cooperative bank would have four times the number of depositors.

Mr. MOSS. The very end you are speaking about is made possible under the cooperative banks under the terms of the bill. I mean the very criticism you bring in about the "deposits" is in the terms of the bill.

Mr. SCUDDER. Yes; it is; but I call attention to the fact you are not going to get very many "cooperative banks"—mutual banks—in the United States until the United States gets more settled. It takes close association.

Mr. MOSS. I would not agree with that view of it, because I think that cooperation depends upon not closeness or contiguousness of population. I do believe, however, it comes from general intelligence, and also in experience along that line—confidence more than the fact of being a compact community.

Mr. HAYES. What you say is demonstrated by our experience in California in our fruit associations, scattered all over the State of California.

Mr. SCUDDER. It might do in the fruit business or in the milk business, but it will not do in the "banking business," take my word for it. The banking business is a personal business, and you have got to know your man. You have got to know your man personally; you have got to be personally acquainted with his character, to see him face to face, and you can not compare the fruit business with the banking business.

Mr. PLATT. Why is it that there have been mutual savings banks organized all over the country?

Mr. SCUDDER. Why is it?

Mr. PLATT. Yes.

Mr. SCUDDER. I think I explained that in the statement I made. Only in the communities that are thickly settled you get your strictly mutual savings banks, mutual banking corporations.

Senator HOLLIS. Now, we have two other witnesses who would like to get away.

We will hear Mr. Brooks.

STATEMENT OF PROF. T. J. BROOKS, AGRICULTURAL AND MECHANICAL COLLEGE OF MISSISSIPPI.

Senator HOLLIS. Will you state your full name, Mr. Brooks?

Mr. BROOKS. T. J. Brooks.

Senator HOLLIS. What is your residence and occupation?

Mr. BROOKS. Agricultural and Mechanical College of Mississippi. I am a member of the faculty. I represent the college and the National Farmers' Union.

Mr. Chairman and gentlemen of the committee, I wish to begin the discussion of this subject by trying to get at what we mean in using certain terms. What do we mean by rural credits? In short I would say that we mean a system of banking which furnishes accommodations suitable to the demands of agriculture.

What are its purposes? To make it possible to mobilize agricultural security and provide an adequate system of rediscounting agricultural paper, or, in case of Government subvention, to render available funds provided by the Government—the expenses to be limited

to actual cost of operation, including interest on hired capital. The end in view being to (1) increase production, (2) cheapen distribution, (3) check overurbanization, (4) promote home ownership and general welfare.

There are two main divisions of the subject: (1) Long-time loans on land, (2) short-time loans on personal security. Many foreign countries furnish us notable examples with many subdivisions of both of these kinds of cooperative credit, and also of credit backed by Government aid. Of the land loans systems we have the "Land-schaften of Germany, the Credit Foncier and the Credit Agricole of France, the Government loans to farmers in Denmark, and loans by the English Government to the farmers of Ireland. Of the short-time credit systems we have the Schulze-Delitzsch and the Raiffeisen banks of Germany, and the Credit Agricole banks of France. There is not a Government in Europe that has not developed some of these, or modifications of them, for the benefit of agriculture.

Evidences of need of rural credits.—Before we go into a discussion of the ways and means or rural credits let us take a survey of the situation and see whether we are in need of such an innovation in our banking accommodations. In round numbers we have \$140,000,000,000 of wealth, \$40,000,000,000 of which is classed as agricultural. Of this agricultural wealth \$14,000,000,000 is owned by others than farmers; we have 1,903,289,600 acres of contiguous territory; 6,361,502 farms, containing 878,798,000 acres, of which 478,452,000 acres are improved. The land in farms represents 46 per cent of the total land area, while the improved land represents somewhat over half, or 54.5 per cent, of the total acreage in farms. The average farm contains 138.1 acres, of which 78.2 acres are improved. Our farm property increased in price from 1900 to 1910 100 per cent. Its productive power by no means doubled. Our population increased during the decade 21 per cent. On page 285, chapter 10, Thirteenth Census Abstract, we find that the number in 1910 was 6,353,323, an increase of 624,130, or 10.9 per cent. The number operated by owners in 1900 was 3,643,323; the number operated by owners in 1910 was 3,948,722, an increase of 295,399, or an increase of 8.1 per cent. The number of farms operated by tenants in 1900 was 2,024,964; the number operated by tenants in 1910 was 2,354,676, an increase of 329,712, or 15.3 per cent. Tenant farms constituted 25.6 per cent of all farms in 1880, 28.4 per cent in 1890, 35.3 per cent in 1900, and 37 per cent in 1910.

In the States of Kentucky, Tennessee, Mississippi, Louisiana, Texas, and Oklahoma tenant farms have increased from 35 to 51 per cent during the last 30 years. In Texas 55 per cent of the farms are operated by tenants; in South Carolina, 63 per cent; in Mississippi, and Georgia, two-thirds of the farms are tilled by those who have no share in their ownership. The alluvial bottoms of the Yazoo Valley in Mississippi furnish the finest cotton land in the world. There are eight counties in this section where there were in 1900, 3,004 farms operated by their owners and 25,750 by tenants. In 1910 the number operated by owners was 3,506 and the number operated by tenants was 42,618. In terms of percentage, 89 per cent of the farms were operated by tenants in 1900 and 92 per cent in 1910. The per cent of farm tenants in Illinois in 1880 was 30, and at the present rate of increase by the next census it will be 50 per cent.

Production.—That something has gone wrong with agriculture is also evidenced by the relative decrease in agricultural production. Our per capita of production of cereals in 1899 was 58½ bushels; in 1909 it was 49¼ bushels. Our exports of food products dropped from 1900 to 1912 \$127,400,000 worth, and similar imports increased \$111,420,000 worth for the same dates. Tennessee, my native State, produced less cotton, oats, wheat, cattle, sheep, and swine in 1910 than in 1900.

Overurbanization.—We have the problem of overurbanization confronting us. The ablest living historians claim that this wrought the destruction of Rome. We have developed our industries in a lopsided fashion, without the proper poise and balance to insure general and permanent prosperity.

There are a lot of reasons why people leave the farm. One of them may be illustrated by the fact that the young farmer with no money to begin with can hardly hope to be the owner of a decent home by working it out on the farm. The average farm wages in the upper Mississippi Valley, where wages are highest, are less than \$30 a month. At the present price of farms in the most productive States of Illinois, Indiana, and Iowa if the wageworker saved every dollar it would take him from 35 to 45 years to earn enough to own an average farm. Half of the number of those holding the plow handles in the United States are homeless.

And during the last decade the number of farms has materially decreased in our best farming States.

Number of farms.

State.	1850	1860	1870	1880	1890	1900	1910
Indiana.....	93,896	131,826	161,289	194,013	198,167	221,897	215,485
Illinois.....	76,208	143,320	202,803	255,741	240,681	264,151	251,872
Iowa.....	14,805	61,163	116,292	185,351	201,903	228,622	217,044
Total.....	184,909	336,309	480,384	635,105	640,751	714,670	684,401

Agriculture compared with manufacturing.—As compared with other kinds of business, farming makes a very poor showing. According to the estimates of the present Secretary of Agriculture farming in the United States pays only an average of 5 per cent. We see by our statistics a different story in manufacturing. The total number of manufacturing establishments in the United States exclusive of the hand and building trades, the neighborhood industries, and those whose products were less than \$500 per annum in value, except in the cases of factories just starting or idle during part of the year, was 268,491 in 1909, an increase of 52,311 over 1904. The capital invested rose from \$12,675,591,000 in 1904 to \$18,428,270,000 in 1909.

We see from these figures that the manufacturers had, in 1909, \$18,428,270,000 invested and turned out a product valued at \$20,627,052,000. And the number of hands employed was 6,615,046 at a wage cost of \$3,427,038,000. The farmer had \$40,000,000,000 invested, employed 12,500,000 hands, and produced only \$9,000,000,000 worth in 1911, valued at the farm, which was the largest crop and of greatest value of any ever produced. According to the last census

abstract, page 265, we find that we have an urban population of 42,623,383, and a rural population of 49,384,883. So that more than half our population is rural. I see it estimated that the appropriations directly for the department representing this class is only 2 per cent of the whole. This does not mean, of course, that other classes get all the other 98 per cent, because a great part of it is as much for the farmer as for anybody else.

Is it not astonishing, not to say alarming, that the status of farming should be what it is after the recent developments in the science of agriculture and the achievements in scientific farming? There are agencies at work destroying the foundation of rural prosperity. The situation as it confronts us throws out a bold challenge to the statesmanship of the age. We may lay all the blame we please on the individual farmer for unfavorable conditions here referred to, but the fact remains that there must be a fundamental error in our economy where the tendency is toward the elimination of the farmer from the self-dependent class. Whatever Congress has power to do to remedy the unfortunate condition is evidently not confined to appropriating money to encourage farmers to produce more. In the most productive parts of the country we find conditions which baffle the most astute who wish to devise means that will render tolerable and attractive conditions on the farm for the young farmer who is born and reared without a legacy. Of our 49,000,000 of rural population it is estimated that we have, in round numbers, 13,000,000 field hands, 4,000,000 of whom are wageworkers or hired men. These, taken with the tenants, constitute more than half the actual field workers in this country. The average farm wages in the upper Mississippi Valley, where farm wages are highest, is less than \$30 a month; and at the present price of farms it would take a farm wage earner in Illinois 35 years to work out an average farm and never spend a cent. In Indiana it would take 40 years; in Iowa it would take 45 years. These young men and their sisters are leaving the country for the cities. If a young man wants to buy a home he must go to the banks or insurance companies for the money and have a goodly portion to pay down before he can negotiate a loan. The rate of interest takes his profits and he sees no way to ever pay out.

What are the suggestions offered as a solution to the problem? Taking lessons from the Old World we have studied rural credit systems to find a remedy. We find the long-time loan for land credit and short-time loans for personal credit which are run on plans different from anything we have in this country. We also find that conditions are so different that the most we can do is to appropriate the idea and work out a system of our own, adapted to American life and American institutions.

It depends upon what class of people you wish to reach as to which measure will appeal to you as the best. Numerous bills have been drawn and introduced. I have read several, but not all of them. So far as I have examined them they have really different motives in view. The bill formulated by the United States commission is a national land-bank measure. If this bill is to be the basis of your legislation I would suggest some important amendments. I would amend it by limiting the amount loaned to any one man. I would also limit the loans to those living on their own land. I would restrict

loans to specific purposes. I would limit the amount of hire paid to stockholders for the use of capital to 6 per cent, and this to go only to capital paid in.

I would also provide for short-time loans, for open-account loans, and this could be done by providing that members of these banks should have their mortgages received by the land bank on condition that it was to be the basis of a short-time loan rather than a long-time loan, and they could make arrangements with ordinary commercial banks, which would secure money for a short time, with their mortgage in this land bank as a basis. Now, you might say, "Why would that be worth any more to an individual mortgagee than the individual commercial bank at present?" I should say, in answer to that, "Because of the laws that must be passed in the various States before this land-bank law could take effect, you would have a system of change of land titles, registrations, and exemptions that would enable this farmer to render his farm a liquid asset for a short-time loan, which he can not now do under the various State laws.

This bill is evidently drawn strictly for the benefit of landlords and incidentally by filtration to reach the less fortunate neighbor.

MR. BULKLEY. Which bill is that?

MR. BROOKS. This is the bill that is framed by the United States commission, introduced in the House and Senate.

It simply places the landowner on the same footing with the stockholder in a corporation. He can bond his assets and secure money on the most favorable terms that the money market will afford. But the plan should not lend itself to land speculation. For this reason the loan should be limited to the resident or actual operator of the farm. You must be worth at least half the value of the farm before you could avail yourself of the privileges of this bill.

Is bonding dangerous?—Quite a number of people are shocked at the thought of making it easy for one to go in debt on easy terms, and that, too, by abolishing exemptions. Moralize against debt all we will, it is quite evident that those who have succeeded in floating the heaviest debts have gathered the harvest. It all depends upon the relation of the cost of the debt to the profits of the business.

The farmers owe about \$3,000,000,000, of which \$2,000,000,000 is backed up by mortgages already. The public debt of all the nations of the earth is estimated by the Bureau of Universal Statistics at \$42,960,000,000.

From returns made directly to the Wall Street Journal by the various treasurers it is shown that the governmental expenditures in all the States have risen from \$189,000,000 in 1901 to \$423,000,000 in 1911. At a similar rate of increase the country and municipal taxes rose from \$912,000,000 in 1901 to \$2,082,000,000 in 1911, making a total for State and local purposes of \$2,505,000,000. Add to this the expense of the Federal Government of \$650,000,000 and we have for yearly governmental expenditures alone the stupendous sum of \$3,155,000,000. Most all of our big corporations and trusts are heavily bonded, or mortgaged, or both. The most prosperous farming district of the United States is heavily mortgaged. The most important agricultural section of the United States is the upper Mississippi Valley. In the States that would be touched by a circle of 500 miles radius, with center at Chicago, is found 23 billion

out of the 40 billion dollars of all farm property in 1910 and 53 per cent of all the improved farm land in the United States. These States raise considerably over half of the live stock in the United States and \$1,800,000,000 out of the \$2,700,000,000 worth of cereals. To express this in percentages this area contains 57.7 per cent of the value of all farm property, 60.7 per cent of the value of all farm lands, 51.3 per cent of all the cereals as measured by value. If we exclude cotton, as confined to the southern territory by climatic conditions, the overwhelming predominance of this section would be even more evident. Nor is this domination declining with the development of other sections of the country. On the contrary, it is growing greater with each succeeding census. This territory gathered to itself 60 per cent of the value added to farm property during the last decade.

Eighteen of the leading insurance companies of the United States have loaned on farm mortgages in the various States the sum of \$414,000,000. Of this sum the State of Iowa has absorbed more than one-fourth, or 25.5 per cent; Kansas is using 8.8 per cent; Nebraska, 9.9 per cent; Missouri, 8.6 per cent; Minnesota, Indiana, and Illinois, 7.1 per cent each. The farmers in these States have been able to make more than the interest charge on their debts. If the bill presented by the United States commission were passed, perhaps most of these mortgages would be shifted to the land bank. Then, the insurance companies would invest in the bonds instead of holding the mortgages direct. People who own farms but have moved to town, for one reason or another, and live on the rent from the land, would be inclined to sell the land and invest in land bonds rather than see the land depreciate in value because of neglect by renters. But I am solicitous for those whom this scheme would not reach. Is there no record in the annals of history where Government went to the relief of the lowly? Can the Government afford to set the example of doing such a thing?

I consider Mr. H. W. Wolf the greatest living authority on rural credit, and in his address before the American and United States commissions at Dublin, in speaking of personal-credit banks, said:

I do not think the Government should interfere in their work, and to show what State interference will do I want to tell you what happened to a Prussian Raiffeisen bank through State interference. In 1895 a State-endowed bank was formed in Prussia to finance a cooperative credit society. Up to that time the Raiffeisen unions had been solvent. In 1895, when this bank was formed, they said, "No; we don't want any assistance; we have money enough, and we ask you for nothing." However, the financial people brought pressure to bear, and **eventually they entered negotiations, and consequently they rather overrated the amount of money at their command, and a few years later found themselves in very serious difficulties. They had speculated and had some pretty hard times. They got out of it only by rather heroic methods, and I do not think there will be any losses in the end, for the contributions of the societies will be repaid. Now, that these Raiffeisen institutions are free from State aid they are doing well again.**

Go about it privately and you will find that even the Imperial Federation, in Prussia, which relies on State advance, is heavily impoverished with the interference it has to submit to. For what the State gives it asks about 10 times the amount in return. The head of this union complained to me in 1898. "We can not stand it any longer." There followed rebellion; and when the State wanted to tighten the strings the unions grew very restless and said, "We will make ourselves independent. We have £150,000, and we will throw off this Government yoke." The only banking aid they had open to them was the State banks, so they went to the Raiffeisen Union to try and make its societies the

collective agencies for its own work, and in return to act as agent for them and cash their bills; but the Raiffeisen societies would not consent to this. Then they went to an ordinary joint-stock bank, one of the largest in Germany. This institution does not tie them to exclusive business; and to both parties this is a far more satisfactory arrangement. Even the tradesmen societies, which have been favored in every respect, openly say they would like to break with the State.

In France you have seen the system of the Credit Agricole; there is unrest, and the result of the State aid has not been what they had expected. I understand that you have visited some of the French banks where they really have accumulated a reserve fund. That is what State aid is intended for; but only in one or two districts has it actually been done. A select committee of the French Chamber of Deputies, reporting recently on credit to be given to the trading classes, points out that in agricultural banks supported by the State in France the people did not repay as they should. The money being advanced by the State, according to this report, some of the people did not expect to have to pay it back.

I hear the banking interests of the United States are distinctly opposed to the introduction of cooperative banks, and I think, if it is so, that the banking interests of the United States are very shortsighted. Banking people 20 years ago gave us a lot of trouble in Ireland about savings banks, but now everywhere we find among the more intelligent bankers a friendly feeling toward the cooperative banks. The cooperative banks come into the field not as competitors of the commercial banks but as feeders for them. People who want to do banking should go to the cooperative banks. In Italy it was the cooperative banks that stimulated progress and brought banking up to date. I do not think there is any danger in this country, or in the United States, of cooperative banks becoming rivals of the ordinary commercial banks.

But Mr. Wolf is not opposed to Governments doing as Denmark is doing. Allow me to quote from page 551 of the report of the American commission:

By Mr. WAAGE. I shall give you a report of the small farmers' credit in this country under the control of the Government and aided by Government loans. In 1899 the Government called this system into existence—first, for a period of 5 years and later renewed for 5 or 10 years. The State has put at the disposal of the people who want to start small farms some millions of crowns: it started with 2,000,000, and now it has been increased to 4,000,000, per year at 3 per cent. The loans the Government has granted in this way amount to 25,000,000 crowns.

Neither does Mr. Wolf oppose the policy of England in her dealings with the Irish peasants, in helping them become home owners. On page 865 of the report of the American and United States commission we find the following:

Some of the facts elicited are as follows: The estates commission of three members, appointed for life, had its origin in the Windham Act of 1902, dealing with the division and purchase of estates by tenants. This commission now handles about £8,000,000 per year, all used for the purchase and division of estates.

These estates may be purchased at a voluntary sale from the owners or (within the area of the congested districts board) the sale may be made on compulsion. At present the sales are almost all voluntary. Since its inception the estates commission has purchased and resold about 8,000,000 acres, valued at £90,000,000.

The congested districts board is a larger commission, also nominated by the Government, and has for its object the division and sale of estates in nine western counties of Ireland, where the congestion of tenants was such that the cottager was unable to make a living on his small parcel of ground. This board has purchased land worth perhaps £3,000,000, of which it has sold about £100,000 to date.

The procedure is about as follows: A large estate, perhaps entirely in pasture land, is put up for sale. The officials appraise it with reference to its productiveness. If the price asked by the owner is satisfactory the estate is purchased, and the owner paid in Government land, scrip, or stock bearing 3 per cent interest. Hitherto the voluntary seller has been given a bonus of 12 per

cent of the purchase price, but this bonus seems to have been withdrawn recently.

Estates sold under compulsion the Government must pay for in cash. As a matter of fact, there are three methods of paying for land: (*a*) in stock, the usual and immediate payment method; (*b*) in cash, an option which is rarely resorted to, since the prospective seller must in this case await his turn, for cash sales are often very long delayed; (*c*) or partly in cash and partly in scrip.

Once purchased, the estate is divided into tracts of 25 to 30 acres; line walls are built if necessary, a house is constructed at a cost of about £200, and the place is sold to a tenant, preferably a former tenant on the estate, sometimes a purchaser from some other district. Since there are frequently 25 to 40 applicants for each holding it is not difficult to find honest, capable, industrious purchasers. Very often an estate is purchased by the tenants thereon by mutual agreement with their former landlord as to purchase price. The Government buys the estate, pays the landlord in stock or scrip, and sells it in small holdings to the tenants who thus become the debtors of the State.

The small holder, who may have no capital—and seldom has enough to stock the holding—pays at present 3 per cent interest on the purchase price and one-half of 1 per cent amortization, or a total of 3½ per cent, payable in semi-annual installments. This rate amortizes the debt in about 62 years. The purchaser is given a title to the land, pays taxes on it, and may transfer his equity at any time if he chooses.

Out of £90,000,000 sold the failures to pay the installments promptly have been inconsiderate. In the county of Cork the defaults have been nil. In case of default or failure the installments are paid out of the county exchequer, hence the tendency to pay promptly is warmly applauded and the slow payer is frowned upon. The results of this system seem to be excellent.

We find on page 662 the following from Mr. Dop, vice president of the International Institute of Agriculture:

Agricultural credit in France is cheap; and this, in my opinion, is one of its most important features.

The problem of how to discount agricultural paper at the lowest possible rate is the real difficulty in any agricultural credit system. To rescue the farmer from the evils of mortgage credit, often from the bondage of usury, and to secure him loans at a lower rate of interest than is usually required by ordinary banks would seem to be a difficult and even an impossible task. Yet the problem has been solved in France in a most practical and profitable manner, as the rate of interest charged the farmer varies from 2 to 5 per cent, according to the length of time for which the loan is made.

To organize agricultural credit so that it may be adaptable to all the requirements, to all the needs, to all the incidents which may arise in the complex business of the farming industry is an ideal which it would seem difficult to attain without derogating from basic principles and without weakening the very foundations on which the edifice of rural wealth reposes. Yet this seeming impossibility has been rendered possible, thanks to the good will and the ability of our legislators and thanks more especially to the suppleness of the organization which they have built up to meet the varied needs of our farmers.

If Monarchies and Republics in other parts of the world can step down from their lofty perch and do these things, and we can not, which do you suppose will appeal to the people of this class as the better government for them? It is not philanthropy; it is not charity; it is not giving anything to anybody; it is statesmanship.

However, we all know that to go into reckless loans loosely administered would result in a calamity. We should not develop a hothouse nursery for the incapable, neither should we ignore and neglect so important a part of our population as those who produce half the food and the raw material for the raiment that is produced in the United States. Every other bite you eat comes from the bounty of their hands; every other article of raiment you use comes by the sweat of their brows.

Need of laborers.—If some one should say that we would have no laborers if they were allowed to own land of their own, I will say that when I hear of the dearth of labor I rejoice; for I know that means that all who are worthy are employed. But when I hear of millions out of work I am alarmed. I know there is wretchedness and danger. Old Rome used to try to solve the unemployed problem by using them in the cities on public works and private extravagance, with feasts and amusements thrown in. We all know how much of a remedy that was.

I wonder if any of you surmise that patriotism is dying from the disinherited, the submerged, within the confines of this Government? How could it be otherwise? Revolutions are landmarks of bad statesmanship.

Source of funds.—If the Government should advance money, how should it be obtained? That depends upon whether we have sufficient money to answer the demands or not. It can be secured by deposits from the Treasury, by selling bonds, or by the issue of Treasury notes in like manner as is provided under the new banking and currency act which is to answer the needs of purely commercial business.

Class legislation.—We expect the charge of class legislation is to be presented. It all depends on what we define as class legislation. If it means legislation that is for one class at the expense or to the injury of another, then this is not class legislation. If class legislation means legislation that favors one class without injury to another, this is class legislation. If class legislation means legislation that benefits one class with indirect benefits to another, then it is class legislation. I wonder how many laws are on the statute books that do not come under the head of class legislation under such constructions.

(A recess was taken until 2 o'clock p. m.)

AFTER RECESS.

The committee met at 2 o'clock p. m., Hon. Robert J. Bulkeley presiding.

Senator HOLLIS. Mr. Brooks, you were cut off this morning. If there were any other observations you would like to make, we would be glad to hear you.

STATEMENT OF PROF. T. J. BROOKS—Continued.

Mr. BROOKS. Mr. Chairman, I really was through with my main statement, but I would like to submit a report which was adopted at the last national convention of the Farmers' Union on this point, and let it go into the record on the question of long-time land loans. It is as follows:

We could have a system whereby the Government would provide a sum of money to be loaned at the same rate of interest that the Government pays on its bonds, plus a fraction of a per cent to cover cost of administration. This fund to be made available for the purchase of land by the homeless on the amortization basis, to be furnished through rural banks organized for the purpose under laws providing for the same; no man allowed to utilize it for the purpose of purchase of land who has at present more than a specified number of acres. This would put at the service of the homeless a fund of money at a rate below the net increase possible to produce from the farm. At present

loans on real estate eat up all net profits and make it almost impossible for the purchaser to liquidate his debts, principal, and interest in the length of time that is allowed for such loans.

In the case of the landowner who wishes to borrow money for the better equipment of his farm, this could be provided for by the *Landschaften* system of pooling of land and issues debentures based on the collective guaranty. This would place a landowner on equal footing with all the great corporations which utilize the sale of bonds as a means of securing capital.

SHORT-TIME LOANS.

The advantages to the farmer of the open account has been demonstrated by the rural credit systems of the Old World. The American farmer has never had the privilege of the open account. He should be allowed to comply with the requirements of securing the privilege of borrowing on daily balances at a fraction of a per cent above the rates allowed on deposits. If he does not choose to avail himself of the privilege, he is not obliged to, but it is manifestly unjust and unfair not to give the American farmer the same privilege that is granted the commercial world. The excess of interest that is paid by farmers over commercial men is enormous, and forces them in many instances to run store accounts, buy on credit from year to year, pay a premium for this credit, and thereby submit to an enormous tax, which is a continuous drain upon the borrowing element of the agricultural class. Where the advantage of rural credits is provided the farmer with unimpeachable character can secure money for his necessities at a fraction of a per cent above the rate allowed on deposits. This enables him to pay cash for his purchases and eliminate the credit system.

This system of banking could be provided either by State or National legislation. Three States have already passed laws providing for such system of rural banking, namely, Massachusetts, Texas, and New York. In order to provide an adequate system of rediscounting necessary for the operation of rural credit banking it needs to be national in scope. For this reason a national law governing such system of banking we think, would be necessary. Under this law could be established a system that would coordinate the rural banks of the whole country under one system of rediscounting.

MR. PLATT. Is that your statement?

MR. BROOKS. It is a copy of extracts from the minutes of the last national meeting of the Farmers' Union, at Salina, Kans., last September, which I simply submit to go into the record.

SENATOR HOLLIS. That will be made a part of the record.

MR. BROOKS. As to the uses to be made of these credit systems, I would like to quote a paragraph from Mr. David Lubin:

The farmers could then form another cooperative association, another corporation, their own cooperative bank, in which they could deposit the money obtained by the sale of *Landschaft* bonds. This bank could in turn first give the farmers the open account, which would enable them to do business for cash; it could, secondly furnish the money for the cooperative distribution of the products of the farm. All this would it make possible for the farmers to form the third and last cooperative group or corporation for the collective purchase of requirements and the collective distribution of their products. There would thus be three distinct cooperative groups, three corporations. First, the *Landschaft*; second, the cooperative bank; third, the cooperative purchasing and distributing association. The safeguarding proposal by the State and Nation would only refer to the *Landschaft* and not to the other two.

As I spoke of the different purposes involved at the beginning I read that as testimony of the uses that would be made of these different systems in case the farmers are allowed to organize appropriate banks, land banks, and by securing capital through these banks they can organize their cooperative selling associations, and thereby perform the carrying function which is now carried by middlemen and speculators, or merchants, whatever you choose to call them, who buy the crops of the farmer and carry them until they

are needed by the consumer, pay the insurance, storage, and interest on money which they have invested, etc. Of course, the consumer has finally to pay it all.

You take the cotton crop of the South. It is gathered and marketed, most of it, in two months, and the farmer can not perform the carrying function. He must sell it because he owes debts, and he is not financially able to carry it until the mills need it and by being allowed to finance his own operations he could become his own distributor, and not in any sense of the word form a trust or monopoly or combination to influence prices, but to keep from flooding the market faster than the consumption demands it. There has never been a time when the farmer did not sell faster than the consumer would consume the staple products, so that he needs to have a system that will enable him to finance his selling organization, just as is done by the large manufacturers. The International Harvester Co. does not have to auction its stuff off. It has agents that solicit and sell their products throughout the world at their own prices and they can finance themselves. But there never can be a time when the farmer, as a class, can form and operate a trust as is done by the big industries, organized and operated by what we call captains of industry, for this reason: To form a trust you have to have control of the supply. The farmer produces the supply, but he does not control it. He does not control the amount that is to be produced. There is no way for him to dictate to any member of the farming class how much he shall plant of anything or how much of anything he shall produce. He has got to take that just as it comes from each individual's efforts, and then he has got to market it within a year, because another crop will come along and force him to do it. So he can not form a trust, as could be done by a concern that regulated the output and dictated the amount that is to be produced. So I think we would not need to have any fear that it would lead to his becoming an oppressive dictator in prices, because you give him the right and privilege under these systems to do his own financing.

Mr. BULKLEY. Mr. Brooks, I understand that you do not think that it would be of benefit to the country to increase the price of farm lands generally?

Mr. BROOKS. Well, I do not suppose that these measures that you have under discussion could really contemplate what the effect on farm lands might be, because that is incidental. I do not consider that it will change the value of farm lands in a great many places. In some few places it might.

Mr. BULKLEY. You said something this morning about the bill being drawn in the interest of the landlords. Was not that what you meant?

Mr. BROOKS. No; I meant that it could be used only by those who own the land.

Mr. BULKLEY. As a matter of fact, if you did reduce the interest rates generally on land-mortgage security, would not that tend to increase the prices of land?

Mr. BROOKS. Where land was exceptionally productive it might have that influence; but the most of this money would be used to increase production and not to buy land for speculative purposes.

Mr. BULKLEY. Do you mean that to be a suggestion that we make such restrictions?

Mr. BROOKS. Oh, it needs to be in the bill, so that it could not be used for speculative purposes.

Mr. BULKLEY. You would favor putting such a restriction in this bill?

Mr. BROOKS. Yes, sir. Land speculation does not produce anything, and it does not do anybody any good, except the man who gets the money. That does not do society, as a whole, any good.

Mr. BULKLEY. So that you would favor limiting the purposes for which these funds could be loaned. What would you limit it to?

Mr. BROOKS. I would not want to risk naming all of them just off-hand; it might be reached by specifying what purposes it could be used for or by a process of elimination, that certain things it could not be used for. In European countries the limitation is not placed upon loans secured by land mortgages, but they are on all personal-credit loans through the cooperative banks. The rural credit banks require the borrower to state what he is going to do with it, and if he does not he eliminates himself as a borrower.

Mr. BULKLEY. That is on the short-time loans?

Mr. BROOKS. That is on short-time loans; yes.

Mr. BULKLEY. But in the long-time loans—how about that?

Mr. BROOKS. No; they do not have it for the long-time loans.

Mr. BULKLEY. You would favor putting a limitation on the long-time loans, would you not?

Mr. BROOKS. Yes, sir.

Mr. BULKLEY. The Moss bill proposes that the purposes shall be limited to completing the payment of the purchase price of the land or to pay preexisting debt or to improve the land that is mortgaged.

Mr. BROOKS. I understand some of those have been put in the bill since it was first drafted.

Mr. BULKLEY. That is true. Are those good limitations, in your judgment?

Mr. BROOKS. They may be a little too restrictive. There are other things that the money ought to be allowed to be used for, I think.

Mr. BULKLEY. What else do you have in mind?

Mr. BROOKS. A man often needs to stock his place, to go into the cattle business, and he needs equipment that he perhaps could not get unless he could get it by this method, and that will require him to develop that kind of business, and if we restricted him during the whole time of the loan, reaching 35 years, he could not directly use it that way. He would have to circumvent it by different investments if he used it for that purpose.

Mr. BULKLEY. Do you think that a man ought to be allowed to borrow on long time, say, 35 years, for the purpose of buying equipment which is perishable?

Mr. BROOKS. It would not be necessary for him to borrow for that length of time, but he could borrow it for that length of time and pay it back earlier.

Mr. BULKLEY. He could, but the question is, What shall we allow him to do. That would be voluntary.

Mr. BROOKS. Well, if you have a short-time-loan provision in connection with that, then that ought to come in. When you have a short-time provision in it, it ought to come in under that head.

Mr. BULKLEY. I think that is true. What do you think of the estimates made by Mr. Scudder this morning about the expenses of these little local banks proposed by the Moss bill?

Mr. BROOKS. I think he had his expenses too high.

Mr. BULKLEY. How would you estimate it?

Mr. BROOKS. You would find that it varied so much that you could not get a standard. In some places it might be, and I believe it would be, possible to get men to attend to that for what would be almost nothing. In other places they would be compelled to pay prices commensurate with the same kind of work of another kind of business. If it was located in a considerable sized town, you would have to pay more than in the strictly rural districts. Of course, we could not expect it to be carried on in such districts as cheaply as you could in a district where some public-spirited men might be found who would not charge anything.

Mr. BULKLEY. Would you expect that to be done in this country?

Mr. BROOKS. No, sir; I would not expect it.

Senator HOLLIS. In New England the mutual savings banks are very large institutions. I think that is the plan the one I am connected with is run on. The president, who usually has knowledge about investments, is paid a rather moderate salary. The treasurer, who actually has the handling of the funds and looks after the book-keeping, etc., has a fair salary. The trustees who are really the directors of the enterprise and meet, say, once a month, get practically nothing. It may be that they get \$1 or \$2 for attending a monthly meeting. These trustees do that just as they would serve on a school board or any other position of honor in the community, and they consider it quite an honor to be elected to be a trustee of one of these mutual savings banks. And so I say that that sort of superintendence is given for that institution. Should you not expect to find that sort of feeling in every rural community to a certain degree?

Mr. BROOKS. In most communities you would find it, at least in some degree. I know of quite a lot of what you might call country banks that the president does not draw a cent of salary. He is very often a farmer who lives out in the country, and he is pretty well fixed and has money on deposit, and just to get his influence he is made president—he does not know anything about the business of banking. He gets no salary, but attends the meetings. But the banker, who is sometimes the cashier and bookkeeper and all-purpose man and does all the work of the bank, is paid a salary for his time.

Mr. BULKLEY. Of course, the president does not spend much time on it?

Mr. BROOKS. No, sir; except to seeing whether or not these farms are being properly cared for. There would not be so much work to attend to as in a land bank.

Mr. BULKLEY. How much do you think you would have to pay the right sort of man to do the active work of directing the affairs of one of those little banks?

Mr. BROOKS. As I said, it would vary so that it would be impossible to fix a standard. Some places you would get him for \$100.

Mr. BULKLEY. Is that \$100 a year?

Mr. BROOKS. Yes. And some places you would have to pay \$1,000 because of larger business and more expensive location.

Mr. BULKLEY. Would you have to pay as high as \$1,000?

Mr. BROOKS. Some places you could not get a man to do it unless you paid him as much as he could make in that same length of time in another business. He hasn't any interest there, when there is no public-spirited man in the community—and there are communities with no such man in it.

Mr. BULKLEY. Do you agree with Mr. Scudder's idea that each loan ought to be inspected once a year?

Mr. BROOKS. It ought to be inspected, in most cases I would say, once a year. If you had a man who was thoroughly acquainted with all the community where the bank operated, that need not be necessary. In some communities there is a man who deals in cattle, who drives all over the country, or he may be the constable, or something of that kind; he could do this work, and he would know the condition of everybody's farm and has known it for years. He could attend to it without hardly any trouble, incidental to his other duties.

Mr. SELDOMRIDGE. Would you require a man who had made a loan with one of these banks to file a report each year as to his output?

Mr. BROOKS. That is a detail that I had not deliberated on much. I do not know that that would be a mistake.

Mr. SELDOMRIDGE. I want to ask you another question. In your statement to the committee in reference to the farming conditions in that Yazoo cotton district of Mississippi, was that the district you mentioned?

Mr. BROOKS. Yes, sir.

Mr. SELDOMRIDGE. Is land there largely occupied by tenants?

Mr. BROOKS. Yes, sir.

Mr. SELDOMRIDGE. Are they mostly negroes?

Mr. BROOKS. Yes, sir.

Mr. SELDOMRIDGE. Are they of that class described here in the early stages of the hearings who were, in a certain sense, under contract with the storekeepers, or do they mortgage themselves from one year's end to the other with the stores?

Mr. BROOKS. A great many of them do.

Mr. SELDOMRIDGE. What rate of interest do they pay for that accommodation?

Mr. BROOKS. Well, I could not state definitely, for, while I do not live in the Delta, those storekeepers that run those accounts sometimes take enormous profits, as I know.

Mr. SELDOMRIDGE. We know that. That was brought out in the hearing, but I did not know but what maybe you were familiar with it.

Mr. BROOKS. No; I could not give you exact data any more than in a general way.

Mr. SELDOMRIDGE. What is the prevailing rate of interest on what you might call short-time or chattel loans in that section?

Mr. BROOKS. Two years ago the State passed a law making 6 per cent the legal rate and exempting all accounts that ran at a rate below that from taxes, and I do not know just what effect that has had, generally speaking, on the price of money.

Mr. SELDOMRIDGE. What is the average-sized farm or plantation?

Mr. BROOKS. Do you mean in the Delta?

Mr. SELDOMRIDGE. In the Delta, yes; where these conditions exist?

Mr. BROOKS. I have not the figures to show how much they average.

MR. SELDOMRIDGE. How much is given to a tenant to cultivate—the average number of acres?

MR. BROOKS. It would depend upon what kind of crop he is going to raise.

MR. SELDOMRIDGE. Cotton, for instance.

MR. BROOKS. If he raises nothing but cotton, you mean?

MR. SELDOMRIDGE. Yes.

MR. BROOKS. That varies; I would say, oh, from 12 to 18 acres, one hand. If he has machinery he could use that to advantage and could cultivate some more land.

MR. SELDOMRIDGE. What has been the success of the small farmers that have engaged in cotton raising; are they gradually merging into better conditions or have they been retrograding?

MR. BROOKS. Take the State as a whole; it has been going down, because it has been aggravated in the last few years by the boll weevil, and southern Mississippi farmers are in very bad shape.

MR. SELDOMRIDGE. What is the cotton land worth?

MR. BROOKS. From \$10 to \$45 an acre. Of course, some of the Delta costs considerably more than that.

MR. SELDOMRIDGE. Is it easy to secure loans on that land?

MR. BROOKS. No, sir; the banks do not like to loan.

MR. SELDOMRIDGE. I beg your pardon?

MR. BROOKS. The banks do not like to make long-time loans.

MR. SELDOMRIDGE. Will they loan on short time?

MR. BROOKS. They do not absolutely refuse. There is some of it done; but they do not court it.

MR. SELDOMRIDGE. How do the men operate; where do they get the money on land in Mississippi in the cotton belt?

MR. BROOKS. A great many of those big Delta farmers go to Memphis, make a contract with some wholesale supply house to furnish them with what they will need during the year—to furnish their hands, croppers, tenants, and hired hands—and they pledge their crop to some cotton commission man there to get these loans, and the cotton has to be delivered to the cotton man, and he has no more to say about who is to get that cotton than somebody that did not raise it. They carry enormous amounts in that way.

MR. SELDOMRIDGE. Are there many banks in the smaller towns?

MR. BROOKS. In Mississippi?

MR. SELDOMRIDGE. Yes.

MR. BROOKS. Oh, yes; we have, I suppose, a due per cent of small banks.

MR. SELDOMRIDGE. Do you think that the provisions of this bill would be of particular benefit in the particular section that you have been describing?

MR. BROOKS. Well, the general principles involved in this bill will be the same benefit to the farmers in that country as they would anywhere else, I suppose. The landowner would get the benefit from it. The men that did not own land could not get the benefit, and I guess most of the people in the State do not own the land.

MR. SELDOMRIDGE. A man to become a borrower under this bill has got to have the land first?

MR. BROOKS. He has got to have the land or the equivalent. He has got to have at least half the value of the land before he can mortgage it for the other half.

MR. BULKLEY. I do not quite understand how it would be possible to have a land-mortgage system without the mortgagor owning some of the land or being in the way to own some of the land.

MR. BROOKS. You could not. All I said on that other proposition was to this effect, that there are places where the man who has no money or land is helped to be a home owner by the Government purchasing the land and then letting him buy it from the Government, like it was originally public domain. We have had millions of acres of public domain in the United States and sold it to actual settlers and handled it without any public scenes or scandal or any mishaps, and it could be done again.

MR. SELDOMRIDGE. Could he not buy it from anybody else?

MR. BROOKS. He has got no way of buying it, because he has no money, no credit; that is to say, he has got no money to pay down, and he can not buy it unless he can make a part payment of a sum that would make the seller safe in delivering it over to him.

MR. BULKLEY. Then the Government would be practically loaning him the full value of the land at the outset, according to your theory?

MR. BROOKS. Yes, sir. The Government does that in Denmark, but it does not allow him to buy unless he has been a farmer for at least four years previous. In Ireland the Government buys the land outright and sells it to the tenant, and half of the area of Ireland has been bought under that law.

MR. PLATT. In Ireland these men that are buying that land have been living on the identical land for centuries.

MR. BROOKS. They are farmers, and it would have to be limited to farmers.

MR. SELDOMRIDGE. Have you made any calculation as to how much money the Government would have to advance in order to carry out that idea?

MR. BROOKS. No; because you would not know yourself, and nobody would know just how much would be called for, because we would have to have certain requirements, and I do not know how many would meet them.

MR. SELDOMRIDGE. You would either have to provide for it by the issuance of bonds or the issuance of Treasury notes.

MR. BROOKS. Yes, sir.

MR. SELDOMRIDGE. Both of which would be a credit obligation of the Government.

MR. BROOKS. Just as your currency contemplated under the new law is a credit obligation of the Government, which is for the service of commerce.

MR. SELDOMRIDGE. It has back of it, however, a certain reserve of gold.

MR. BULKLEY. Is there not a very great distinction there, Mr. Brooks? The security required in the currency law is 140 per cent of the currency issue. You are proposing that we sell them the land without any security.

MR. BROOKS. The question resolves itself to this: The bill which you have been considering contemplates helping the man who is least in need of help among the agricultural class. I say that that would result in good both to him and to the man who is most in need of help, indirectly; but I still say that, as statesmen, you have got this problem face to face with you to deal with, either to ignore it or to

do something with, that half of the people who produce the wealth of this country from the farm are not in position to utilize the advantages of this measure.

Mr. SELDOMRIDGE. Are we not helping the farmer, who has shown by his thrift and industry and intelligence, making a success of his work, has shown by his efforts that he is worthy of this confidence?

Mr. BROOKS. If that had been the only farmer that Denmark had in consideration, they would never have enacted the laws they did for the fellow that did not have that confidence, and it would not have been worth anything to the Irish peasant if they had not gone further than that.

Mr. SELDOMRIDGE. I think we are dealing with a different type of people in this country.

Mr. BROOKS. We are a different type of people only in one sense; we are the same race, the same blood, the same kind of folks by descent, and a peasant is a peasant, whether he lives in the United States or Great Britain or France or any other place.

Mr. PLATT. I do not quite agree with you on that.

Mr. BROOKS. Financially, he is.

Mr. PLATT. I think they are very different.

Mr. BULKLEY. Let me see how far you would carry this. Suppose a man had served an apprenticeship of three or four years as a blacksmith. Would you favor the Government buying him a blacksmith shop and setting him up in business?

Mr. BROOKS. If there is not anything in this beyond the helping of a class, there is no need for any legislation.

Mr. BULKLEY. That is what I am trying to find out.

Mr. BROOKS. Unless this applies to a condition that concerns every class, you are not justified in taking it up. If civilization is at stake, I think this kind of legislation is needed. It is not because the farmer as a class deserves any special laws; it is not because he as an individual is any more worthy of legislation at your hands than any other class; it is not because he has any more influence, is any more important as a private citizen, but when you allow agriculture to go down it takes all others with it, and everybody's welfare is at stake, the welfare of the Republic is at stake, and the perpetuity of free institutions is at stake, and civilization is at stake, and it is shortsightedness for any class to get jealous of agriculture. When you see it drifting into tenancy, making nomadic farmers, drifting from place to place because they have lost all hope of ever being able to be home owners, it is time to call a halt. It drives country people to the cities and creates overurbanization, and it will take more radical measures than anything I have suggested here to right that in the end.

Mr. BULKLEY. Then you would give that privilege to experienced farmers and deny it to experienced men in other classes on the ground that society requires it. Is that your position?

Mr. BROOKS. Yes, sir.

Mr. PLATT. In the case of Ireland, again, the National Government has not loaned money to the Irish peasants and farmers, which you propose, for the purpose of promoting agriculture, has it?

Mr. BROOKS. It is for the promotion of home ownership, and, indirectly, that promotes agriculture.

Mr. PLATT. It was not primarily for agriculture. It might promote agriculture, but it was not done for the purpose of promoting agriculture; it was for the purpose of taking care of these tenants and giving them the land which they considered they should own.

Mr. BROOKS. It was not for sentimental purposes, it was an economical necessity. The people of Ireland were leaving the country. There are not half as many people in Ireland to-day as there were 50 years ago. Ireland used to be an asset; it was liable to become a liability rather than an asset, and all the ambitious young people were leaving the country, and they adopted this as a means of stopping emigration from Ireland. It was for the purpose of making the Irish peasant feel like it was worth while to work at home, to bring about more patriotism and public spirit. It had all those things in view.

Mr. PLATT. I agree with you on that theory. But it was not primarily for the purpose of promoting agriculture; and I think that the same thing is true of the loans in Denmark.

Mr. BROOKS. Yes; but it promotes agriculture.

Mr. PLATT. The Government loans were not made primarily to help agriculture; they were made for other reasons, including those you have mentioned in the case of Ireland.

Mr. MOSS. May I ask a question?

Mr. BULKLEY. Certainly.

Mr. MOSS. Dr. Coulter submitted some very interesting figures and showed them to me, that there was only 15 per cent of the farm laborers who did not ultimately become landowners. If, as a matter of fact, 85 per cent of the farm population to-day became landowners, is there any great necessity now, in order to promote civilization, that these 15 per cent shall be helped directly to homesteads as your remarks would indicate?

Mr. BROOKS. I do not know just what process was used to gather the statistics proving that only 15 per cent of them failed ultimately to become home owners. I know that at present they do not.

Mr. MOSS. In Ireland there is a very large percentage of people who could, under no circumstances, become landowners without this loan.

Mr. BROOKS. Yes; and the same thing is true in this country.

Mr. MOSS. Not if the doctor's figures are true, and they are taken from the United States census figures, that under present conditions 85 per cent of the population to-day become landowners. If that is true, then you would agree with me, would you not, that there is no analogy whatever between the conditions in Ireland and those in America to-day, so far as farm landowners are concerned?

Mr. BROOKS. That statement does not bear out my own observation in the matter, if it shows that all but 15 per cent do become owners.

Mr. WOODS. I think there is a little error in that. Certainly not all but 15 per cent of the farm laborers become landowners.

Mr. MOSS. I should have said 15 per cent of the farm tenants.

Mr. SELDOMRIDGE. What was the statement?

Mr. COULTER. The statement was that we had now collected statistics showing that of all farmers, tenants and all, taking all farmers, I think, over 50 years of age, only 15 per cent were tenants, while 85 per cent were owners; while taking the young men it was practically

the reverse. I think 23 per cent were owners and 77 per cent were tenants, showing that they started in as tenants, only a very few starting in as owners. and by the time they got over 60 they were, 85 per cent of them. owners and only a very few of them tenants.

Mr. BROOKS. Is that increase in home ownership over tenantry as great now as it used to be?

Mr. COULTER. We have not any earlier statistics to compare with. We simply have them as of the census of 1910, and this is the first we have definitely tried to show any relationship between the age of the farmer and his status. I would like to say, further, that since I was on the witness stand here I made a further comparison of the statistics they are compiling, and it shows that the older the age of the group of farmers the larger the farm. that the younger the farmers the smaller the farms, indicating that the younger farmers have the smallest farms and the older farmers have the largest farms. That question has been disputed by a number of students, and a compilation has been made and a report is being prepared on that subject down at the office now.

Mr. WOODS. The probability is that these tenants did not become farm owners. but the majority moved to towns; therefore, of those remaining all but 15 per cent would become farm owners.

Mr. COULTER. Possibly so; I can not say. But we discussed this subject the other day.

Mr. WOODS. The interest rates were so high that it compelled him to move to town.

Mr. PLATT. I think there is no doubt that the tendency is that the young men do start as tenants and become owners. I know that is true of farmers I have known.

Mr. BULKLEY. I wanted to pursue a little further the line of thought that I started on a few minutes ago.

Your argument, I understand, is that the Government should help the farmers to get land. not because you advocate doing any special thing for the farmers, but for the sake of saving society from the lack of production of the soil. That is essentially your argument, is it not?

Mr. BROOKS. Yes; and a lack of interest in his country, that he can only have when he has a home.

Mr. BULKLEY. Yes. Now, I think that is a very interesting argument and I think there is a good deal to it, but I hope it will not get confused with something else that is not so. You implied that you were asking for legislation that would do for the farmer what was already done for commercial classes in the currency bill. As a matter of fact you are asking that much more should be done for the farmer. not because it is for the farmer, nevertheless you are asking that much more should be done for the farmer. Is that not so?

Mr. BROOKS. Of course, there is not any provision in the other bill that does exactly as much for any class as buying the land and selling it by the Government to the individual farmer would be.

Mr. BULKLEY. In fact, there is not any analogy in that bill. That does not destroy your argument at all. but I just want to clear up that situation. There is not an analogy in the currency law such as you are suggesting.

Mr. BROOKS. The currency law takes the risk of the Government on commercial paper, and this would take a risk on the farmer with real estate to back him.

Mr. SELDOMRIDGE. What risk does the Government take?

Mr. BULKLEY. Let me see if this is not so. Is it not true that you are proposing that the farmer should put up \$10 and borrow \$90 from the United States, whereas the currency law provided that the regional banks, with double liability, should put on \$140 to borrow \$100?

Mr. BROOKS. The difference is only in degree.

Mr. BULKLEY. Is not the difference in degree so great as to be a difference in kind?

Mr. BROOKS. And the purpose is greater.

Mr. PLATT. Does not the currency law provide this, that the United States Government shall issue that currency and loan to the banks at one-half of 1 per cent and the banks are in turn allowed to turn around and loan it out at 6 per cent?

Mr. BROOKS. That is not exactly its operation.

Mr. PLATT. Is not that the way the currency law reads?

Mr. BULKLEY. That is not the effect of it, and, of course, Mr. Platt knows that as well as anybody else.

Mr. PLATT. That is the way it reads.

Mr. BULKLEY. I am going to ask Mr. Brooks one other question, whether he thinks that the loaning of currency as provided by the Glass-Owen bill, by the Federal-reserve act, is any benefit to the bankers; whether the indorsement of the United States is any benefit to the bankers?

Mr. BROOKS. Do you mean to ask if I think that it is worth anything to the bank for the Government to indorse it?

Mr. BULKLEY. I am asking you whether it is any benefit to them to have the United States Government's indorsement on those notes which are loaned and which are required to pay interest?

Mr. BROOKS. Where the Government indorses any proposition it gives it a moral support, whether it does anything less or not.

Mr. BULKLEY. I think that is true; but do you think it is any benefit to the banks?

Mr. BROOKS. If the law was carried out according to its purposes, it would not need any indorsement, and for that reason you may say it does not do any good; but nevertheless if you get a moral aid it is a good.

Mr. BULKLEY. Is it not a fact that the principal bankers of the country fought bitterly against having any Government indorsement on it, and said they wanted to issue their own notes without Government indorsement on them?

Mr. BROOKS. I think it was for a different purpose.

Mr. BULKLEY. But certainly they did, and they figured their notes were absolutely good without Government indorsement, and they wanted to put them out without Government indorsement. That would save the interest which they would otherwise have to pay. Is it not a tax on them and a detriment to them to have that indorsement?

Mr. PLATT. You could put the tax on them just the same without the Government's indorsement if you wanted to.

Mr. BULKLEY. Yes; but that is not the way de did it.

Mr. BROOKS. It was a war between two theories, and one theory won, and I think the right one.

Mr. BULKLEY. I remember you made a very excellent statement on that when you came before our committee last winter, and to my mind it had a good deal of influence with the committee.

Mr. BROOKS. Unless there are other questions, that is all I have to say.

Mr. BULKLEY. That is all I have to ask.

Mr. BROOKS. I wish to thank the committee for its kindness.

The CHAIRMAN. We are very glad to have you with us.

STATEMENT OF T. C. ATKESON, MORGANTOWN, W. VA.

Senator HOLLIS. Will you give your full name to the stenographer?

Mr. ATKESON. T. C. Atkeson.

Senator HOLLIS. Where do you live?

Mr. ATKESON. I live at Morgantown, W. Va. I am a West Virginia farmer and master of the State grange, and representative here of the national grange, as member of the legislative committee. I got notice Saturday to appear before this committee, and I got up Sunday morning and did what some people perhaps think I ought not to have done, prepared a few remarks to make to this committee, and spent Sunday afternoon in that way, and did not go to church; my daughter typed it, and she did not go to church. I might say, however, that a good many of the statements in the way of statistics and data that I had collected and had contemplated submitting have been submitted already by Prof. Brooks, and I shall not repeat them.

In the first place, the statements I make are on my individual responsibility for I am not able to employ high-priced attorneys, as some of the representatives of high finance did who appeared before the committee when the general banking bill was under consideration, possibly to suggest what they should say, and particularly to see that they did not say the wrong thing. So if I happen to say the wrong thing I do it on my own responsibility. In my representative capacity I shall assume to speak for the organization that I represent.

I shall read a part of what I have written here, and will try to hurry along.

In presenting the subject of farm credits to this committee I hope to do so from the standpoint of the real farmer who is the man with primary or first interest in the action Congress takes upon this matter. The farmers of this country do not want to be set apart from other business men, and if absolute equality before the banking laws can be secured by them, they do not ask any subsidy or special privilege for the business of farming. Just now they are greatly concerned that no undesirable or burdensome system be fastened upon them, since they know by large experience that it is easier to take on burdens than it is to get them taken off.

So far as I have been able to learn the general banking law enacted by this Congress is universally approved by our farmers. And as evidence that the farmers are able to understand a financial proposition, I have only to restate the fact that in November, 1909, the national grange was in session in Des Moines, Iowa, when Senator

Aldrich came to that city to deliver an address in support of the Aldrich banking scheme. A large banquet was given in his honor in the hotel where the national grange had its headquarters. A few of us had the privilege of hearing the Senator's eloquent and learned address, presented with all the seductive skill of which he is past master. About the first thing on assembling the next morning, the national grange, by a unanimous vote, adopted this resolution:

Whereas a project is now being actively promoted to establish a great centralized banking institution, and believing this to be a revival of a dangerous proposition which once before in our country's history raised its threatening head, but which danger was averted by the veto act of a brave President: Therefore be it

Resolved by the national grange in forty-third annual session assembled and representing 1,000,000 conservative, liberty-loving people. That we are unalterably opposed to any legislation by Congress looking to the establishment of a great centralized bank.

Congress did not pass the Aldrich bill, and, for all I know, the distinguished Senator went back to Rhode Island and hanged himself.

As I have already said, the farmers of the country approve the general banking law enacted by this Congress. Not because they believe it is perfect or wholly just as between the people and the bankers, but because they believe it vastly better and fairer to business men generally and the farmers particularly than the law it displaces. We shall know more about its excellence and defects in a few years than we do now.

When the general banking law was under consideration, if we were not misinformed by the newspapers, the bankers had a good deal to say about the banking bill, and when they failed to get quite all they wanted, as usual, they are taking all they can get quite cheerfully.

Coming more directly to the farm-credit proposition, if we are to find justifiable excuse for enacting any kind of "farm credit" or "farm land bank system," we must find some broader and more of a general welfare reason than the granting of a special privilege to the men who till the soil and feed the Nation. It must be based upon the common good, as are our schools, roads, rivers, harbors, postal service, and many other laws that come within the province of progressive, broad-minded statesmanship.

For 100 years, more or less, the trend of legislation in this country has been toward the building up of the cities through a protective-tariff policy, which resulted in the drift of our population toward the cities, until the inevitable high cost of living wail is heard from one end of the land to the other.

All the people were taxed to secure a special privilege to the money changers, which concentrated the wealth of the country in the cities. If that is undesirable (and the history of all former civilizations teaches us that it is) then it is about time our national legislators look under the surface of things and see what is going on. If we are to have farm-credit legislation in this country, it should be based upon the common good and not upon a special privilege; and upon that proposition I believe the farmers stand with me. And, what is more, the farmers are tired of being priest-ridden by those who would assume to do their thinking with a salary attached, and espe-

cially do they believe they are entitled to a hearing upon the subject you gentlemen now have under consideration.

The people who go to Europe to study conditions all seem to be able to find what they want. That is a wonderfully prolific country over there. The Aldrich Commission went over there and dug up the so-called Aldrich scheme. The Rural Credit Commission went over and brought back a mass of literature and somebody incubated the Fletcher-Moss banking bill. Our people, if you will not put this in the record, call it the "Mossbacked Fletcherized monstrosity." I hope you will not put that in the record.

With all the seeking for light on how to make the farmers' assets of the country available as security for the money changer, the farmer himself has not been consulted; but I want to assure you he means to have something to say about it. To presume upon his ignorance or helplessness is hardly safe. Confuse the subject as we may, there remain three clearly drawn propositions in the public mind upon the subject of rural credits.

First, a new banking scheme known as farm-land banks, controlled and operated wholly by the capitalistic class without any guaranty of reduced interest to the borrower. Second, national farm-land banks, cooperative—and don't forget the comma—"national farm-land banks", comma, "cooperative"; and, third, Government loans direct to farmers on first mortgages.

We shall pay our respects to the first of these propositions as it is embodied in the Moss-Fletcher bill, which in some respects is the rankest kind of special privilege granted to the capitalists who control these banks.

For these so-called national farm-land corporations, which are private profit-sharing institutions in every sense, this bill exempts from taxation—

their capital stock and surplus therein and the income derived therefrom and the mortgages and deeds of trust and notes and bonds secured thereby held by said bank and the national land-bank bonds issued by the same.

This bill repeals the income-tax law in its application to individuals who have income from these banking institutions and in its application to the income of the corporation itself. It renders nugatory the law of States which tax the capital stock of corporations. The tax exemption includes the profits of these banks and the profits of individuals who make their investments solely for profit and who have no regard for the great national policy of conservation of agriculture and the perpetuation of our food supply.

The exemptions are totally without the warrant of a great national beneficence. The Nation might be justified in making these exemptions for the good of the whole people, but to make them for the benefit of the few bankers is special legislation of the rankest type.

William Pitt, the great English statesman, was not far wrong when he said:

Let the American people go into their debt-funding schemes and banking systems, and from that hour their boasted independence will be a mere phantom.

There never has been a time in the history of the United States when the farmer was treated fairly or equitably in the nature or management of the money system of the country. And this proposed farm-land bank scheme does not make any effort to treat him

fairly. Some so-called statesmen, who know as little about it as the man in the moon, have undertaken to say what the farmers "do not desire," with the assurance of an over-lord who would underestimate the average farmer intelligence. All such may rest assured he "does not desire" the kind of farm-land bank provided for in the Moss-Fletcher bill for several very vital reasons.

First. Because, so far as they provide for the special privilege of exemption from taxation, it is a special legislation for private profits.

Second. There is no effect to fix the rate of interest below the prevailing rate. The interest is uncertain.

Third. It gives no guaranty against the devious ways of money sharks, who have been responsible for much obstruction to agriculture.

Fourth. It is folly to trust a private corporation to carry out a great Government policy, and the creation of a private banking scheme will never handle their business for an altruistic purpose.

"The private-bank plan of farm credits is not a thoroughbred." I have quoted that from Congressman Bathrick. "It is part public policy and part greed. It can be nothing but an abortive attempt to hitch altruism with avarice." For these and many other reasons the farmers "do not desire" a farm-land bank system without protection against the type of men that Christ scourged from the temple.

My time is too limited to go any further into this phase of the subject, but the further you go into it the more you will realize some of the things the farmers "do not desire;" any statement of the self-appointed overlords to the contrary notwithstanding.

The second proposition, as stated, is involved in the National Farm-Land Bank, Cooperative. Every time I see that title I am reminded of a statement made to me by ex-Gov. Atkinson, of my State, now judge of the United States Court of Claims. He is an ardent member of the Methodist Episcopal Church, while my membership is in the Methodist Episcopal Church, South. The governor told me that—

the difference between our churches was that his church was the Methodist Episcopal Church of God, and that mine was the Methodist Episcopal Church, South of God.

That is, it failed to make a very impotent connection. And I am afraid the National Farm-Land Bank, Cooperative, lacks the vital connection with the people on the farms.

We have great respect for any honest effort at cooperation among the people which may in any way assist them in holding their own against the encroachments of the people who control the money of the country. The farmers would have more confidence in the proposed National Farm-Land Bank, Cooperative, if it were not for the company it is in and the cooperative part being set off by a comma and hung on at the tail as a kind of afterthought. Because of the conditions existing in this country, if cooperative banking ever becomes general among the farmers it must come about gradually and be a long time in developing. We believe the greatest possible encouragement should be given to self-help and genuine cooperation, but instead of yoking up with a special privilege, private banking

institution, it should be part of a broad, comprehensive, national policy administered by the Government itself.

This brings us to the consideration of our third proposition. As an expression of what at least some of the farmers of this country desire, we submit the following declarations and resolutions adopted by the national grange at Manchester, N. H., last November. That was before any of these bills were prepared. These resolutions state:

The commerce of this Nation is conducted upon a basis of \$1 of cash and \$8 of credit, and the cost of credit is a heavier burden upon agriculture than upon any other industry; and

Notwithstanding that the products of agriculture bear a more important relation to the necessities of the people than any other and the success of all commerce awaits the success of agriculture, the burden of the cost of credit upon agriculture has handicapped its progress and it has been the victim instead of the beneficiary of our system of credit; and

Although the conditions surrounding agriculture are distinctly different from those of other countries, it has been compelled to accept terms and cost of credit unsuited to its needs, with the result that the highest courage and thrift of our farmers has often eventuated in loss of home and pitiful failure to thousands of them;

Farm tenantry, with its consequent probable depletion of production per acre, has increased from 25.6 per cent of all farms in 1880 to 37.1 per cent in the year 1910, which reveals a progressive and alarming advance toward landlordism, a condition which every nation on earth has found disruptive of peace and productive of internal disorder;

As the productive acreage in the United States is not keeping pace with the mortgage indebtedness or increase in population, as the interest charge must be borne by all consumers, farm credits is a national issue. The present agricultural conditions are not attractive to our people, as is shown by the 20 per cent increase in the population of the country as compared with the 100 per cent increase in the cities in the last 20 years. It is the duty of the Government to take care of our food supplies;

It should carry out a far-sighted policy to conserve our agriculture. Our Government has guaranteed railroad bonds, given the railroads 158,000,000 acres of land, furnished public funds to banks at 2 per cent interest or with no interest, used Government funds for irrigation schemes and to aid agriculture in the Philippines. Our Government can not delegate and intrust policies to the greed and selfishness of all men. We should profit by the experience of the other countries of the world, especially those that are most progressive: Therefore be it

Resolved, That it is the opinion of the national grange that any legislation for the purpose of bettering farm credits is a part of the national policy of conservation of food supply and as such the Government of the Nation should itself carry out this policy and it can not properly be delegated to private capital for general exploitation and profit.

Resolved, That any farm credit association which receives any privileges by or under State or Federal law should be composed of farmers and not of capitalists of high finance, who have heretofore dominated agricultural credit and created conditions which now demand relief.

Resolved, That any farm-credit plan which does not include a direct reduction of the "prevailing rates" of interests, as well as a long term of small annual payment upon farm mortgages, will not meet agricultural requirements.

Resolved, That the Government of the United States should borrow money at a rate of interest not to exceed $3\frac{1}{2}$ per cent and lend the money at a rate not to exceed $4\frac{1}{2}$ per cent to the farmers upon long-time farm-land mortgages with such restrictions as may be necessary to make the Government perfectly secure, and the profit to the Government to be expended in road improvement or for some other object that will benefit the whole people.

These resolutions provide specifically for two things. They were unanimously adopted at the session of the national grange of Manchester, N. H., last November. It was before you prepared any of these bills.

Senator HOLLIS. I think I ought to say, Mr. Atkeson, that I made a special effort, at the request of the officers of the national grange, to get Mr. Moss or Senator Fletcher to come up and explain what they had in mind, but their engagements were such that they could not do so. Secretary Houston went up and he apparently was not received very much more favorably than this bill is.

Mr. ATKESON. These resolutions provide specifically for two things: The direct loan by the Government of money secured upon long-time farm mortgages at a fixed rate of interest, and for the formation of farm-credit associations under Federal or State control to provide short-time loans.

The national grange did not wait for some overlords to tell them what they "desired," and they believe with Congressman Bathrick that—

The way to carry out a national policy is for the Nation itself to do it as nearly as possible and not turn it over to private interest as much as possible.

As a foundation for any farm-mortgage loan plan we should have a power with stability unquestioned now; not one requiring a generation in which to gain a confidence of the people and make a remedy efficient against the evil we wish to cure.

Such a power can establish at once the best possible market for the bonds or debentures required to liquefy mortgage security, at once solve the problem of tax upon mortgages and debentures, at once institute a low rate of interest and decrease the cost to the lowest possible minimum, at once provide an adequate supply of money at the lowest possible cost, at once place mortgage bonds upon a footing with the very best security know in the world, at once begin work of relief aimed at all over the country instead of in a few places.

The power exists and is none other than the Federal Government. This is the central authority of the people. It is the apex authority covering all the units of cooperative Government. If we wish to institute an effective farm-credit system, why should we defer wholly to the unrelated efforts of these units? Why should we suffer the long waiting for these units to coordinate on this great purpose when the apex authority can do it at once? These various units are free to perform this service as they wish, but the Federal Government could at least so act that the waiting for State action shall be a season of accomplishment and not one of procrastination, that the country may be covered by the policy in a complete instead of a desultory manner.

To this should be added that if it is not class legislation and paternalism to exempt from taxation the stocks, notes, bonds, income, and surplus of a private bank, who will have the nerve to say that Government loans to farmers is class legislation?

The academic political economist may elaborate his theories of government and go on using language about the forms of government, but theories change and fallacies wither and the conflict between the right of men and the arrogance of the dollar remains with us, teaching the folly of trying to serve man and mammon at the same time.

We have made a careful study of most of the farm-credit bills introduced in the House and Senate and we find that the Bathrick House bill and the Norris Senate bill most nearly conform to the resolutions adopted by the national grange, and which have been indorsed by the Farmers' Union and the Federation of Labor. All of these organizations believe that the adoption of a farm-land credit system along the lines of the Bathrick bill will do much to multiply happy homes in the country, which is the greatest possible achievement of human government, and is essential to the upbuilding of

the character of a people without which all forms of government will ultimately result in failure.

Mr. PLATT. Did you have the Lafferty bill before you when you made those observations? That provides for 2 per cent loans. Wouldn't that be better?

Mr. ATKESON. You mean in preparing this paper, or the resolutions?

Mr. PLATT. When your resolutions were passed?

Mr. ATKESON. No, sir. The Bathrick bill was not in existence at that time, as I understand it.

Mr. PLATT. The Lafferty bill, I spoke of.

Mr. ATKESON. Oh, I heard Mr. Lafferty's discussion of the bill when it appeared before the subcommittee here in December. I believe it was, and I am quite familiar with the provisions of the Lafferty bill. There are some very important differences between the Lafferty bill and the Bathrick bill, whether we favor the one or the other. I trust the committee will interpret all I have said as not in-dorsing any particular bill as a piece of perfection. I am expecting the combined wisdom of the committees of the House and Senate will give us a piece of perfection, if we could so name it.

Summing up, the grange stands for direct Government loans upon long-time farm mortgages, with a limit of not more than \$15,000 to be loaned to any one man, and a farmers' cooperative loan association under Federal or State control, surrounded by every possible protection against loss by the Government or the cooperative association.

In conclusion, I desire to place in the record a circular letter sent out by the National Grange legislative committee. I will not read it without some one desires me to do so. It represents the grange's position upon this subject. We have sent them to pretty nearly 1,000,000 people in this country within the last 10 days; that is, through the organization it has reached pretty nearly that many. As I understand it, the farmers' unions and the Federation of Labor say substantially the same thing to their membership from one end of the country to the other. If there is no objection, I will place this in the record.

(The circular letter referred to is as follows:)

To the members of State, Pomona, and subordinate Granges:

Just at this time the most important and urgent subject before Congress, so far as the farmers are concerned, is that of "farm credit." Recognizing its paramount and immediate importance the National Grange at its last session, and many State granges meeting since that time, have given it careful consideration. Many bills have been introduced in the Senate and House of Representatives and many more are likely to be.

Your legislative committee, after careful consideration of the "farm credit" bills pending in Congress, find that the bill which most nearly conforms to the resolutions adopted by the National Grange, is the Bathrick bill (H. R. 11897), and have unanimously agreed to support that bill.

The bill provides that the Government shall borrow money at a rate of interest not in excess of 3½ per cent and lend on farm first mortgages at a rate not in excess of 4½ per cent.

The mortgage contracts are payable in small annual installments. The debtor, however, can pay all or any part of the mortgage at any interest-paying period.

Loans can be made direct to farmers or to farmers through farmer's farm-credit associations. The rapid organization of these self-help associations will be encouraged by employing and paying them to attend to the work of appraising

and inspecting mortgage loans, leaving their capital free to care for local short-time loans. This program is in conformity with the best European experience, where self-help and Government aid go hand in hand.

Limitations and restrictions on loans will encourage the ownership of farm homes, but discourage unwholesome land speculation and tenantry. The cost of investigation, appraisal, and inspection in making a loan will be confined to actual expenses. The bonds issued to secure the loan fund will be in small, as well as large, denominations and their total will at no time exceed the amount of mortgages held to secure them. The money borrowed must be used for the discharge of obligations, purchase price, or the improvement of the property offered as security. The applicant must be thrifty and of good character and no loans shall exceed 60 per cent of the value of the farm. All applications must be sworn to and a heavy penalty is provided for misrepresentation.

Postmasters and other Government officials will be employed to assist in administering its provisions. Without detailing the administrative features, it can be said that they seem well designed to carry out the provisions of the bill. Profits, if any, are to be expended in building and maintenance of good roads.

This bill comprehends the best plan of bettering the conditions of both long-time mortgage and short-time loans and is devoid of any taint of private profit. By it, those now struggling with a hopeless mortgage would be shown a way out. Those out of debt would be awakened to the advantage of a safe credit and those who wish to own a home on the farm would be given substantial opportunities. All this can be done expeditiously by Government loans, but by private banks or by any unaided self-help plan the benefits will drag slowly through a generation.

All the leading nations of the earth are doing as much as is intended by this bill. England and Germany lead in Government and State aid. The bill does not express a new proposition. It is not even new to the United States. Loans to banks, gifts and guarantees to railroads, loans to Philippine farmers, irrigation appropriation, and many laws give color of practice to it.

There is no chance of loss to the Government but, rather, a sure chance of gain for all the people. This seems preferable to a new system of private mortgage banks gathering profit for a few.

If this bill is class legislation, so is it class legislation to lend money to the banks. The success of agriculture is as important to the whole people as the banks.

Government bonds issued for this purpose could not invade the public purse or the taxing power. Hence could not affect the Government credit, or cost the people a penny. Nine of our States now lend their school funds to farmers and lose nothing.

The Bathrick bill at once removes the obstacle of taxation on mortgages and the debentures: a vitally necessary thing to do before interest rates on farms can be reduced. This is done in the interest of food producers and consumers and therefore is for all the people. It is for all and not for a few.

Some bills attempt to cover this phase by exempting private profit-seeking banks from taxation. These are distinctly class measures without the slightest warrant of Government beneficence for their special privileges.

Of this class are the Moss bill in the House and the Fletcher bill in the Senate. These are distinctly private profit-sharing measures which, in our opinion, will do little to aid farm credit, but will build up a new class of national banks, interfering with the operation of the new banking and currency bill, and strengthen the hold of the money power upon the people. These bills are in utter opposition to the resolutions passed at the last National Grange meeting.

They leave the important question of interest rates uncertain and delegate the great national policy of conservation of agriculture to individuals, who can be actuated only by a desire to make as much money as possible out of the operation.

If it is constitutional to give exemption from taxation to the stock, surplus profits, bonds, notes, and other securities of these individuals and thereby add to their profits, who will raise a question of the right of the people's Government to lend money on farm securities free from taxation?

Fraternally submitted.

OLIVER WILSON,
T. C. ATKESON,
H. J. PATTERSON,

Legislative Committee of the National Grange.

Mr. PLATT. When were those resolutions published?

Mr. ATKESON. About the middle of November. I do not remember the date. It was during the session of the grange at Manchester, N. H., about the middle of the month.

Now, I had expected the master of the national grange to be here—Mr. Patterson, the president of the National Agricultural College—and also Mr. Wilson. Since Mr. Wilson is not here, I want to place in the record a little reprint from his annual address to the national grange at Manchester. I do not believe he had read any of these bills when he wrote this brief statement. He says:

I believe that the time has come when the national grange should be heard upon this very important question.

There did not any of them go to Europe that I know of.

It is not my desire, even if I had the authority, to outline an exact policy for the grange to follow. I desire to submit a few thoughts, suggestions, and conclusions which I have arrived at, so as to bring the question in tangible form up for consideration, realizing that your honest, calm, and conservative deliberations will fairly establish the truth and will be the means of our going before the world as a united body, standing for justice and equality for all classes.

I believe:

First. Any rural credit system should make it easy and safe for a farmer to borrow money to buy or improve his land or equipment to operate same.

Second. Long-time credit at the lowest possible interest for the farmer who desires it.

Third. A rural credit system that is suited to the needs of the peasant conditions existing in many parts of Europe must necessarily fail in our free, independent United States.

Fourth. The so-called rural credit commission that went to Europe had but very few real representatives of agriculture; consequently we can expect but little, if any, benefit from its report.

Fifth. Any credit system to be safe for the people must be either directly controlled or operated by the Government.

Sixth. Any system under private control, operated as a special privilege, would ultimately prove a detriment to agriculture.

Now, I realize that this statement has left unsaid a great many things that might have been said. It is almost an endless subject. Possibly it has said many things that might have better been left unsaid. But this is a free country, and we have been frank and good-natured in what we have said, and there has been but one thought in all I have said—one paramount thought; one central thought—that is, that the people who inhabit the farms of this country are not asleep. They said these things that I quote from them last November. They said things as far back as 1909 in the action taken after listening to Mr. Aldrich's speech at Des Moines. I have been saying things in the national grange practically every session since, and because the farmers of the country are at home trying to feed the Nation, and are not spending much time at Congress or before committees, it does not justify the conclusion that the farmers are not vitally interested in this question. And, as I talk to them personally, they seem to be possessed with one fear more than any hope. That is the fear that some kind of a job will be put up on them that it will take them a generation or two to get rid of. They fear more the ills that may come than the ills they have—many of them.

So we feel that they are entitled to be heard and to be given every consideration.

Mr. STONE. Have they been denied a hearing?

Mr. ATKESON. Not at all.

Mr. STONE. Has not this committee requested representatives of all of the farmers' organizations to appear before it?

Mr. ATKESON. Yes, sir.

Mr. STONE. Has not it called upon the different agricultural schools to send representatives? Is not this committee, in every way, undertaking to be fair by giving to the farmers the best opportunity to be heard?

Mr. ATKESON. We have not intimated that it was otherwise. I was accounting for their not being here.

Mr. STONE. Your remarks would tend to convey the impression that some job was likely to be put up on them; but just because they are not here presenting their case is no reason for concluding that they are not protected.

Mr. ATKESON. That is right.

Mr. STONE. And they are here presenting their case.

Mr. PLATT. By how much of a majority were those resolutions adopted?

Mr. ATKESON. They were adopted unanimously. There were 32 of the States represented.

Mr. PLATT. Did all of the New England representatives vote for it?

Mr. ATKESON. Yes; all of the New England representatives voted for it. There was not a single vote against it.

Mr. SELDOMRIDGE. Did New York?

Mr. ATKESON. New York and every State north of the Mason and Dixon line, and Virginia, Kentucky, and Missouri, west to the Pacific. We do not have much strength in the cotton States, but the representatives of the Farmers' Union have special strength in those States; and so far as I have been able to interpret their acts, they are in perfect harmony with our position.

Mr. PLATT. Who appeared before the national grange in advocacy of any particular plan at that meeting?

Mr. ATKESON. Of this proposition?

Mr. PLATT. Yes.

Mr. ATKESON. I will say this, that the committee that had that matter under consideration was a committee known as the legislative committee. At that particular session I happened to be chairman of that committee. Mr. Stetson, of Maine, and Mr. Sherwood, master of the Rhode Island State grange; Mr. Stetson, master of the Maine State grange; Mr. Sherwood, master of the Rhode Island State grange; and myself, master of the West Virginia State grange, were the three men who were members of that committee. There were also three ladies. I do not remember who the ladies were. One of them was the wife of the master of the New Jersey State grange.

Mr. PLATT. Did any outsider appear before the national grange in advocacy of any particular legislation?

Mr. ATKESON. Not any outsider. Mr. Bathrick was up there. Senator Bristow and Senator Poindexter were both invited to come there. They were invited but could not come, and they had no connection with these resolutions, and the resolutions were written before Mr. Bathrick reached Manchester. So there was no advocacy in support of these resolutions outside of the grange itself. The report of the committee on the resolution was unanimous. There

were in Manchester, as nearly as we could arrive at the facts, some—think like 10,000 or 12,000 farmers—some from Washington, Oregon, and New England. There was pretty near every one in New England there. Nowhere was there expressed, either in the vote of the membership or about the hotel lobbies or anywhere else, anything but unanimous approval of the position taken by the national grange.

Now, the national grange did not provide specifically for the carrying of those principles into operation. The farmers are not skilled in the preparation of bills: they are not lawyers; they are not bankers, but I will venture to say, however, they would get together a bill after a fashion if they were asked to write it. But, assuming our Congressmen are capable and patriotic and with the common good at heart, they desired only to impress upon them their sentiments as to the general policy. There are three general propositions, as I stated in the paper, and they are concerned about the propositions more than the detail of the proposition. One is a profit-earning banking corporation; the other is purely cooperative, and we are all agreed that cooperative self-help, self-initiative, is a good thing. I think all of us, no difference what position we take on this general proposition, agree that cooperation is a good thing. I do not think there is any question about that, if it will operate. There may be differences of opinion about that.

Our conviction is that a cooperative banking association, or whatever you choose to call it, should take care of the short-time loans, and that the Government itself should take care of the long-time loans, and that the time should be sufficiently long not to weight down with the annual or semiannual payments the industry of agriculture beyond the burdens that it can bear.

There was a question raised this morning as to the length of time that this amortization feature should run. Under the commission's bill if they can load on to the landowner the whole amount of the principal covering a period of six years—if it is for more than five years they can distribute the principal over the number of years: we will say it is six—that swamps the man unquestionably. There is not a farmer in this country, barring some special conditions and some special men, possibly (there are exceptions to practically all rules), that can borrow half the value of his land and load it on to him plus the interest and the cost of administration and pay it in six years.

The question is, how long shall it run to enable him to meet these annual charges? As I have studied the commission's bill—I like to call it that—it seems to me that the probabilities (and I waked up last night and this thing would keep coming up like Bancho's ghost: it would not down) are that the interest rates will not be less than 6 per cent.

Mr. PLATT. Right there, Mr. Atkeson, the farmers in four or five States of the Union are paying less than 6 per cent now on their mortgages, as shown by the Department of Agriculture. How do those banks get along in those States?

Mr. ATKESON. You mean the legal rate of interest?

Mr. PLATT. No; I mean they are actually paying less than 6 per cent in Pennsylvania, New York, and nearly all of the New England States to-day, and Ohio.

Mr. ATKESON. There may be a few exceptions, as I said awhile ago. We will say, then, it has been figured up that the average rate paid by farmers now is 8 per cent—8 and a fraction—you have all seen those figures. Under this scheme the interest rate on the average—there may be some Eastern States where the prevailing rate will be 6 per cent; in my State the legal rate is 6 per cent, and that may be the legal rate in a majority of the States—we will assume, under this banking scheme, will be 6 per cent. The cost of administration adds another 1 per cent, and then when you add a half per cent or a whole per cent, or 2 or 3 per cent for the length of time the mortgage runs, covering the amortization charges, you fix an annual payment certainly not under 8 per cent. And 8 per cent loads up any agricultural enterprise in this country until it is absolutely hopeless.

Now, I want to impress upon you this one thought, because it is abhorrent to the farmers—any question of special privilege. The question has been raised why this privilege should not be granted to the man who wants to establish a home in the city. The cases are not at all parallel. If you grant this privilege, and place the interest rate with the amortization feature for a long time to run, not above 4 or 4½ per cent—a good deal has been said about trying to induce some of the congested population of the cities to go back to the country—would you interfere with Mr. City Blacksmith or Mr. City Laborer, or anyone else, availing himself of this privilege, if you choose to call it a special privilege?

Mr. BULKLEY. Mr. Atkeson, in that connection: Do you subscribe to what Mr. Brooks said, that the loan should be confined to practical farmers with four years' experience?

Mr. ATKESON. That would be desirable; but I do not believe I would undertake to limit it to a farmer of experience.

Mr. BULKLEY. Of course, if you made that limitation, that would answer your question.

Mr. ATKESON. Yes. I would not do it for this reason: It leaves a question of dispute as to what constitutes a sufficient experience. If a man who is running a blacksmith shop thinks it is one perpetual sweet song out in the country and wants to try it, the way to get that notion out of his head is to let him try it for a while. I have been there. If he chooses to go out in the country, to take advantage of this so-called special privilege, he has a chance to go out and try it. If he fails to make a living and meet those charges of interest and amortization, all he has to do is to sell out to somebody else who can meet those charges, and who will go on with the same property.

Now, there is one important thing: If I were undertaking to deal with the commission's bill, there are several important amendments. Some of them were pointed out this morning. But I want to call your attention to this one, and that is the limitation on the amount any one man may secure. It ought to be limited, otherwise instead of helping the independent landowner, who is to live on it and farm it, you make it even more possible for the speculator who invests in the land with the hope of reward in what Mr. George would call the unearned increment. Suppose we take the provision in this bill, that he may borrow 50 per cent of the value of his land. If I had \$100,000 I could borrow another \$100,000 and buy \$200,000 worth

of land and keep everybody else off of it except an irresponsible tenantry.

Mr. BULKLEY. Your suggestion is that the total amount any one man should be permitted to borrow should be limited to a specific sum. Is that right?

Mr. ATKESON. My own theory is not more than \$10,000. But that is a matter of detail.

Mr. BULKLEY. In any event, there should be some limit.

Mr. ATKESON. There should be some limit.

Mr. BULKLEY. I think you are right about that. Now, how did you arrive at \$10,000?

Mr. ATKESON. My own conviction is it ought not to be more than \$10,000, and that would make it possible for a man to acquire a \$20,000 farm.

Mr. BULKLEY. Why \$20,000? How do you fix it at that amount?

Mr. ATKESON. I say that is a matter of detail, a matter of judgment, as to where it ought to be; but \$20,000 is a pretty good farm for one man and one family to operate. If one man owns a farm and another man operates it, that land is expected to support two families—one struggling for existence, doing all of the work, and the other existing, doing none of the work.

Mr. BULKLEY. Is it your idea that a \$20,000 farm is about what one family can take care of properly?

Mr. ATKESON. The dollars and acres do not always fit each other. It seems to me that 160 acres ought to be the maximum acreage of tillage.

Mr. BULKLEY. Acreage does not exactly fit either. It takes more acreage in one part of the country than in another?

Mr. ATKESON. I understand. That is why I say that any limitation would be purely arbitrary and would be a matter of the best judgment. But it seems to me there ought to be an absolute limitation put upon any of these schemes as to the amount. Under any one of these schemes there ought to be a limitation on the amount that any one individual could secure.

Now, under a direct-loan scheme, it would be easy. There would be some complications under a general banking scheme as proposed.

Now, I have occupied perhaps all the time I ought to, and, good naturedly, I shall do my best to answer any questions anyone may wish to ask.

Mr. STONE. Can you give the reasons why farm mortgages are not considered the best security now, and why farmers, for that reason, can not get money at as low a rate of interest as other persons?

Mr. ATKESON. That is a little questionable. It is a remarkable fact that it is a fact that farmers have had to pay more for the money they borrowed than other people. That is the statistics, and the best information I have gained from any source supports that position. Undoubtedly it seems to me farm mortgages are the best possible security that anyone can offer. Now, why it should pay a higher rate of interest than commercial paper demands is a question perhaps some statesman or banker can answer. I am sure I can not.

Mr. BULKLEY. Mr. Atkeson, without expressing any opinion one way or the other, I will call your attention to the fact that some peo-

ple think it would not be constitutional for the Federal Government to make direct loans to farmers.

Now, if the committee should be persuaded that that is the case, what shall we do? Shall we do something similar to what Mr. Scudder suggested this morning?

Mr. ATKESON. Yes; if that is the best that can be done; perhaps that would be some amelioration of the situation.

Mr. BULKLEY. Would you advocate going any further than that? Would you advocate the Government depositing funds with the agricultural banks?

Mr. ATKESON. The Government how?

Mr. BULKLEY. Depositing funds with the agricultural banks?

Mr. ATKESON. What is to become of those funds?

Mr. BULKLEY. To be loaned on mortgages?

Mr. ATKESON. That is a suggested compromise among some of us who do not agree, that the Government deposit money in these banks, holding the banks responsible, and that the Government fix the rate of interest.

Mr. BULKLEY. What do you say about that plan?

Mr. ATKESON. Well, if that can be considered to be constitutional and the other not, why, that perhaps is a desirable compromise.

Mr. BULKLEY. I think it is conceivable that that might be so. I have not gotten to the bottom of the constitutional argument yet.

Mr. ATKESON. I am a little curious, though—if I may ask you a question back—to know on what theory it would be unconstitutional, when the Federal Government is already loaning its credit and loaning its money directly to the banking corporation.

Mr. BULKLEY. The Government has not made any loans to the banking corporations. The Government has deposited its current funds, the same as you and I might deposit our current funds in the bank, for the Government's convenience, as much as your deposit with your bank is for your convenience. You are not doing it for the benefit of the bank.

Mr. ATKESON. Then, you consider it is not loaning the bank money when the postal funds of the postal savings bank are loaned to banks at $2\frac{1}{2}$ per cent?

Mr. BULKLEY. I think that comes pretty near loaning it to them.

Senator HOLLIS. That is an investment.

Mr. BULKLEY. It is an investment of money the Government has to take care of and is done for the conservation of the funds which the Government has, and not for the benefit of the bank.

Mr. ATKESON. And what would be the difference if they loaned that same money on first mortgage bonds?

Mr. BULKLEY. Would you be satisfied if the Government loaned the postal-savings funds and no more?

Mr. ATKESON. I do not see anything constitutionally the matter with it.

Mr. BULKLEY. I say would that satisfy the demands of your organization, if the Government should loan what happens to be in the postal-savings fund?

Mr. ATKESON. Yes; if it goes a little further. I did not state another resolution they adopted at that time, and that was that all limitations be taken off deposits in postal savings and that the depositor be given 3 or $3\frac{1}{2}$ per cent and then loan direct to the farmers at 4 or $4\frac{1}{2}$. This country would be astounded at the amount of

money that would pour into the postal-savings banks in this country. You could pretty nearly buy all of the farms in a few years with it.

Mr. BULKLEY. That would be satisfactory, would it?

Mr. ATKESON. We would take a gamble on it. Remove all restrictions and give the depositors $3\frac{1}{2}$ per cent on their money in the savings banks, and loan to the farmer at $4\frac{1}{2}$, and give the Government the 1 per cent for administration, and if we don't favor it I am going to surrender on the whole proposition.

Mr. BULKLEY. Coming back to the provisions of the Moss bill, do you believe that the farmers in local communities would want to subscribe to the stock of these banks?

Mr. ATKESON. I do not think so.

Mr. BULKLEY. You do not think they would at all?

Mr. ATKESON. No; I would not say at all; because in certain localities, under certain conditions, it might be a successful scheme. Whether it would operate generally or not is very questionable.

Mr. PLATT. Mr. Atkeson, you objected to the exemption from taxation in the Moss bill of the mortgages and bonds. Suppose the Government should loan directly, would not the Government bonds be exempted from taxation and also the mortgages they took?

Mr. ATKESON. Undoubtedly. That is, if you support the general proposition, and not for the benefit of a corporation, if the Government put it on with one hand and took it off with another it would amount to the same thing; but exempting a private corporation, which is a money-making scheme with all of the human elements to deal with, why it should be exempt from taxation is quite hard to demonstrate.

Mr. PLATT. If bonds and mortgages were not exempted from taxation under the Moss bill would not the tax simply be added to what the farmer would have to pay?

Mr. ATKESON. We object to it on the broad ground that it repeals the income tax proposition, which we have favored for 40 years—I mean the grange.

Mr. PLATT. You believe farm mortgages ought to be exempted from taxation, anyhow?

Mr. ATKESON. Any mortgages or income from private banking corporations I do not think ought to be exempted from taxation.

Mr. PLATT. Where mortgages are taxed at the local tax rates does the farmer pay the tax, or the borrower pay the tax, or who does pay it?

Mr. ATKESON. That applies to all evidences of debt—notes and mortgages.

Mr. PLATT. Yes.

Mr. ATKESON. I am a money lender, we will say. This bill takes the money out of my pocket—I mean the mortgage proposition takes the money out of my pocket—and I will manage somehow or other to load the tax onto the other fellow. If any of you are money lenders, I guarantee you do, too.

Mr. PLATT. In other words, if those mortgages and bonds were not exempted in the Moss bill, the farmer would pay the tax?

Mr. ATKESON. If they were taxed, the farmer would pay the tax, unquestionably.

Mr. PLATT. Then it is not for the benefit of the corporations; it is for the benefit of the borrowers?

Mr. ATKESON. That may be true of the whole income-tax proposition. The fellow at the bottom, the man of last resort, is the man that bears the burden.

I believe the consumer pays the tariff, and always did, and I presume at least a part of this committee believes that yet. Part of them may not. It is practically impossible to eliminate that element. The ultimate consumer pays all the charges. And if you remove the income tax, you would remove the tax from the people higher up, and then you get down to the Henry George theory of putting all the tax on the ground upon which we all stand.

Mr. MOSS. May I ask you a question, Mr. Atkeson?

Mr. ATKESON. Certainly.

Mr. MOSS. The provision exempting this income on capital stock, etc., was taken out of the Federal reserve act. The regional banks have also their income on capital stock exempted from taxation. I believe you stated you approved that act?

Mr. ATKESON. How is that?

Mr. MOSS. I understood you to say you approved the Federal reserve act?

Mr. ATKESON. You mean the general banking act?

Mr. MOSS. Yes, sir.

Mr. ATKESON. Yes, sir.

Mr. MOSS. I say this provision exempting incomes on capital stock, etc., was taken word for word from that act.

Mr. ATKESON. Do they exempt farm mortgages?

Mr. MOSS. No; I am speaking about the exemption of the income on the capital stock of those banks from taxation being taken word for word from the Federal reserve act, and the fact that the regional banks under the Federal reserve act are exempted precisely to the same degree that the farm banks are.

Mr. ATKESON. You remember I said in our universal approval of the general banking act we did so not because it was perfectly equitable.

Mr. BULKLEY. Of course, Mr. MOSS, there is another consideration there—the dividends. Their dividends are limited.

Mr. MOSS. Oh, yes.

I want to say one thing. I fully agree with Mr. Atkeson; I am not in favor of exempting incomes.

Senator HOLLIS. Mr. Atkeson, I want to get a little information, and I am asking these questions for no other reason. At Manchester, N. H., did you find among the members of the grange generally a pretty strong suspicion that Congress was not going to try to pass an act that would be of real benefit to the farmers?

Mr. ATKESON. I did not. There was no suspicion that Congress had any such purpose.

Senator HOLLIS. That is what I want to get at.

Mr. ATKESON. I want to say this frankly, Senator, I believe the farmer people of this country believe that this committee, this Congress, and this administration want to do something that is substantially worth while for the agricultural interests of this country.

Senator HOLLIS. I am very glad to know that, because I thought from some remarks you made you felt they were not really going to try to help you, but were going to try to favor some special interests?

Mr. ATKESON. No; they are not suspicious of the body of the Congress, and the intent of the Congress and the Senate and the House, or these committees. But we think we know, from generations of experience, that the man with money is always on the job. There are two classes in this country that never quit, and that is the fellow who is behind the saloon and the fellow who is behind the dollar. They stay up at nights.

Senator HOLLIS. Was the fear that the money lenders, the banking interests, might hoodwink the committee?

Mr. ATKESON. Now, Mr. Chairman, just as we realized in the fight for a parcel post, there was a great cooperative interest behind it. That does not mean any reflection on the Congress. If I were a Member of Congress, I would be confronted with this same proposition. Take the investigations of the Money Trust and the Mulhall investigation: we people read the newspapers more than you think. I think there has never been a time in the history of the country when the country felt more implicit in the honesty of purpose of the men in Congress than they do to-day.

Senator HOLLIS. I am very glad to hear you say that.

Mr. ATKESON. But it means the other fellow, that knows the insidious use of the accumulated millions of this country, is on the job, and he is not going to quit until he is compelled to quit.

Mr. SELDOMRIDGE. Mr. Atkeson, did you state the farmers were without representation on the commission that went abroad?

Mr. ATKESON. Not wholly. It was not my statement, it was Mr. Wilson's statement in the reprint I read from the paper. We know, however, that so far as the bona fide farmer is concerned—the man whose primary and substantial support comes from the farm—they had very little representation on the commission. Perhaps the farmers were themselves to blame for it, but it is the fact.

Mr. SELDOMRIDGE. What commission do you refer to?

Mr. ATKESON. I take the thing in its aggregate, or take the congressional part of it, or take the general commission of the Southern Commercial Congress.

Mr. SELDOMRIDGE. In other words, you think the commission was really not familiar with the desires and was not representative of the farmers?

Mr. ATKESON. Not in its entirety. As a commission, I do not think anything about; I know that I know, if you will excuse that expression.

Mr. SELDOMRIDGE. Have you analyzed its report?

Mr. ATKESON. I sat up with it night after night.

Mr. SELDOMRIDGE. In what essential purpose is the report antagonistic to the idea—

Mr. ATKESON. We did not say it was antagonistic.

Mr. SELDOMRIDGE. You said it was not representative of the agricultural interests?

Mr. ATKESON. The men as individuals, in their personality, although they may be of the highest order of American statesmanship, and I think they are—I am willing to concede that—they can not possibly appreciate the purport of those things as the man who must meet the conditions of the farm, who eats and sleeps and sweats in the open country. It is an impossibility; just as much as it is for me to appreciate how somebody in Wall Street or Fifth Avenue is

New York lives and spends his time. I have absolutely no conception of how a man representing a million or a billion of money gets away with his income; I would not know how to get away with a million. And he knows just as little, possibly a good deal less, about how I have to scrape ends and sit up early and late on an average gross income, according to the latest statistics, of less than \$900 for the average farmer in America. Out of that average income he has to support a family of 9 or 10 children and all of the dogs incident to the family; he must pay all his hired labor, buy all his machinery, and include the incidents of the production of his crop on an average gross income of about \$900 a year.

Mr. STONE. Are you actively engaged in farming?

Mr. ATKESON. Yes, sir; and have been for 62 years last Sunday week.

Mr. STONE. That is your sole occupation?

Mr. ATKESON. It has been excepting during the last 17 years. I have been dean of the college of agriculture in my State. Nine months in the year I live in a little town and the other three months I am on the farm. And, in association with my son, during those 17 years I have been continuously farming a farm I own.

I do not like to go into personal history, but I think the committee will excuse me for making this statement as an evidence that I know what I am talking about when it comes to farm property: When I was married I had more good intentions than any man in the United States Senate or Congress, and that was my capital stock—the good intentions and the woman. I worked as a farm hand in West Virginia for five years, with a young wife on my hands, and, incidentally, some babies in the meantime, at a munificent salary of 75 cents a day. At the end of that five years I rented a farm and paid cash rent for it, and at the end of 10 years I bought a farm and paid taxes for a good many years on about \$15,000 of my debts.

And so I have been up against the varied sides of this farm proposition.

I have two sons, both of them graduates of an agricultural college. One of them, up until the last year, has been on a 500-acre farm in the southwest corner of Alabama. So we know the negro and the cotton proposition down there. Just now he is a farm demonstrator in Alabama. Both of the boys are graduates of an agricultural college and know how to farm, and they are doing what I tried to teach them.

I had expected somebody to ask me what I did in the first two years.

Mr. ALEXANDER. You were in the dairy business the first two years?

Mr. ATKESON. That is right.

Mr. STONE. You say, Mr. Atkeson, in concluding this statement, that you sent out to the grange that "prompt action is imperatively demanded if any substantial benefit is to be secured to the farmers by the pending farm-credit legislation." What was the situation that made it appear to you that such a sentence was necessary?

Mr. ATKESON. Well, there are two or three reasons why that statement was made. In the first place, the farmers can not come here. We assume, and I think it is a fair assumption, that the Members of Congress like to hear from their constituents and like to know what their constituents are thinking about and their position on the spe-

cial interests and contentions at a particular time; and so that is an invitation to the members of the grange to let their Members in Congress know where they stand. You will notice there is no suggestion as to the character of letter they shall write.

Mr. STONE. Merely indorsing H. R. 11897?

Mr. ATKESON. That is all.

Mr. PLATT. Mr. Atkeson, I suppose from what Mr. Stone asked you he meant to bring out whether you thought conditions in agriculture are not worse now than they were, for instance, when you grew up through the stages of earning a salary as a farm hand, then as a renter, and then as a purchaser. Do you mean to say that it is harder now than when you did it?

Mr. ATKESON. A great deal harder.

Mr. PLATT. Why?

Mr. ATKESON. His land has been depleted in productiveness, on the average, the country over. Through speculative influences, land has increased far beyond its productive value at the present prices. There was a time when a man could secure land by going through the process of settling on it and getting it as a free gift from the Government; and as time goes on land in Illinois—to give you an illustration of what I mean—settled two generations ago, acquired for \$1.25 or no money consideration under the Government alienation of the public land, if the men stayed on the land—if they stayed there, it does not make any difference how difficult it was to stay there, if he could live and get enough to eat and stay there for two or three generations—that land has become under his feet worth about \$200 to \$250 an acre.

Mr. PLATT. Yes; but that was not what you did?

Mr. ATKESON. No; that was not what I did; but I tackled this proposition nearly 40 years ago. That thing has not happened that way. I will say this, that I have been offered for the property I bought—that I began with just about 40 years ago; not quite that—125 per cent more than I paid for it. And it is less productive now than it was then, because I taxed it pretty heavily in trying to pay for it. And there you are now with an increased valuation of a 125 per cent increase. And in some cases it has been 1,000 per cent. And a man who tackles that job under present conditions—I know now, with my experience of 62 years, I would be a fool to tackle now what I tackled then.

Mr. PLATT. Now, if you in the country think land has gone down because everybody has gone to the cities, what has been the cause of that tremendous increase in the value of farm lands?

Mr. ATKESON. Speculation. I would like to answer that question, which has been asked by the farm people themselves, by saying it somebody will tell me who is buying the coal lands in West Virginia that will probably not pay a cent of income for probably 100 years, then I will answer the other question.

Mr. PLATT. Is not the increased value of the farm lands to be taken into consideration as an increased compensation for his labor?

Mr. ATKESON. No.

Mr. PLATT. You have doubled your money on your land.

Mr. ATKESON. If he undertakes to pay interest on the mortgage, it is not a question of waiting for the unearned increment, but it is

a question of paying the debt due in this year, that he must be able to carry the obligation or it swamps him.

Mr. PLATT. If he does carry it than the increased value of the land is increased compensation for his work?

Mr. ATKESON. That is, if he can hold on. This 125 per cent that has come to the land I struggled through with. I possess now. But suppose I had been swamped with the debt, paying taxes on thousands of dollars, and the other taxes. We had all these taxes. We always holloed, as I say, a little about that; but we had it to do just the same.

Mr. BULKLEY. Mr. Atkeson, do you agree with Mr. Brooks about the limit on the purpose for which the loans shall be made?

Mr. ATKESON. I would limit that. I would put in a limitation of the loans to purchase money and operating machinery and improvement of the property itself. That is, I would not lend a man money, or permit him, if I could prevent it, from using the money to buy an automobile.

Mr. BULKLEY. Would you permit him to use it to refund an existing debt?

Mr. ATKESON. Unquestionably. I see no reason why he should not. It is the same thing. Providing the existing debt is not beyond the limit that is allowed to be placed on the property.

Mr. BULKLEY. Yes; exactly.

Mr. ATKESON. I see no season why he should not exchange one debt for the other.

Mr. BULKLEY. Do you think it is proper to go into a mortgage indebtedness for a long term of years for the purpose of buying equipment and stock?

Mr. ATKESON. Oh, well, he probably would not want that kind of a mortgage for that kind of property. Perhaps the limitation ought to be narrowed down to purchase money and substantial improvement.

Mr. BULKLEY. Those are the lines we have been thinking along, and I am glad to know you think the same way.

Mr. ATKESON. The question of securing money for operating equipment ought to be considered in some short-time loan, if it is necessary.

(Thereupon, at 4.10 o'clock p. m., the subcommittee adjourned until to-morrow, Wednesday, February 25, 1914, at 10.30 o'clock a. m.)

WEDNESDAY, FEBRUARY 25, 1914.

UNITED STATES SENATE,
Washington, D. C.

The committees assembled in joint session at 10.30 o'clock a. m., Senator Henry F. Hollis presiding.

Present: Representatives Bulkley, Stone, Seldomridge, Weaver, Hayes, Woods, and Platt.

STATEMENT OF H. Q. ALEXANDER, OF MATTHEWS, N. C.

Senator HOLLIS. Mr. Alexander, will you state your name, residence, and occupation, for the benefit of the record?

Dr. ALEXANDER. My name is H. Q. Alexander, and my residence is Matthews, N. C. By profession I am a country physician and farmer. I appear before the committee in a representative capacity, representing the North Carolina Farmers' Union, of which I have had the honor of being president for six years.

Mr. BULKLEY. Have you not also been engaged to represent the National Farmers' Union?

Dr. ALEXANDER. Yes. President Barrett wired me Saturday night to be here yesterday. And, as stated by the gentleman who preceded me, representing farmers' organizations, I was called here on very short notice and have had very little time to think of the questions before the committee; and, as you will probably find out before I get through, I am not a financier. I have not made a special study of the proposition that is engaging the attention of this committee.

I think, however, that I do know somewhat the needs of the farmers, because I have been working with the farmers for the last six years in their organized capacity in my State. And lest you may think I am not directly connected with the farm, since I am a physician, permit me to say that I live on a farm and superintend my own farm, and have never lived anywhere else than on the farm. Therefore, I am a farmer. I ceased practicing medicine four years ago.

In taking up this question, I do not think there is any necessity for us to argue as to the importance of agriculture. Everybody admits that agriculture is a fundamental calling, on which rests the prosperity of every other industry. We can not have the most highly developed civilization in our country without manufacturing and commerce, which includes transportation and banking; we can not have any kind of civilization without agriculture.

It is that calling which God himself made. All the others are man made. It is that calling which all of our people belonged to about a century ago. All of the people of this country were farmers at one time. It was the farmers who developed this country, who

cleared the forests, and who have brought into existence the wealth of this Nation. It is the farming class that continues to create wealth. Nearly 95 per cent of all the wealth created from year to year in the United States comes from the farms.

Therefore, the importance of agriculture is not disputed, but is admitted by everyone; though until recent years, if we may judge by what Congress has done for agriculture, we would be forced to conclude that, in actual practice, our Government has not recognized the importance of agriculture. Our Government is not to-day recognizing the importance of agriculture, as compared with the other industries of our country, if we may judge by what the Government has done and is doing for agriculture, as compared with the other industries.

In the matter of appropriations alone, of the \$1,000,000,000 appropriated by each Congress only \$19,000,000 goes to agriculture, a small pittance, and of that, I believe, \$3,500,000 goes to meat inspection, \$3,500,000 to the Weather Bureau, and about \$7,000,000 to the Division of Forestry; and that leaves only the small pittance of \$5,000,000 that actually goes to agriculture. And yet that is the fundamental calling upon which the whole superstructure of our Government is based; and without it we would have no manufactures: without it we would have no transportation industries; without it we would have no commerce, and without it we would have no Government.

Now, as I said, a few years ago all of our people were farmers. To-day we find, according to the last census, only 20 per cent, not quite 21 per cent, of the population are actually living on the farm and engaged in tilling the soil.

A generation ago nine-tenths of the wealth of this Nation was owned by the farming class. To-day less than four-tenths of it is owned by the farming class. To-day we find 15 per cent of the population of the United States are homeless; like our Master of old, they have no place of their own whereon to lay their head.

That condition is growing worse year by year. The small home-owning farmers are losing their farms at the rate of something like 60,000 every year. I mean the small farms are passing out of the ownership of the small farmer at the rate of 60,000 a year and going into the ownership of corporate wealth. And that explains to my mind why it is that land is so high to-day. That question was asked yesterday, Why is it that land is so high? That is one reason for it.

Everybody recognizes the fact that the land is the primitive source of all wealth. Everybody knows also that the creation of land stopped some thousands of years ago, whereas the production of population is going on all the time. That means that land is bound to become more valuable. The moneyed interests of this country, recognizing that fact, having monopolized all the manufacturing industries, transportation industries, and the control of the banking business of the country, are now going out and monopolizing the ownership of the lands of the country, which, as I said, are the original source of all wealth. And there is where the land is going.

And for that reason the price of land is higher to-day by far than it ever was before in the history of our country. The market value of lands has not gone up because of the intrinsic value of the land

or because of the productive value of it. As one of the speakers said here yesterday, the productive value of land is not what it was 25 years ago. I know whereof I speak, because I am on the farm and among the farmers all the time, and I know there are not 10 per cent of the farms in my country that are producing as much to-day as they did 20 or 25 years ago. The statistics, the census records, show that, while as a whole the products have increased 10 per cent in the last 10 years the population has increased 21 per cent. So you can see from that that the increase in farm products is not keeping pace with the increase of population.

What does that mean? We are seeing the effect already of it in the high cost of living; and unless there is something done to promote agriculture and to keep more people engaged in agriculture—and in order to do that you have got to keep agriculture more profitable; you can not keep men there unless you do—unless something is done to support agriculture and promote it, you are going to hear more of the high cost of living in the next 10 years than we have in the past 10 years, and more than we hear now.

The only solution of this difficulty is to come to the aid and support and promotion of the agricultural industries in this country, in order that we may keep the bright, ambitious boys and girls on the farms instead of have them leave the farm and go to the cities and build up the city population of our country at the expense of the rural districts.

That has gone on to an alarming extent. I see it in North Carolina—that the small towns are springing up like mushrooms; the people are going to town and going into other enterprises and leaving the country largely in the hands of negroes in my section, and of ignorant tenants in most of the States.

The tenant farming class has increased largely over the home-owning farming class. In my own State, the percentage of tenant farmers 20 years ago was 32. To-day it is 43. Forty-three per cent of the farmers of North Carolina are tenants, an increase of 11 per cent in 20 years.

Mr. PLATT. May I interrupt you right there?

Dr. ALEXANDER. Yes; certainly.

Mr. PLATT. Is that due to the breaking up of large farms, or do you mean to say that small owners have moved away and leased their farms? Have not the large farms been divided up into tenant farms?

Dr. ALEXANDER. No; I think there is a tendency in a great many sections to increase the large farms. As a matter of fact, I think the census shows that in all the States the percentage of increase of farms over 500 acres has been much greater than the small farms under that size. I mean the percentage.

Mr. PLATT. Is that true in your State?

Dr. ALEXANDER. That is true in my State, too—that a great many of the people have lost their little farms. I think the census also shows that these small farms in the United States as a whole are passing out of the ownership of the men living on them at the rate of 60,000 a year. I know those were the figures 10 years ago; I have not seen the last figures, but those were the figures 10 years ago, that the small home-owning farmer was losing his farm at the rate of 60,000 a year.

Mr. PLATT. What is he doing, leasing it and living on the money?

Dr. ALEXANDER. Yes; he is leasing it and becoming a renter. You take the United States as a whole, and the increase of home-owning farmers is only 4 per cent. I believe, while the increase of tenant farming is 17 per cent.

Mr. PLATT. That is all the South and Southwest, is it not?

Dr. ALEXANDER. I do not know just where, but that is the report. Now, there is a reason why the people have left the farm and gone to the cities; that is, the industries in the city are more profitable than farming. The reports of the Secretary of Agriculture show that the annual average profits of the farm are less than 5 per cent in the United States. You may take my own State and examine it, and I happen to know more about it. Our State is an agricultural State. Eighty-three per cent of the people of North Carolina live on the farms. And yet the manufactured products from the cities of North Carolina are \$100,000,000 more than the agricultural products. That means that 18 per cent of the population from the towns are sending out \$100,000,000 more in value than the 82 per cent of the population from the farms. That will give you a lesson and an idea of the comparative prosperity and profitableness of agriculture, as compared with manufacturing.

Now, consider this question from the standpoint of justice as compared with what has been done by the Government for other classes. Our Government, as you all know, has favored manufactures with special privileges, under a high protective tariff—which I do not mean to do more than refer to here. It has given special privileges to transportation industries. I believe that the railroads of our country have been given something like 250,000,000 acres of the public domain.

Mr. PLATT. Is that a special privilege?

Dr. ALEXANDER. It is a special gift, I think.

Mr. PLATT. Is not the Government giving land free to the farmers at the same time?

Dr. ALEXANDER. Yes; but it made no provision to keep them in possession of it. There is where the Government failed. I think the Government did right to give the land to the farmers to promote home ownership, but, unfortunately, it made no provision to protect farmers in possession of their farms, and they are losing them. You know, as a matter of fact, the land all went out from the Government to settlers, except what was given to corporations. It all went out; but, as a matter of fact, we find to-day that two-thirds of the population have not got any, and so it got away from them.

Mr. PLATT. They have left the land voluntarily, apparently.

Dr. ALEXANDER. Well, I do not know about that. I do not think a man ever gave up his title voluntarily. He may have sold—of course, he did sell it voluntarily; but I suspect there was some coercion, a coercion of circumstances, that led him to sell it.

Mr. STONE. Do you mean to infer, Dr. Alexander, that Congress did protect the railroads in the ownership of the land that was given them, so that it was not disposed of?

Dr. ALEXANDER. Oh, no.

Mr. STONE. Is it not true that the railroads disposed of it to settlers at a small price?

Dr. ALEXANDER. Yes.

Mr. STONE. In order to fill up the country?

Dr. ALEXANDER. Surely.

Mr. STONE. And that they made their returns from the products of those farms that they sold?

Dr. ALEXANDER. Yes.

Mr. STONE. Is it not also true that the railroads gave the value to the land? If they had not been there, there would not have been any value to the land?

Dr. ALEXANDER. Certainly the railroads have helped to build up the country. The only point I am making there is that the Government has not enabled the people to hold what it gave the people to start with.

Mr. PLATT. How could it do that?

Dr. ALEXANDER. Because conditions have not been just and equitable for the farming class.

Mr. PLATT. Do you think the Government has discriminated against the farmer?

Dr. ALEXANDER. Yes; it has.

Mr. PLATT. In what way?

Dr. ALEXANDER. By granting special privileges to the other classes.

Mr. PLATT. Privileges which have not also been granted to the farmers?

Dr. ALEXANDER. Certainly; the farmers have never received any.

Mr. PLATT. What special privileges have been given to other people that have not been given to the farmers?

Dr. ALEXANDER. I referred also to the protection given the manufacturing class.

Mr. PLATT. Has it not also been given to the farmers?

Dr. ALEXANDER. No; no intelligent man believes now that the protective tariff helped the farmer.

Mr. PLATT. Well, just now there is an enormous amount of butter and eggs being imported into this country; is that an advantage to the farmer?

Dr. ALEXANDER. But they never did concede that until the high cost of living was hitting the city foods, and they are now trying to bring in an increase of food products in another way, when they ought to have promoted agriculture, and we would not have had this necessity for opening our gates to other countries to import food products which our own people could and should produce. There is where the Government has failed to do its duty—by promoting and building up this fundamental calling which would supply the food products of this country.

Now, since we are no longer an exporting nation of food products, they have got to open our doors to feed our own people, when we have got hundreds of millions of acres lying here idle and the people are congregating in the cities.

Mr. PLATT. Well, the Government supports the Department of Agriculture at an expense of some millions of dollars every year, and it gives the people free information of all kinds on the subject of agriculture.

Dr. ALEXANDER. It is only a pittance of \$5,000,000 that actually goes to farming.

Mr. PLATT. Has the work of the Department of Agriculture resulted in decreasing the high cost of living?

Dr. ALEXANDER. Not yet.

Mr. PLATT. We do not maintain a department of railroads to tell the railroads how to run their business, do we?

Dr. ALEXANDER. No.

Mr. PLATT. Are not the farmers given special privileges in the Department of Agriculture, in the shape of the information they get there, or can get if they want to avail themselves of it?

Dr. ALEXANDER. Well, that has helped agriculture somewhat, of course. But the only tendency and teaching of the Government in that direction has been to try to increase production, while the benefits of the increase in production have gone largely to the other classes. The raw materials that the farmers are creating to-day are bringing but little more money to the farmers themselves than the raw materials which they created 25 years ago. As a matter of fact, I think the reports will show that of every dollar paid by the consumer for the products of the farm only 40 cents of it goes to the farmer. The Government has helped him to produce more, but has not helped him to get more for what he produces. It has accrued to the benefit of the people as a whole, but not specially to the farmer himself. In that particular, "he that maketh two blades of grass grow where only one grew before" is not a benefactor to his own class, but only a benefactor to mankind at large. You know the cotton crop of the South last year brought \$300,000,000 more than the cotton crop of the year before, although it figured 2,000,000 bales less in quantity, so that gives an idea—

Mr. STONE (interposing). Are you familiar with the prices of corn and wheat and cattle, and can you tell how they compare now with the prices of 10 years ago?

Dr. ALEXANDER. Oh, they are a great deal higher.

Mr. PLATT. Is that an advantage to the farmers, or a disadvantage?

Dr. ALEXANDER. Yes.

Mr. PLATT. I say, is the high cost of living in the city generally an advantage or disadvantage to the farmers?

Dr. ALEXANDER. But take the matter of wheat, and I will tell you that the increased price of wheat is largely due to the fact that the farmers of the Middle West organized a fight against the Millers' Trust and built something over 2,000 cooperative elevators in that section, in which they stored their own grain and held it, and in that way forced the price up. That is due largely to their own efforts, the increased price of wheat.

When I first began practicing medicine I bought my wheat and corn, too, and I bought good flour then for \$1.50 a hundred; and at that time these very wheat farms of the Middle West were covered by blanket mortgages. But by organizing and doing just what the farmers are doing to-day, fighting against the organized power of the other classes, the purchasing classes, they have succeeded in forcing the price of wheat up.

Another reason is that the production of wheat has not kept pace with the increase of population. It is not because of anything that the Government has done for the wheat-growing and corn-growing farmers that those products are higher to-day than they were 25 years ago. It is really in spite of all that the Government has done.

Mr. PLATT. Suppose, through some action of Congress, the cost of living should come down in the way of food products, would that be an advantage to the farmers?

Dr. ALEXANDER. No; I do not think it would. I am not contending—

Mr. PLATT (interposing). Well, just because the cost of living is high, would you say that that is the chief reason why agriculture should be helped from the standpoint of the farmers?

Dr. ALEXANDER. That is a good reason from the standpoint of everybody else; and it is a good reason from the standpoint of the farmer, since this high cost of living does not go into his pocket. If it went into the farmer's pocket, we would say let conditions alone; but it does not go into the farmer's pocket. As I said awhile ago, of the price paid by the consumer there is only 40 cents out of \$1 that goes to the farmer. The report of the Secretary of Agriculture shows that of the other 60 cents a small part goes to transportation and the greater part of it to the unnecessary middlemen. I say "unnecessary" advisedly, because the majority of them are unnecessary middlemen.

Now, that is largely due to the fact that the farmer's business has not been financed. That brings us right down to the question before us to-day.

Mr. Chairman, there is an article that I wrote on this subject for the National Field, the official organ of the National Farmers' Union. I do not want to impose upon the patience of the committee by reading the whole article. I wrote it a few days ago on the subject of "Rural credits legislation." But I will just come to the point and give you what I conceive to be the need of the farming class as to rural credits.

The CHAIRMAN. Mr. Alexander, this article does not appear to be very long, and I wish you would read any parts of it that you desire, and make such comments upon it as you think should be made. The committee would like to have a full discussion of this subject.

Dr. ALEXANDER. All right. By request of Mr. Clarence Poe, who is editor of the Progressive Farmer of Raleigh, N. C., one of the largest farm papers in the South, having 100,000 subscribers, I think, I wrote this article on rural credits, and I will now state the substance of it and make a few general comments on the subject. (Reading:)

The economic crime of the century was perpetrated against the American people 50 years ago, when Congress delegated to private individuals and corporations (the national banks) the power to contract and expand at will the volume of the circulating money of the country.

Through combinations resulting in trust formation, this power was gradually merged into a comparatively small number of the 7,500 national banks.

And thus it has been for many years that a few men have been able, by contracting the volume of the circulating value-measuring medium, to send prices of all commodities downward, only to be raised again by expansion of the currency afterwards.

Mr. PLATT. Do you agree with that?

Dr. ALEXANDER. Yes; I do. They sent values downward in 1907 until they got the Tennessee Coal & Iron Co. in their possession, and then they put values up again.

Mr. PLATT. Do you think that was done by the power of the national banks to contract the currency?

Dr. ALEXANDER. It was done by the money powers of our country. The same thing would have been done last fall if it had not been for Secretary McAdoo coming to the rescue of the agricultural classes and putting \$50,000,000 in the banks of the South and West. I do not believe there is a man who read the newspapers and the reports published at that time who does not believe that. (Reading:)

Thus it was possible to buy the products of the people's labor at a low price and sell them at a high price.

Pardon me, but is it not possible to do that? Is it not possible to contract the currency if men have that power? And whenever you contract the currency you make money dear, and that means that those commodities of which money is the measuring value—the value-measuring medium—it sends prices downward whenever money gets scarce and high. When money becomes plentiful and cheap, prices go up again. So that, if any individuals or corporations have the power, they can do that. And human nature is greedy and selfish; and if you concede to them the power, they will do it.

Mr. PLATT. I do not believe they have the power.

Mr. WOODS. Dr. Alexander, in your article here, you suggest that national banks had too much power given them some 50 years ago to contract and expand the currency. The real reason for the need of a new banking and currency act was that they did not have that power. That was the real reason given, not only by Congressmen but throughout the Nation, that they did not have sufficient power to expand and contract currency. Therefore, a new currency law was needed.

Senator HOLLIS. I think, Dr. Alexander, that you will really agree with members of the committee. You are using the word "currency" in the broadest sense, which includes credits?

Dr. ALEXANDER. Certainly.

Senator HOLLIS. And credits will fill the function of currency, the same as bank checks do; and when credits are contracted it has the same effect——

Dr. ALEXANDER. Certainly.

Senator HOLLIS (continuing). The same effect, a good many of us think, as when currency is contracted. And it was in order to prevent that very thing and take away one of the causes that was assigned by the banks for contracting credit—that is, that there was a lack of currency—that we did pass the currency act, to make more currency available in times of stress.

Dr. ALEXANDER. Yes.

Senator HOLLIS. So that there would not be that excuse. That is the theory of it; and I think we are pretty fairly well agreed on that theory; but if you limit it to currency in the sense of what is ordinarily known as "cash," that has been the trouble with our national banking system, that the currency did not expand and contract with the demands of business. I think we agree pretty well on that.

Dr. ALEXANDER (reading):

The national bank act was a war measure conceived by Secretary Chase for the purpose of creating a compulsory market for national bonds during the Civil War. All national banks of issue were required to deposit with the National Treasury bonds of the Government; and then bank notes to the value of 90 per cent of the value of the bonds would be issued to the bank. These bank

notes were taxed only 1 per cent, while the bonds were nontaxable and paid the banks 4 per cent interest. This meant double interest to the banks.

All subsequent legislation for many years tended only to increase the power by extending and enlarging the privileges of the national banks. For instance, the limit originally imposed upon the circulation of the national banks was \$300,000,000; all limit was removed in 1875.

This compulsory market for United States bonds naturally raised the price until, in 1889, 4 per cent bonds sold as high as 129. This called for more bonds for the benefit of the bankers and resulted in new issues of bonds in 1894, 1895, 1896, and 1898.

Next followed the gold-standard law of 1900. This law permitted national banks to issue circulation to the full par value of the bonds deposited and reduced the tax on the circulation based on the new refunding 2 per cent bonds to one-half of 1 per cent. The purchase of silver for coinage purposes had been suspended in 1893, and this metal was now demonetized by the adoption of the single standard, thus again tending to make money dear and making it easier for the national banks to control the volume of legal money.

MR. PLATT. I am afraid, Mr. Chairman, that your remarks about the currency including credits do not apply to the author of that article, anyway.

Senator HOLLIS. This is Dr. Alexander's own article that he is reading.

DR. ALEXANDER. Yes. [Reading:]

There now remained substantially only two methods of increasing the volume of money in the country to meet the growth of business—the increase of gold currency, by importation and production of gold, and the increase of bank notes in circulation. This made possible the formation of the greatest and most powerful of all trusts—the Money Trust.

Aside from the payment of salaries of Government employees, there is only one way for money to pass from the source of money (the Government mint and printing press) into the channels of trade, and that is the banks. And thus we see that the people are taxed with a double interest for all moneys—indirectly to pay interest on the bonds on which bank notes are issued and directly to the banks for the money when it passes into the channels of business. This applies to all classes and all businesses.

This was discrimination against all the people in favor of a small class that was able to purchase Government bonds. Let us now consider how, in the administration of the national banks, the farming and laboring classes have been discriminated against, while the stock corporations and bondholding classes, bankers, manufacturers, transportation industries, and mercantile concerns have been favored.

The stocks and bonds of those favored classes are negotiable collateral at the banks and can be used by the holder to obtain needed money. But the land and personal chattels of the farming and laboring classes will not secure for them the funds necessary to pay running expenses until they can realize on the fruits of their labor.

This discrimination has resulted in the exploitation of the farmer by the more favored classes. He is forced to run his business "on time" and pay high prices for supplies. Then when marketing time comes he must sell, regardless of prices, to satisfy his creditors.

Now, that is true. That is the actual condition in the country to-day, that because farmers can not get money they are compelled to go and trade with time merchants, who are getting the money from the banks to carry these farmers, when the Government itself ought to provide a way, so that any farmer who can put up any kind of security that is good can go to the bank and get the money to run his own business, just as other classes do.

MR. STONE. Why is it that farmers can not now, if they have the security, go to the banks and get the money the way other people get it?

Dr. ALEXANDER. Because the national banks would not take their security.

Mr. WEAVER. Do you not think that the reason is that other people borrow from the bank on commercial paper, on short-time loans, and that the farmer is obliged to borrow it on long time?

Dr. ALEXANDER. That is one reason.

Mr. WEAVER. And the farmer can not get his loans on a long time without being charged usurious interest for it, as a business proposition?

Dr. ALEXANDER. Well, the bank could loan it out at a lower rate of interest, as they do to the merchant; they could do that.

Mr. PLATT. Well, is it not, after all, a question of security? Has the farmer got the same grade and character of security as the merchant?

Dr. ALEXANDER. Well, the merchant loans him the money.

Mr. STONE. Well, is it not a fact that the banks do not consider the farmer's security as good as other security?

Dr. ALEXANDER. It is more trouble to handle it, of course.

Mr. HAYES. Is not the reason for that, that it is not a liquid security?

Dr. ALEXANDER. Not liquid?

Mr. HAYES. Yes; and therefore the commercial banks can not handle it?

Dr. ALEXANDER. It requires a longer time limit, of course.

Mr. HAYES. But it is not liquid.

Mr. PLATT. If a farmer owns a United States Government bond, he can go to the bank and borrow money as cheaply as any other man who has a Government bond. He is not discriminated against because he is a farmer.

Dr. ALEXANDER. I do not mean that he is discriminated against in that way.

Mr. WEAVER. You do not know any farmers that do own Government bonds, do you?

Dr. ALEXANDER. No; I do not know of any.

Senator HOLLIS. It seems to be that the farmers are not likely to know the bankers so well and what the current rates are on loans, etc., and I imagine that if a good, active business man went to the bank with a Government bond he would be able to get better rates from the banks than a farmer who owned precisely the same kind of bond.

Dr. ALEXANDER. Surely. I happened to know that a poor farmer in the community where I live went to a bank in Charlotte not three months ago and they charged him 10 per cent, although the legal rate in my State is 6 per cent. They charged that poor fellow 10 per cent interest at that national bank in Charlotte.

Mr. WEAVER. He ought to have been in Oklahoma, where they would have charged him 15 per cent.

Dr. ALEXANDER. He can not sustain that; agriculture can not sustain that burden. You know the average mortgage indebtedness of the farmers of the United States was over \$1,700 each at the last census. The average rate of interest paid by farmers, according to Government statistics, is nearly 9 per cent, and yet the average profits of agriculture are less than 5 per cent, so you can see there the burden the farmer does carry.

Mr. STONE. My question was calculated to bring out the thought that there were other reasons for the failure to supply the farmers with the money than the desire to discriminate against them.

Dr. ALEXANDER. Surely; I do not want that impression to out. It is not a desire to discriminate against or antagonize agriculture. It is due to commercial reasons. You are right about that.

But I think it is the duty of our great Government to provide a banking system—since the Government alone has the right to do that—that will meet the needs of this great class, whose work is the basis of all the great prosperity of our country. That is my contention. I do not attribute it to any animosity or any prejudice against the farming class, or any desire to prey upon that class, that they do not get accommodations through the banks, but it is because of commercial reasons.

Now, it is up to our Government to change our banking system or to provide a banking system that will meet the needs of the agricultural class, and we believe you can do it, and I believe you are going to do it, because public sentiment is getting more aroused over this question than it ever has been before.

Mr. HAYES. Let me ask you a question: You were saying a few moments ago something about the national banks issuing currency on the bonds. You are not here to ask us to retire the national-bank currency and take that privilege of issuing currency away from the banks, are you?

Dr. ALEXANDER. Oh, no.

Mr. HAYES. You do not find any fault with that, do you?

Dr. ALEXANDER. Oh, no; I am just saying that I want you to do the same thing for the farmer; I want you to treat him just as well as you have treated the other classes.

Senator HOLLIS. You are hoping that we will find some way in which the Government may loan funds direct to the farmer, are you not? Now, one of the difficulties raised against that system in practice, leaving out the constitutional end of it for the present, is that, with private bankers, whose interest it is to make money for the stockholders and therefore to make only safe loans, they will have a greater knowledge of the men that they loan money to than Government agents would be likely to acquire. You can see that difficulty, can you not?

Dr. ALEXANDER. Yes.

Senator HOLLIS. I would like to hear you discuss that point a little.

Dr. ALEXANDER. If you will pardon me, I should like to finish this statement first.

Senator HOLLIS. All right, certainly.

Dr. ALEXANDER. Then I will take your question up, Senator Hollis. [Reading:]

Progressive, broad-minded men of all classes have come to realize that something must be done for the promotion of agriculture and to make this business of farming more profitable. Agitation and education have resulted in a demand for a system of rural credits, or farmers' banks, that will enable a farmer to get money at a reasonable rate of interest for short-time loans on any kind of safe collateral that can be put up.

He can do that now. [Reading:]

And whereby he can obtain money at a low rate of interest on long-time loans on real estate. Any system of rural credits that fails to provide money at

6 per cent interest or less for the small farmer, secured by a mortgage on his stock, fixtures, and crop, and to be used only in the production and harvesting of the crop, will fail completely to meet the needs of a large per cent of our farming people.

The time for these loans should not exceed 6, 9, or 12 months.

And here is a point that I would like to impress upon you—if you get this far along in the formation of a bill—that the money should be held by the rural banks and paid to the borrower monthly, as needed, to pay running expenses in making and gathering the crop. I think it would be unwise for the Government to provide a banking system whereby that class of farmers—Tom, Dick, and Harry—whom perhaps do not get to handle \$10 a year, who do not have \$10 left after they pay their bills—I think it would be unwise if they could go to the bank and put up security and get \$250 or \$300 in the spring of the year and get that into their hands to handle as they pleased. That would not be wise.

Mr. WEAVER. But would not the plan you suggest make the bank the guardian of all the farmers?

Dr. ALEXANDER. Yes; in a sense it is paternalism.

Mr. WEAVER. Do you think that the farmer who is worthy of obtaining credit—and unless he is worthy of credit he ought not to have the money—needs espionage?

Dr. ALEXANDER. I believe they do.

Mr. WEAVER. Well, you have not as good an opinion of them as I have, although you may represent them.

Dr. ALEXANDER. Well, in that commercial sense, I believe they do. The class that have been run by the time merchants, if you turn over to them \$200 or \$300 to make their crop on—if it was a one-horse or a two-horse farmer—that money would probably get away before the crop was made. But he can very easily put up his security, and the bank could give him so much in March, so much in April, and so much in May and June, until he can get the necessary money to make his crop.

Mr. SELDOMRIDGE. Would you allow him to pay it back in the same way?

Dr. ALEXANDER. No; when due.

Mr. SELDOMRIDGE. In one lump sum?

Dr. ALEXANDER. Well, according to when it was due under the contract.

Senator HOLLIS. That is not a revolutionary method of making loans.

Dr. ALEXANDER. No.

Senator HOLLIS. I understand that the building and loan association, where they loan money on a building being constructed, advance the money as fast as it is needed to make the payments as the building goes up.

Dr. ALEXANDER. Yes; and the payments come back in the same way.

Mr. SELDOMRIDGE. Let me ask you this question: Have the building and loan associations the right to stop the payments if they find the contract is not being carried out?

Senator HOLLIS. I can not state that that is so: I have never been closely connected with one of those building and loan associations; but I think that is the usual arrangement, and I should not be sur-

prised if the building and loan association took that into their own hands by some provision of their by-laws, or the contract, so that they could stop payments if necessary.

Mr. HAYES. Yes. I think the usual method is to send out an inspector and to pay only when and as value has been put into the property.

Senator HOLLIS. I think that is about what is done; but I can not state positively.

Mr. PLATT. I think that is the general practice.

Dr. ALEXANDER. The long-time loans should be made on real estate and for specific purposes only, and should be at a rate of interest not exceeding 4 per cent. I say 4 per cent for the reason indicated awhile ago, that the average profits of agriculture are less than 5 per cent.

These would be for permanent improvements on the farm, possibly for improvements that would not increase the revenue from the farm at all; for instance, for building a dwelling or building a barn, or such things as that; and therefore it would be necessary that these loans should be made at a rate not exceeding 4 per cent.

These loans should be made for paying off a debt on the farm or home—and you will notice that I use both of those terms, “farm” or “home,” because I do not believe that the laboring class should be excluded from the benefits of long-time loans, no matter whether they are farmers or not, for the purchase in part of a farm or home. I say “in part” because the Government does not propose to furnish all the money necessary for a home. I think it ought to furnish 75 per cent of it.

These loans should also be made for the equipment of the farm and for the education of the children.

That brings up a question that is dear to the heart of every father that is really the kind of father that he ought to be. I know from personal observation that not 10 per cent of the agricultural class are able to give their children educations under present conditions.

Mr. WEAVER. You think that the public-school system, however efficient it may be, does not help the class, for instance, of tenant farmers, who need their children to work in the fields—they are almost compelled to have them at times?

Dr. ALEXANDER. Well, the public school is the only means of education they have. They can not go beyond that, and the public schools as they are in most of the States, especially in the South, I regret to say, are not efficient enough to give them the education they ought to have.

Mr. HAYES. Dr. Alexander evidently has not in mind, for instance, the State of California, in which we have two great universities where the tuition is absolutely free and where we have five normal schools, and anybody can get an education there that wants it.

Dr. ALEXANDER. Yes; we have only one agricultural university in our State. North Carolina did stand at the foot of the ladder in educational facilities until the Farmers' Union got in behind our last general assembly and forced them to enlarge the public school term from four months to six months.

Mr. SELDOMRIDGE. Do you know the average salary that is paid to white teachers in North Carolina?

Dr. ALEXANDER. It is less than the negroes get.

Mr. SELDOMRIDGE. What do they get?

Dr. ALEXANDER. It is less than \$200 a year.

Mr. SELDOMRIDGE. And what is the average term of the public school?

Dr. ALEXANDER. It is now six months; it was recently increased from four months. We also secured the adoption of the compulsory attendance law; that was done by the farmers' organizations.

Only bona fide residents should have the benefit of these loans. Real estate speculators should be rigidly excluded. They ought to be taxed out of business, anyway.

The long-time loans should be on the amortization plan, whereby the farmer could pay the 4 per cent interest plus a small part of the principal every year until the whole was paid. The time should run from 5 to perhaps 30 years, with the privilege of paying in part or in full at any interest-bearing period without penalty.

Several bills on rural credits have been introduced in Congress. I have carefully read six or eight of these bills. Not a single one of them has all of the good features or all of the provisions necessary to meet the demands and do justice to the American farmer. But all the features and provisions necessary to make a perfect bill are found in the many bills before Congress.

The question that naturally comes up in our mind is whether or not Congress will take the good and necessary features of these various bills and combine them into one, or will our demand for bread be answered by giving us a stone. I believe Congress will grant the demands of the farmers and will give us what we need.

In a general way the bill presented in the Senate by Mr. Fletcher and in the House by Mr. Moss is a good one, as it provides for the establishment of "national farm-land banks" and incorporates the cooperative plan (which, however, is optional, whereas it should be compulsory). But this bill lacks two provisions that are absolutely essential to any law that will give the farmer the relief he needs, and is justly entitled to, namely, short-time loans on any kind of safe collateral that he can furnish, as already explained, and long-time loans at not exceeding 4 per cent interest. This bill does not provide for loans secured by personal chattels, nor does it provide for cheap money, since the bulk of the money must be obtained by the sale in the open market of bonds of the farm-land banks, which bonds are backed by the mortgages or deeds of trust on lands. This is a fatal weakness in this bill, because it makes the land banks dependent on the commercial banks for money to be loaned.

A bill by Mr. Thompson includes the provision for making loans on first mortgage on crops, stock, etc., for the purpose of making and harvesting crops.

A bill by Mr. Doolittle provides for cheap money by making the National Government issue Treasury certificates to be designated as Government currency, the same to be retired when the land mortgages have been paid off.

And that is what I think the Government ought to do.

Now, then, if Congress really wants to help the farmers, regardless of how it may affect the profits of national banks, it can be done and all the provisions necessary for the law needed can be found in the various bills before Congress.

In my judgment a land-loan bank dependent on the commercial banks for the money to be loaned would be a dangerous expedient. It could not provide cheap money. And many loans would be made for farm and home improvements that would not increase the revenue from the farm, such as a residence or barn, etc. Moreover, the average annual profits of agriculture are less than 5 per cent. Therefore the farmer should be able to get money at less than 5 per cent if it is to be used in buying a home or in making permanent improvements on the farm.

In the matter of short-time loans for making and harvesting crops he could afford to pay 6 per cent interest and thereby make a great saving over the present "on time" method of doing business. And, then, too, it would stimulate a spirit of manly independence in the small farmer if he could go to the bank and put up his own collateral and get money to run on a cash basis. Then, when his crops are harvested, if prices are low he should be enabled to continue the loan by storing his crops and putting up warehouse receipts with the bank.

Now, Mr. Chairman, I am ready to answer your question.

Senator HOLLIS. Yes; it is, whether the Government could exercise that supervision over the solvency of borrowers that has to be exercised by private bankers or by a national bank in order to make the system a success?

Dr. ALEXANDER. I doubt the expediency of the Government doing it. I believe it would have to be done by the banking institution in the locality.

Senator HOLLIS. Yes.

Dr. ALEXANDER. And I regret that a system designed to meet rural conditions was not included in the general currency law recently enacted. I believe there is where it ought to have been put. I believe it could have been done without jeopardizing the bill. Of course, I do not know positively as to that, but I believe that the present banks that we have all over the country could have done the work. There is the machinery already established. If the bill had made provision for the national banks to loan money on short time, on personal chattels, on chattel mortgages, there could have been an agent of the bank appointed to handle that particular kind of business.

And then the long-time loans could have been provided for through that national currency bill.

Mr. BULKLEY. Dr. Alexander, what provision would you suggest should have been added to the currency bill to provide for short-time loans on chattels?

Dr. ALEXANDER. Well, I do not know whether you could have made it compulsory for the banks to loan that way or not, but I think that the Government should have stated that the banks—it should have made whatever legal provision it could, or whatever was necessary.

Mr. BULKLEY. Well, do you understand that there is anything to prevent the banks from making any such loans now?

Dr. ALEXANDER. I think there are commercial reasons; I do not know whether there are any legal reasons or not. Were there any

legal reasons in the old administration of the national banks? Were they allowed to take that kind of security?

Mr. BULKLEY. Yes; anything except real estate..

Mr. HAYES. Yes; they could accept any security except real estate.

Dr. ALEXANDER. They could accept chattel mortgages?

Senator HOLLIS. Chattel security is nothing but collateral security; but the trouble with chattel security is that it usually has to remain in the possession of the owner; and it is likely to be destroyed or stolen or to disappear, whereas the ordinary collateral securities are locked up in the vaults of the banks in the form of certificates.

Dr. ALEXANDER. I see.

Senator HOLLIS. That would be a pretty difficult thing for an ordinary bank to engage in. I doubt if they would find it profitable; and no private bank, as distinguished from a public bank, which might be regarded as a sort of department of the Government, will do anything that is not profitable.

Dr. ALEXANDER. No; we do not expect them to do so.

Senator HOLLIS. I will say that the original banking and currency act was not intended, so far as I know, to do anything except to make safe commercial banks; and it was the object of those who had charge of it to follow that up with a rural-credit bill, to take care of the farmers.

Dr. ALEXANDER. Yes; I know that.

Senator HOLLIS. It seemed necessary to put the general banking and currency bill through first, to keep us from going into hard times again; and now we hope to do the best we can for the farmers.

Dr. ALEXANDER. Yes; I indorse the currency bill.

Now, as to cheap money, we can not get that except directly from the Government. If we have got to go into the commercial centers for money, we have got to pay for it what the money will bring there.

Mr. BULKLEY. Now, in the light of what you have said, you do not mean that the Government should make that loan direct to the farmer; you mean that the Government should furnish the funds which should be loaned to the farmer through the local banking institution, do you not?

Dr. ALEXANDER. That is right.

Mr. WEAVER. Where, in your opinion, ought the Government to get the money? We have had different propositions about the Government getting the money. I believe one gentleman, whom I will not name, but who addressed the committee, suggested a very ancient and very simple means of getting it, to wit, printing it on a printing machine.

Dr. ALEXANDER. Well, where is the Government going to get the money that it is going to issue on the commercial paper through these reserve banks under the new currency law? As I understand that, the member banks or the reserve banks can get money from the Government on this commercial paper. Is there not a provision of that kind in that law?

Mr. WEAVER. Yes; they issue gold-reserve notes on certain approved securities. And I will not go into a discussion of that, because the reserve act shows that itself; and without criticising a suggestion of yours in any way, what I am trying to get at is your suggestion, and I think that is what the committee wants.

Dr. ALEXANDER. Well, my idea is that the Government should issue Government currency, or notes, whatever you may term them, and carry the bonds of these land banks, those bonds to be secured by mortgages on real estate. That would enable these land banks to carry the mortgages and deeds of trust, make loans to the farmers secured by mortgages and deeds of trust, at a low rate of interest, if the Government would furnish the currency; instead of selling land-bank bonds that your bill provides for on the open market, let the Government carry those and issue Government currency.

Mr. SELDOMRIDGE. Realizing the fact, Dr. Alexander, that the Government to-day has to carry a reserve of \$150,000,000 in gold as against the \$346,000,000 in greenbacks that are outstanding; and realizing the still further fact that it must put aside 40 per cent of the new Treasury notes, in addition to the security back of those notes, where would the Government get the necessary amount of gold to protect the issue of, say from three to ten billions of dollars that would be necessary to take care of the farm mortgages in the country? Because you know that when we issue money we have got to issue money to our people that will pass current throughout the world. We can not afford to issue currency that will depreciate and lower the value of all classes of property which an issue of that kind or class of notes would produce. Now, where can we get the necessary gold to create a reserve against such an issue as that?

Mr. WEAVER. How would you guard against inflation? That is the idea.

Dr. ALEXANDER. Can you not issue any Government currency without gold back of it—none at all?

Mr. SELDOMRIDGE. We have tried to do that, and have found it a very dangerous and difficult thing to do.

Mr. HAYES. Under the reserve act or the present laws we can not do that.

Dr. ALEXANDER. I beg your pardon, I did not understand.

Mr. HAYES. Under the reserve act, or under the laws that were in force before that act, we could not do that.

Mr. SELDOMRIDGE. We provided in the reserve act that nothing in that act should in any way affect the parity or the gold-standard theory of the Government.

Mr. HAYES. As you stated, Mr. Seldomridge, that act provides for a 40 per cent reserve behind the new Treasury notes.

Mr. BULKLEY. I think we can clear the question up in this way, Mr. Alexander, that if we assume that the Government by printing currency creates any value, we are going off in the air.

All that is assumed to be done in the currency law that has just been enacted is to pass out notes which shall be representative of value that is deposited with the Government and to adequately secure them by a gold reserve, redeemable in gold on demand, and the balance of the security being of such a short-time character that it may command gold within as short a time as it may reasonably be expected to be called.

Now, of course, if we are going to issue notes against land banks, we have no such possibility of that prompt redemption that exists with respect to the security which is provided to be placed behind the notes which will be issued under the new currency act. So that

we would have to make a somewhat different arrangement if any such notes were issued.

MR. HAYES. And if you will permit me to follow up your suggestion, Mr. Bulkley, the security which the farmer offers in the land has the additional disadvantage that there is no way of liquidating it, except by a sale. It is not in the natural course of business liquid in itself, like the assets which the reserve law provides for.

MR. BULKLEY. Yes; that is the proposition exactly.

MR. HAYES. It has got to be sold in order to be realized. There is no gold behind it; there are no liquid assets behind it that will, in the natural course of things, liquidate themselves.

DR. ALEXANDER. But it has intrinsic value that will always bring the money.

MR. HAYES. No; you would have to have a market for it in order to get the money promptly.

DR. ALEXANDER. It will always command the money, I think.

MR. BULKLEY. But you can not tell how soon, Dr. Alexander, you will find a market for any particular piece of land if you are forced to sell it.

DR. ALEXANDER. As a matter of fact, the value of gold is a fictitious value conferred on it by the coinage laws of various countries.

MR. BULKLEY. Well, is it a fictitious value?

MR. HAYES. No; we can not do that in the case of silver.

DR. ALEXANDER. Well, silver is demonetized.

MR. HAYES. But it has a value just the same.

MR. WEAVER. Is not the value of the gold the amount of work it takes to get it?

MR. HAYES. The value is what it will bring in the markets of the world.

MR. WEAVER. You have to go into the mines and endure hardships and spend money and dig it out of the earth; and that labor is the measure of the value of the gold.

DR. ALEXANDER. Surely; but there are a whole lot of other things that cost more than gold to get. But you take away the coinage value of gold and it will not be worth much more than copper or aluminum.

MR. HAYES. Do you think so? I do not think you are right. The history of the world will disprove that.

DR. ALEXANDER. Well, nearly all countries of the world, you see, have conferred that value on gold by legislation. If I had gold bullion, I would be foolish to sell it for less than I can coin it into money for, because I can get it coined for so much. Therefore, it is an artificial value that the Governments of the world have conferred on gold by giving it its coinage value.

MR. HAYES. Well, silver has no coinage value now; and is it not true that in the last 20 years it has increased in value 25 per cent notwithstanding that fact?

DR. ALEXANDER. Yes; that is regulated by the law of supply and demand.

MR. HAYES. Yes; not by coinage value.

MR. SELDOMRIDGE. The universal value of all classes of property is measured in gold.

DR. ALEXANDER. Surely.

Mr. BULKLEY. I think Dr. Alexander will concede that the law of supply and demand regulates the value. If there was additional gold, it would still be good money, but it would not buy as much.

Mr. HAYES. Certainly.

Dr. ALEXANDER. As a matter of fact, the output of gold and the great increase in the supply has been of great value to the country. And when silver was demonetized there would have been very hard times if the increase in the supply of gold had not taken place.

Mr. BULKLEY. It is precisely the effect that I have outlined, that the increased supply of gold does not decrease the value of it, but the price—

Dr. ALEXANDER (interposing). The prices of the products have gone up.

Mr. BULKLEY. Exactly.

Dr. ALEXANDER. But a pennyweight of gold is worth the same in gold as it always was.

Mr. BULKLEY. Yes; because it is the standard of value.

Dr. ALEXANDER. Surely.

Mr. SCUDDER. Mr. Chairman, may I say a word at this point?

Senator HOLLIS. Yes.

Mr. SCUDDER. I think Dr. Alexander is entirely right when he refers to the fact that the nations of the world have all made gold the standard of value, and that is the thing you have got to face. That is the condition, not the theory.

Now, all the nations of the earth, if they should get together and change the standard of value and make it labor, the product of a man's hands instead of gold, that would change it. But we have the present situation to face.

Dr. ALEXANDER. Certainly; I understand that.

Mr. SCUDDER. Every nation in the world makes gold the standard. And I was on the point yesterday—

Mr. HAYES (interposing). Will you let me ask you a question when you finish?

Mr. SCUDDER. Yes; I should be glad to have you ask it now.

Mr. HAYES. You were talking about making labor the standard of value. Of course, the value of one man's labor differs from that of another?

Mr. SCUDDER. Yes.

Mr. HAYES. There are no two men alike in that respect, and there could be no standard of value based upon that.

Mr. SCUDDER. You could arbitrarily put a value on everything if everyone in the world could be gotten to agree to it.

Mr. HAYES. No; you could not; it would be impossible.

Mr. SCUDDER. Would it not be possible to put a value on everything in the world if every nation could be gotten to agree to it?

Mr. WEAVER. You can put a fiat value on it.

Mr. SCUDDER. But you can put a "comparative value" on everything, provided everybody agrees to such a rule.

Mr. HAYES. No; you could not; because you could legislate all you please, but you could not change natural commercial laws. You may violate them, but you can not change them.

Mr. SCUDDER. I want to ask you if the world could not get together and put a value on diamonds?

Mr. HAYES. No; nobody would pay any attention to that. People would pay whatever they thought they were worth to them in spite of all the laws you could make.

Mr. SCUDDER. I mean, if the nations of the world could agree on a standard of value on anything?

Mr. HAYES. In the first place, they could not agree; you are somewhat theoretical.

Mr. SCUDDER. Well, assuming that they could agree. That is just what I wanted to call Dr. Alexander's attention to. Yesterday I was on the point of saying, when the session closed, that the friends of the proposition who wanted the Government to guarantee these bonds could only have it done in one way, and that is in the way that Dr. Alexander has suggested, that these bonds should be deposited with the Government, and the currency issued against those bonds—we will say on a 10 per cent margin, just as the national banks were allowed to put bonds with the Government and have the Government issue the currency on 10 per cent margin. But the trouble with that would be that it would drive every dollar of gold out of our country. And as long as the standard is "gold" we have got to recognize that fact. If you issue 3 billions of dollars—that is what the farm mortgages now represent—in order to take up the farm indebtedness of this country, the Government would have to issue 3 billions of dollars of indebtedness. Why, you would drive every dollar of gold out of this country.

Mr. HAYES. And be on an inflation basis right away.

Mr. SCUDDER. Right away. That is the condition you have got to face. It is a condition and not a theory, as President Cleveland said.

Mr. BULKLEY. To put the same thing more briefly, if your notes are redeemable in gold, you must have them backed by a gold reserve and by such securities as will immediately command gold for redemption. If they are not redeemable in gold, then they must be redeemable in something else, and they will depreciate in the value of whatever that other thing is.

Mr. HAYES. Not only that, but if your reserve is a thing that can not be easily realized on, a man does not want it for currency, that is all; it will have no value at all for that purpose.

Mr. PLATT. It seems to me that the upshot of all this is, that the farmer has not as good a security as anybody else, and that is why he is discriminated against.

Mr. HAYES. He has not as liquid a security as others.

Senator HOLLIS. Let us get back to the point. We all agree that there should be some way to provide funds for loaning to the farmer at a less rate than he is paying now.

And there has been various suggestions. One was specifically that the postal-savings funds which are held on deposit might be available under proper conditions.

It has also been very seriously urged that the Government ought to issue currency to take care of it; and that was also urged before the Committee on Banking and Currency of the Senate, when the bill was before that committee—that that was all that was needed, to send the money out with the Government back of it, and it would be good.

Now, then, when Senator Bourne, who was getting up a very comprehensive plan for national good roads, tried to figure out some way, he hit on this plan: That the Government should loan its credit to the different States; the National Government being able to borrow on better terms than most of the States.

And that is probably as far as we could go, to have the Government loan its credit in some way to the banks which are to help the farmer; and if you have any ideas along that line, Dr. Alexander, I would be glad to hear them.

DR. ALEXANDER. If that will enable the system of rural-credit banks to obtain cheaper money than now obtained, it will be all right, but in my judgment, whatever system you provide for long-time loans they should be at a lower rate of interest than now obtains, otherwise I believe it will result disastrously.

Senator HOLLIS. Well, of course, unless they could do that the present loans would be still outstanding, and it would not have any effect. The only way the Government can mix in it at all would be by making it possible to get lower rates: otherwise the Government can not help the situation.

And that is what we are all bending our energies toward doing, getting the lowest rates that are possible with safety if we go ahead and build up a system that is going to break down and cause failure, which would not only be useless but would set the movement back a generation. People would not have the courage to take it up again. So that you can see that we must be careful.

DR. ALEXANDER. It is going to take many years to get the system established, even if it is satisfactory, because these institutions have got to be organized and built up. That is why I said that I regretted that a provision could not be made through the national banks in the currency act, because you have already got the machinery there.

But under the Moss-Fletcher bill, which you are considering, which seems to be the leading one before the committee, it is going to take years and years to get those banks established.

As I stated in my article, my impression was that the cooperative feature instead of being optional, should be compulsory. But Prof. Brooks makes the point that, if it was found that the cooperative banks were more prosperous, they would supersede the other banks. But the question is, whether they would be more profitable for the lender or more profitable for the borrower.

MR. SELDOMRIDGE. Dr. Alexander, I want to ask you a question that relates somewhat to your knowledge of conditions in your section and your State.

DR. ALEXANDER. I shall be glad to answer it.

MR. SELDOMRIDGE. Are your farmers responsive to the cooperative idea?

DR. ALEXANDER. Not very largely. They have to learn to cooperate. You know that the American farmer is the most independent individualistic creature in the world, and it is a hard matter to organize the American farmer; he is unlike the city man; in the city the community like takes precedence over the individual life. The reverse is true of the country. It is going to take a long time to get the farmers to cooperate on any line.

Mr. SELDOMRIDGE. The success of the European systems of rural credits seems to have been largely due to that spirit of cooperation.

Dr. ALEXANDER. Yes; but it has taken 60 years to build it up there; and it has not reached all the countries of Europe yet, nor all classes of farmers.

Mr. SELDOMRIDGE. Do you believe that if these cooperative American institutions could be established and demonstrate their effectiveness, the idea would spread? Do you think it would be possible here?

Dr. ALEXANDER. It would have to be a growth just like it was there; and the conditions are such that we need relief now. We do not want to wait a generation to develop a spirit of cooperation.

Mr. SELDOMRIDGE. Suppose the Government sent out in this section there two or three men of ability and knowledge and experience, who could organize these cooperative plans and put them into practical shape; do you think the farmers would respond?

Dr. ALEXANDER. In some localities they would; it would do good, there is no doubt about that.

Mr. HAYES. Let me ask you, would it not take a generation, or at least several years anyhow—we do not know how long—to put into operation in this country any plan that might be developed?

Dr. ALEXANDER. Certainly; any plan that provides for the organization of new institutions would take years to put into operation.

Mr. HAYES. So that that is nothing to be said against the cooperative idea, is it?

Dr. ALEXANDER. No; but cooperation is a growth; it is not a spasmodic action.

Mr. SELDOMRIDGE. Well, I have a very distinct impression that the Government should set itself definitely to the practical demonstration of this matter of rural finance; that we can just as well educate the farmer on that line as we can educate him along the line of conserving the soil and increasing its productiveness.

Dr. ALEXANDER. I would be glad to see the Government do that; I would be glad to see the Government put itself on record, or take up that work to teach cooperation; adopt that as a policy, to cooperate. I believe it will eventually have to take the place of competition which we have tried to establish in the place of monopoly. I do not believe that we will ever establish competition again as it was once.

I do not agree with the general statement that competition is the life of trade. I think that competition is destructive. Cooperation is life-giving, upbuilding, and just the reverse of competition. I do not believe that we will ever be able to break up all the combinations of capital in the different industries of our country and reestablish independent competition again. There will always be a "gentlemen's agreement" or something that is going to keep them from cutting prices against one another. You will never have competition to that extent, that you will have price cutting, because that is destructive.

So, cooperation ought to come in to take the place of competition. And I believe the Government would do well to take the initiative in advocating a policy of that kind—to establish cooperation not only in the banking business, but in other industries wherever possible. I believe the day will come when manufacturing enterprises

will be conducted on the cooperative basis, where earnings of capital are limited and all the profits above a fixed rate of interest to capital will go to the purchasers.

Mr. HAYES. Of course, that is a long way in the future.

Dr. ALEXANDER. Yes; it is a long way in the future, of course.

Mr. HAYES. But have you considered this proposition? I would like to hear some suggestions from you—for I see you are a man who has thought along this line a long time—as to the effect of the Government of the United States actually lending money to the farmer. What effect is that going to have on his character and independence? I would like to have you suggest how we are to prevent the usual results that come from hothouse methods of that kind.

Dr. ALEXANDER. Well, I do not advocate hothouse methods. I do not believe the farmers are asking for them. I believe they are simply asking for the Government to provide some channel through which they can finance their business with the security that is available to them.

Mr. HAYES. No; but if you are going to have the Government furnish him money when commercial men who are in the business would not do it and commercial laws would not warrant it, then I want to have you show to me what the effect of that is going to be on the farmer himself and on the general situation.

Dr. ALEXANDER. Well, I hope there is some way in which the Government can provide him the relief under present commercial conditions, because he will not be able to get cheaper money unless the Government does come to his support.

Senator HOLLIS. Are there any other questions to be asked of Dr. Alexander?

Mr. BULKLEY. I wanted to ask him one or two more questions. Have you intended to advocate a system which will be a strictly business system and which will facilitate the granting of credit to the farmer on the basis of competition and the money market; or do you agree with what Prof. Brooks said yesterday, that we have got to give governmental aid and bring farm loans down below the regular market rate of interest for the sake of building up an agricultural community?

Dr. ALEXANDER. I think that is so in the long-time loans.

Mr. BULKLEY. Do you mean you think the latter is the case?

Dr. ALEXANDER. Yes; I think you have got to bring the long-time loans to a rate of interest that is below the prevailing commercial rate.

Mr. HAYES. Well, can you suggest to us how we are going to do that?

Dr. ALEXANDER. I do not know any way at all, unless the Government can carry the bonds of those loaning institutions, because if they have got to be sold on the market, would that provide the funds?

Mr. HAYES. That is what I was going to ask you.

Dr. ALEXANDER. I do not believe it would.

Mr. HAYES. Do you have an idea that the Government could borrow more cheaply?

Dr. ALEXANDER. Yes.

Mr. HAYES. I do not see how. It has no way of paying its bonds, except by taxation, and if it went to the extent that the public and

the world generally doubted its ability to pay on demand, or whenever the bonds were due, it follows that the Government rate would go up, would it not?

Dr. ALEXANDER. Well, it might.

Mr. HAYES. Well, would it not, as a matter of fact?

Dr. ALEXANDER. My idea was that the Government would issue currency—Government notes to carry these land bonds, the same to be retired as soon as the bonds were paid off.

Mr. BULKLEY. In that connection, Dr. Alexander, I suppose you realize that there is a limit to the amount of currency that we have any use for?

Dr. ALEXANDER. Surely.

Mr. BULKLEY. In other words, you do not carry currency in your pocket just because you can get it; you carry just the amount you need.

Dr. ALEXANDER. Surely. I think that brings up another point, that the Government very likely would be able to meet this demand, because this demand would come gradually; there would not be a demand for the \$3,000,000,000 that Mr. Scudder speaks of—perhaps not in two generations. Before there would be a demand for such an immense sum of money the money would begin to come back, especially if you made the period of long-time loans not exceeding 20 years, which, I think, would be long enough. I think the Government possibly would be able to take care of these long-time loans as the demand would be made on the Government, because that demand would come gradually.

Mr. BULKLEY. Do you believe that we ought to limit the amount to be loaned to any one man?

Dr. ALEXANDER. Oh, yes, sir.

Mr. BULKLEY. At what point?

Dr. ALEXANDER. I would not go over \$5,000 to any one man.

Mr. BULKLEY. How do you arrive at the figure \$5,000?

Dr. ALEXANDER. Well, I am estimating that 100 acres could be bought almost anywhere for \$5,000, usually for less than that, and 100 acres of land is a good farm.

Mr. HAYES. It would cost \$25,000 where I live, if it was any good.

Dr. ALEXANDER. Yes; I suppose it would. Yes; around the city of Charlotte it would cost \$300 or \$400 an acre to buy it on long time. But what is making it bring that price? It is nothing in the world but the moneyed men of Charlotte going out there speculating in that land.

Mr. HAYES. No; I mean the land in my section will make a good return on that amount.

Dr. ALEXANDER. It is not worth it in my State. I know two farms that sold at \$350 an acre to speculators pure and simple; the land was located about 3 miles from Charlotte.

Mr. HAYES. Five thousand dollars in my State, for instance, would be very little.

Dr. ALEXANDER. Possibly so.

Mr. HAYES. You would have to vary the limit according to conditions.

Dr. ALEXANDER. You may do that—vary it according to conditions. My idea would be that if you let that be three-fourths of the value of

the farm, \$5,000 would give the farmer something like \$7,000 to invest in a farm.

Mr. BULKLEY. Suppose we pass the Fletcher-Moss bill, how readily would the people in your community subscribe to stock in those little banks?

Dr. ALEXANDER. I do not believe that the farmers would take it up very readily. The truth of the matter is that a large part of the farming class have not got any money.

Mr. BULKLEY. Would any other class in your community take it up?

Dr. ALEXANDER. I do not know, but it might be taken up by some of the moneyed class, possibly the commercial banks; the national banks might establish those as branch banks, because, as I understand, they can loan money at 1 per cent in addition to the legal rate of interest. Does not the bill provide that?

Mr. BULKLEY. No; 1 per cent above the rate at which they sell their bonds.

Dr. ALEXANDER. Oh, yes; 1 per cent above that. Well, that would possibly give them a good profit for administration.

Mr. BULKLEY. How much do you think it would cost to run one of those banks a year?

Dr. ALEXANDER. That was discussed here yesterday by men who know more about it than I do. But I think the cost of running one of them would be out of proportion to the business done, unless you make them banks of deposit and let them handle short-time loans also. My idea would be, if possible, to have a banking system whereby these short-time loans for farmers and long-time loans for farmers, the one on personal chattels and the other on real estate, could all be handled through the same institution.

Mr. BULKLEY. Does that go so far as to say that the Moss bill as written would not work at all?

Dr. ALEXANDER. No; I do not say that; it might do a great deal of good; I see nothing wrong with that except the rate of interest. If it can provide cheaper money it will do good; but if it means that we are going to have the farms covered up with mortgages at 7 or 8 per cent interest, perhaps more, it is not going to give the relief that we need.

Mr. BULKLEY. Well, it will not work at all unless these little banks are incorporated, and the stock in them will not be subscribed unless somebody thinks it is a good investment, and they can not think it is a good investment unless the expenses are kept down to such a point that a profit can be made.

Dr. ALEXANDER. Surely.

Mr. BULKLEY. Do you not think they could make a profit without going into the deposit and short-time loan business?

Dr. ALEXANDER. They might do it. I do not know just what would be the cost of running it. I know very little of the cost of banking. If the Government could send men out to advocate it, and to educate the people along that line of cooperation, you might be able to get the farmers to take it up. I do not know but what they would. We are teaching that in North Carolina; our lecturers are going all over North Carolina all the time teaching cooperation.

STATEMENT OF JOHN LENNOX, OF COLORADO SPRINGS, COLO.

Mr. LENNOX. Mr. Chairman and gentlemen of the subcommittee, before starting upon the matters which I am here to take up, permit me in a word to say that I esteem it a distinct honor to have been selected by this committee for the purpose of presenting something of the conditions and financial needs of the farmers of Colorado.

Perhaps I should make it clear that my knowledge is of dry-farming sections especially. While I have a general knowledge of the entire State, having lived there something like 42 years and been perhaps a rather close observer of rural conditions during that entire period, and having acted as chairman of the local board of control of the Sixth International Dry Farming Congress four years ago, and having for the last three years acted as chairman of the agricultural committee of our Colorado Springs Chamber of Commerce; having also acted as chairman of the trustees of what is known in our section as the seed and feed fund, of which mention will be made later; and being also manager of the Farm Loan Co., I have been brought in rather close touch with these problems in that particular section of Colorado, which section I should say is the central-eastern section, the plains section, and is generally designated as "eastern Colorado."

I would like to say also that while I am fairly familiar with these conditions and feel somewhat at home in speaking of them, and am here for the purpose of giving this information as best I can to you gentlemen, it is no part of my responsibility to suggest a plan by which you shall work out a problem which is so great and of such vital interest to the agriculture and the rural sections of our entire Nation as the problem you have before you at this time.

I am a comparative stranger to banking, finance, and lawmaking.

With this general statement I would like to give you a little view of Colorado. In many respects it is unlike the other parts of our country.

The State of Colorado is new and has conditions which are peculiar to that State, and perhaps not to be found in other States. We have a great variety, for instance, of altitudes, even in our farming sections; altitudes varying from under 4,000 feet to upward of 10,000 feet. We have also a great variety of soils. We have a great variety in the amount of moisture that is given to us. We have a great variety of people, who have been gathered there from different parts of the country; perhaps we are more heterogenous in some respects than other sections of the entire country. We have great variety in the crops that we are undertaking to raise in the different sections of State by reason of these great variations in altitude, moisture, etc.

Now, I realize the difficulty very fully of getting before you gentlemen the things that you should know and that I would like to convey to you. But time is limited, and it is necessary to condense as far as possible; and I believe that for this purpose I could not do better than very briefly give you the conditions which have led up to what we are now trying to undertake to do.

This particular section known as eastern Colorado falls into three historical periods. We had, first, the Indian and the buffalo. Only

45 years ago—we are very close to the beginning of things in Colorado. And while the buffalo disappeared in 1870 to 1874—when they began we do not know; we are not concerned in the dates—the thing of interest to those who have studied conditions there is that the buffalo, by his selection of that particular region as his home, marked and classified that portion of Colorado as a dairying and stock-raising country. That is basic with us.

Then, when the buffalo disappeared, came the second period, the period of the stock raiser, with his large herds and flocks, with practically no limit to the boundary of his pasture, except distance to water holes and the ability of the animals to travel. My friend, H. H. Seldomridge, is familiar with this period of Colorado's history from having herded flocks of sheep belonging to his father at that time. And, by the way, I may say that I am obliged to be the more accurate, by reason of the fact that Mr. Seldomridge is familiar with conditions there and he can check me if I make a mistake.

Gradually, however, this condition changed. And the third period of the State's history is the haphazard-homesteader period, nine-tenths of whom came from "back East," where moisture abounded and small grain was profitable. They knew absolutely nothing of the peculiar conditions that confronted them as they came into that new country, and every man followed his own ideas. As a result 9 out of every 10 failed absolutely.

And there we have the first series of moving pictures that we have had in Colorado—in the form of two or three sets of homesteaders, coming and going.

With such conditions, it is not at all suprising that there should grow up in the minds of otherwise intelligent men, East and West, the conviction that Colorado was not adapted to maintaining an agricultural population.

But about that time there came something which was unfortunate, and yet in the end very fortunate. The summers of 1910 and 1911 were extremely dry summers, and our farmers were put to the test, as they were raising largely small grain and failed in many cases.

As a result a report became current that farmers were destitute. Quite a representative committee was appointed, composed of officials of the Rock Island Railroad, of the Denver Chamber of Commerce, the Colorado Springs Chamber of Commerce, the agricultural college, and the United States Department of Agriculture, to make a trip of investigation, and report as many as 5,000 people were met on one trip, and several trips were made.

On those trips we learned some fundamental things: First, that the men who were in the worst condition were the men who had been undertaking to raise small grain; and second, that those who had been dairying and stock raising were in fairly good condition and needed no assistance.

But our attention was directed to another section, somewhat remote from a railroad, about 40 miles, in which it was said there was destitution. We made a trip in an automobile and met about 225 people who had been waiting for us. They selected four or five of their own men to tell their story.

It developed that that community as a whole, with scarcely an exception, was in a condition of distress. They were without money

and credit. They were without seed for their spring cropping and without feed for their horses. They were in some cases without clothing and food. The case was desperate.

We went back to Colorado Springs and advised our chamber of commerce that it would be necessary to raise \$8,000 or \$10,000 to take care of those people.

The chamber of commerce responded splendidly, and \$8,000 was raised. Trustees were appointed to administer the fund as best they could, taking what security they were able to get, and doing the best they could under the conditions, which were desperate.

By a careful tabulation it was found that an average of \$40 would supply each farmer with the necessary seeds and feed, and the loans were made upon this general basis.

The following article, appearing later in the Colorado Springs Gazette, gives the results of the work of that committee perhaps better than I can tell you. This is the report made at the end of the year.

The best citizens, business men and bankers, said to the committee, "You will never see 25 per cent of this money back: this is a gift, and we will just charge it off our books and be content with that." As chairman of that committee, having investigated conditions and knowing those farmers as I did, I ventured to say, perhaps with a little trembling, "You will get 75 per cent of your money back." But they said I was a fool.

Now, I want to read the report of that work, given at the end of the year [reading]:

Last spring, when word came to our chamber of commerce that, owing to the unprecedented drouth of the previous summer, the long, severe winter, and the newness of the country many of the homesteaders in eastern El Paso, southern Elbert, and western Lincoln Counties were without seed and feed, money or credit for spring cropping there were those in Colorado Springs not familiar with conditions who believed that our so-called dry-land sections were not capable of maintaining an agricultural population, and that possibly the time had come to let the homesteaders turn the best of the land back to the sheep and cattlemen and the balance to the coyotes, and go elsewhere for land and homes.

Our agricultural committee, however, with all others who had given study to the problems of dry farming in general and of those sections lying to the east of us in particular, was convinced otherwise and urged the raising of a fund of \$10,000 to be loaned to these homesteaders to enable them to put in a crop and proceed with their plans to prove up and become settlers. A mass meeting was called by the chamber of commerce and the facts were presented. Our citizens rose to the occasion and provided a fund of more than \$8,000, which was loaned by trustees chosen by the chamber of commerce to the needy farmers in amounts of about \$40 each, taking their notes therefor, due on or before December 31, 1912, at 6 per cent interest, secured by individual indorsements or such other security in the form of crops or chattels as they were able to give. This small assistance not only put strength in their starving horses but put courage in the failing farmers, and they went to work to make a crop.

Providence was kind and sent an abundance of rain, which made up for poor horses and consequent shallow plowing, with the result that almost every farmer raised a good crop and now has an abundance of feed, with something to sell and turn into groceries and clothing.

It would be hard to find a finer illustration of the truth of the words of the Old Book, "There is that scattereth and yet increaseth," than this scatteration furnishes.

100,000 BUSHELS OF CORN.

While reports are incomplete and difficult to tabulate with accuracy, especially on such crops as could be used for either grain or hay returns, the report on corn so far as it goes seems to indicate that at least 100,000 bushels were raised by those participating in the fund with a market and feeding value of more than \$50,000. All other crops raised would no doubt outvalue the corn crop alone, but placing it as only equal we would have \$100,000, which seems a conservative estimate of results in dollar values, and a mightily good gathering.

But add to this the fact that 80 per cent of the fund is already paid back, for large quantities of these crops are being marketed in Colorado Springs.

But add to this the fact that 80 per cent of the funds is already paid back, and much of the remainder will be just as soon as farmers can get their crops to market or turned into money by home stock feeding—and the showing is fine.

* * * * *

These are some of the results; and, coming as they do from what was admitted to be the most destitute section in eastern Colorado, because one of the newest, and from those in the most pinchy condition of this worst section, give abundant reason for believing in the tremendous possibilities of our dry-land sections under favorable conditions. The writer is well aware of the doubter's remark at this point that "This was an unusual year; just wait." But it is safe to say that when proper lines of industry are selected, proper methods of farming applied, and farmers are willing to use their brains as well as their hands, the doubter will have a long time to wait, even if the rainfall is a little under the average.

AS TO THE FARMERS.

I want to say a word as to the farmers themselves. There are a few who would have failed "because of drouth" in the historic Garden of Eden, with the four great rivers of the east pouring their waters through its marvelous soils; and no obstruction should be placed on the railroad tracks when these try to get away. Here and there one may be found who is too crooked to be straight, but these are the rare exceptions and might easily be duplicated in Colorado Springs. The great majority of the farmers are industrious, intelligent, and honest and are out there to succeed and stay. They have, however, great needs, which may be classified under three general heads:

First. More capital at a reasonable rate of interest with which to buy stock, especially cows and better horses, build silos, provide stock shelter better than a barbed-wire fence, and homes for themselves and families better than shacks and dugouts.

Second. Better facilities for getting their products to market. These products will be mainly cream, poultry, and eggs, with vegetables in their season. Their perishable nature and the long distance to a desirable market prohibit the individual marketing. An auto-truck line operated along the new county road for 50 miles east, there to connect with a subine operated in southern Elbert and western Lincoln Counties, would do the business and put both the farmers and Colorado Springs on the map and spell out business for our merchants. To this might also be added the parcel-post feature.

Third. Education. First, as to selection of industries. Dairying, poultrying, and diversified stock raising never have failed in eastern Colorado when given half a chance. The country is particularly adapted to these lines. Second, the raising of such forage crops as are drouth-resistant and suitable for feeding the stock being raised. Along these lines must come the selection of cows of the dairy type and milking strain, selection of seed, preparation of the soil for the accumulation and conservation of moisture, planting and care of crops.

EXPERT AGRICULTURALIST ENGAGED.

For this very important work El Paso County, through its board of county commissioners, in cooperation with the United States Department of Agriculture and the Colorado Springs Chamber of Commerce, has secured the services of W. H. Lauck as county agricultural agent. He began his work last October and already has accomplished much. Assistance and cooperation will, through him, be given direct to the farmers at many points. Communities will be organized for the betterment of the farms and homes. Boys' and girls' clubs are to

be organized for competitive farm and home work. Many other things also are planned and under way.

Let me say, in conclusion, that when these forces and agencies get to work a different value will be placed upon our 633,852 acres of dry farming and grazing land in El Paso County than now exists, and when the products of these acres are poured into Colorado Springs to be exchanged for our merchandise, we will be upon a basis which will give us business and prosperity not only during the tourist season of two months but for 12 months in the year and every year we have a history.

Mr. WEAVER. How far is that from Colorado Springs?

Mr. LENNOX. The town of Rush is 40 miles from Colorado Springs and then it is another 25 miles from the town. They are from 25 to 40 miles from a railroad.

Mr. WEAVER. And Colorado Springs is the only and nearest market?

Mr. LENNOX. Well, it is the nearest and best market.

Now, I have another newspaper article from the Colorado Springs Gazette of March 19, 1913. It says:

Remarkable success of seed and feed fund is shown; farmers put on their feet; 80 per cent available for repayment now; 95 per cent assured. New loan company boosted.

Results of seed and feed fund.

Total fund subscribed.....	\$8,000
Total fund on hand.....	\$6,250
Percentage to be returned on first repayment.....	80

Now, I may say that 95 per cent return is sure. I may say that when this 80 per cent was repaid and the people had a chance to take it back they said, "We did not expect anything back"; and at the same time they prepared the articles of incorporation of a loan company, to be organized for the purpose of furnishing small amounts of money to farmers for the promotion of the industries which we knew to be successful, and almost all of the contributors at once wanted to turn their contributions over to this loan fund, and that loan company was put in operation because of the fact our farmers were absolutely without financial aid in any way and they could not get it.

Mr. WOODS. Mr. Lennox, did you use that money to loan on personal credit, or on farm mortgages?

Mr. LENNOX. We used the first, the seed and feed fund, on personal loans altogether. We took whatever security they could give, and sometimes they signed one another's notes. It was a desperate situation.

The point I want to make is, that notwithstanding the desperate situation which confronted us, we were not permitted to turn down anybody. We could not do that when a man was without food and without clothing; and notwithstanding that we had 80 per cent of the money back at that time, and we have another 10 per cent back now, and we shall have another 5 per cent, if not more, within a short time.

Mr. HAYES. Did you charge the farmers any interest?

Mr. LENNOX. We charged the farmers 6 per cent interest; we believed that was a fair, just proposition.

Mr. WEAVER. You had a big crop and remarkable seasons that year, did you not?

Mr. LENNOX. We had a fair crop.

Mr. SELDOMRIDGE. The point is that if these men had not been helped when they were, they would have been absolutely driven out of the country; there would have been no production at all.

Mr. WEAVER. Yes.

Mr. LENNOX. Now, with the permission of the committee I would like to read an article written by our State agriculturist. Those who understand the plan out there know that there is a county man, a State man, a United States Department of Agriculture man, and then there is a district man. Mr. Frear, who is our State agriculturist, wrote an article which we think is disinterested. He is a Government man and will not write anything in the way of a compliment unless the proposition has got some merit. He says:

In view of the fact that the whole country is discussing ways and means of developing agriculture through a satisfactory system of farm credits, it may be of interest to call attention to what has already been done by the business men of Colorado Springs for the farmers of the country adjacent to that city.

Through a crop failure the previous year many farmers faced, in the spring of 1912, a financial crisis, and were without means for buying seed for planting their crops or grain for feeding their work horses.

This serious condition of affairs came to the attention of the Chamber of Commerce of Colorado Springs and was made a subject for special investigation by the agricultural committee.

Through the efforts of this committee the Chamber of Commerce was able to secure from local bankers and business men over \$8,000, which was placed in a seed and feed fund, administered under the direction of John Lennox (chairman), Irving Howbert, and J. G. Dern as trustees.

This fund was made available to farmers in small amounts for one year only at 6 per cent interest, upon the approval of their applications by three of their neighbors. Various forms of security were accepted, ranging from mortgages on live stock and the year's crop to notes indorsed by responsible parties.

Leniency in the matter of payments was followed and extensions of time were made in cases where through no fault of their own the borrowers were unable to meet their obligations.

The average amount of the loans was \$24 for feed and \$16 for seed, making a total of \$40 per farmer.

By the end of the year 80 per cent of the loans were paid back with interest, and since that time about half of the remainder has been paid with additional amounts still coming in. While the 6 per cent interest charged will not quite pay the cost of administration and the small possible losses, the contributors will nevertheless receive 90 per cent or over of their original contributions when many expected 50 per cent or less.

At the end of the year the success of the work was so marked and the value of the agricultural development of the community so great that the agricultural committee of the chamber of commerce recommended that the money paid in by the farmers be placed in a more permanent fund, where it would be available for future loans for development purposes.

The donators consented to this plan, and as a result the Farm Loan Co. was organized and incorporated in El Paso, Lincoln, and Elbert Counties, having for its object the loaning to worthy farmers of money at reasonable rates for the purpose of enabling them to buy a few dairy cows, erect silos, or in other ways add to their permanent income-bearing equipment, or, in some cases, for the purpose of freeing them from the clutches of loan sharks, who seemed to be plentiful and who were getting as high as 3 to 5 per cent per month for their money.

Loans are made from this fund to farmers for three years at 8 per cent when secured by real estate and at 10 per cent when secured by chattels. Security of several times the value of the loan is required in all cases.

A charge of \$2 for small loans, which require little work, up to \$10 on larger amounts, where titles must be investigated, is paid by the borrower. This charge goes far toward meeting the cost of administering the affairs of the loan company, so that almost all the interest payments go to the owners of money.

Loans are made only to farmers who satisfy the committee that they will use the money for dairy stock and farm development, which under normal conditions will in time add to the wealth and prosperity of the community.

All notes taken by the company are written to be paid on or before the expiration of three years, so that the holders may pay them any time they have the money.

The loan company has met with the greatest success, and great credit is due to all bankers and other business men who have furnished money for the fund or who have in any way contributed to its success.

Mr. John Lennox is the secretary-treasurer of the company and is charged with the active administration of its affairs. To him is, perhaps, due the greater credit for making it a success in promoting the agricultural interests of the community by enabling the farmers to get money with which to develop their businesses.

Little opposition to the company has developed excepting by the loan sharks, who have been deprived of their opportunity to get the helpless farmer in their clutches, where they could gradually sap him dry financially by their exorbitant interest rates.

The business men of Colorado Springs believe that the prosperity of their county depends on the agricultural resources, which in turn depends upon the ability of the farmer to get capital with which to develop his land and industries. Consequently, they are making it their business to see that their farmers get the money at reasonable terms and rates.

In addition to this direct benefit, the organization and existence of the company, made up as it is of well-known bankers and business and professional men of the community, has served to establish confidence in farm loans, and thousands of dollars are now being invested in land loans by private individuals who before the organization of this company seriously questioned land securities.

There is little question but that the securing of W. H. Lauck as agricultural agent in El Paso County was due more to this farm-loan movement than to any other single factor.

The backers of the Farm Loan Co. were far-sighted enough to see that results were a question of time and that they would be much more certain if the borrowers of this money could have the help of a competent man to assist them in using wisely the money which they received. The county agent has given these farmers all possible help in making good and in encouraging them to make every effort to meet their obligations. He keeps in touch with agricultural conditions in the county, and is in a position to know the men who need and deserve help and to see where additional money may be wisely placed.

Pending the creation of an ideal and national system of farm credits perhaps other communities will see the possibilities which are within their reach for accomplishing what we are told is an impossibility along this line, but which seems to be very successful in at least one locality.

With regard to the rate of interest charged, 8 per cent on real estate, and 10 per cent, if secured by chattels, this may seem very high. But when you take into account that these farmers at that time had no means of securing financial aid except through the loan sharks, and that they were paying them from 3 to 5 per cent a month, with all sorts of additional charges, so that a loan doubled itself sometimes in a year and sometimes in six months, it will not seem so high. That was the condition that existed, and I intended to bring along with me an envelop which we have full of canceled notes which I have taken up of these loan sharks, showing this rate of interest, 3 and 5 per cent a month, but I forgot it.

Mr. WEAVER. Have you a usury law out there?

Mr. LENNOX. We have a usury law; it provides that it shall be unlawful to charge usury, but it then says that banking institutions shall not be included in that provision; and our loan sharks promptly upon the passage of this act proceeded to organize themselves into banks, one or two at a time, and they go right along and charge 3 per cent and 5 per cent a month, and there is nothing to prevent it.

Mr. WEAVER. Your usury law is not of much value, then?

Mr. LENNOX. Absolutely not.

So marked was the success of this organized effort that Prof. Cottrell, commissioner of immigration, duly appointed, and others associated with him, thought best to give the entire issue of the Southwest Trail—the November issue—to El Paso County and dry farming.

Now, if I can give you a very brief and hasty mental picture of a Colorado farm or ranch, I will do so. It is, say, 320 acres, mostly prairie, of course, in the eastern part. A large portion of the soil is usually fairly good soil; some of it is very good; some of it is poor. The house varies from the poorest sort of a plain shack to a fairly good six or eight room house. The stock which they possess varies from nothing up to, perhaps, 100 head of cattle; usually from 2 to 4 horses are to be found on the place. The family varies from none, except husband and wife, to 21 children. There is no race suicide out there; they are growing very fast. There are usually 40 or 50 acres in cultivation, with some sort of shelter for cattle, although sometimes it is only a barbed-wire fence, and there are quite a number there who give their cattle barbed-wire fence shelter when the thermometer is below zero and the wind is blowing a hurricane—and that is not adequate.

Now, what these men need is capital with which to develop the lines of industry we know to be successful in that particular region, and that is the dairying and stock raising and the raising of such forage crops as are adapted to that limited rainfall and adapted to feeding the animals that are being raised. They are from 25 to 50 miles to market, and their market product must be cream, poultry, and the stock they are raising; and with proper methods they can raise forage crops every year. There is no reason why there should be a failure except here and there when they are struck by hail. Forage crops, when put in silos, give an absolute certainty of feed through the dry season and the winter.

Senator HOLLIS. What are the forage crops?

Mr. LENNOX. For silo purposes, corn, cane, English milo maize, kafir corn. Last year they constructed 50 pit silos. Our farmers were too poor to construct regular silos, and 50 pit silos were constructed at a cost of \$11 apiece, the farmers helping each other to do the digging.

We have heard here of farmers who are hard to organize. Our farmers have been organized through the efforts of our county agent into a farmers' club for each community, and they meet every month or two in the schoolhouse and discuss their problems and get together and eat yellow-legged chickens and have a sociable time; and it has not been hard to get our people together. And I believe that if Mr. Lauck, our agent, was to tell those people to plant their potato vines upside down, they would do it, because they have such confidence in what he tells them.

(Thereupon, at 12.50 o'clock p. m., the committee adjourned until to-morrow, Thursday, February 26, 1914, at 10.30 o'clock a. m.)

THURSDAY, FEBRUARY 26, 1914.

UNITED STATES SENATE.
Washington, D. C.

The subcommittee met in joint session at 10.45 o'clock a. m., Hon. Henry F. Hollis presiding.

Present: Senators Hollis and Owen, and Representatives Bulkley, Stone, Seldomridge, Weaver, Ragsdale, Woods, and Platt.

Senator HOLLIS. You may proceed, Mr. Lennox.

STATEMENT OF JOHN LENNOX, OF COLORADO SPRINGS, COLO.—
Continued.

Mr. LENNOX. Mr. Chairman and gentlemen, just to summarize what was given yesterday, and having in mind the fact that Colorado is a new State with new and diversified conditions of industry, soil, and altitude, and with a general condition of limited rainfall and moisture, and that unfortunately its large rivers flow westward and therefore are not available for the eastern portion of the State, which is, by natural conditions, so well fitted for dairying, poultrying, and diversified stock raising, it is estimated that of our 66,560,000 acres of land in Colorado not more than 4,000,000 can be brought under irrigation under now known methods. The remaining acreage is generally classified as 41,160,000 acres of grazing and timber land, leaving 18,400,000 acres that are classified as dry land. Of this land perhaps 12,000,000 acres are to be found in this particular section of which we are speaking, in eastern Colorado, so that it becomes a problem to successfully people this great area and induce such lines of industries as will enable them to make a profitable way on that land.

We believe that we have solved the problem up to the point of financing it; that the lines of industry selected by us and by all who have studied the situation, namely, dairying, poultrying, and diversified stock raising, and the raising of forage crops, especially for our limited rainfall and adapted to the feeding of stock being raised, is the program which will work successfully every year. And when the silo is added to this, we have almost an insurance proposition that the farmers shall be successful and always have their feed.

That brings us practically to the problem that you gentlemen are considering; that is, the problem of how to finance the farmer to give him such assistance as will enable him to make use of the opportunities which are in this and other sections. The loan plan is what I shall come to. And for our people, for our conditions, it seems very certain that there must be two classes of loans, namely, the land loan or the mortgage loan and the chattel loan.

But, dealing first with the land loan or the mortgage loan, in the work we have been doing, we have placed restrictions upon those

which I see are also placed upon the plans elsewhere in European countries, and also contemplated in this bill which you have before you. We have required, and I believe the measure is a wise and necessary one, that these loans shall be made for development or creative purposes, that this is fundamental; that they should be made for such a time period as will enable the farmers to meet them. I do not believe that any such time as is provided for in European countries should be considered in this country. I believe that it is necessary, and perhaps I would be disposed to place a shorter time than what has been contemplated in this bill. In the majority of cases I believe that a loan should be made for not to exceed 20 years, and I am not quite sure but 10 years would answer the purpose. Our possibilities for repayment are greater when the opportunity is given for the farmers to carry out their plans. These loans should be made upon a conservative basis. There is a certain per cent of farmers everywhere who are willing to overburden themselves and would do so if they had an opportunity, but the industrious, the honest energetic farmers will be able to get upon their feet with a limited loan; and the struggle it may be called, which may be required for them to do this, will be a benefit rather than a detriment. We rise by the things which we put under our feet, and so do our farmers.

The chances of failure would be greatly eliminated by making small loans. In our section, perhaps, a loan in many cases of \$1,000 would be sufficient to get the farmer on his feet, and if the fund is in any way limited—

Mr. Woods (interposing). Mr. Lennox, what size farm would that be?

Mr. LENNOX. Three hundred and twenty acres.

Mr. Woods. \$1,000 on 3 acres?

Mr. LENNOX. Yes.

Mr. Woods. What would be the value of the farm—the cash market value?

Mr. LENNOX. About \$3,000 at present prices. Assuming that the money available might be somewhat limited, this gives the opportunity for a principle which we believe in as a wise one for all, which we have been doing, namely, a wise distribution of available funds. In other words, if we have \$10,000 to loan we believe it is better to loan it to 20 farmers at \$500 apiece than it is to loan it to 10 farmers at \$1,000 apiece, and leave the remaining 10 with absolutely nothing.

A second feature which would be essential is that which has been emphasized here of amortization or the partial-payment plan. Our farm-loan bank has adopted that plan and so far as we are able to go it has worked well, and the need of a fund which can be handled in that manner is all the more apparent when we come to consider that all private loans are made for a definite time. I have been endeavoring to secure private funds to supplement our farm-loan funds, and I find that people at once who have some money to loan insist it shall be loaned for a definite period, say three or five years, and will not permit the privilege of repayment at any time. That disturbs their plans and, as a consequence, the farmer goes on forgetting and the day of judgment comes too suddenly, and he is not prepared to meet it; where, with a partial payment, the amorti-

zation plan, he is taking care of it as he goes along. And our farmers are proud to be doing something, accomplishing something—the best of them. If they can see the debt decreasing it becomes at once a sort of encouragement, and they will do better things, because of that encouragement which is coming. I believe that is basic.

Mr. WOODS. Mr. Lennox could this farmer who owns a 380-acre farm worth \$3,000 secure a loan at the present time?

Mr. LENNOX. No, sir.

Mr. WOODS. Not at any reasonable rate?

Mr. LENNOX. He could not secure a loan of that amount at any rate.

Mr. WOODS. For \$1,000?

Mr. LENNOX. For \$1,000. He is asking for it.

Mr. WOODS. Are these farms improved and lived upon by the owners?

Mr. LENNOX. Every farmer will improve with some sort of a residence and usually some sort of a shelter for a barn. In many cases they have a well and a windmill and a pump, and they are fairly well provided for living in a fashion.

Mr. WOODS. You have few tenants out there?

Mr. LENNOX. We have few tenants out there; they are almost all landowners.

Mr. WOODS. How much could a farmer borrow on a farm actually worth \$3,000 cash?

Mr. LENNOX. There are a few who are loaning as high as \$600 and \$700, but this is secured with great difficulty, however.

Mr. WOODS. At what rate of interest?

Mr. LENNOX. Usually 10 per cent; sometimes 8.

Mr. WOODS. Are the farms very well stocked out there—that is, do the farmers have ample machinery, wagons, horses, and cattle?

Mr. LENNOX. No; our farmers are really under a great disadvantage and have to make use, the best use they can, of machinery which they have. It is very limited and not always adequate. The conditions will not permit them to do what they would like to do. Yet with what they have on hand they are able to carry on their industries.

Mr. SELDOMRIDGE. Mr. Chairman, in this connection I would like to have the privilege of inserting in the hearings a statement showing the actual production in this area Mr. Lennox has been speaking about. He will get that when he returns and send it to me. I would like to show the committee the actual number of cars of grain that have been shipped and what has been raised and cultivated in that area during the past few years by these very people under the conditions which he has mentioned.

Mr. LENNOX. And the cream.

Senator HOLLIS. You may insert that in the record.

Mr. LENNOX. Passing from the first class of loans, the land-mortgage loan, to what I have designated as the emergency or chattel loans, these loans will be made necessary by conditions which are constantly arising. Take, for example, this winter: Our farmers were prepared with a fair supply of feed for their stock, as they believed, and under ordinary conditions perhaps could have taken care of their stock until grass comes. But on the 2d day of Decem-

ber a snow came which was general all over our State, and varied in depth from 2 to 5 feet. A portion of that snow is on the ground at the present time in eastern Colorado, and it has been necessary for the farmers to keep their stock a great portion of that time in the barnyard and feed them. As a result their feed has become exhausted in many cases, and it is necessary for them to secure some additional feed. They have not the money to buy it; they can not make short-time loans.

Then there is the fattening of hogs. They get them up almost to the point where they are ready to market them, perhaps within 30 days of the time they are ready to market them, and the feed is exhausted and they have almost as yet no credit. They must sell those hogs at a disadvantage, weighing perhaps 150 pounds, when they could bring them up to 200 pounds, and could do so within another month's feeding, or about that. And they need this additional feed to continue the fattening of their hogs. It is very necessary.

Some are not prepared to carry through the entire year's work with the funds on hand, and will need a little assistance in the cropping season, and will be able to repay that when the crops are raised. There of course has been sickness here and there, requiring an expenditure that they had not provided for, and there is no way in which to get that money except by going to a loan shark and paying the price of 3 to 5 per cent a month.

So that we believe that a chattel loan to take care of conditions of this kind, to supplement the land loan, is necessary.

In addition to what I have stated, they are all anxious to buy cows, and when a farmer, after three or five years' residence on a homestead, has been living under very close conditions and unable in some cases to meet his entire obligations, he is prepared to make a loan when he secures title—this land loan—and it may not be sufficient to do the things which he thinks necessary to be done. And there will be a little money, perhaps, still due after he has made his loan, and he is not able to buy the number of cows he would like to have; but by making a combination plan of giving him what is a fair and just amount upon his land and supplementing that with a chattel loan, for which he shall give ample security on the cows bought and also on some which he may have on hand, he is able to get the necessary amount of money to finance him and put him upon his feet by that combination plan, which he would not be able to do under the other. These loans should not be to exceed one year in time.

One other point in reference to these loans it seems to me to be necessary is that these two loans, the farm-land loan and the chattel loan, shall constitute and embrace the farmer's entire indebtedness to provide the current expenses which he may have to meet. The reason for that is this: If under stress of circumstances he is compelled to go to a loan shark or some outside source, he will have to pay a very high rate of interest, and that at once interferes with and jeopardizes the land loan and also the chattel loan; so that by some arrangement, when that man is financed under this plan, it should represent all the indebtedness which he has; and if an emergency arises the relationship between the organization furnishing this money, or individuals, and the farmer should be such that the

farmer could go and state his case frankly and secure that which was necessary to take care of the emergency which had arisen.

Now, I believe, gentlemen, with that general outline I have placed before you the plan which would seem to me to give the best results to meet the necessities, financial necessities, and needs of our farmers. How this shall be worked out, as I have stated, I am not able to say, but if there are points which I have not made clear I will be very glad, of course, to give further light as far as I can.

Mr. PLATT. Mr. Lennox, the very interesting plan you told us of the story of how you helped these farmers through the cooperation of the chamber of commerce is practically a plan of cooperation between the city and the country. Would you think that that plan between small cities and the surrounding farms would be better than a plan of personal credit, for instance, originating with the farmers themselves, or would you say that perhaps is the only way it could be done?

Mr. LENNOX. I believe in our particular locality the matter might be handled in the way in which you suggest, namely, that Colorado Springs should cooperate in furnishing the necessary credit in some plan which may be worked out, and I believe our people would look with favor upon anything of that kind. And our farmers would also be willing to cooperate, because, I think, by this time we have perhaps gained the confidence of the farmers.

Mr. PLATT. Wouldn't you say it would be a necessary and proper thing for the small city which is more or less in close touch with the farming community to do something such as you have outlined?

Mr. LENNOX. Yes; if you can eliminate the barbarous selfishness which has been eliminated to some extent, and get these business men and bankers to look broadly upon the proposition and for the time being to lay aside their selfishness and disposition to rob.

Mr. SELDOMRIDGE. I think Mr. Platt means there would be an indirect benefit to the community from the development of the country.

Mr. PLATT. That is the idea.

Mr. SELDOMRIDGE. Rather than the mere return in interest on any money that might be loaned.

Mr. PLATT. The idea is the chambers of commerce or the boards of trade, of whatever you call them, in many of the small cities will perhaps be willing to organize such a scheme as this for the sake of the benefit which it might be to their towns through the trade they would get by making the farmers more prosperous.

Mr. LENNOX. I think you are right. Our commerce body has been willing to do these things along these lines, and I think you might be able to do it everywhere.

Mr. BULKLEY. Are you assuming now an organization such as provided for in the Fletcher-Moss bill? Is that the sort of organization you have been talking about?

Mr. LENNOX. I do not quite understand that.

Mr. BULKLEY. You were just discussing the organization your people would subscribe to, and I am asking you now what sort of an organization you are assuming.

Mr. LENNOX. In the past, as I have stated, it has been more of a seed-and-feed fund than a farm loan. It has been temporary. But that same spirit might prompt cooperation with the farmers on the

part of business men of Colorado Springs in carrying out such a plan as you are contemplating here.

Mr. BULKLEY. So that you think there would be subscriptions to the capital stock of such banks as are proposed in the bill?

Mr. LENNOX. I think so.

Senator HOLLIS. Of course the moving factor in the situation you described to us yesterday was really sympathy—the desire on the part of those men to aid at the start.

Mr. LENNOX. Yes; at the beginning, the seed and feed fund was philanthropic.

Senator HOLLIS. And unless those needs were so acute that there was actual suffering, a man might not be prompted to subscribe to the capital stock of a farm bank but might be prompted to subscribe to a relief fund.

Mr. LENNOX. In all, this success of the seed and feed movement and also the farm loan has been so great that our business men are now encouraged, I believe, to take the broadest view of the situation as a good business policy.

Mr. BULKLEY. What you mean is that their experience in that venture would pave the way for banks such as are here proposed?

Mr. LENNOX. Yes.

Mr. SELDOMRIDGE. It would be just as much of a benefit to a community agriculturally situated to develop the agricultural possibilities surrounding it as it would be to develop the manufacturing possibilities surrounding some other community?

Mr. PLATT. I should think so.

Mr. LENNOX. Just to illustrate that, up to that time there was absolutely no relationship, nothing in common, apparently, between the farmers and the business men, and farmers came in on that seed-and-feed occasion who had never been to Colorado Springs and did not know the streets, and floated around here and there. And they had no reason to be drawn to Colorado Springs as their trading point, while now the farmers are coming in from out near the eastern portion of our county, from away out in Peyton and Elbert, a distance of from 50 to 70 miles, to trade in Colorado Springs. And I have in a paper here, I did not read it, the testimony of one of our business men, for instance, a grocer, Mr. Hemenway, who speaks of a large increase in his business which has come by reason of those eastern farmers coming in, which was prompted by the seed-and-feed movement.

Mr. SELDOMRIDGE. I would like to ask you if there has been any loss in the settlement of the country or development of it through lack of a financial agency—if there has been any movement away from the country on account of the inability to secure financial supply?

Mr. LENNOX. The movement away from our country has been marked during the past, especially the period from, we will say, 1890 to 1910, and has been occasioned by two reasons: One was the lack of knowledge of the country into which they had come and the methods necessary to be employed in the carrying on of their operations; and the other was the limited amount of money which they had when they came there and the fact that they had spent all they had and now were unable to secure further assistance. That may be an advantage in the long run, because it has emphasized the thing

they had overlooked, that they must reckon with the conditions in that country; and money possibly put in there in the past, until this educational work had been begun, would have been jeopardized. But now, under this program we will develop a system of providing in that section, by insurance, the loans that are made; and yet many, in the meantime, have moved away because of lack of financial aid.

Mr. SELDOMRIDGE. Have you anything to suggest along the line of requiring a man under these conditions to adopt certain methods of development that have been tried? That is, where the man secured money on his farm, that he should agree to pursue a certain method of farm development that has been worked out successfully by others?

Mr. LENOX. Yes, sir. In the agricultural work which is being done under the direction of the county agent and also the agricultural committee of our chamber of commerce it has been required that these men receiving this financial assistance shall follow those lines of industry which are known to be successful. And our county agent makes it a part of his business to see that those men are following the methods that are safe for that particular region. So that I feel now that money put in there becomes much safer than it would have been in the past or could be now except for the educational cooperation. You gentlemen are perfectly familiar with your losses in this country, and I am inclined to believe that within a few miles from Washington valuable lessons might be given in farming. The soil seems impoverished here. We are trying to profit by the experience of the eastern section and insisting upon dairying and stock raising and a forage crop raising, not only as the line of industry adapted to that region, but the lines of industry, the combinations, so to speak, which will prevent the impoverishment of the soil which has occurred in your section and give them a continuously productive soil instead of what I see you have here.

STATEMENT OF EDWARD N. BREITUNG, MINING ENGINEER, OF MARQUETTE, MICH.

Senator HOLLIS. State your name, residence, and occupation for the record.

Mr. BREITUNG. Edward N. Breitung, Marquette, Mich. My work is mining engineer, and my office address is 11 Pine Street, New York.

Now, I do not want to say anything, gentlemen, about land credits, because you are familiar, and more so than I am, with that feature. But what I want to address myself to is the opportunity of having it done within a reasonable time—that is, in taking conditions as we find them now. If we had ordinary times before us for the next 10 years, I would say that we could adopt, almost bodily, European conditions. But we must consider the fact that we first have to satisfy the farmer, because he will not take to this easily, at least the experience I have heard from men who are familiar with the subject and mine is the farmer never takes to anything new easily. So he has got to be reckoned with. We have got to satisfy and make it attractive for him.

And then we have got, as the other gentleman said here, the hard-heartedness of the investing capitalists to deal with. He is not changed any. He is going to be the same as in all ages. Therefore we have got to satisfy him in some way.

And then we have the third and still harder problem of making this kind of security attractive to our own people. They know nothing about it. It is a new thing to them. They may hang back almost as far as the farmer.

So what I wish to say is along the practical lines of this kind.

It seems to me that in order to make it attractive to the farmer we ought to have these banks—the land-credit and the personal-credit—in one, because it would cheapen their operation a great deal.

Senator HOLLIS. You mean, when they are looking up a man to see whether he is worthy to have a long-time loan they could satisfy themselves as to whether he is worthy to have a short-time loan?

Mr. BREITUNG. Yes; they could satisfy themselves as to their security for a short-time loan at the same time. And why have two institutions do the same thing? That is the starting point; and also, if they had the one institution doing this same thing, he would be assured of money at a reasonable price, because an institution that could carry out the land loan could not stoop to taking usurious interest. They might like to take it, but they could not take it from him, because if they were loaning him on a long-time loan at a low rate of interest it would not look reasonable.

Senator HOLLIS. It would look unreasonable to make a long-time loan at 5 per cent and a short-time loan at 10 per cent?

Mr. BREITUNG. Yes. They could not do it; it would be very unreasonable. And, for instance, the farmer would be better satisfied to be taken care of by one set of men, especially if the set of men he made application to were responsible and were not trying to grab his land.

That leads me up to the point I think it is entirely unnecessary to have mortgage foreclosure. I know that sounds peculiar, but let us consider the case. A banker does not want land; that is, the real banker. He wants his money back with interest. When he takes land—the property—it has got to be forced on him, probably. Another thing, if we have the proper kind of contract with the farmer, and do not loan him too much money, how can the banker lose by simply becoming trustee for the man when he becomes short on his interest or short on his principal, say for a year or two? Now, when they become trustees they are in a delicate position. He has got to do the right thing as the *cestui que trust*, whether he wants to or not.

That at first looks a little startling, but if we go back long ages ago, in the old Roman law, almost too far back for me to mention—but it will be found in some of the law books—we find when a man took a mortgage on the land he took the land and worked out the debt, and when the debt was worked out he handed him back the farm. We would do this a little differently. If he got back in his interest and principal payments, we would put somebody in there to work out the debt just far enough so as to catch up the payments that are back, and when we catch up the interest and principal that has become in arrears then he would be reinstated. Now, that would give an opportunity to the man and do a great deal of good and be attractive. Sometimes a man might be a very hard-working man, and he might have a year or two of very bad crops, and instead of saying to this farmer, "This farm does not belong to you any more,"

they might say to this man—they might even rent him his farm back, if he was the right kind of a man—if they saw he was the right kind of a farmer, but through misfortune or something unforeseen he had gotten in arrears in his payments, they might even rent the man his own farm, so that he could work it out and get it back in two or three years. But if he was a man who was worthless and was not worthy of their doing this, they would get some worthy man to go in there, and in time the mortgagor would get it back.

Senator HOLLIS. That means you would have to have a strong discretion in some one.

Mr. BREITUNG. Yes; it does.

Senator HOLLIS. To whom would you confine that?

Mr. BREITUNG. I would confine it to getting the second and third younger sons of the farmers from Europe. I happen to know, because I go to Europe frequently—a great deal of mining, as you know, is done by capital on the other side—so I have become quite familiar with the conditions over there. The older son over there inherits everything, and there would often be younger sons who would be glad to come to this country if they saw an opening. Those are the men that I would bring here to get to work out such a farm as that, and they would be willing to do that, if they could see an opportunity afterwards with the money they had saved as renters on these farms to get land of their own. And in that way we would bring a class from Europe which we now know very little of—the class that does not usually come.

Mr. BULKLEY. You mean to say these imported farmers could work a farm out of debt where an American had failed, and, at the same time, save up enough money to buy land of their own?

Mr. BREITUNG. Yes. That is just what I mean.

Mr. BULKLEY. Where do you think you would find them.

Mr. BREITUNG. France, Germany, Holland, and Belgium are full of them. In other words, they make their livings on farms over there that our men would not think worth looking at. And then they are trained in saving. Our farmers, and all of our people in every class—it is not one class, but every class—throw away more than they require to live on. It is not the fault of our people; it has been the way they have gone along in that direction. I am one of them, and probably one of the worst offenders, but that is true.

Senator HOLLIS. My question was addressed not so much to the agent you would put in charge, but to the person who would have the discretion of saying whether a man ought to have another chance. Would that be the bank itself?

Mr. BREITUNG. That would be the bank itself.

Senator HOLLIS. They would have it because their money is invested?

Mr. BREITUNG. Because their money is invested.

Senator HOLLIS. You could not take care of that very well by statute?

Mr. BREITUNG. Except in this way: You would require a certain number of directors to see that a man who was worthy was given a fair chance.

Senator HOLLIS. I do not see how any one except a Government representative could exercise that discretion fairly. Perhaps they might be expected to.

MR. BREITUNG. Yes; they could be expected to, because the bank would know everybody, more or less, was inclined to their side, and that is the reason why it would be a good thing to have some of them directors.

Senator HOLLIS. Have you considered the value of some central body among these local banks?

MR. BREITUNG. Yes.

Senator HOLLIS. Do you favor that?

MR. BREITUNG. I favor it for this reason: It is the impression it would have upon the public at large, here and abroad.

Now, I am approaching the idea of selling these debentures, which is very important and is really going to be one of the hardest things. It is a very peculiar thing, but I see it so often in financing enterprises—it is not always so much what a thing is, as it is the impression it makes on the public, whether it will take or not. Now, if these debentures were put out in such a way that a man who would say "Oh, I do not think they are so good" would be held down, it would go a might long way toward disposing of them in large quantities.

Now, in order to do that there has got to be some big organization that people will respect, not in Dakota, but that they will respect in Washington or California or Michigan or any other place—something that when it is mentioned it is not open to doubt whether a debenture is good. And especially when we go abroad to sell them in Europe, we could go to France, we could go to England, we could go to Scotland—and, in fact, a great many of our debentures are already bought in Scotland—and we could go to those countries if we had a collection of small banks under one central institution. For instance, you might take a banker, one of the large banks here in Washington, and he might have the very best bank security possible. Suppose he might go to Europe, it would be impossible for him to get a hearing, because he would not represent an institution which was large enough to inspire confidence. Second, if he got a hearing, it is doubtful when it would take the trouble to arrange with him for the securities. If that was some **large institution, that would be easy. We might even have four directors on the board representing some of those large European interests.**

Now, I know that does sound peculiar, but they feel a good deal as we do. For instance, take the case of our railroad bonds sold in Europe. They were sold by getting men to come over and act as directors, ex-officio, on those railroads, and coming over and seeing that they were all right. We might handle that in the same way they do four or five insurance companies. Some of you gentlemen are familiar, perhaps, with the fact that some of the great insurance companies have boards of directors in every State outside of their regular board.

Senator HOLLIS. That is a sort of a branch bank?

MR. BREITUNG. Yes; the same sort of an arrangement.

It would be necessary to give a wide confidence to these debentures, because it is not a question of selling \$200,000 or \$1,000,000 worth of debentures, but a question of selling billions of dollars of these securities if you want to do any real good. While it is

easy enough to talk of selling a billion of dollars of securities, it is quite hard to dispose of that amount.

Senator HOLLIS. It seems to me rather improbable there will be one central bank of any kind established by this Congress. Now, it has been proposed that these organizations might be coterminous with the States.

Mr. BREITUNG. That could be done.

Senator HOLLIS. I wish you would discuss it in that view, and probably with reference to having them coterminous with the Federal reserve districts.

Mr. BREITUNG. I do not see why you could not. The only thing I would like to see is that you have them large enough so when we go over there they will think it is worth while and would consider it. We want to get real consideration. That is one of the troubles with the banks of Europe. While we regard some of our banks in New York as large banks, when you go to London the City Bank is looked upon as very small.

Senator HOLLIS. How many banks are there in London that are larger than the National City Bank?

Mr. BREITUNG. Probably 10. And some of them are ten times as big. No matter what the size of the bank was or what the size of the companies, it would not make the debentures so much better, but it is the public effect.

Now, I quite agree with you, there is no reason they should not be divided just the way they have these currency banks—regional banks. They would be all right, because they are large enough to carry confidence themselves. But these banks must be of a certain size; that is all, a size big enough so that they will be able to get real attention.

Mr. BULKLEY. Do you think there is any considerable market for land-mortgage bonds there, even under the best circumstances?

Mr. BREITUNG. Yes, sir; a very large one.

Mr. BULKLEY. At what rate of interest?

Mr. BREITUNG. I suppose you could probably sell at about 5. You could sell at 4 later on, probably, but the trouble is you could not start at 4. You might gradually come down to 4, but you would have to start at 5. That is not strange, although it may seem so, because you are going to have South America to deal with. Argentina has such a bank, Brazil is going to have several, and you see we are not the only ones offering debentures. Eventually we ought to get the same rates they do, but not at the start. Therefore I think we ought to use some form of capital that will carry the respect of the handlers of this kind of security and of the buyer without too great a charge. Therefore I am leading up to what I call the mobilization of credit.

Mr. BULKLEY. When you say 5 per cent, you mean the bonds would pay 5 per cent and that the investors would pay out of that for their own inspection?

Mr. BREITUNG. I think the farmer would have to pay for the inspection. Now, this, I know, sounds bad, but I have always been of the opinion that a farmer will not get any very cheap money for some years. The farmer will have to pay between 6 and 7. When I say 6 and 7, I do not mean that the mortgage will carry 6 and 7, and

then an additional 10 per cent for commissions outside. I mean the actual cost to him.

Mr. BULKLEY. I mean will the American banks you are proposing have to pay the salaries of the directors and officials?

Mr. BREITUNG. Yes.

Mr. BULKLEY. And then pay 5 per cent on the money besides?

Mr. BREITUNG. Yes, sir. Of course, these officials and directors will put up a large part of this money.

Mr. BULKLEY. Yes; but you propose to pay 5 per cent and then pay salaries on top of that?

Mr. BREITUNG. They would not get a salary; they would get a commission.

Mr. BULKLEY. Would they absorb that out of the 5 per cent?

Mr. BREITUNG. No; that would come out of the difference between the 5 and the 6 and 7 per cent.

Mr. BULKLEY. It would be another charge on the American bank in addition to the interest charge?

Mr. BREITUNG. It would; because you could not ask them to sell the securities in Europe without some sort of consideration—I doubt whether you could do it—and I will tell you why: Your man from Argentina, your man from India, and your man from Egypt, to whom you are going to offer these, would expect some sort of a commission; and I think the gentleman is right that we have got to face the fact the banker is going to get as much as he can.

Mr. BULKLEY. Isn't there a lot of Scotch money loaned in this country now at a good deal less than 5 per cent?

Mr. BREITUNG. It has been; but the Scotchman loans it himself. They are Scotch debenture companies, doing business in the United States.

Mr. BULKLEY. How much does the Scotch investor get?

Mr. BREITUNG. He gets sometimes $3\frac{1}{2}$ and 4, and sometimes he won't get that. When you take care of the giving of the security and everything else, I do not believe most of the debentures sold in Scotland would average over 3 per cent if the whole cost was put in.

Senator HOLLIS. What do you mean—that they would not bring more than that to the investor?

Mr. BREITUNG. Yes.

Mr. BULKLEY. How much of this sort of security could we dispose of abroad if we should adopt this plan you are suggesting?

Mr. BREITUNG. I was going to say you could probably dispose of a hundred million or two, the first thing, and probably, eventually, \$500,000,000 a year, or more.

Mr. BULKLEY. \$500,000,000 a year?

Mr. BREITUNG. Yes, sir; if we would raise the interest a little bit.

Mr. BULKLEY. Raise it above 5 per cent, you mean?

Mr. BREITUNG. Not above 5 per cent. But in order to do that you would have to have debentures there could not be any doubt about; it could not be open to any question.

That leads up to the question of how to satisfy the banker. It will be easy to satisfy the banker. We could say, "See here, now, we do not intend to use your money in any large quantities; this money is mostly coming from the public. What we want you to do is to put in a little money and allow us to get credit upon it—to guarantee these debentures."

Senator HOLLIS. And just to put in a little money in the way of stock subscription?

Mr. BREITUNG. Yes; in the way of stock subscription. And then have a separate organization like Lloyds. That is the modern conception. We have an ancient conception of it in the Bank of Venice that did the business of the world for 300 or 400 years. They were not using any money at all except the merchants', and it was smashed by a well-known soldier named Bonaparte because he did not stop to think. He went to the Bank of Venice and said, "Gentlemen, I want so much money in gold." They said, "This bank don't deal in gold; it deals in credit." He could not understand that, and he closed it up right away. He never stopped to argue; he just closed it up. Now, that would be the way to satisfy the banker, and it would not only satisfy the banker but would allow the farmer to have a large selling credit, because all of our farmers, collectively, would have a very large credit. Supposing a farmer owned a farm worth \$300,000 or \$500,000 and put \$300,000 or \$500,000 in the credit arrangement. It would put the farmer where he could have a real voice in this thing without putting up much money.

Senator HOLLIS. Right there there is something I want to suggest to you and to the committee at the same time—a matter that came under my personal observation—of how banks regard the credit of farmers. There was at one time operating in New England one or two men who went around and formed an association of farmers in each vicinity—an association of 30 farmers—to buy a French studhorse to improve the stock in that vicinity. The French studhorse eventually came from Indiana, I believe. I can not remember that one of those associations was ever successful in carrying out that scheme. But the promoters would take these notes, which were joint and several notes—three of them—due in one, two, and three years, respectively, signed by the 30 farmers of the vicinity. The promoters would show the farmers how to organize this association and then get their notes, joint and several, so that if there was one farmer in the bunch worth \$3,000 the notes would be good. Then they would take these notes to some bank, usually off some 100 or 200 miles, so that they would not know anything about the details of the scheme. These notes were printed with the head of a studhorse on them, and the banks knew perfectly well they were what were called "studhorse notes." But the bank would take those notes gladly, because they said out of 30 farmers there was apt to be one or more worth \$3,000.

I was employed by one of the banks to collect one of those notes, and the judgment of the bank turned out to be correct. We did find enough of those farmers to satisfy those notes.

That gives an indication of how bankers look at the credit of farmers in the aggregate. They would not take the note of the individual farmers, but if they could get 30 farmers on those notes they felt perfectly safe.

Now, I would like to know if that is a fair illustration of what you spoke of?

Mr. BREITUNG. Yes; that is a fair illustration of collective farm credit. And we also intend to protect the farmers in this case. Instead of the notes being joint and several, a man would only have to pay his proportion, and it would be spread over a large number, so

that even if the debenture would have to be paid by the guarantor it would not be as hard on a man as if it was joint and several.

Senator HOLLIS. What you are speaking for is collective credit, which will bring large sums of money cheaply, and then that may be divided up in individual sums?

Mr. BREITUNG. Yes. Now, a good deal of the world's insurance, all of the great marine insurance of England, is done in that way. They find they can do it cheaper and more efficiently. It has never been taken up in this country to any extent that I recall. I do not know the reason, but it never has.

Senator HOLLIS. We have followed the individual idea.

Mr. BREITUNG. Yes; that is the idea. Now, I want to say one more thing. As I said before, in starting, these are not ordinary times. In ordinary times some of these ways I have suggested here would not be necessary, but there is a world-wide shortage of money, and therefore if we go out to get any great amount of cash capital we are going to fail to get it. Here is the reason: There are all sorts of industrials. I know there is probably a billion dollars in what we might call cold storage, in securities waiting to come out at the first favorable call.

Mr. BULKLEY. In this country?

Mr. BREITUNG. Yes; and there is probably twice that much more in Europe. Now, they are waiting to come out; they are in industrials, and some of them earning as high as 15 and 20 per cent. If they had to, they would go pretty high to get their bonds taken. Now, we are not going to offer sufficient inducements as to profits on the stock in this kind of concerns in the first few years to make it attractive. That is the reason for this mobilization of credit, because a man could afford to take a very large portion on his credit of what he will take out of cash. Therefore my hope will be that these concerns in the United States would start with this mobilization of credit and not with a cash capital.

Mr. BULKLEY. How long do you expect the shortage of capital to last?

Mr. BREITUNG. It will last until we have an adjustment of commercial arrangements. The worst offenders in that case have been the railroads of the United States. If the railroads had started out by selling stock instead of bonds, they would not be in this position now. But I know it is a fact, and has always been a fact in the commercial world, that a man who would put his own money into the building of a railroad was regarded as foolish. He would simply issue bonds on it, and that is one of our troubles. Now, we have had other troubles in Europe, but they are different kinds. They have been the speculation in the great companies they have in India and in South Africa and other places. They have had their troubles, but they have been of a different kind.

Our trouble is there is a very large amount of securities out for which nothing has been paid, but they have been made to earn money and we have got them on our hands—that is, the world has got them on their hands—and they are all going to come in and compete with this kind of a concern. We want to bring it out, and we want to make it as attractive as we can. Now, those concerns can almost afford to give a good many of those securities away. Let me give you an illustration: I am a member of a banking house which is

taking and underwriting to build a railroad. They are not half so bad as they are in the United States, but now what they did, they sold us those bonds at 75 and gave us a bonus of 50 per cent of the stock. We have placed most of those bonds in Holland, so that stock cost us nothing, and that stock will probably pay 5 per cent now.

Mr. RAGSDALE. How much did you say the stock would pay?

Mr. BREITUNG. Oh, probably in a year or two, 6 or 7 per cent. Now, it did not cost us anything. I just want to give you the illustration. Here is the illustration: You go out and start a land bank, and you tell the men, "Oh, yes; this thing will probably pay 5, 6, or 7 per cent in two or three years." We turn around and say to him, "Here is stock that will pay 7 per cent now." Which is he going to buy? It did not cost us anything, and we can sell at almost any price. You have got to compete with this very thing if we have got to go out to raise that large amount.

Senator HOLLIS. To offset that, we have got to build up a large regional institution so as to establish a feeling of confidence in the solvency of those debenture bonds?

Mr. BREITUNG. Yes.

Senator HOLLIS. And to do it, you say we must get all the collective credit together we reasonably can?

Mr. BREITUNG. Yes; that is true, and you must also face the condition that it will be impossible to raise that large amount of cash capital in the next few years. Therefore, why not take the expedient of using this credit during this number of years, and then afterwards, if it is found not to be what is desired, gradually withdraw and substitute cash for it as the times allow?

Senator HOLLIS. It may be; well, we can not in the next few years. We have got to go slowly and experiment and feel our way, and perhaps it is not altogether bad times are not favorable.

Mr. BREITUNG. That might be true. But these people want this money; they are waiting for it, and it keeps the country back if they do not get it. Now, if they could get, in the next few years, there credit capital, and that credit capital would answer the purpose, it would be much easier to wipe out than cash capital, because you could have an agreement that it could be retired after a certain number of years.

Mr. PLATT. What you have said in regard to present securities is only another way of saying the stock market has got to advance before they will get the people to buy these securities?

Mr. BREITUNG. That is it. You have got to realize that some of these things have not cost them anything, and they could turn around and give them away, practically, and that is going to interfere with the market for new securities. And just to give you an illustration, take the case of Edward Breitung Co. (Ltd.); this stock has not cost us anything, and if it pays 6 or 7 per cent we can afford to sell for a figure at which no man can compete. That is the idea.

Senator HOLLIS. You get large commissions that the people pay?

Mr. BREITUNG. That is the idea. And the world is full of just such things as that; and while I do not defend it, the world is full of it.

Senator HOLLIS. You are like Tom Johnson and the tariff—as long as it is the way, you are going to benefit by it.

Mr. BREITUNG. That is true; as long as it is the way, we are going to benefit by it, but I would like to see it wiped out.

Mr. PLATT. It is practiced mostly to-day by the rather small enterprises, like the street railways and things of that sort?

Mr. BREITUNG. Yes; or connecting up the trunk lines and things of that kind, where they can cut off a hundred miles or two or where they approach congested districts—say, where the railroads approach New York—and it does not want to go through that district but wants to take it around. A railroad coming east, say, does not want to go through Chicago or Milwaukee, and so they will all build a joint track—these big railroads will build a joint track bed; and that is the kind of railroad that is being built now.

Mr. PLATT. They do not have to give a bonus of stock on those railroads, do they?

Mr. BREITUNG. They do, because it is the custom, just like saying "Good morning."

Mr. PLATT. Practically every railroad in the United States built nowadays gives a bonus, doesn't it?

Mr. BREITUNG. It is the custom; that is the idea; just like saying "Good morning." Most everyone does it. In fact, I never heard of a big railroad being built without doing it. Now, that is my reason for talking so strongly on this credit capital. In the first place, the farmer could take a great share of the stock; in the second place, we could say to the banker, "Here, now, you like to make money. You have lots of money, and you ought to be willing to put your name down for \$100,000 of that credit capital." They would do it and never wink an eye, while if you ask for \$100,000 in money he would say, "How much am I going to get on this?"

Mr. PLATT. In other words, you feel the way Mr. Lenox said of the men in Colorado. They appealed to the men in Colorado Springs to build up the country, and not as a money-making proposition.

Mr. BREITUNG. That was a money-making proposition. You would say, "Here, gentlemen, you have made millions of dollars in this country, and if you subscribe your name and become a guarantor of these debentures it would not hurt you. You give that much money away on things, and it would not hurt you," and the chances are they would in ninety-nine out of one hundred cases never be called upon for it, and they could be impressed as good, patriotic citizens of this country that they ought to be willing to do something to help along.

Mr. RAGSDALE. What per cent of the capital would you raise in that way?

Mr. BREITUNG. I think 80 per cent.

Mr. SELDOMRIDGE. Do you think the Government could participate in a guaranty of anything of that sort?

Mr. BREITUNG. They could, and it would be better.

Mr. SELDOMRIDGE. How could they?

Mr. BREITUNG. I do not know. I am not familiar enough with the law, but they could do it as long as it is a good guaranty.

Mr. BULKLEY. What to you mean by "being better"—that it would permit the securities to be sold on a low interest basis?

Mr. BREITUNG. I think it would, and give more confidence in it to the public.

Mr. RAGSDALE. If these people would give their credit capital, as you have indicated, then they would have a voice to a considerable extent in the operation of the bank?

Mr. BREITUNG. They would.

Mr. RAGSDALE. And therefore the bank would be owned and operated by people who would not have any capital invested?

Mr. BREITUNG. Yes; they would—credit.

Mr. RAGSDALE. I did not say "credit"; actual capital. They would not have any money actually invested in it, and the whole system would then be controlled and dominated by a class of men who would be able to give their credit?

Mr. BREITUNG. Yes; but not the voice that governed it; that is the idea.

Mr. RAGSDALE. Why not, if the farmers could not give credit unless they were very wealthy men, and you say that 80 per cent of it is to be raised in that way? Therefore it would be absolutely owned and controlled by them, wouldn't it?

Mr. BREITUNG. No; the farmer himself ought to be able to give a large part of this credit.

Mr. RAGSDALE. Could the farmers in the United States subscribe a few hundred thousand dollars?

Mr. BREITUNG. They could, easily; not in money, but in credit. I do not know, but there must be many hundreds of thousands of dollars—many millions of dollars—of farms owned by farmers free of debt.

Senator HOLLIS. Yes; and then in my district the farmers have got money in the savings banks. They have millions in the savings banks in my State.

Mr. RAGSDALE. Yes, Senator. Pardon me, but what are the individual farmers worth?

Senator HOLLIS. Some of them are worth a good deal of money, because they have sold the timber in my part of the country and put the money in the savings banks. Lots of them are worth \$100,000 in my part of the country.

Mr. RAGSDALE. But if a farmer is worth \$100,000 he is not going to give that much in credit?

Senator HOLLIS. I do not know much about that.

Mr. BREITUNG. That is my argument; because if that was done under Government supervision and in a safe and proper manner, his chance for loss is almost nothing, you see. You see the idea, because you have got to lose the cash capital before his credit is called on.

Mr. BULKLEY. Your idea is they should subscribe credit capital, and, although nobody would ever expect to call on it, it would be there as security by way of a guaranty?

Mr. BREITUNG. Yes.

Mr. BULKLEY. Would they get dividends on that capital?

Mr. BREITUNG. Yes, sir; they would.

Mr. PLATT. What is the distinction between that sort of capital and watered stock?

Mr. BREITUNG. There is this distinction—that this sort of capital does some real good, because it allows you to sell these debentures just like the indorsement of a piece of paper.

Mr. PLATT. Just like watered stock; you could not sell the bonds of these enterprises if you did not offer the stock as a bonus?

Mr. BREITUNG. There is something in that; but you want to figure the farmers in this way would have a chance to control this thing if they wish to that they could not in any other way. That is, you could not ask them to put a very large amount of money, but they could put up a large amount of credit between them.

Senator HOLLIS. And that credit would merely allow them to borrow real money somewhere else?

Mr. BREITUNG. That is the idea.

Mr. RAGSDALE. It is not a thing on earth, as I understand, other than the system of paying brokerage in New York.

Mr. BREITUNG. No.

Mr. RAGSDALE. Why not? The man in New York to-day sells credit to the individual borrower, and he gives them the stock just like this railroad gave you the stock, and that stock is your profit for handling it. Now, the people put up this credit—the same thing that is put up to-day—and for that credit they direct the society, and get a dividend on their stock without having to put up a cent.

Mr. BREITUNG. Just wait a minute. In the first place, the cash capital will come, the larger percentage of it, from them.

Mr. RAGSDALE. I am not talking about the cash capital; I say the system is the same as the system in existence to-day?

Mr. BREITUNG. Yes. But if you consider, it is redistributed back among the people.

Mr. RAGSDALE. So is the money you are all drawing now.

Mr. BREITUNG. No; I am not drawing it.

Mr. RAGSDALE. Aren't you one of the people?

Mr. BREITUNG. Yes; but not in the sense you put it. We are looked upon as money sharks.

Mr. RAGSDALE. I did not put it that way.

Mr. BREITUNG. This credit capital would be desired to give the farmer, if you will excuse the slang, what we call a "swing." That is, the man worth \$100 or \$200,000 would have control of this, instead of, as I pointed out to you, as the railroad is controlled by another man who does not do anything for it but sell its bonds. He does not get this; it would be redistributed among other people.

Mr. SELDOMRIDGE. What we are trying to do here is to build up a 40 per cent reserve of gold that exists in the Glass-Owen scheme, and then use the credit to finance the lack of cash capital?

Mr. RAGSDALE. If the Government is going to control, they have to own and operate and direct; and if it is going to be a success, where in the world is the wisdom going of going out and paying the profits to other people who do not put up a cent?

Mr. BREITUNG. If the Government will guarantee it there would not be any reason in the world but what it would be the best thing for the farmers of the country. But if it won't, then it ought to allow some other way to do it. I would like to have the Government guarantee it first, and then if it won't, to have this other plan second. That is the idea.

Senator HOLLIS. Mr. Breitung, your theory is you have got to have a lot of money, many, many millions, and you can not get many, many millions unless you have a first-class security to offer. If the Government would back you, you could get it, but if the Government would not, or would not provide the law, then what is the next best thing?

Mr. BREITUNG. Yes.

Mr. RAGSDALE. It is a simple thing if you are going to put in a system where they are first-class securities.

Senator HOLLIS. But the question is how can you make them a first-class security?

Mr. BREITUNG. I would even admit, for the sake of argument, that they are first class. But it is the impression you have got to make on the people. They can not be open to doubt. Now, I am almost certain that this thing could be controlled, so far as what is called the financial credit, so that it would have over a tenth or a twentieth, and that could be kept from voting, because you would not have to offer it to them unless you wished. They could be offered where you wished it to go. But I would say this, as I have said in talking to Congressman Moss here a while ago: I thought it advisable not to give the control of this thing at any place but to able farmers. At the same time, I would not leave the other fellow out. I would make use of him also and would tell him to come in and take his part of the work and to try to get him to do it. I would do it for two reasons: One is, why shouldn't we use his money and credit to a certain amount if he is not going to get control. In the second place, if we do not want him we could, figuratively speaking, knock him out afterwards. That is the idea. You have the ownership, and you are the director of this thing; you have your money in it and know all about it, and why do you want to go into it if it is bad?

In other words, suppose you could redistribute back among your people these profits made by the railroad underwriters from the money of the people in just the district the railroad runs through there would not be any very great harm in it, but suppose those people in the districts that the railroad runs through could have taken those bonds and gotten the bonus of stock then you would have again what I am trying to do in this place here. You are quite right that we are to use the same method, but we are not allowing the same people to get the profits.

Mr. RAGSDALE. In other words, you think men who are not familiar with finance, who have made no study of this proposition, would come in and guarantee this, or do you think the men of wealth and the men who have made a life-long study of it and are familiar with it will be the ones to put up this guaranty?

Mr. BREITUNG. I think this: The prominent men in your different States—he does not have to be much of a financier—would come in and the people would follow them to a certain extent.

Mr. RAGSDALE. You are not familiar with conditions in my country, if you think that.

Mr. BREITUNG. That has been my experience.

Mr. PLATT. Couldn't you get your people to follow you if you went in?

Mr. RAGSDALE. No; they would not; and I would not go in if I thought they would.

Mr. BREITUNG. My experience has always been that the people followed somebody or some crowd in most everything they do.

Mr. RAGSDALE. I think they have been pretty good followers in America for a long time.

Mr. BREITUNG. They have been pretty good followers. I once asked a well-known man, "How do you regard a corporation that is brought out?" He said, "Entirely by the antecedents of the people who bring it out."

Now, of course, I am thoroughly convinced if the Government will do it, it is not open to argument, but if the Government does not wish to do it, then why should it stop it? Couldn't it allow it to go on in some form?

Mr. RAGSDALE. To my mind, it is inconceivable that this system should be turned over to a lot of people who do not put up any money and who do not incur any liability till all of the original resources have been exhausted and until the Government has admitted its inability to conduct successfully a rural-credit system.

Mr. BREITUNG. Suppose we draw the line a little broader; suppose we make two corporations of them. Suppose you have one with the cash capital to conduct the business and the other simply to guarantee it?

Mr. RAGSDALE. I can not see the necessity of that. It seems to me much wiser that if you gentlemen in New York, with your beneficence—

Mr. BREITUNG (interposing). Oh, no; I do not claim to be beneficent.

Mr. RAGSDALE (continuing). Wish to get up a company and then let the rural-credit companies deal with it and pay the brokerage, but it will be optional with them and not mandatory under the law to pay a part of the profits for it if it should become necessary.

Mr. BREITUNG. We would not ask that they would have to do it, but we would like a law that was to be inspected by the United States inspectors and under Government supervision to allow such a corporation. That is the only thing we ask for, don't you see. That would be the only thing. And what we want is this: We could create such a corporation as that now, but it would be practically uninspected and uncontrolled. We could take any one of the trust companies in Washington, or any one in New York, and go around and get credit capital behind it and go into that business, but there would be no State inspectors, either Government or State, that could control it. Now, what we think is that a thing of that kind is so important to all of the people that the Government should either say to us we can not do it at all or to take the inspection of it. I mean, they should either say it could be done or it could not.

Mr. RAGSDALE. In other words, you want to go into the banking business under the national banking law, with all the privileges and powers which are a part of the national bank?

Mr. BREITUNG. No.

Mr. RAGSDALE. Other than a deposit system, and not put up any money?

Mr. BREITUNG. Oh, yes. Oh, there is not any question about putting up the money. Suppose they have fallen \$100,000,000; they would have to put up \$10,000,000. Suppose they fall \$50,000,000; they would have to put up \$5,000,000. There is no question about putting up some money. The question is, we could do this now under the law.

Mr. RAGSDALE. I know.

Mr. BREITUNG. You say. Why don't we. There is the question. We would be glad to do this, but one of the reasons why we don't is that we would have no inspection.

Mr. RAGSDALE. Every State in the Union has an inspection law, hasn't it?

Mr. BREITUNG. Not covering these bonds. No State in the Union has a law governing the inspection of bonds issued on debentures.

Mr. RAGSDALE. No; none that I know of.

Mr. BREITUNG. No; there is nothing covering that. We could issue any kind of debentures. Now, we have found the Government inspection is a good thing instead of a bad thing, for two reasons: One is it relieves us of a lot of work and danger, and, in the second place, it gives confidence.

Mr. RAGSDALE. Yes.

Mr. BREITUNG. That is the idea. Now, this thing is so very important that the Government ought either to take a hand in it, or tell us that we could do it and see that any debenture which was issued could come up to a certain standard and be inspected; because if you do not—I don't know whether you gentlemen remember the awful failure of a land-mortgage company which was made in America some years ago, but we would have that same thing over again. Human nature does not change any; it may be a little more varnished, but it is the same when you get down to the bottom; so it would be the old idea of the money lender over again, getting all they could and let the thing smash, if necessary.

Mr. BULKLEY. Mr. Breitung, I would be glad if you would tell us a little more in detail about the failure of the land mortgages in this country. We have not anything very good in the record about that.

Mr. BREITUNG. The land mortgage failure was brought about by three reasons: In the first place, the country was rather wild and unsettled.

Mr. BULKLEY. What date are you speaking of?

Mr. BREITUNG. The last one was when the Lombard failed.

Mr. BULKLEY. Do you remember what year that was?

Mr. BREITUNG. No; I do not.

Senator HOLLIS. It preceded the campaign of 1896 a few years.

Mr. BREITUNG. About that time. It was brought about by three conditions: One was that the United States was a newer country then, conditions were not well settled; it was pretty hard to tell what land was worth and pretty hard to make a judgment on it at times. In the second place, the farmer got it into his head that he could do what we call rob the soil and move on, and a lot of them did abandon their farms and let them take them. In the third place they dealt through an intermediary, a commission man, and the difference between the interest charged in the mortgage—let us suppose it would be 7 per cent in the mortgage—that very mortgage sometimes would cost 20 per cent, sometimes 10, sometimes 15, or sometimes 12.

Those three conditions together brought about the failure.

Mr. RAGSDALE. Wasn't there another condition?

Mr. BREITUNG. Well, there was, a very great reason, that the farmer felt he was going to lose his farm anyway, and he got reckless, most of them.

Mr. PLATT. The most profitable crop of a good many farmers was a mortgage?

Mr. BREITUNG. That is what I was going to say. The credit of the bank was always there to issue bonds, no matter what they were issued on. That last point is the more reason why the States and the Government should have a regulation of that.

Mr. PLATT. Now, we have had quite a little testimony here to the effect that the present value of the farms in this country has increased 100 per cent in the last 10 years, according to the census, and is on a more or less inflated basis. Farmers have come in here and told us farms which were less productive now than they were 10 years ago are worth 125 per cent higher prices. Is it safe to loan on such farms to-day?

Mr. BREITUNG. My idea is they are inflated.

Mr. RAGSDALE. From your study of conditions—you say the land is now inflated—do you believe it will ever be any cheaper?

Mr. BREITUNG. Yes.

Mr. RAGSDALE. You do?

Mr. BREITUNG. Yes. Now, of course that may be a mistake, but I will tell you why I think it will be: The world is getting nearer together all the time; the great grain fields of South America, Canada, and Russia will, within the next 10 or 20 years, be practically at our call, because freights will get cheaper as the handling power gets cheaper.

Mr. RAGSDALE. You say freight will get cheaper, in view of the fact that the railroads are now asking for an increased freight rate?

Mr. BREITUNG. They are now asking for an increased freight rate for the reason they are in bad shape over here. Now, it is not for me to defend the railroads—

Mr. RAGSDALE. Oh, no.

Mr. BREITUNG (continuing). And I am not going to try it, but I just want to say, point out a country where they handle freight as cheaply as they do in the United States.

Mr. RAGSDALE. Of course that does not benefit the United States.

Mr. BREITUNG. No; but that is a test.

Mr. WEAVER. Don't you think land will increase in value with the increased population in our country?

Mr. BREITUNG. Much slower than we expect. I will give you some little reason for that. We have been robbing the farms; that is the trouble. The real truth is we have been taking out and putting nothing back. Now, that has got to be put back before the farm is of any real value. Half of the farms in the United States are not giving half of the crop they should. Now, it is going to cost a large amount of money to put back the farms where they will give a full crop, and that amount of money has got to come out of the actual value of the land. I do not mean a new farm that has not been worked is not a good one, but take one that has been worked for 25 years and very little put back. And, taking the aggregate of the farms altogether, there is an inflation. And you see, here is the thing that has kept the inflation up: The assessor in most of our farm communities assessed this farm when it was a big producer at one time and and he has not put it down.

Now, I know I am talking too long and that you gentlemen want to get through, and I want to beg your pardon for going into this at such length, and I want to supplement this with some pamphlets that I have written.

I think that I can show you gentlemen this thing here would put it in the hands of the farmers. That is where I understand it wants to be. And you would have to hire a certain number of bankers and experts to run the machinery just as you have the electrician here to run the electricity and do other things. That is the idea. You must have some specialists in that line who would handle the accounting under the comptroller.

Senator HOLLIS. You recommended a substitute bill to Senator Fletcher. Will you tell for the record what your connection has been with rural credits, and wherein your interest lies?

Mr. BREITUNG. My interest lies—in other words, I became interested in this way, through Mr. Herrick, of Cleveland, who I have known for years.

Senator HOLLIS. You mean Myron Herrick?

Mr. BREITUNG. Yes. He came to me one day and said "You have got to go to Paris." I said, "Why; I don't want to go to Paris." He said, "You have got to go with me." I said, "If it is a pleasure trip I will go." He said, "No; I want somebody who is familiar with figures, and I know you are an engineer and can get at those figures, and get at the real inside of what is happening over there," and he said, "I am familiar with the way you make reports." For instance, he said, "I know you are always from Missouri, and I want to know what these things mean in Europe."

Senator HOLLIS. What particular thing?

Mr. BREITUNG. Rural credits, farm credits. And after a while—he has always been a good friend of mine—I consented to go.

Senator HOLLIS. You were on the commission?

Mr. BREITUNG. I was on the commission and went all over this carefully.

Mr. RAGSDALE. I believe, if you will pardon me, you offered your views to the commission and they did not care to adopt them?

Mr. BREITUNG. Yes; I offered my views to the commission and they did not act on them. The fact is, they could hardly be expected to do so. A bill of that kind has got to be introduced and thrashed out. It took the currency bill now many years to be thrashed out?

Mr. RAGSDALE. Not very long after the Democrats got in power.

Mr. BREITUNG. No; but it took a long time, and it was perfectly right. It was thrashed out in committees, and then it was up for discussion. Now, I will tell you what I really think ought to be done. Of course it is not for me to say; but what I really think ought to be done, we ought to have one line of bills along the line as laid down by Senator Fletcher and his assistants, and there ought to be another one along the line of using credit capital. In other words, they can thrash it out in two ways and then agree on it. Of course I could not say that when I was arguing to Senator Fletcher's committee, because I had to make an argument for some one plan. But now it has gotten in here, where it is going to be amended from all sides, and it is the proper thing to do.

Mr. BULKLEY. Is there any difference in the risk on farm loans in the United States and Europe?

Mr. BREITUNG. Yes; it is greater in the United States.

Mr. BULKLEY. The risk is greater?

Mr. BREITUNG. Yes; there is more risk in the United States.

Mr. BULKLEY. Why is that, Mr. Breitung?

Mr. BREITUNG. The reason is that the farmer in Europe has for so long a time agreed to it, to keep his land up to a certain condition, that he always does it. If he takes \$10 out of his land in crops, he places it back in fertilizer so that it will leave the soil the same, so that the farm will be the same to day and in 1,000 years in production. He does not rob it in any way.

Mr. RAGSDALE. And you think with the climatic conditions and greater fertility of the soil and the comparative intelligence of the American citizen and the peasant of Europe that it is more of a risk in America than in Europe?

Mr. BREITUNG. Yes; undoubtedly.

Mr. PLATT. There is no doubt about that?

Mr. BREITUNG. No; there is no doubt about that.

Mr. PLATT. You are absolutely right about that, undoubtedly?

Mr. BREITUNG. Oh, yes; I do not want to cast any reflection upon the intelligence of our farmers, but the other man has been brought up that way, and we are largely creatures of habit and follow the course we got started on.

Mr. RAGSDALE. Is it not a fact in Russia—

Mr. BREITUNG (interposing). Russia is not a European country.

Mr. RAGSDALE. You are testifying as to Europe and America?

Mr. PLATT. You did not hear Dr. Coulter's testimony, did you?

Mr. RAGSDALE. Yes; I did; but he testifies now that it far more of a risk in America to-day than in Europe.

Mr. BREITUNG. But Russia is not regarded as European. I will appeal to the doctor on that.

Dr. COULTER. Russia is an exception. I think Mr. Breitung has in mind France, Germany, and Italy.

Mr. BREITUNG. Yes.

Mr. BULKLEY. Do the farmers in Continental Europe earn a higher return on the investment in land than our farmers?

Mr. BREITUNG. I think they do. My memory is they do. The doctor probably remembers. I think they do.

Mr. RAGSDALE. Oh, no.

Mr. VON ENGELKEN. I think you are mistaken about that.

Mr. BREITUNG. Probably I am. This much I believe, though, that it is much safer. It is safer; I feel very certain of that.

Mr. BULKLEY. If they could not earn a larger interest on the investment that would not seem to make it safer.

Mr. BREITUNG. No; it would not. But, as I understand, our farmers here are more liable to change and we have not the same rules. I presume if we could get them inoculated with the same ideas they have in Europe to keep the farm up to the same condition it would be so—it would be better here. But I am speaking of it as it is now.

Mr. WOODS. You spoke of the return on the investment. Do you mean the net return?

Mr. BREITUNG. Yes.

Mr. WOODS. Not the gross return?

Mr. BREITUNG. I meant the net return, of course.

Mr. RAGSDALE. Don't you think the farming has advanced in the last 10 years in America more than it has in the same period of time anywhere else in the world?

Mr. BREITUNG. You say farming has?

Mr. RAGSDALE. Farming as a whole.

Mr. BREITUNG. It has made more rapid strides.

Mr. RAGSDALE. Has it not advanced more? Just simply take 10 years ago and now, in the old country and here, and has it not advanced over here in America more than in any country in the world?

Mr. BREITUNG. You mean we are further ahead of them—how advanced during that period?

Mr. RAGSDALE. I mean made more progress during the past 10 years than any other country in the world.

Mr. BREITUNG. You mean advanced in machinery?

Mr. RAGSDALE. I mean advanced further from a given point—the point where we are now and where we were then, 10 years ago.

Mr. BREITUNG. That is true.

Mr. RAGSDALE. And don't you believe, now, under the present direction of the Agricultural Department, we are on the eve of the biggest advance we have ever made?

Mr. BREITUNG. I do.

Mr. RAGSDALE. Then why should there be any appreciation in risk with this wise control by the Agricultural Department, when, by your own statement, our advance is greater than any other country in the world?

Mr. BREITUNG. Here is the reason: I do not want to enter on a discussion, but maybe the doctor will bear me out when I say it is generally true that the net return on the farm in Europe is greater than in the United States, when you consider the market systems.

Dr. COULTER. It is much more stable and much more regular.

Mr. BREITUNG. Yes; and they are much more sure of their returns.

Dr. COULTER. Yes; they are much more sure of their returns.

Mr. BREITUNG. And then, you have to remember, when you consider the difference of the market systems, he comes very close to getting, if he does not really get more net.

Mr. COULTER. That is pretty hard to say; but I think, without doubt, it is much more stable, much more regular, and they are much more sure of their returns and there is less uncertainty than we have.

Mr. BREITUNG. There is no doubt about it.

Mr. COULTER. We run to all extremes?

Mr. BREITUNG. You have made the very argument I mean: that being more regular, it is safer.

Mr. COULTER. I think, without doubt, it is safer.

Mr. BREITUNG. Have you ever figured what the farmer actually gets, and have you figured that very often our farmers have burned or thrown their crops away: and they do not have to do that in Europe? With all due deference to you two gentlemen—I do not remember the figures, and it is hard to get accurate figures—but these two gentlemen know and I am still a little in doubt as to whether the net of the European farmer is not as great or greater than over here, when you consider the facilities and that our farmers must burn their crops at times and can not move them at times.

Mr. COULTER. Considering conditions?

Mr. BREITUNG. Yes; considering what an American can live on over here and then that a dollar goes twice or three times as far over there. That is the idea.

Mr. RAGSDALE. In other words, when you consider how they live and how we live, but not what a man can live on?

Mr. BREITUNG. Yes. After all, I am not so sure I am very far from it. Of course I do not want to dispute it, but I am not certain; but that is the way I figure, that the European farmer over there, taking the regular conditions, the regular market, and everything else, does not really get more net out of it, without what is costs to live, than our farmers do.

Mr. COULTER. That may be true.

Mr. PLATT. Have the farm-credit associations over there added to that?

Mr. BREITUNG. Yes; that is true; very much. Now, what I would like to say to you is that there is no attempt to do what you think, for a certain class to get control of this.

Mr. RAGSDALE. Oh, no.

Mr. BREITUNG. The attempt is the other way around.

Mr. RAGSDALE. I am suggesting that; I am stating what I believe to be the risk, that is all.

Mr. BREITUNG. I know what you mean—that these men have the credit and they would lend it?

Mr. RAGSDALE. They would sell it.

Mr. BREITUNG. They would sell it, and the other men, even if they had it, would not be willing to sell it.

Mr. RAGSDALE. Would not do it?

Mr. BREITUNG. Would not. There may be something in that.

(In order to preserve the continuity of his argument, the statement of Mr. von Engelken, made at to-day's hearing, has been placed at the beginning of the proceedings of the session of February 27, 1914.)

(Thereupon, at 1.05 o'clock p. m., the committee adjourned until to-morrow, Friday, February 27, 1914, at 10.30 o'clock a. m.)

FRIDAY, FEBRUARY 27, 1914.

UNITED STATES SENATE,
Washington, D. C.

The subcommittees met in joint session at 10.30 o'clock a. m., Hon. Henry F. Hollis presiding.

Present: Representatives Bulkley, Stone, Seldomridge, Woods, Platt, and Moss.

STATEMENT OF F. J. H. VON ENGELKEN, OF FLORIDA.

PROCEEDINGS OF THURSDAY, FEBRUARY 26, 1914.

MR. VON ENGELKEN. Mr. Chairman, I was a member of the American commission, and I find now I was the only member of the American commission who spoke a foreign language sufficiently well to get any real information from the people direct. I conducted an investigation, therefore, that was somewhat different from the investigation conducted by the commission as a whole, because I knew that practically all they would get in the hearings that were to be held would be figures and statistics, which we already had in this country. What I wanted to get more than anything else was to acquire an insight into the habits and the lives and the characteristics of the people under which this system had flourished and then make a comparison in order to see whether what had been so very successful over there could be transferred to our conditions with any degree of success. Therefore I spent most of my time in Germany in the country living with the farmers in their homes. Congressman Moss accompanied me there for some time.

Now, I may say in the beginning, that I am in favor, as one of the authors of the minority report, of the underlying principles of the report of the United States commission. Our report deals largely with the means by which this system is to be established, because we felt there were certain weaknesses in the plan as outlined here which would militate against securing that confidence on the part of the investor which is going to be essential if the system is a success.

MR. BULKLEY. Can you tell us how many joined in the minority report?

MR. VON ENGELKEN. Mr. Jones, of Denver, and myself wrote this minority report, and it was sent around and has six signatures.

MR. BULKLEY. Out of how many members?

MR. VON ENGELKEN. Can you tell, Dr. Coulter?

MR. COULTER. There were 79 members.

MR. VON ENGELKEN. There were 29 members in favor of the majority report and 6 for the minority, and the balance took no action.

Mr. COULTER. There were about 18 or 20 who wrote in and expressed their views, and the majority of the commission was in session here when the action was taken.

Mr. VON ENGELKEN. The minority report differs from that of the majority in this particular: This report is a minority report, really, of the majority report of the American commission of the United States commission's report.

The first part of this report outlines some of the objections which the minority has to the modified suggestion in the report of the majority of the commission that cooperative credit should be encouraged in this country at this time. Personally I am unalterably opposed to that, except under proper guidance and supervision. The majority of the American commission made no specific recommendations; and as Mr. Jones and I picked some flaws in this United States commission's bill, to which I shall refer later on, we embodied in our minority report also a plan which has the same principles as the plan of the United States commission, but differs in some minor essentials which we think tend rather to safety.

Now, I may also say here that I am opposed as a farmer to the creation of any system, through Government means or aid, for the purpose of establishing short-time credit institutions. And as I go on I would appreciate it if you gentlemen would question me on that subject, because I have very decided views on it. The principal one is I do not see any need for it.

Mr. PLATT. You are referring now to personal credit?

Mr. VON ENGELKEN. Yes, sir; I am referring to personal credit. I understand President Wilson has approved it, and I am sorry to differ with him.

Taking up this bill now—that is the thing we really have under discussion, isn't it—the United States commission's plan?

Mr. BULKLEY. The subject generally is under discussion. A great deal of the discussion has been directed to the Fletcher-Moss bill, but I would be glad to have you make any remarks you please on the subject, whether they are directly applicable to that bill or not.

Mr. VON ENGELKEN. I want to refer particularly to this bill, because I think it embodies more that is good than anything that I have seen on the subject.

Mr. BULKLEY. That is the assumption that we have been working on, but we have not in any way committed ourselves to that bill.

Mr. VON ENGELKEN. One of the fundamental weaknesses to this bill is, in my opinion, that in the first place it provides for a commissioner of farm-land banks, who is to receive a salary of \$6,000 a year. Now, let me say in the beginning that I have tried, in considering this bill, to eliminate myself as a farmer and put myself in the place of an investor, because you gentlemen are really, in the last analysis, holding a brief not for the farmers, but for the investor.

If you can secure the immediate confidence of the investor any system almost that you can devise will supply the farmer with the money. You might devise a system, maybe, to provide farm mortgages, but unless that system absolutely appeals to the confidence of the investor it will fall of its own weight.

From the standpoint of a bond buyer, the first weakness in this bill is that you have a system which is to provide an outlet for

\$2,000,000,000, we will say, in round figures, of farm-mortgage securities. The Government undertakes to act, in a measure, as a guardian between the investor and the farmer, through a system of inspection. In other words, it attempts to insure the investor that there has been an inspection made of the security offered and, as far as can be ascertained, it is good.

Now, you have here provided for, in Washington, one man drawing \$6,000 a year to stand between the investing public and the possible issue of \$2,000,000,000 of bonds, and at the particularly unfortunate time when the system is to be inaugurated, you see. If you get a system started and it works, one man can probably handle it, but at its inception, when everything must be done and must be built from the ground up at the outset, it certainly will require more men, who can handle this properly and have the ability to understand it, than one man. That is one of the first weaknesses.

Take your currency system, for instance. For the elaborate system you have built up, you have a board here and the Federal reserve banks to pass upon the security in lieu of which currency shall be issued. Bonds are money, although they certainly are not legal tender, but in any event what is good for the goose is good for the gander.

Mr. PLATT. This provision for the farm-land bank refers, I trust, to a man similar to the Comptroller of the Currency?

Mr. VON ENGELKEN. Yes; but under the Comptroller of the Currency is this Federal reserve board.

Mr. BULKLEY. It is not exactly under him, but rather controls the whole organization.

Mr. VON ENGELKEN. It is part and parcel of the organization, and that board has on its hands now the work of inaugurating the system, hasn't it?

Mr. PLATT. Yes.

Mr. VON ENGELKEN. And as far as I can ascertain the amount of currency issued in this country at any one time is certainly less than a billion dollars. And here is an issue of bonds which may be twice as much, and yet you provide no vehicle for the establishment of that system, particularly in view of the fact that you are dealing with a class of people who have absolutely no experience in it, whereas in the currency bill you are dealing with bankers and men of affairs and men who can readily grasp the proposed change.

Mr. BULKLEY. Of course, the amount of currency outstanding at any one time is no measure of the difficulties in administration. In a commercial banking system the turnover of securities is much more rapid.

Mr. VON ENGELKEN. I understand that: but the main idea I was trying to bring out was the fact it would require more men here in Washington and a more comprehensive head, because the farmers must be led.

Mr. PLATT. Your idea is that it should be a board?

Mr. VON ENGELKEN. A board, at least.

Mr. PLATT. I do not understand it is the office of this bill that these banks will necessarily be organized in very great numbers all at once, but that they will be somewhat of a slow growth. In the first place, some of the States will have to pass certain legislation before they

can be organized in those States, simplifying title registration and abolishing mortgage taxation.

Mr. VON ENGELKEN. I can not believe that. When this bill is passed—and I believe it will be workable when it is passed—there will be a certain effort through the country to enable the farmers to take advantage of it, because the thing is very pressing.

Mr. PLATT. Is it true that the need is any more pressing, particularly at this time, than it has been at any time within the past 25 years, we will say? Farmers to-day are more prosperous than ever before, and land values have enhanced, and they are getting more for their products.

Mr. VON ENGELKEN. But, you see, the greatest thing in the world that is keeping the farmers in business is the improvement in land values.

Mr. PLATT. I agree with you on that. I think it has been the unearned increment.

Mr. VON ENGELKEN. That has been the salvation. If land values had remained the same or gone down under the slipshod methods of farming, a large number of farms would be untenanted.

Mr. PLATT. And at the same time the values have gone up, and because the products have gone up the farmer is getting more than he ever has in the past, even in the Civil-War days.

Mr. VON ENGELKEN. That is very true. And when I say the need is pressing at this time I do not mean to say it is more pressing. It has been pressing all along during the last generation.

Mr. PLATT. You do not mean to say there is any pressing need at the present time that requires a desperate action?

Mr. VON ENGELKEN. No; I do not say if this system is not inaugurated within a year or two a great many of the farmers are going out of business. They will manage to get along just as they have in the past. But I say this, that the farmers are bringing a pressure to bear upon the legislatures to enable them to take advantage of the means necessary and make it advantageous for their use; and even the farmers who have mortgages on their land now will transfer their mortgages as fast as they can into a system where they can get a better mortgage rate with the amortization plan.

Mr. PLATT. I am not so sure of that. I think a good many of them will, but I do not think they all will.

Mr. VON ENGELKEN. Of course, I do not mean to indicate they all will, but from my experience I think a good many of them will.

Mr. PLATT. Take, for instance, States like Illinois, Indiana, Ohio, Pennsylvania, and New York, where the rate of interest paid is less than 6 per cent, or along in the neighborhood of 6 per cent. Under this system the farmers will not get much cheaper rates than that, if any.

Mr. VON ENGELKEN. That brings up a point I was going to come to a little later on. I feel you must get away, really, in the consideration of this problem, from those Central States, because the farming in those States is not new. They are older States and the agriculture is established, and a system of this sort will not make an appeal to them that it will to the Southern States and the Western States, and, in fact, all of the newer States, you see.

MR. PLATT. I think, judging from my knowledge of the farmers of the Eastern States, that they would probably be in a better position to take advantage of a system like this and organize it than in the newer States.

MR. VON ENGELKEN. I do not quite see that.

MR. PLATT. The conditions are more stable and they have more to invest themselves in it.

MR. VON ENGELKEN. You mean that the farmers have more to invest themselves?

MR. PLATT. Yes. I do not think the farmers of the Eastern States are as well off, perhaps, as they are in some of the Central Western States, like the Dakotas and Iowa, for instance. Perhaps the farmers in those sections are better off than they are in New York and Pennsylvania. I think they are, as a rule.

MR. VON ENGELKEN. You mean in the corn belt?

MR. PLATT. Yes.

MR. VON ENGELKEN. What I was trying to indicate was that the spread of this movement would probably be most pronounced in the less wealthy States, perhaps along the Atlantic coast, in the South, and West.

MR. PLATT. They have got to find the capital to organize the banks from somewhere.

MR. VON ENGELKEN. Yes; I know they do. But in this minority report there we have submitted a plan which will in a measure assist the farmer in getting his capital.

MR. PLATT. Yes.

MR. VON ENGELKEN. The next point, gentlemen, in this matter is the proposition to allow any 10 farmers to open a bank. I can not agree with that at all. In the first place, you must take into consideration that the farmer is the greatest of optimists and also the greatest of pessimists in the world. Mentally he has not the balance that the business man must have to be a successful business man.

MR. PLATT. What do you mean by being the greatest optimist and at the same time the greatest pessimist?

MR. VON ENGELKEN. I mean a farmer acts a great deal in this way: He is subject to so many conditions over which he has no control. If he has two or three days of rain, you can meet the farmers on the road and every one will be a pessimist for the time being—the crops are ruined, and they don't know what they are going to do, and so forth and so on. Then the thing changes. I have just gone through such an experience at home within the last two or three days. Then pretty soon the crops will grow up a little better and the sun will shine, and then they get very optimistic and they are going to have great big crops, and so forth and so on. And so they go from extreme to the other—from an extreme pessimist to an extreme optimist—without that balance of mentality which is part and parcel of a sane, conservative business man.

Now, then, the proposition is to let these farmers open a bank— independent—and then go out into the open market and sell bonds. And these 10 farmers, or more, are to appoint a committee of three who are to appraise the property, and that is the only restriction made upon the amount to be loaned upon this property—the appraisal of these three farmers. And I do not believe that this

would encourage any degree of investment in farm-land mortgage bonds, particularly when they are issued by the little local banking institutions fighting among themselves for such portion of the bond market as may happen to be available. In the first place, the thing is going to fall to pieces, because they could not get 50 for their bonds, if they sold them at all.

Mr. BULKLEY. Would you buy the stock? Is that an attractive investment?

Mr. VON ENGELKEN. The stock of these banks?

Mr. BULKLEY. Yes.

Mr. VON ENGELKEN. It would not appeal to me as a farmer.

Mr. BULKLEY. How do you think it would be received in the community where you live? You live in Florida, do you not?

Mr. VON ENGELKEN. Yes; I live in Florida.

Mr. BULKLEY. How do you think it would be received there?

Mr. VON ENGELKEN. I will tell you what I think upon that, Mr. Bulkley. If this bill went through our farmers would perhaps get together and raise \$10,000, because the farmers down there, with very few exceptions, are not very familiar with the underlying economic principles of finance. They would look at this and say, "The Government has looked into this thing and passed it on to us as sound. We will now organize a bank and sell bonds." And they have no idea what it means to sell bonds; no conception.

Mr. BULKLEY. In other words, you think they would in fact subscribe to the stock whether it was good judgment to do so or not?

Mr. VON ENGELKEN. Yes; I do. Now, they would be confronted right there with this situation: Personally I would not take stock in a bank of that sort, but I would be the first one to take the money if I could from Dr. Coulter's bank there, we will say, if I could get it to lend me 20 per cent of its capital. Now, those farmers, without any guide or, in fact, any control, would loan me \$2,000, which is 20 per cent of their capital. I would have the money for 35 years, we will say. Then they would proceed to issue bonds and try to sell them; and, let us say for the sake of argument, that the best that they could get for their bonds would be 60. What is going to happen? That is the last loan those fellows are going to make. And obviously they can not liquidate—

Mr. PLATT (interposing). It depends very largely on the interest return on the bonds there, does it not, as to what they would sell for? Do you suppose they would be 4 per cent bonds?

Mr. VON ENGELKEN. No, sir.

Dr. COULTER. Not in Florida?

Mr. VON ENGELKEN. Not in Florida. They will run around 7½ and 8.

Mr. PLATT. Don't you think you could get more than 60 for an 8 per cent bond, for instance?

Mr. VON ENGELKEN. I do not believe they could, unless they could demonstrate there had been conservatism in the issuing of that bond and appraising the property. I can get money down there from an individual at 8 per cent, but the individual who loans the money appraises the property, you see. Take your own case, for instance. Suppose those bonds came to you. You know nothing of Florida, except you know that 10 farmers there have organized a bank and

the farmers have appraised my property, and they hand it to you, now, as being 50 per cent of the value on a conservative valuation. Would you buy it?

Mr. PLATT. If these farmers had actually put \$10,000 in cash into their bank, I am inclined to think I might take a chance on one or two of them. I do not think I would consider them a gilt-edge investment for trust funds at the start.

Mr. VON ENGELKEN. That is it exactly; and that is what you must have.

Mr. COULTER. And that is what the bill provides, for trust funds of the United States courts, for these institutions, where the land is to be appraised by the members themselves, and maybe the farmers who want the loan themselves; and that is why I believe the minority has brought a suggestion here which is the best that has been offered, as to how the appraisement should be made if the bonds are to sell outside of the little community where the institution is located.

Mr. VON ENGELKEN. In the first place, let us say we are 10 farmers organizing a bank. Now, you come straight from the farm, and the first people who will go to borrow from the bank are the men who are in it. Many of them will borrow from the bank to pay them for the capital they put in to organize with. You see, those are institutions of borrowers, you understand. Now, then, this committee comes around to me and appraises my land. Is it not logical to suppose that this committee and those farmers will appraise that land at its highest possible value?

Mr. COULTER. If they want to borrow much money?

Mr. VON ENGELKEN. Yes. Conditions are prosperous now, and there are high land values, and they will get as much money on their property as they can, and therefore they will appraise my property as high as they dare. Then it is simply a case of I scratch your back and you scratch mine. And all the property in that bank will be at a high appraisal. You see the weakness I mean, and I have taken this bill to the Lord in prayer with me, is the fact that you have no check on the appraisement of this property, and unless you can assure the investor there has been some real check on the optimism of the farmers in appraising this land, you will never—

Mr. PLATT (interposing). Isn't there a provision in here that the appraisement shall correspond with the assessed valuation?

Mr. VON ENGELKEN. No.

Mr. PLATT. That is in one of the bills.

Mr. COULTER. The statement of the assessed valuation?

Mr. VON ENGELKEN. I have a farm in Florida for which I have refused a bona fide offer of \$18,000. What do you suppose it is appraised at?

Mr. PLATT. About \$7,000.

Mr. VON ENGELKEN. \$800. Where is the relation between the value of that property and the assessed value. The value of that farm is based upon the income earning power value over a period of five or six years, and where is the relation between the assessed value and the actual value of that property?

Mr. COULTER. I may say there that Senator Gore, who was a member of the United States commission, suggested a certain percentage of the assessed value should be used as a basis, and his argument was it would force the farmers of the country to carry through State

laws making the assessed value the true value of the property and straighten out the tax system of the States at the same time.

Mr. BULKLEY. Is not that the root of the whole thing? You are speaking, Mr. von Engelken, about the tendency of the farmers to appraise the property too high?

Mr. VON ENGELKEN. Yes.

Mr. BULKLEY. Now, if they were limited to the assessed value, there would not be that danger, would there?

Mr. VON ENGELKEN. No; there would not be that danger, but a great many farmers, on the other hand, who have property of real worth would suffer by not getting what they would be entitled to get on a basis of its true value.

Mr. BULKLEY. If they should get their assessments increased to the true value, where would be the damage?

Mr. VON ENGELKEN. Let me explain that to you. We are assessed at home 22 mills on the dollar.

Mr. PLATT. Taxed, you mean?

Mr. VON ENGELKEN. Yes; taxed 22 mills on the dollar. Now, where would I get off if they assessed my property at anything like its fair value?

Mr. BULKLEY. Of course if they assess everybody else's farm at its fair value, they would reduce the rate.

Dr. COULTER. They would reduce the rate, because the value of the property would be doubled or trebled or quadrupled, and the rate would be reduced accordingly.

Mr. VON ENGELKEN. We are just now going through an experience in Florida of that kind. They are appraising the property at more like its real value; and while that is proposed, we all feel if it is passed, because the assessment has been put up to the limit, it is to be used as a way of getting more money. The assessment will jump up and the millage will drop down at first, but then in a few years they will be up again.

Dr. COULTER. Now, that is true in every part of the country. The same thing is actually happening in my State. They have actually gone out and made a new appraisement of the property, and they have taken the selling price of the property as the basis and now they are down to a point where they are practically without a State debt. There is no State tax, practically, at all. That is to say, the State levy is canceled year after year because they derive their taxes from the income tax, the inheritance tax, and the corporation tax, and the tendency is in States where the assessed value is equal to the true value that your levy goes down and down until you actually cancel the taxes for several years.

Mr. BULKLEY. We have reduced our tax rate in Cleveland from about 3.30 to 1.55 by a more honest assessment, but the assessment is not high enough yet.

Dr. COULTER. That has been Senator Gore's contention, and I was in hopes Senator Gore would be here in these hearings, because he made a considerable study of that and said he reserved the right to raise that question when the matter got before the committee.

Mr. PLATT. I think there is some truth in what Mr. von Engelken said, though, when you get the assessment up, the tendency is not to put the tax rate down low enough to make the tax bills quite as low as they were before.

Mr. BULKLEY. Yes; there is something in that.

Mr. PLATT. The people feel that way, and then there is a question between the people in the country and the people in the city, for instance, as to an equalization of the assessment. The assessment, I think, ought to be higher in proportion to the true value than it is in the case of your Florida farm.

Mr. VON ENGELKEN. It is going to be.

Senator OWEN. What is your suggestion as to how a check could be put upon this situation?

Mr. VON ENGELKEN. That, Senator, is bound up largely with another feature I propose to call your attention to, and that is the organization of this local bank into a State federation with a central.

Dr. COULTER. And yet it is true your suggestion would apply equally well to this.

Senator OWEN. I do not think I heard your suggestion as to how you would be able to put a check on an unfair valuation.

Mr. VON ENGELKEN. Of course our minority report there has submitted a plan whereby we have no new banks for the farmers; because after talking it over and discussing it thoroughly we came to the conclusion, and I am rather still inclined to the opinion, that it is wiser to do with what we have and is safer, maybe, than to try something new, because it has worked with the people with whom we have nothing in common except perhaps physical construction, and that is with the little country banker, the local banker. I have read a great deal in these farm papers about this thing, and it has been a cry against the Money Trust and against this thing and that, and nobody has said a word for the poor banker who really, in the last analysis, is the best friend the farmer has.

Mr. PLATT. Undoubtedly there is an enormous amount of dust in the air, and some of it has got to be cleared away.

Mr. VON ENGELKEN. I am going to start to clear some of it away right now. And I will tell you I am for the country banker. Gentlemen, without question the country banker has done more for the farmer in the past than he has deserved, because the farmer has not been in a position to merit credit anywhere by his conduct. Furthermore, he has not conducted his operations in the past in a manner which would merit any degree of credit. If any commercial house conducted its business as the average farmer conducts his, they could not get a penny of credit. Is not that so?

Mr. BULKLEY. I am afraid it is.

Mr. VON ENGELKEN. I know it is. Now, then, it is proposed to have the farmers who are pressed into this bill suddenly transmuted into bankers.

Mr. PLATT. It is not necessary in all cases that farmers will always organize these banks. They may be organized under this plan by men who are not farmers at all.

Mr. VON ENGELKEN. Yes, sir; but, you see, you must remove the weakest link in the chain, because if you do not remove that weakest link the thing is going to fall down; in order for the thing to be a success, all the links in the system must be equally strong.

Senator OWEN. How do you propose to fix this value of the farm?

Mr. VON ENGELKEN. We propose to link this with the country bank and let the country bank act as a check upon the optimism of the farmers in appraising this land, you see. And, furthermore, we

make this provision, or suggested to Dr. Coulter this provision, that in place of providing a Federal fiduciary agent in every little bank—which is a cumbersome system and accomplishes nothing, because every one of those fiduciary agents is nothing more nor less than a witness in the last analysis—let the country banks transact their own business and confederate them into a State central, and let the central be the point of Government attack and supervision. Let the Government provide proper inspectors who will go to the central and inspect the security behind these bonds before they are allowed to float the bonds to the public. You see, that in itself, if the farmers know, provided it is a bank of farmers only, that their valuation is going to be made the subject of a check by Government appraisement, it will have a very wholesome effect in limiting the valuation they put upon the property for loan purposes. The Federal fiduciary agents provided in this bill can not check values behind the mortgage. It would be quite possible under this system for a farmer or a group of farmers in a declining community—what I mean is in some of the trucking States, etc.—where there has been a boom in a certain thing—and I have one case in mind where land values three years ago were up to \$2,500 an acre, and that same land to-day can be bought for \$250—if a group of such farmers get together for the purpose of organizing a bank and getting out from under, they would put a mortgage of \$10,000 on a \$5,000 piece of land, don't you see?

Mr. PLATT. It looks possible.

Mr. VON ENGELKEN. It is possible; and it is the possibilities you must consider. But if that goes to a central, the central would provide, to begin with, checks upon these farmers in their too high valuation of lands through the appraisal which the central makes; and then the Government appraiser steps in when this bond issue is proposed to be floated to the public and checks those securities which he finds behind the bonds; and if the valuation in any case seems to him to be out of reason he will go down and investigate and make the local either reduce the amount or margin it. It is provided that the banks should pay for this service, and they are willing to bear this burden of inspection. At that point of inspection, let the inspection be a sure-enough inspection and check, as if you were building an automobile engine, where one man grinds a flywheel, and another turns a cylinder, and so forth and so on, each part is turned out with no inspection; but when it is ready to be sold to the public every part of it is thoroughly inspected. And that, in my opinion, should be the function the Government exercises, and the only function, except to charter these banks.

Mr. COULTER. That is to say, when the bank had finished making its loans up to, say, \$10,000, or whatever the loans were, and was ready to start issuing its bonds, at that point the Government would send, as it now sends an inspector to the bank, an appraiser to the community, and the appraiser, when he reached the community, would inspect the appraisement by the land banks of the resources behind the bonds, and unless those lands were of proper value and the appraisement was satisfactory the bonds could not be issued.

Mr. VON ENGELKEN. Yes.

Mr. COULTER. And in that way the cost of appraisement would be reduced, because the appraiser would go only when a larger number of pieces were to be appraised for the purpose of circulating bonds.

MR. VON ENGELKEN. You see, the cost of this Federal fiduciary agent now must be borne by the little banks, and if you do away with the Federal fiduciary agent in every bank and provide instead one inspection at the central it would reduce the cost to each bank, because you would thus have available a fund sufficient to pay for a real rigid Federal inspection, don't you see?

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MR. VON ENGELKEN. I was thinking over last night what I said yesterday, and it seemed very unsatisfactory to me, because of the interruptions. We drifted far away from the subject I was discussing, and I would like to suggest this morning that I have my suggestions on this bill grouped into various headings, and if you will let me get out of my system my ideas on each one of the headings, then I will say when I am done and we can discuss that heading, if that is agreeable.

SENATOR HOLLIS. I think we will get along better if we adopt your suggestion.

MR. VON ENGELKEN. The different features in this bill that I want to call your attention to are, first of all, the question of the independent State unit bank or local unit bank, rather, as against the organization headed by a State unit.

Then I want to call attention to my criticism of the fiduciary agent, and then, finally, on this bill I want to call attention to the deposits feature, and if I have time I want to pay my respects to the matter or short-time credit.

I have read very carefully the reasons given in this bill which prompted the writers of it to suggest purely local institutions, and I must confess that while the language is splendid and the wording all that could be desired, I do not get really any light on the subject as to why they feel that that plan is better than a plan of an organization. Mention is made of the fact that this should be a competitive system of banks. Let us analyze that question and see what that competition will bring about. You are laying down certain fixed rules which these banks must follow. If you inject into a local district competition the competition can only take the form of a higher valuation of the land. In other words, if you have two banks competing for the business of the farmer in the same district, banks regulated as closely in the conduct of that business as these banks are, the farmer will go to the bank which puts the highest valuation on his land and which will give him the most money on the land which he has to place behind the loan as security. This appears to me to be an element of weakness. Any one institution can take care of any one district. Opposed to that plan is the plan of a State organization whereby these little local unit banks are headed and guided by a State unit bank, which they own and control. The advantages of that over the independent system are as follows:

In the first place it will promote confidence on the part of the investor, unquestionably, if he feels that there is an organization in the State which guides the farmers in their transactions and which acts as a go-between and provides a further inspection of the assets behind the loans. This State unit organization provides an appraiser, and that appraiser, whenever any local has made sufficient

loans to call on the State unit organization for funds in exchange for its mortgages, will send this appraiser down there to pass upon the appraisement made of the security back of the loan. That further strengthens it.

In the third place, the State unit organization, being made up of all the organizations in the State, spread over the entire territory, is in a remarkably advantageous position to assist any local institution over one or more loan years, since obviously it will be to the advantage of all the other units in this organization to prevent anything happening which will discredit the entire organization, owing to the fact that any one unit may have local crop failures.

Another feature which is very important is this, that in the bill which is here before you I fail to find any provision made for liquidation. Your local unit bank stands entirely on its bottom, and if those farmers who organize that bank become possessed of the idea that it is not profitable, or something happens in the locality which makes it unprofitable, how can they liquidate? Those farmers may have a loan, and even one loan made for a period of as long as 35 years, and the man who borrowed the money will not return the money to them, yet they are in the enforced position that they are tied up to a thing which is unprofitable and will have no way of getting out, whereas, under an organization such as I have suggested, if any one unit wishes to get out, the loans made by it can be distributed among the other units in the State by the organization which stands at the head and guides; and in that way any local can easily get out from under if it so desires. I think that is a feature that will make a strong impression on the investors, and the investor's point of view is the point of view that we must keep before us.

Later on I propose to show that this State organization provides the best avenue for Government supervision.

These are the points that I have mapped out here, which to my mind, indicate that an organization will strengthen this plan, not only in its relation to the local units, but also in the minds of the investing public.

Now, I would be very glad to hear any criticisms of that.

MR. WOODS. Mr. von Engelken, do I understand that it is your idea to have the State institutions only issue the bonds?

MR. VON ENGELKEN. Yes, sir.

MR. WOODS. And not the locals?

MR. VON ENGELKEN. Not the locals.

MR. BULKLEY. As I understand your suggestion the State would be divided into districts, and there would be a single bank which would have a monopoly in each district.

MR. VON ENGELKEN. No; I would not control that in any way; but I would provide that whenever these local banks are organized they must become members of the organization. I think the matter of opening banks will gradually seek its own level, and whatever local unit banks are organized must become members of the State organization. I would make that mandatory.

SENATOR HOLLIS. Just as national banks have to become members of the Federal reserve system?

MR. VON ENGELKEN. Exactly.

MR. SELDOMRIDGE. Do you see any advantage in your idea in extending the market for the bonds--for the debentures?

MR. VON ENGELKEN. Decidedly.

MR. SELDOMRIDGE. Over the other plan of a large number of units acting independently of each other?

MR. VON ENGELKEN. Decidedly. Place yourself, for instance, in the position of a possible investor in land-mortgage bonds. I live in a portion of Florida with which you are probably entirely unacquainted, yet a group of farmers and I organize a bank. You might be in position to buy one of our bonds, yet what do you know about them? Nothing. You say, "Well, I know nothing about this country. These farmers may be all right, and they may not be all right. In other words, you inject that which we are trying to eliminate, as far as possible, and that is the personal element between the investor and the man who produces the assets. If you have an organization backed by the entire real-estate security of the State of Florida, which is being hypothecated, you would not look very much farther.

SENATOR HOLLIS. You would provide that the State association should inspect the loans, so that you would have annual reports, probably, of the condition and how they were doing business, but you would not undertake to have any representative of the State association examine every loan, would you? Would you have the president examine every loan?

MR. VON ENGELKEN. No. My idea is this—and that idea, I may say, is incorporated in this minority report: A local will make a certain number of loans, you see, under its own appraisement. When it has a block of mortgages which it is no longer able to retain for itself—and it must be obvious that a local will hang onto these mortgages as long as it can, because of the higher rate of interest, consequently more profit accruing to the bank if it does not convert the mortgages into bonds—but when it gets a block of mortgages and applies to the State unit organization for permission to transfer those mortgages to the State unit for bonds, you understand, the State unit will supply the funds in exchange for the mortgages, then the appraiser goes down and investigates these securities before they will relieve the local unit organization of them.

SENATOR HOLLIS. And that application would not be made until they had a substantial number, and therefore the expense would be divided among a number of loans.

MR. VON ENGELKEN. Until they would be compelled to call on the central for cash in exchange for mortgages, which might be only once or twice a year.

MR. MOSS. How did you intend to have the capital of the central bank raised?

MR. VON ENGELKEN. By a portion of the capital of the local units.

MR. MOSS. So that the entire capital of the central bank would be owned by the local banks?

MR. VON ENGELKEN. Yes, sir.

MR. MOSS. What security would be behind a bond that would be issued by the central bank?

MR. VON ENGELKEN. I will answer that right here. There is one subject in this minority report which is eliminated from the remarks I have made here now.

First. The signer of the original loan.

Second. The combined judgment of the local banker and his farmer associates as to the desirability of the signer as a borrower and as to the value of his security.

Third. The land itself, upon which not exceeding 50 per cent of its value would be loaned.

Fourth. The indorsement of the local and the moral obligation of the bank with which such local is affiliated.

Fifth. The double liability of the holders of the capital of the locals, protecting all loans indorsed to the State unit organization by the locals.

Sixth. The judgment of the officials and executive committee of the State unit organization and its rechecking of the securities as hereinafter provided.

Seventh. The capital of the State unit organization.

Mr. Moss. But the capital of the State unit, belonging to the local and being taken from the local, does not increase the amount of capital behind the loan at all, does it?

Senator HOLLIS. Mr. Moss, it would put the locals behind the debentures of the institution. It would put the combined capital of the locals behind the debentures.

Mr. Moss. The point I am making is this: This proposition starts out that the local banks may have the right to issue bonds to the extent of 15 times the amount of their capital. If you authorize the local bank to take part of that capital and put it into the central bank, by so doing you do not increase the total amount of capital that is pledged behind these bonds, whatever the whole amount may be. If you permit each one of the locals to pledge 15 times the amount of their entire local capital, the mere matter of fact that you have a central organization and they pledge the capital belonging to the local is not putting behind the bond any additional capital. I want to know if that is not true?

Senator HOLLIS. It would put the liability of all the stockholders of all the banks and the resources of all the banks behind everything that the State association guaranteed.

Mr. VON ENGELKEN. I can see Mr. Moss's point, Senator Hollis, but I can not agree with him.

Mr. Moss, you are predicating what you say upon the assumption that the entire State would have two or three years of crop failure; that is, that the failure would cover the entire State. Of course, there is no more real capital invested in this system than there is in the other, but the fact remains that the money that the local unit puts into the State unit it gets back again when needed to exchange mortgages for cash, but it is reasonable to suppose that if there be local crop failures or any crop failures at all they will not be State wide.

Now, then, you have this additional protection, that if you have a local unit only, and that local unit goes through a serious stress, you knock the props out from under it; whereas if you have the State unit you have the combined strength of all the local units of that State to help this one local unit tide over that stress.

Mr. Moss. The total income of all the banks, whatever that is, would be, of course, the interest on the total amount of mortgages of all the local banks.

Mr. VON ENGELKEN. Yes.

Mr. Moss. And the total outgo would be the interest upon the bonds?

Mr. VON ENGELKEN. Yes.

Mr. Moss. Now, how would it be possible, excepting just the difference in administration charges, paying part of the administration cost to the central bank—how would it be able to anticipate any payments to any local that would fail to make its payments, excepting it did it out of part of the administration charge that goes to the central bank? What independent income does the central bank have?

Mr. VON ENGELKEN. Let me think about that a minute. That is a question I had not considered.

Mr. Woods. They must necessarily take a part of that 1 per cent.

Mr. Moss. The proposition is that if the local banks—under this scheme the most that the banks can have for administration charges is 1 per cent. Now, the question comes in, How does it add to the total? How much strength does it add, if you have part in the central bank and part in the local, rather than to let the local bank have it all, as we do under the present system? What income does the central bank have that these local banks do not have?

Mr. Woods. It adds a great deal of strength in this, that it gives—

Mr. Moss (interposing). That is the question, What additional income does it have?

Mr. VON ENGELKEN. The income of the central will come out of the 1 per cent. but the central arrogates unto itself certain functions; that is, in other words, finding a market for the bonds. That is administrative and comes out of the 1 per cent. But the local bank delegates those functions to the State unit, you see, and of course it is appropriate that it should receive a certain portion of the administration charges for the services rendered.

Mr. BULKLEY. Under your plan the local would not be put to any expense at all in marketing the bonds.

Mr. VON ENGELKEN. No, sir; and it is not in position to market them with any degree of success, according to my opinion.

Mr. Moss. However, the incomes of the locals are the same under the two systems—local or central bank? The income would be precisely the same?

Mr. VON ENGELKEN. Yes.

Mr. Moss. Therefore there would be no greater funds to meet the greater liability under one plan than the other?

Mr. VON ENGELKEN. No; but you see the profits or turnover made of the money reverts again to the local units. It is simply an added link to the chain which strengthens it.

Senator HOLLIS. That is, they would have a certain amount of money, but they would get more efficient service through the State organization?

Mr. VON ENGELKEN. They would delegate certain functions to an organization where an organization would produce better results.

Mr. Moss. We have come to an agreement on that now.

Just one other question. You have stated also that liquidation would be very much easier under the central plan. If each local bank has issued bonds to the amount of 15 times its capital and one

bank should fail, how could you take and distribute that bond issue to the other banks unless they increased their capital stock?

MR. VON ENGELKEN. The other banks would have to increase their capital stock to the amount of the outstanding obligations which this liquidating bank has.

Senator HOLLIS. Could it not be done this way, that the State association would take over any bank that failed, with its assets and liabilities and liquidate them?

MR. VON ENGELKEN. It provides a field for them which is not provided otherwise.

MR. SELDOMRIDGE. Let me ask you a question: Granting the advisability of this central organization, why should not a State government provide by law for the expenses of that organization? We provide for the expenses of coal-mine supervision, and we provide for the expenses of many multiform activities of the State. Why should not the expenses of that central organization be borne absolutely by general taxation?

Senator HOLLIS. You mean by the Government, do you not, and not by the State? You mean by the Federal Government, do you not?

MR. SELDOMRIDGE. Either by the Federal Government or by the State.

Senator HOLLIS. That may be a way in which we can help along this system.

MR. SELDOMRIDGE. Why not do that and not whittle the thing down to taking care of it by 1 per cent?

Senator HOLLIS. I think that is something we ought to consider very carefully.

MR. SELDOMRIDGE. I think it is fundamental to the growth and development of the country that this system should be thoroughly and efficiently organized, and I think it is a proper subject for Government expenditure. The Government might divide the expense with the State. The State would be willing to appropriate for part of it. We provided for \$225,000,000 for good roads to be met with an equal appropriation by the States. Why could we not do the same thing for these mortgage banks?

MR. VON ENGELKEN. As a farmer, this business of State aid or national aid is very attractive, but I am a great believer in this axiom, that it is much easier to spend money that is not actually earned. What I mean to point out is this: Take a case of a young man with a rich father and a young man who works for his living. It is all right for the States, we will say, to foster this in the beginning, but not to give anything. Let this proposition stand on its own basis, because it has sufficient merit, in my opinion, to do so. Let it work out its own salvation, because it is only by that means that they will ever profit. If it is advisable to put a little steam behind this in the beginning, let it be a loan by the State at a low rate of interest, which must be paid back when the thing has reached a point where it is able to do so, and I think you will find that the farmers of the country will be more inclined to agree to that. Because once you begin to dip your hand into the Treasury there is no stopping it.

Senator HOLLIS. There is no going back.

MR. VON ENGELKEN. No, sir; and you are not dealing with a class of people who can realize the dangers of that, because they have

not had a business training which enables them to analyze a situation of that kind.

Mr. SELDOMRIDGE. The farmers will say we are taking all of this out of them. The expense would either have to come out of the debtor or there will have to be a concession made by the creditor, and I can see where the Government can well afford to provide the machinery and have it well oiled and in working order rather than to allow it to dwindle and drag and become disabled just because we have not provided enough to start it off and keep it moving.

Mr. VON ENGELKEN. Of course, there is this to be said in that regard. I propose in a few moments to show the relation of the Government to these State unit organizations. It may be possible that it would strengthen that through some such plan as you propose, because I propose to show that the logical point of attack on the part of the Government is the State unit organization, when it comes to investigating the securities before they are placed before the public.

Mr. COULTER. Mr. Chairman, may I ask a question?

Senator HOLLIS. Yes.

Mr. COULTER. The commission had section 44 put in the bill to settle this particular point, making it optional with the small institutions to provide for sales agencies, and so on. That section reads:

That any national farm-land bank may, with the consent of the commissioner of farm-land banks, maintain either within the State in which it is operating, or elsewhere, sales agents or agencies for the sale of its national land-bank bonds or for trading in the same.

It seems to me that the suggestion made is that the word "will" be changed to "shall": instead of saying "may maintain" say it "shall maintain," and then say each such agency shall be limited to one State, and that agency shall only sell the bonds of that State, and shall be responsible for the issuing of the bonds. That is really the point, is it not?

Mr. VON ENGELKEN. It simply resolves itself into the question of where you put the word "shall."

Mr. COULTER. I say it is making it compulsory and limiting it to a State, and then making that agency responsible for the issuing of the bonds and seeing that there is proper cover.

Senator HOLLIS. Of course, this would dignify the system to make it a State unit and would probably give the bonds a greater selling value.

Mr. VON ENGELKEN. Of course, I might make this suggestion, that there is nothing in what I might say which would prohibit the local unit selling any of the bonds. The central is the issuing body, and the issuing body, it is proper to suppose, would be the selling body, because of its greater ability to find a market; but if any local-unit organization applies to the central, saying they have a market for the bonds, the bonds can be transferred to them for sale.

Senator HOLLIS. Is there anything in either of these bills which forbids a local unit, having made a loan, to sell that loan if it wants to?

Mr. VON ENGELKEN. I have seen nothing of that sort in either of the bills.

Mr. COULTER. No. As a matter of fact we contemplate in this bill that they shall, provided that bond is not for a longer period than five years.

Senator HOLLIS. Why not let them sell it anyway, under proper prescriptions and proper precautions to prevent the borrowers from being cheated?

Mr. COULTER. The only restriction we have there is to prohibit loans for longer periods than five years for more than 15 times the capital, and in order to bring those all into one class then they issue bonds on those and the limitation is on the bonds rather than on the loans. I think if they made loans for local sale as individual mortgages for periods exceeding five years that we would begin to have to make a limitation on the amount of that business, while as far as this bill is concerned no limitation is made as to the amount of short-time mortgage business that it might do, the idea being that it may go ahead, as the present custom is, until the farmers gradually get accustomed to the longer-period loans.

Senator HOLLIS. I can see if they should sell loans that ran more than five years, on the amortization plan, they might get into difficulties there. But my idea was, that if they did resell these short-term mortgages that the bank would not guarantee them.

Mr. WOODS. There is the point. It makes no difference how many loans they make or sell if it is a \$1,000,000 or \$10,000 capital, providing they do not guarantee any of them.

Senator HOLLIS. Yes; and they may make some money doing that.

Mr. COULTER. That was the very idea we had in mind in that provision allowing them to do that, that sort of business paying 5 per cent. I think the best illustration of that is this: I made a special trip, at my own expense, to Minneapolis, to look into a banking company that does business beyond the five-year loans—the Wells-Dickie Co.—which has about \$750,000 of capital and surplus and is in the land-mortgage business in three or four adjoining States. If they can negotiate a loan of \$10,000 or \$15,000 to a big farmer and make it for 10 years they do so, and then just split it up and sell bonds; and they are doing an immense farm-bond business. My idea was that they could not sell these unless they were five years or less. If they were for a longer period they would have to put them on the other basis.

Mr. VON ENGELKEN. It seems to me, Senator Hollis, that there could be no objection to these local units selling such loans providing they do it under the supervision of a State organization, for this reason, that the strength of a State organization will depend upon the fact that it keeps in constant touch with what the local units are doing, because you must strengthen the standing of these bonds which go to the outside public, and if the outside public found out that the bonds being issued by the State unit organization are only such as the locals could not independently place locally there would arise a feeling that there is no supervision over the issues which would warrant investment on the part of a conservative public.

Mr. BULKLEY. I did not quite understand what you said a while ago about competition. I thought you developed the proposition that there was not any particular benefit in having competition. Your plan does not contemplate eliminating competition among these banks at all, does it?

Mr. VON ENGELKEN. No. The idea here of these local units without any organization was predicated upon the idea of competition, but it seems to me that that, as I said, will seek its own level.

Mr. BULKLEY. You contemplate that the banks would compete under your plan, do you not?

Mr. VON ENGELKEN. I do not believe they will, because I do not believe that there will be more banks organized in any locality than will suffice to take care of the business of that community.

Senator HOLLIS. That is a duplication of the mutual?

Mr. VON ENGELKEN. You see, Mr. Bulkley, take your local banks in your town, and they are in competition, and they have a bigger latitude in the conduct of their business, which is taken away from these banks.

Mr. BULKLEY. They have some latitude.

Mr. VON ENGELKEN. You specify what the function of these banks shall be, and how the business shall be conducted.

Senator HOLLIS. That is, the rate or per cent is compulsory.

Mr. VON ENGELKEN. Yes. In the case of a State bank, you three gentlemen may be bankers. I have a certain class of security. It may appeal to Mr. Bulkley more than it would to Senator Hollis. I would go to Mr. Bulkley, and then he holds that until I pay it, and takes the interest, and it is not offered to the public; but here is something offered to the public. Competition will bring about a condition of higher appraisal of land that is injurious to the confidence which the public must have in this thing.

Senator HOLLIS. To make that a little more clear, you would not expect that the borrower would get any better rate of interest from one bank than from the other, but he could get his land value raised so that he could get more money?

Mr. VON ENGELKEN. Exactly.

Mr. BULKLEY. I do not see how you can be sure that you can get a like rate of interest. There is a limitation that interest shall not exceed 1 per cent above the interest paid on the bonds, but many European banks of this character do business on much less than 1 per cent.

Mr. VON ENGELKEN. But you must remember that there is nothing in this which prevents any local unit bank of one particular State invading the territory of another.

Mr. BULKLEY. That is what I was trying to get at. I thought, from what you said before about competition being useless, that you had some suggestion about it.

Mr. VON ENGELKEN. No, no; but the point I tried to bring out was that the argument against organization in this bill, as nearly as I can get the meaning out of the words, is that they want to encourage competition, and I say there is nothing to be gained by individual banks which will not be more a gain by coalescing these banks into an organization. That is the point I am getting at. In other words, I believe it is a strengthening of them.

Mr. BULKLEY. I do not quite understand your plan for distributing the loans made by a bank that might want to go into liquidation. You said you had a suggestion that they be passed around among the other banks within the State?

Mr. VON ENGELKEN. Yes.

Mr. BULKLEY. Would that be compulsory on the other banks to take them?

Mr. VON ENGELKEN. It may not be compulsory, but it would be the logical thing to do for the banks in the State, for they are all inter-

ested in keeping the reputation of their securities up. They would automatically have to do it.

Mr. BULKLEY. Is it your plan to invite the other banks to bid for them?

Mr. VON ENGELKEN. No.

Mr. BULKLEY. Then, how would you go about it?

Mr. VON ENGELKEN. The board of directors of the State organization would distribute to those different organizations those securities of this one which desires to liquidate.

Mr. BULKLEY. And fix a price for them?

Mr. VON ENGELKEN. I would suggest on the same basis on which they had been issued for this liquidating loan.

Mr. BULKLEY. Suppose some of the other banks do not approve of them and do not want to take their share?

Mr. WOODS. Mr. Chairman, there seems to be some misunderstanding about this. If any bank wants to liquidate, these local banks hold but a very small amount of mortgages; they have no bonds out. The central institution could just buy the loans and issue bonds for them and sell them.

Mr. BULKLEY. I am trying to get at Mr. von Engelken's suggestion. It is not that, because he proposed that the loans should be distributed among the other local banks. He does not propose that the central organization shall buy them.

Mr. WOODS. That is what they have been doing.

Mr. BULKLEY. I do not know that they have been doing anything.

Mr. WOODS. I mean under the plan they would be doing that.

Mr. BULKLEY. That is what I am trying to find out. He did not say that.

Senator HOLLIS. It was my suggestion that the State organization, if there were one, should take the assets over and liquidate them. Mr. von Engelken did not suggest that, but that they be distributed, and of course it would be compulsory distribution.

Mr. WOODS. They would be in the business of purchasing these securities of the locals and issuing bonds.

Senator HOLLIS. They would have the most of them. There would only be a few scattering ones that came in recently.

Mr. VON ENGELKEN. Let me read just one paragraph which I think covers that very point in this report:

The locals should not be permitted to issue bonds running for a long time for several reasons:

1. Its capital would be small and its market necessarily restricted. European investigation revealed no small associations or societies doing this class of business.

2. Should it place a number of long-term loans running over a considerable period it might find itself suddenly in a very embarrassing situation either by reason of its inability to market the loans or by lack of a sufficient volume of business to justify its continuation. In either case it would find itself up against a losing proposition, without the power to liquidate on account of its outstanding long-time bonds. Its financial embarrassment would therefore be inevitable, whereas in a federation as proposed any individual local could be liquidated by the State unit organization substituting loans received from more successful locals and withdrawing the loans bearing the indorsement of such unsuccessful local, turning such loans over to the nearest successful local, whose indorsement could be substituted for the unsuccessful one on some agreed basis. In this way the unsuccessful local could retire its liabilities and liquidate without a receivership. Or the State unit organization could easily perfect a consolidation of two or more of its federated locals to save such a situation. Provision for such consolidation should be made by law.

Mr. BULKLEY. According to that, then, the bank has got to get out of these indorsements by substituting the indorsement of other banks under an agreed basis. That is to say, the bank whose indorsement was substituted would have to be compensated for it. Is that the suggestion?

Mr. VON ENGELKEN. A condition of that sort might arise. Even if the farmers in this liquidating bank had to put up a little something in order to get out from under, they would be vastly better off than under the plan here, where they could not get out at all.

Mr. BULKLEY. That is a better plan than what I first understood you to suggest. In other words, it seems to me that the successful banks whose indorsements are desired should not be compelled to give those indorsements. They should be permitted to sell them in competition for what they are worth, and let the liquidating stockholders take the loss, if there is any.

Mr. VON ENGELKEN. That might be better.

Here is one sentence that might clarify the atmosphere:

Whereas in a federation as proposed any individual local could be liquidated by the State unit organization substituting loans received from more successful locals and withdrawing the loans bearing the indorsement of such unsuccessful local.

For instance, they could go out in the market and purchase sufficient bonds to retire those and issue instead the bonds of more successful locals upon some agreed basis. Of course things of that sort can not be fixed by statute; they must be met by agreement.

Mr. BULKLEY. Are the bonds issued by the individual locals?

Mr. VON ENGELKEN. No, sir. In other words, when the accumulation of securities from the combined locals in the State reaches a certain point the State unit organization would issue a series against the collective securities. If any part of that collective security should turn out to be weak or want to be retired it would simply be necessary to retire a sufficient number of those bonds of that series in order to maintain the ratio of assets behind the bonds issued. Do I make myself clear? Of course those things can all be worked out in detail; but it is the underlying idea that I am trying to bring out that organization gives strength just as it does in the Federal reserve act. I believe in that act the individual banks can make what loans they choose, but they have a central organization which passes upon such loans as they propose to convert into public use.

Mr. SELDOMRIDGE. Have you covered the matter of the Government dealing with the central organization?

Mr. VON ENGELKEN. No. I was going to come to that when we get the question of the central wound up, and if you have no more questions I will pass on to that.

The next matter, then, is the question of the Federal fiduciary agent and his functions, which goes right back to the fundamental question of the security and the appraisalment of the property.

It seems to be apparent that the investors of the country recognize that there is value to farm property for loan purposes. But if you are going to inject confidence into the investing public in this matter there must be some assurance as to the amount of farm property behind any loan—the ratio, in other words, of security behind the

loan to be issued. Now, what is provided here? We have here a bank organized by 10 farmers, we will say, considering the smallest unit available, 3 of these farmers to be an appraisement committee. And that is the only appraisement between the placing of the mortgage and the issuance of the bonds—these three farmers—and as I pointed out yesterday, it stands to reason that if you leave the matter to the farmers those farmers are going to appraise that land as high as it is possible for them to do so, for several reasons. In the first place, the members of this local unit benefit from the appraisement. They are the borrowers. They might want to place a mortgage on their own place. In the second place, the higher they can appraise that property the better indication it will be of the value of farm properties in that section.

Mr. COULTER. Even though they do not issue much?

Mr. VON ENGELKEN. Even though they do not issue much.

Mr. COULTER. They might simply borrow on a 10 per cent of the value basis.

Mr. VON ENGELKEN. Having always in mind the idea of selling the property, which does not exist in Europe.

Senator HOLLIS. It is pretty popular to have high priced farm lands in a community.

Mr. COULTER. Except there is fear of increased taxation. The Government finds that to be the case in making a census of farm-land values. The Census Bureau once in 10 years tries to ascertain the value of all property—not the assessed value, but the true exchange value. The first thing the Census Bureau does, when it goes to every farmer and he is asked the value of his farm, is to say that the information given will not be allowed to pass into the hands of the tax officers. Here is the National Government in the very first sentence assuring the farmer that it will not let the tax officers know the value of his property.

Mr. VON ENGELKEN. I have nothing to say on that subject.

Mr. COULTER. So that I am not giving the assessed value, knowing, as we do, and from the very statement that Mr. von Engelken gave here yesterday about a \$16,000 or \$18,000 farm assessed for taxation at \$800, that assessed valuation does not constitute a very valuable index to the true exchange value of farm property. The effort of the Government is to get the true value, and that is the first point made.

Senator HOLLIS. Proceed, Mr. von Engelken. This is interesting.

Mr. VON ENGELKEN. Then this situation will arise: Your farmers proceed to make loans and you three gentlemen are the committee of three. I am the owner of land and I want a loan. If you will appraise my property as high as you can I will in turn stand behind you in the appraisement of your property. A situation of that sort is not at all inconceivable in this country, and yet there has not been any check placed on those bonds in this sort of connection. You merely say that the appraised value of that farm shall be available for a loan of 50 per cent of that value, and the value shall be determined by three farmers who organize this bank.

Senator HOLLIS. And still these farmers would have their capital invested and they would not want to make the value too high. That would be a check.

MR. VON ENGELKEN. At the same time I might think my farm is worth \$25,000 and place a loan on it for \$12,500, when an impartial appraiser would value my property at \$15,000.

MR. WOODS. Does not your plan provide for the guarantee of those loans by the locals?

MR. VON ENGELKEN. Yes.

MR. WOODS. It seems to me that that would be a very good check on any tendency toward overappraisal.

MR. VON ENGELKEN. But, you see, here is the point: None of these farmers are going to make any loans with the idea that anything is going to happen.

MR. WOODS. No; but the officials, when they come to guarantee the loans, would see to that.

MR. VON ENGELKEN. But those officials make the appraisal.

MR. WOODS. I consider that quite a check in itself.

MR. VON ENGELKEN. I am going to point out, when I get to this fiduciary agent, where I think that situation can be very greatly strengthened without taking from the farmers the function of appraising.

This Federal fiduciary agent provided here for each local unit organization is, to my mind, a cumbersome plan of little service and purpose, because it is not a part of the function of this individual to make any check of the appraisement of the property. He merely must see that there is a mortgage for a bond. The mortgage may be for \$10,000 on a \$5,000 piece of property, but then that goes entirely over his head—it is entirely without his jurisdiction. Why is it not better to eliminate this Federal fiduciary agent, who is the agent of the Government and is the only individual who is supposed to strengthen this in the minds of the investor, and let the point of attack of the Government on this situation be at the State unit organization at the time of issuing the series of bonds? That works out this way: The State unit organization appraises by its own impartial appraiser the mortgages which any local proposes to convert into cash. Then when this State organization has a sufficient block of collective mortgages it announces to the Government that "We now propose to issue bonds." It gives 30 or 60 days' notice. "Kindly come down and inspect our securities." The Government sends an appraiser out there, who goes over the securities in detail, and if he notices anything which appears to him to be dangerous it is his business to investigate the entire securities before the bond issue is authorized. That is exactly similar to your Federal Reserve act, in which the fiduciary agent—if I understand, not being a banker—scrutinizes and checks the securities which any local bank has before it is allowed to issue currency against it.

SENATOR HOLLIS. The Federal reserve agent is not expected to know very much about the solvency of the signers of the notes. He is to see that the notes have their face value, and he may well know, perhaps, but I do not think it is contemplated that he shall have much knowledge of the solvency. You would want to go further in investigating the soundness of the loan than the Federal reserve act. You see they have that 40 per cent of gold back of them.

MR. VON ENGELKEN. There is a reserve, but there is this other thing in your Federal reserve act: He may have securities of a great many different kinds, whereas this is all security of one kind.

Senator HOLLIS. It is contemplated his security is a commercial loan; but there would be, unquestionably, men you do not know anything about, and you would want to investigate.

Mr. VON ENGELKEN. He might also have a nine-months' paper from a farmer. Isn't that a subject of discount?

Senator HOLLIS. A certain amount of it could be received, I think, under regulations—six months' maturity.

Mr. VON ENGELKEN. That is the idea that I had to advance here as compared to the one that is brought out here.

Senator HOLLIS. It is analogous to it, and the illustration is very useful, and I am glad you made it.

Mr. SELDOMRIDGE. The suggestion has been made that some part, if not all, of the postal savings banks' funds might be invested in these banks. How is the Government going to arrive at any idea of the proper proportion of those savings to place in one particular State unless they can deal directly with some central organization?

Mr. VON ENGELKEN. That strengthens the argument I make.

Mr. SELDOMRIDGE. There are hundreds of these banks which will solicit these funds if they are offered to them. How is the Government to equitably apportion those funds unless they can deal with a central organization in the various States and endeavor as far as possible to provide for a fair and general distribution?

Senator HOLLIS. Perhaps Dr. Coulter would like to answer that.

Mr. COULTER. We had thought that postal savings funds would likely be used in the communities where they were collected.

Mr. VON ENGELKEN. We would not get any of them in that case.

Mr. COULTER. It is a fact that in some of the States where there are practically no postal savings deposits there would be very little for the purchase of farm-land bonds in those States.

Mr. SELDOMRIDGE. It seems to me that the plan proposed here is more along the line that we would give the Government a chance to take funds that are stored in one locality and place them where there is need for them.

Mr. COULTER. That is a fact. There might be deposits in Jacksonville and might not be any down around Palatka; and the funds of the savers in the large cities probably should be given an opportunity to be invested throughout the State on the consolidated securities.

Senator HOLLIS. To carry that further, in New England there is no crying need of money for farm lands, because we have our mutual savings banks; and I think it would be entirely proper to transfer the postal-savings funds from New England, under proper authority, to Florida or the West, where there is need for them.

Mr. VON ENGELKEN. In other words, pave the way for the farmers in those localities to make a sort of decent living.

What I am trying to get at, if I may inject this idea, is simplicity. You are now about to embark on something in which you have nothing to guide you, and the success of what you do is predicated absolutely upon the degree of confidence which you can inject into the investing public at once; and I wanted to have a system so simple that you can do that. If it wavers in the beginning it is liable to fall of its own weight. Therefore it is my opinion that what you must do is to simplify this matter and leave as few points of attack as is possible. I would like very much if you would let Dr. Coulter substantiate me in this idea of the Government supervision of securities,

because I think he rather inclines to my opinion. Am I right, Dr. Coulter?

MR. COULTER. I have in mind, first, that we now have outstanding \$2,000,000,000 of mortgages, and the investing public already knows something about the value of farm-land mortgages; and if they have already invested \$2,000,000,000 in that land, the bond is likely to be somewhat more favorably received, which would result immediately in action.

As to the local appraisalment, I think there is a great deal in what Mr. von Engelken says. I think it might well be provided, though it is not in the commission bill, that the National Government, through the bureau of farm-land banks, or whatever sort of bureau is created, should have, in addition to bank inspectors, appraisers, and then, when an institution was ready to issue a considerable block of bonds, that the appraiser could be called in and make a general appraisalment of all of the property back of the series of bonds. That would be much more economical than generally found, for instance, in insurance companies and land companies, where every time you issue mortgages you go and get your livery rigs and you have your hotel expenses and traveling expenses of supervision for one individual mortgage. That is a thing which is so expensive that the farmers could not afford to have it go on the way it has gone on heretofore. If, however, the appraiser could go to a community or a State and cover all of the pieces of property and look into the thing generally it might be a very valuable addition. It might place a great deal of additional confidence in the bond and in every way redound to the benefit of the system.

I must confess I studied for weeks trying to think of some way to have an unbiased outsider come in and appraise the property, and I had not seen any way, and thought the fiduciary agent came nearer to it than any other way suggested in European concerns; but I believe the other would add strength to it in addition to reducing the expenses. But I think you would still have to have some one in the local institution corresponding to the fiduciary agent. It might be that his powers might be simmered down almost to that of a notary public under bond, to certify that the mortgages were in and of face value, and so forth and so on, and in that way reduce the powers and reduce the expense also of the fiduciary agent and increase the power of the appraiser and his functions. But I do not think it is absolutely necessary to have a State unit. I think it would be better to say that these institutions may form their selling agencies and so forth, and work it out in that fashion.

MR. VON ENGELKEN. I do not agree with the doctor in any particular, perhaps because I have had more recent farming experience than he has.

Senator HOLLIS. We are very fortunate to get the two views so intelligently expressed.

MR. VON ENGELKEN. My experience as a farmer, gentlemen, as briefly outlined, is this—and I want to say right now that nothing I say must be understood as casting any discredit or aspersions on the farmers. But the farmer is a man of very peculiar mentality. In the very nature of things he must be so, because he is subject to conditions over which he has no control. He is the greatest optimist and the greatest pessimist in the world, as I said yesterday; a creature

of impulse and a very hard man to guide. Ordinarily our American farmer you can not guide, but the European farmer you can.

Senator HOLLIS. That is because he has been so often called "the independent farmer," and he wants to keep up his condition.

Mr. VON ENGELKEN. It is very apparent to me, and I wish I could express it in such a way as to convey that idea to you, that whatever you do for the farmer now you must complete and turn over and say, "Here it is; go ahead," and leave nothing for him to work out for himself, because if you do the chances are in a great many cases it won't be done at all. You have got to build the track and build your railroad train and put on your conductor, complete the whole thing, and say, "Here it is; get aboard and go on."

Senator HOLLIS. That is very easy to understand, because each farmer on his own domain is king. They are really little principalities, with autocratic control, and if you leave anything in this system for them to work out there will be a great many different minds; therefore, if they are going to join a system, let them join it according to the rules. That is your idea?

Mr. VON ENGELKEN. That is my idea. I had a little experience along that line in the case of the Hastings Potato Exchange, which was organized for the purpose of finding a market for the universal product of that section, and we fought, bled, and died—and finally did die—over absolutely nothing that had any relation to the main question, but outside things which were injected and on which discussions were had, purely minor points, until those who really had the thing in hand and had some enthusiasm had lost it, and it fell to pieces. That is what I am trying to say. If you provide now a vehicle by which the farmers can convert their assets and place them in the open market for sale, finish the job and do not leave anything for them to do, because if you do, in one locality they will do it this way and in another one they will do it that way, and there will be a heterogeneous mass of all sorts of plans and you run great danger of getting far away from the main idea, which will be lost sight of by the fuss and dust raised by these little disturbances. That is my firm belief.

Mr. COULTER. May I just ask a question there?

Senator HOLLIS. Certainly.

Mr. COULTER. I think that right at the present time there is some strength in Mr. von Engelken's argument and there probably would be a few years later, until we get a system of farm insurance, the various kinds of farm insurance, built up. In those parts of the country where there is not such a thing as farm insurance well established there is some strength in the argument, and it may be that I am influenced by the fact that my farm experience in actual farming and on a reasonably large scale is in the district where we do have very well established farm insurance. For instance, if a cow gets sick, the farmer does not sit up all night and fret over her the same as if he did not have her insured. I suppose he is not quite so pessimistic, because he knows that he is not going to lose everything. After all, the animal is covered by insurance. And the same thing is true with crop insurance. We are in a country where we have the crops insured to a very considerable extent.

In fact, the farmers have gotten so well acquainted with the problems of crop insurance that in my State a year or so ago they

had the matter up of establishing a State crop-insurance system, so as to balance all the prospective losses in every little community and spread the loss over the State, knowing that at any time anybody might be hit and that anybody probably would be willing to pay in a cent or two to spread over the loss, and in that way no farmer need sweat blood when he saw a thunderstorm coming up or saw a green cloud that might mean hail. And there is always a chance that one little community might be hard hit and a little institution might suffer more than if you had a State central, which would level things out for the entire State, and I have no doubt but what I am influenced by 30 years of living on a farm and raised farm products in a district where we have settled some of these outside problems.

Mr. VON ENGELKEN. Referring to what Dr. Coulter has said, I want to point out that you are having now ideas on this same subject from men familiar with farm conditions from the opposite ends of this country. Dr. Coulter comes from an old and well-settled community. I have lived in the State myself and I know that there is infinitely less moving around. But what I get my information from is a new country, where it is entirely possible that 10 years from now there will not be a single man in the farm community who is there to-day. And as it is a fact that what you provide now will be more largely taken advantage of in these new communities where it is most needed, it is logical to approach the problem from the viewpoint of a new community.

Senator HOLLIS. That raises a question that it might be well to discuss. Of course, it is contemplated that borrowers will move from the community and that others will buy the farms and assume the obligations, but not that the original borrower will be discharged from his obligation. Has that been considered at all?

Mr. VON ENGELKEN. It has not been considered as far as I am concerned, Senator, because I have been considering the borrower as not much of a factor in the situation. What we are dealing with is what the borrower has.

Senator HOLLIS. Well, we have got to consider the man as well.

Mr. VON ENGELKEN. But if he transfers the debt to some one else the debt stays with the property.

Senator HOLLIS. But there are men that none of us would loan to, no matter what the security was. That would have to be handled as it always is under similar circumstances. I do not think it is worth while to pursue that further.

Mr. SELDOMRIDGE. I think there should be a statement in the bill requiring the loaning power to take into consideration the character and general reputation of the borrower.

Mr. VON ENGELKEN. Would it not be proper to inject something of this sort: That in the event of a selling of any mortgaged property the bank has the option of requiring the payment of the mortgage; and then the new man might, in turn, if he proves acceptable, borrow again. Again, the borrower and seller might go to the bank and say, "Kindly do not call this mortgage, because Mr. So-and-so is buying my place, and he is straight and has a good reputation, and you can transfer the mortgage to him."

Senator HOLLIS. That feature ought not to be lost sight of.

Mr. VON ENGELKEN. That very thing strengthens, again, this argument for a State-unit organization, because how do you know that

the members of a local-unit organization to-day will be there 10 years from now; and at the same time they are obligating themselves for 35 years, don't you see? Let me cite you a case that will illustrate that very clearly. There is a section in the State of Florida which underwent a considerable boom within the last five years, and three or four years ago land was actually sold in that community for \$2,500 an acre.

Senator HOLLIS. What was that land used for?

Mr. VON ENGELKEN. Celery. When I say celery, of course you know what I am talking about. But the thing was there had been a tremendous profit, and everybody went there from East, West, North, and South and opened up celery farms. Now they have gotten down to a normal basis. But the lands were sold for \$2,500 an acre. Under this plan why should not they have pledged their property for loan purposes for \$2,500 an acre without check?

That presents another feature. I think it should be provided that the State-unit organization, in conjunction with the local-unit organizations provide a reserve fund out of the profits to take care of just such conditions. It might be possible that with this \$2,500 land that they would loan on the basis of \$750.

Senator HOLLIS. Why would it not be a good idea to provide that they shall not loan more than so much for an acre of land? I think that might meet that situation.

Mr. VON ENGELKEN. I think that would be a good idea.

Mr. PLATT. Would you say that the farmers have got the best security in the world, as was said here by many representatives of the farmers?

Mr. VON ENGELKEN. That is a little bit difficult to answer. I say this, that land is the best security in the world.

Mr. PLATT. Let me put it in another way. Has there been any justification, for instance, for what has been called discrimination against land loans? Has the bank been at fault in not making loans on farms to the same extent it has on other property?

Mr. VON ENGELKEN. I think there has.

Senator HOLLIS. You mean you think there has been discrimination?

Mr. VON ENGELKEN. No; I mean I think there has been justification.

Mr. PLATT. In other words, farm lands have been the subject of speculation as much as city property?

Mr. VON ENGELKEN. Let me answer that in this way: I think any farmer in the United States who farms his property along business lines and injects into his work the same amount of conservatism, intelligence, organization, etc., that would he be required to inject into any commercial business to make it a success, can get credit, and his land is available for credit; but what is discriminated against is loans, not the land but is the man on the land, and I think the man on the land is every day learning more about his business, and I think every day farm loans are becoming more secure; but it is going to require time and education.

Mr. PLATT. But there are periods when the land of a whole section seems to raise in value from speculative reasons, and it looks to the people who are there and even to outsiders as if the value was stable.

Mr. VON ENGELKEN. Yes.

Mr. PLATT. But the value of the lands for some reason or other has been decreasing, so that the experience of the banks has been that the land has not been good security compared with other securities.

Mr. VON ENGELKEN. Let me cite you the case of depressed securities in Florida. Before the big freeze we had a remarkable orange industry and you had to cover an orange grove with dollar bills to buy it. Then came the frost of 1895 and it dropped to \$10 an acre in many instances. Now it costs \$1,000 an acre. Under the amortization plan a man having a reasonable mortgage on his land could have survived that, because it takes from three to five years to get your groves back to a bearing state. As it was I can take you down where I live now and show you houses deserted, where the people went away without locking the house, with the furniture and everything else in there, and they walked away because they did not have the price of a railroad ticket. You see it came overnight.

Senator HOLLIS. Has the orange-growing industry returned to the condition it was in before?

Mr. VON ENGELKEN. Yes.

Senator HOLLIS. It has caught up, then?

Mr. VON ENGELKEN. Yes; and it is now back much more safely than it was before.

Mr. SELDOMBRIDGE. Do they use smudge pots there?

Mr. VON ENGELKEN. No; not so much that, but they are banking the trees. If the tree freezes on the top of the ground it leaves a certain amount of the bud which in three years will bear again, which was not done at that time.

Senator HOLLIS. Who invented that?

Mr. VON ENGELKEN. I do not know. That was invented by necessity.

Mr. PLATT. Would you say there are similar hazards in fruit-growing sections? Mr. Seldombridge mentioned (aside from the record) apple growing in Colorado. Would you say it was true, for instance, of apples or small fruits?

Mr. VON ENGELKEN. There is this hazard, Mr. Platt. We are building up in this country higher and higher standards of product. Our requirements are getting greater and greater. We want finer apples, we want a finer orange, and we want it quicker, and all that sort of thing. We weaken the vitality of the plant and make it more subject to disease. You take the old apple trees that grew when I was a boy stealing apples from the orchard and the only way that you could kill that tree was with an ax. But take these fine apple trees that they have now in Colorado and Oregon where they raise apples of large size and polish them with a chamois skin and they are fighting day and night to keep disease out of them. Isn't that right, Dr. Coulter?

Mr. PLATT. There are lands in Colorado, for instance, that sell for \$5,000 an acre for apple growing which does not grow any better apples than the whole country of New Hampshire and New York, which is right near the market. Would you say there is danger of the inflation of the value of such land?

Mr. VON ENGELKEN. The public is very fickle in its demands. The price depends on the demand.

Senator HOLLIS. You had better go ahead. We have led you quite a bit astray.

MR. VON ENGELKEN. That, I think, covers the argument I wanted to make on the point of the interest on the part of the Government.

Senator HOLLIS. I think you have made it very plain.

MR. VON ENGELKEN. We now pass on to the question of deposits, and I anticipate that that will be a pretty lively discussion, because I do not agree with the idea of allowing these little units to receive deposits, and there are many reasons for that.

In the first place, it seems to me to be decidedly to the advantage of the farmer to conduct his farm-mortgage business with the least amount of detail and expense. The less expense that is involved in conducting this the better. This is just really a rudimentary business; it is simple; there is nothing complicated about it, and by eliminating the complicated elements you can get it done and cut down the expense.

Senator HOLLIS. Right there, do you think it would be possible to conduct these local banks in the evenings, the way they do these loan associations?

MR. VON ENGELKEN. No.

Senator HOLLIS. Or would they have to keep regular banking hours?

MR. VON ENGELKEN. Yes.

Senator HOLLIS. That would be a great place to save expenses. If you give them regular banking rooms and regular banking hours and conduct a regular banking business, it will make it expensive.

MR. VON ENGELKEN. But, you see, eliminating the question of deposits, you can limit your overhead charges.

Senator HOLLIS. On the other hand, I should be inclined to think the deposits would help you to reduce your overhead charges.

MR. VON ENGELKEN. I should analyze that a little further. Let us take, for argument's sake, a \$10,000 bank which has not yet loaned its full allowance of \$150,000. Now, it is dealing on a margin of 1 per cent, which is \$1,500 if it has loaned up to its capacity. The question that I am trying to bring out is this: What benefit will accrue to the farmer through the simple expedient of having that institution receive his deposits from the time he gets his money until he is in position to use it all. Why not let him use the existing country bank for that purpose and not be burdened with the expense of keeping the checking account? Because it is provided, for instance, that a \$10,000 bank can only receive \$5,000 of deposits, and it takes a man versed in the business to handle that \$5,000 as well as if he were handling \$50,000.

Senator HOLLIS. I can give you a little bit of testimony on that. I know a bank in a town of about 800 people. It is a national bank, but has a savings depository. It gives every savings depositor a check book and it encourages him to use his check book and use his money, because it only pays on the lowest deposit in three months. He encourages the checking because it draws it down, and he does not have to pay interest on so large a balance. I suppose that is a very unusual thing. That bank has become immensely profitable and one man has bought up all the stock.

MR. VON ENGELKEN. You see there is a fine distinction between savings and checking deposits in the amount of labor involved.

Senator HOLLIS. They give them a check book and tell them to draw the balance so that they do not have to pay much interest, and they find it pays them to do it.

Mr. VON ENGELKEN. In this minority report somewhere—I do not know just where—we suggest that the locals should receive savings deposits. But when it comes to a checking account it requires the services of a fairly high-priced man, and I do not see where the benefit comes.

Mr. PLATT. You mean the bookkeeping?

Mr. VON ENGELKEN. Yes; the bookkeeping. It is complicated.

Mr. WOODS. We have these small country banks in these communities now. What is the matter with letting them take charge of this farm-loan business?

Mr. VON ENGELKEN. Have you read our report?

Mr. WOODS. No. What would be the matter with that?

Mr. VON ENGELKEN. You have simply taken our minority report en bloc. That is the suggestion we make.

Mr. WOODS. You do not think they would take 1 per cent margin, do you, for doing business?

Mr. VON ENGELKEN. No; I do not.

Mr. WOODS. I am confident that they would be willing to do it for one-fourth of 1 per cent.

Mr. VON ENGELKEN. So am I.

Mr. WOODS. Making that the limit, and let these banks continue to do the deposit business.

Mr. VON ENGELKEN. Yes. I can cite you an illustration. The farmers in Hastings are proposing to open a bank, and they called me in and asked me what I thought about this farm-loan business, and I told them that we would have action on it in a short time, and to wait. It is their purpose to provide a bank of their own to work in conjunction with the farm-land bank to be organized in that section. And I think you will find that to be largely the case where the existing institution does not fill the existing needs. If, on the other hand, you allow the little local unit to receive deposits, in the first place you provide that the bank shall be free from taxation; and yet the little country bank doing practically the same business is not free from taxation and there is a certain amount of discrimination which will put the bank which is now there to a disadvantage. In the second place, why antagonize them? What is to be gained by antagonizing the country bank? I do not think that it is to the profit of these local institutions to have \$5,000 worth of deposits, which might be checked out at any time.

Senator HOLLIS. That is the question. If it is profitable, we ought to give them a chance, and if it is not we ought not to encourage it.

Mr. VON ENGELKEN. Further, do you not think this, Senator Hollis, that from the point of view of the investor the investor might agree with us that the farmer is able to appraise land, but would be a little doubtful whether he is able to deal with the deposits?

Senator HOLLIS. My greatest objection to it would be that the assets would not be liquid, and they would have to be liquid.

Mr. VON ENGELKEN. If you allow the little local banks to go into the banking business and take the limit in deposits so that they could derive some revenue, that would be a different matter, but here you

have \$5,000, and a man must be prepared to take care of that business, and does it outweigh the advantages accruing to the farmer by eliminating all you could and securing simplicity, which gives confidence, because taking away the checking account which the local bank can handle just as well and which they are entitled to—they are entitled to a little of this farmer's business—taking away this matter of checking you reduce it to its elements, and the farmers have nothing to do except form their organization, issue the mortgages, and then deal with the State unit organization for the purpose of securing money when their funds were exhausted in exchange for the mortgage which they have sent out? I have not the faith in the farmer as a banker that is evidenced by the gentlemen who wrote this majority report.

Senator HOLLIS. I can not see where it is necessary to have it a bank and keep open during banking hours. Take \$150,000 out in loans, there would be 150 averaging \$1,000 or 75 averaging \$2,000, spreading over a period of 35 or 40 years. There would only be about one mortgage handled in a month. I can not see the need for having a regular banking room open during regular banking hours.

Mr. VON ENGELKEN. Unless you have a checking account.

Senator HOLLIS. As I see it, and I rather view it from what the building and loan association is doing, and you could do it the way the building and loan association is doing and have them open in the evening, because it is going to be so much less expensive. Then a clerk in the clothing store could look after the details in extra hours and you could reduce the expense immensely, if it is feasible to do it that way.

Mr. VON ENGELKEN. You may be surprised to know, Senator Hollis, that I found repeatedly in Germany that the members of these banks place their own funds in the city banks. That is, they borrow from the bank, but they would not put their money into it. The reason for that is that they object to having every Tom, Dick, and Harry know how much money they have on deposit. That is another thing to be considered, because the farmer has not been educated to that degree of silence which is required of a banker.

Mr. COULTER. The commission is working out a provision which says that they must not necessarily have deposits, but they may.

My own judgment has been, for a great many months back, and in fact I made a special report to the Wisconsin Legislature on that subject over a year ago, that the little institutions probably would not take the deposits at all. They may, but they would not probably find it profitable, unless they did more than the land-mortgage business. My idea was that if you authorized them, the small ones nevertheless would not take deposits, but would do all of their business with some local bank, when the installments were paid and when interests were paid out to the bondholders, etc., that the business would be done with the local bank; that the farm-land bank would have an account with the local bank; but after the institution got larger, got to a point where it must maintain permanent offices and officers, etc., then it would be, I believe, decidedly wrong to make it impossible for them to look after their own mortgage business. In other words, let us say that the institution got up to \$50,000 of capital, and when farmers borrowed they would want to leave a little of what they borrowed. Say they would want to build a building, or were going to

put in tile, or whatever the purpose was, they probably would want part of it now and the rest in six months, but they would want to take one mortgage, and they should be allowed to leave the rest of it with the bank for possibly weeks or months.

Similarly, when the annual payments were made they could make those to the farm-land bank itself. The farm-land bank itself could look after paying the interest to the bondholders. After it had taken on sufficient size, etc., make it worth while for it to do that sort of thing. Then the other type. I have spoken of the type which would be small and would be doing only a mortgage business; and second, the bank of the type that would be a grown-up institution, doing a considerable amount of business, one that could handle its own receipts and payments, etc.; and the third type—I have provided another, which I do not know whether you gentlemen have noticed or not—providing for 50 per cent interest in the cost of operation of an institution which would be allowed to do a regular banking business only with its members. In other words, like the People's Bank of Europe, lending only to its members and doing business only with its members, if they want to do that, but prohibiting them from going into a general banking business. It seems to me that with the small bank we could allow them to go ahead, and it would be a very profitable business for them with their own members, and they would not open a regular bank on \$10,000. It seems to me that the additional profit that there would be from doing business with their members would be sufficient to pay the additional overhead charges and operating expenses, and it could go ahead. These three types are as clearly outlined as possible under the bill under consideration.

Mr. VON ENGELKEN. How would this appear to you, gentlemen, that you define the size of bank which may receive deposits? By that I mean this: I agree with Dr. Coulter in a measure, that we should not just come out flat-footed and say that these banks shall not receive deposits, but to eliminate from them the weakness from the investor's point of view, why not say that no bank may open up a current account business until its capital has reached, say, \$25,000, and when operating with \$25,000 they have sufficient strength, then let them open up a regular bank and receive deposits.

Mr. SELDOMRIDGE. What are you going to do in a community where it is impossible to develop capital to that extent, yet there is a pressing and crying need for short-time rural credit?

Mr. VON ENGELKEN. Mr. Seldomridge, I want, if you will allow me, later on, to have a discussion with you gentlemen on the subject of short-time credits, and I think we can clear that up at that time, because I do not agree that there is any necessity for it if this system is put into operation.

Mr. PLATT. There is one question I would like to ask you under the farm-mortgage system loans. What advantage would these banks have over the building and loan association anyway? Why could not the farmers form themselves into cooperative associations themselves? They have done it in some States—started working in the cities, perhaps. Why is not that really a better plan, because it requires savings, it makes compulsory deposits as well as compulsory payments on mortgages.

MR. VON ENGELKEN. Mr. Platt, I am not competent to answer that, because I am entirely unfamiliar with the savings union business—I mean the building and loan business. I do not know anything about it.

MR. PLATT. It does business only with its members. The savings and loans associations only keep open a night or two a week, sometimes only one or two nights a month, and the members make regular monthly or annual or semiannual payments. They join, if they have a small income, even when they do not want to borrow. They join and pay their dues for an investment, and then when they want to borrow they can borrow either on the shares that have matured or they can borrow on their land as security, and if there is an amortization plan by which loans are usually paid off in about 12 years, that could be arranged to run along there just as well as not. It is a matter of the size of the payment.

MR. VON ENGELKEN. It seems to me that the principles of the two plans are practically identical.

MR. PLATT. The only difference is, it seems to me, I may be wrong about this, the chief difference is that the savings and loan associations gather their capital from their members in the first place by getting them as members and having them make regular payments, the dues of the building and loan association coming along like a bill, and they are paid regular and the people are saving money that they would not save at all otherwise, probably.

MR. VON ENGELKEN. This plan serves the great purpose of providing an avenue for taking the money where it is and putting it where it is not.

MR. PLATT. There is something in that, I admit. That is what I am trying to bring out.

MR. COULTER. There are but a few parts of the country that could use the building and loan idea.

MR. PLATT. That is right. The capital would have to come in from the outside. The building and loan association is more of a cooperative plan than these banks.

MR. COULTER. Unless they are made cooperative.

MR. PLATT. Unless they are made cooperative.

MR. VON ENGELKEN. I think you will find when this gets into operation your corn-belt States and your better agricultural States will probably take less advantage of it, because they have less necessity for it, don't you see?

MR. SELDOMRIDGE. You will have to go into the matter of short-time credits very clearly in order to demonstrate to me that it is not necessary in the sparsely settled portions of the country, where land has not yet reached a value to justify the formation of these mortgage banks.

Senator HOLLIS. I wish you would discuss that. Start on it now. We might not be able to get so many members of the committee together this afternoon.

MR. VON ENGELKEN. Let me answer your question then by this: How can you demonstrate to me that a man in the newly settled sections of the country, who is not now a subject of credit, can, under any system that is not eleemosynary, be made a subject of credit? How are you going to legislate credit to him?

MR. SELDOMRIDGE. He is a subject of credit to a limited extent.

MR. VON ENGELKEN. I said I did not recognize the necessity at this time for a short-time credit. There are many reasons in my mind for making that statement. In the first place I think it is highly dangerous at this time or even in the next two or three years to touch upon the question of governmental action in the matter of short-time credits. To this farm-land business, in the minds of those who are not familiar with it, will bear a certain degree of relation. Many people who do not analyze the situation will fail to distinguish what is the difference between this system and a system for short-time credits. This is the simplest—it is the easiest to put into effect and the safest. If you organize now, side by side with this same system, short-time credits, which I tell you now is loaded, and they fail, you are going to injure this. This is the greatest need that stands before the American farmer to-day, because if a farmer having a mortgage running for three years, we will say, can transfer it to a mortgage running 35 years, it will simply mean this, that if the mortgage is for \$3,000, instead of having to pay \$1,000 a year out of his earnings as now is the case he can pay about \$50, and on an earning basis of \$1,000 a year leave \$950 of his own money for his own operation. And I think the farmer who really learns something about his own business with his own money is the man who is most worthy of your help.

MR. SELDOMRIDGE. But the cry is coming up to the committee from the South from the men who are in the grasp and grip of the store keeper, so-called, who is advancing them money at an extravagant rate of interest and not only holding them up for heavy interest charges, but also taking advantage of them and of his ownership of them to the extent of forcing high prices upon them for the necessities of life and equipment. We are seeking to relieve that condition and to relieve the condition of the man who is trying to develop and settle up portions of our country and who needs a little capital to tide him over a season of reverse perhaps to a year of plenty. He needs to purchase a few cows or dairy stock or something of that kind, and there is an appeal to me in the necessity and urgency of that nature, and if you do not provide in some way to reach that condition this legislation, I believe, will, in a certain sense, be charged as being ineffective.

MR. VON ENGELKEN. I have read a good deal of what you mention. I have been reading the farm papers of our local and the other papers, and it seems to me that there underlies all this cry a certain idea of getting hold of some easy money. You will find, Mr. Seldomridge—

MR. SELDOMRIDGE (interposing). It is not a question of getting hold of easy money: it is a question of getting money at all, in a great many instances.

MR. VON ENGELKEN. It must be easy money if a man can go along all these years and can not get credit and can get credit under this system which you would provide.

MR. SELDOMRIDGE. There are no banking facilities in this country.

MR. VON ENGELKEN. It has been the experience in this country that where there was business enough in a community to enable a man to open a bank there has been a bank opened. Let us look at that question a little bit from the bankers' point of view. I do not hear any question here made of the country bank, which has been really one

of the greatest friends the farmer has had, in so far as it was possible for it to be. But consider the fact that the farmer has been laboring under conditions which in themselves practically eliminate him from the field of credit. His land was eliminated. Again, as Senator Fletcher pointed out here before this committee, the farmer could not borrow from the bank for his short-time requirements for the banker realized that the farmer was borrowing money on his land from an individual who would be apt to turn him out if something happened, you see, and his principal payment being so large that the risk was augmented, that banker could not possibly lend the farmer any more money than he has done, and you will find in many of these country banks they have given the farmer more credit than he was justified in getting under the conditions under which he was laboring. Remove that under a bill of this kind and you will find that this will be the case, that the country banker will be the first man to realize upon how much better basis the farmer has been placed, and will realize it quicker than the farmer himself. There is money in the short-time business for the country banker, and he is going to take advantage of it just as sure as we are here, particularly as the gentlemen have said, since he can rediscount that paper in six months.

Mr. WOOD. You spoke of a \$3,000 loan. How valuable would that farm need to be in order for a man to borrow \$3,000?

Mr. VON ENGELKEN. Do you mean in my community?

Mr. WOOD. Anywhere under this system proposed by the commission.

Mr. VON ENGELKEN. Oh, under this system proposed by the commission? I think the appraised value of that property should be \$6,000.

Mr. WOODS. The actual value?

Mr. VON ENGELKEN. The appraised value; yes.

Mr. WOODS. That would give him \$3,000 in cash to invest, would it not?

Mr. VON ENGELKEN. Yes.

Mr. WOODS. How much personal property in the way of cattle and machinery would he need in order to farm that?

Mr. VON ENGELKEN. That is a very difficult question to answer.

Mr. WOODS. On the average.

Mr. VON ENGELKEN. For this reason: \$6,000 in my country, where I am located now, would buy about 30 acres of land, and yet the gentleman who testified yesterday, I think, said you could buy almost a section in his country for that amount of money—640 acres.

Mr. WOODS. In other words, a man who could borrow \$3,000 under this scheme would not need help.

Mr. VON ENGELKEN. No.

Mr. WOODS. He is pretty well fixed?

Mr. VON ENGELKEN. He is pretty well fixed.

Mr. WOODS. But the man, the tenant, is paying from 2 to 5 per cent a month and will never be able to buy a farm unless he can save some expenses in the way of interest.

Mr. VON ENGELKEN. Yes.

Mr. WOODS. It seems to me that that is the kind of a man we want to help in order to assist him and encourage him. He gets discouraged. He closes up everything, throws up his business, and moves

to town, and it seems to me, through associations, we ought to be able to provide a way that would certainly encourage him to hope that he would get better rates, and in a way he would get better rates.

Mr. VON ENGELKEN. Do you not think that this is the case? It has been my experience where I am located that the greatest drawback to my section as a farming section was the fact that we have had too many men come into that section and try to farm without a dollar. That is what we call shoe-string farming.

Mr. WOODS. That would apply to only a few sections.

Mr. VON ENGELKEN. Let us take the viewpoint of a tenant. A tenant, to buy a farm under this system, must have sufficient money to pay at least half of it, unless he gets a second mortgage.

Mr. WOODS. He does not need Government aid very much in any shape or form.

Mr. VON ENGELKEN. I don't know.

Mr. WOODS. Any man who has sufficient money to pay 50 per cent down does not need Government aid.

Mr. VON ENGELKEN. Would you favor a system whereby tenants having nothing can become landowners?

Mr. WOODS. Some such system. We ought to establish an incentive there for them to save by not paying 2 to 5 per cent a month.

Mr. VON ENGELKEN. I can answer that by saying that throughout the entire European trip we asked the question, "Is there any system whereby a man having nothing but his muscle and his brain can become a landowner?" and the answer universally was "No."

Mr. WOODS. There is nothing to that answer, because I had nothing but my muscle and brains, but I am a landowner. There is nothing to that at all.

Mr. VON ENGELKEN. You were not made a landowner overnight?

Mr. WOODS. No; neither will these tenants become landowners overnight. We have to provide ways and means so that in time they will become landowners and will not become discouraged.

Mr. BULKLEY. What you mean is that such a man could not become a landowner ultimately. You mean there is no way he could borrow under this plan.

Mr. WOODS. Yes; and get out of the tenant class and into the landowner class.

Senator HOLLIS. That is, you do not mean to say that we should help a man who would just walk in and give his name and say "I want to own a farm." and lend him the money?

Mr. WOODS. There is no thought of that at all.

Senator HOLLIS. Now, I am trying to get the issue between you. He wants to be brought in contact with your idea so he can give us some judgment on it, if you will explain a little more in detail what you mean.

Mr. WOODS. I think the best explanation I can give would be found in this book you people produced.

Mr. BULKLEY. What book do you refer to?

Mr. WOODS. I think it is 214 or 314. Provision was made in Germany along that line, where tenants borrowed money through associations, and I see no reason why provision should not be made somewhat along this line, only applicable to this country, to assist tenants with such legislation that it at least would encourage them

to form mutual associations so they could unitedly get money cheaper.

MR. VON ENGELKEN. I can see the force of your argument, but I do not seem to be able to see its practicability of carrying it into practice.

MR. COULTER. May I ask a question there? The point was given probably as much attention by the commission as any other point and that was the reason that we put in that clause which provided that the farm-land bank cooperative may, for and with their stockholders or their members, also do and transact the business now possessed and exercised by national banks under the laws of the United States, under such rules and regulations as may be prescribed by the commissioner of farm-land banks. We do say that a tenant may, by taking ownership of stock, become a member of a farm-land bank. To be sure, he hasn't any land, but he is a member of the bank if he owns a share of stock—he is a member of the institution. He may save his few dollars as he goes along and deposit them there. He may even buy a bond or two issued by the same institution as he saves his money. During the growing season, as a member of the bank, having his little deposits there, he may also borrow from the institution. He is supervised by his own institution. And as he goes a little further ahead with his savings, in getting his cheaper money that way; that is, getting money as cheap as the institution could lend to its members, he would, in the course of a few years, be able to actually make the first payment on a farm and become the owner of it. That one section was put into this bill with that specific end in view.

MR. SELDOMRIDGE. In our section men are landowners. That is, they are practically landowners. They have taken the lands up, and they need the means to develop them. The minute they can develop the property it immediately adds value to the country, because they become abiding citizens there, and it tends to settle the country, and you are immediately giving value to the land by putting these men, in a certain sense, in a position to use the land and develop it. It is the same sort of organization that might occupy the same relation to the national banks that the savings department does to-day, as we provided originally in our bill, that we might have two separate and distinct organizations, and we could provide means for supplying the needs of the country in the matter of short-time credit and so stop these usurious methods. The State organization, if we had one, could simply serve notice on them that if they do not meet the needs in a fair and just manner we will see that they are provided for by some system of organization that will supply the need for short-time credits to the farmers.

MR. COULTER. Would not these farm-land banks provided for in this section make that specific provision, that the members could, if they felt that they were not going to get a good rate of interest, go ahead, with their members, and do a personal credit business, but only with their members? I think Mr. von Engelken will bear me out in this statement. Throughout Europe there are these institutions which do business only with their own members.

MR. VON ENGELKEN. Yes.

MR. COULTER. And doing business with their own members, they do exercise a good deal of supervision over each other. That is to say,

everybody knows and the members know what the others are doing, and only in so far as the farmers are willing to submit to that should they probably get much more credit than they are getting. In other words, the farmer who can not get credit in this bank probably does not deserve much unless he is willing to have his other neighbor farmers know what he is doing, and have their judgment on top of his own judgment. It was our idea in providing that the institution might do that with their own members, if they wanted better credit facilities; if there were small farmers, if they had capital enough, they would be willing, in order to get the better treatment and accommodations, would go ahead and submit to that additional supervision, and would get it in that way.

Mr. PLATT. They must first save up enough to make the initial payment.

Mr. COULTER. Yes; they must make the initial payment of \$12.50. I believe that they will be able to do that. Anyway, if they can not scrape up that much, they are pretty hard off; they can not start at all.

Mr. SELDOMRIDGE. No.

Mr. COULTER. They had better go out and work as hired laborers or serve an apprenticeship and save \$25.

Mr. SELDOMRIDGE. A good many of them would do that very thing, Mr. Coulter.

Mr. COULTER. I know; and I have worked as a hired man myself. Having gotten 75 cents a day, I know what it is.

Senator HOLLIS. But Mr. Seldomridge's query arises from conditions in the West, where land is open to entry and a man goes and gets it and he is there with his family and he has got title to the land, and Mr. Seldomridge feels that he is not getting the accommodation that he is clearly entitled to with his chances for success.

Mr. COULTER. And he should have this sort of provision so that he can get into the institution on a par with landowners. He has not anything to mortgage; therefore, as a member, he can only take advantage of the personal-credit feature.

Mr. SELDOMRIDGE. If you would eliminate from the West farmers who have made a success even under our present method and conditions—those who went onto the land without a dollar—you would probably take a great percentage of the farmers away from that section.

Mr. COULTER. And you would from my home district, too. When I was born we were 25 miles away from a railroad and had simply no access to the outside at all.

Mr. SELDOMRIDGE. But you let a man go on there, and he is a man that is in the wealthy class to-day.

Mr. COULTER. He is thoroughly worthy, and there should be some such provision in here. I wonder if Mr. von Engelken has thought of that suggestion?

Mr. PLATT. This is a class of homesteaders who have not got title?

Mr. SELDOMRIDGE. Not altogether.

Mr. PLATT. If they have got title, they can borrow on mortgage.

Mr. SELDOMRIDGE. I beg pardon.

Mr. PLATT. If they have got title, then they can borrow on mortgage.

Mr. SELDOMRIDGE. Yes; but title to the land does not necessarily give them very much capital for the immediate time being to develop the land.

Mr. PLATT. They can borrow on mortgage under this system.

Mr. VON ENGELKEN. Let us put it in this way, Mr. Seldomridge: That you buy a farm and you pay all the money that you have got, or, we will say, half of it, and you have not got a dollar left, and you borrow from one of these banks for 35 years. Now, you have an equity there on which you can borrow from a banker, because he is satisfied that you are conducting your business along lines which promise some degree of success.

Mr. SELDOMRIDGE. But I understand before you can borrow from a bank on second mortgage——

Mr. VON ENGELKEN (interposing). I am talking now about personal credit without the mortgage feature. We found it to be the case that even men working on farms for wages, where they have indicated by their actions and by their evidences of thrift, etc., that they are worthy of a loan, that they have gotten loans from bankers, and they have been doing that. I know, in many communities.

I want to say this, that there are in this country, I am sorry to have to say, thousands of farmers who can not possibly be benefited by any system that you gentlemen can devise, because they are too far gone; but we want to pave the way for the next man, so that he will not go through the same harrowing experience.

Mr. SELDOMRIDGE. I think if we can, by legislation, transfer a large number of tenant farmers and those who have not accumulated land into that other class we are accomplishing a great good.

Mr. VON ENGELKEN. Take, for instance, the Government of Prussia: it is picking up these large estates and is selling them out to the young farmers, and giving them all sorts of assistance to get started, selling the land practically without any cash payment, you see, absolutely on mortgage.

Mr. SELDOMRIDGE. I am just as strong as you are for providing the most rigorous rules and regulations for the short-time business, but I can not see why the banks, properly supervised and controlled, could not engage in that business to great benefit to the farming communities.

Mr. VON ENGELKEN. Would it be your idea to combine that with this or make it a separate and distinct section?

Mr. SELDOMRIDGE. I should combine it with this. I would not like to make it a separate system.

Mr. VON ENGELKEN. I rather agree with the attitude taken by the gentlemen who wrote this report, that this is largely a matter for the States. I think that the State of Colorado could very properly taken action to encourage the inauguration of such banks, because that is almost entirely a local issue. The money that these little local banks would get to lend to the farmers must come from that locality. But this other is a national issue, and properly so, because it affects all of the people.

Mr. SELDOMRIDGE. The difficulty is that local banks can not go into these communities and make any profit on the investment in the short-time loan business, because there it must be done at a tremendous rate of interest in order to bring any profit. Here we are trying to organize an institution where the profit element is more

or less eliminated, and we have the mutual, and we provide for the expense. If they can transact a moderate, safe, and conservative short-time business, it seems to me that we are meeting a need, and it is not only in one section, but in many sections, on a cooperative basis, where they wish to do it, and where they are federated together, and when they know each other's conditions, and can do that sort of thing, I do not see why we should not make it possible for them to do it.

MR. VON ENGELKEN. I am willing to yield to that opinion, but I can not say that I can agree with the idea of combining these two, because they do not seem to have anything in common.

MR. PLATT. I notice in the minority report you state something about failures of a short-time credit association in Europe, two banks in which they do business as a central organization.

MR. VON ENGELKEN. Yes, sir.

MR. PLATT. What brought about those failures?

MR. VON ENGELKEN. Well, one failure mentioned, the one at Darmstadt—I attended a meeting at Heidelberg of the Raiffeissen bankers—let me get that clear.

MR. COULTER. I am glad that comes up, because it is the only one that has happened in a century, and it is not the failure of a cooperative. So I am particularly interested in it.

MR. VON ENGELKEN. That system at Darmstadt was built around one individual, a man by the name of Haas, who really kept it on its feet long after it would have keeled over, but for his assistance, through bad management. When Haas died the inevitable occurred, and the thing broke.

But there again comes this question of cooperation. Even in Europe cooperation is not what you are led to believe it is, because it is not an organization working from the bottom upward, but they are almost invariably guided and controlled by some man of experience.

MR. COULTER. That is, the centrals are.

MR. VON ENGELKEN. I know; but the centrals are the life of the locals.

MR. COULTER. They give instructions and suggestions to the locals.

MR. PLATT. Have those Raiffeissen sprung up spontaneously or have they been started from the top?

MR. COULTER. Have they not universally started from the bottom?

MR. VON ENGELKEN. No; they have not universally started from the bottom.

MR. COULTER. But under the supervision and direction of some strong man in the community, and they have spread to form their centrals and form the Raiffeissen. They started the little Raiffeissen Society, and there were hundreds of little ones, and they formed centrals, and when there got to be enough centrals they formed these centrals which started out these little locals, and a large number of similar locals started under this same suggestion, and then these little locals; and they have their guidance, their big central; but they all started with one or two little locals under the suggestion of some very strong man who stood back of them and taught them how.

MR. VON ENGELKEN. Is not this a fact, Doctor, that where those little banks exist and there has been no such individual, that they have been brought into life from the top?

Mr. COULTER. Then when the central has gotten started the central has uniformly taught other communities how to start them, and they are all attached to that central. That is particularly so through Austria, where they have started 8,000 in the last 20 years. It has all come from that sort of encouragement and guiding hand.

Mr. VON ENGELKEN. The weakness of the system has been the failure of the farmers themselves to take but little interest. They have left them entirely to the men on top, and when these men on top fail them it is chaos.

Mr. PLATT. It is cooperative where the people are all one homogeneous nationality and belong to one church and you have no dividing lines at all. They do not cooperate as much as we are led to believe.

Mr. VON ENGELKEN. No.

Mr. WOODS. What is the French system of personal credit established in 1894?

Mr. VON ENGELKEN. I would rather you would ask Dr. Coulter that, because I did not conduct any investigation in France and he did.

Senator HOLLIS. It is now 1 o'clock, and we will take a recess until 2 o'clock.

(Thereupon the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

The committees reassembled at the expiration of the recess.

Mr. BULKLEY. Mr. von Engelken, you may proceed with your statement.

STATEMENT OF F. J. H. VON ENGELKEN—Continued.

Mr. VON ENGELKEN. I have covered a good deal of ground this morning; and if it is possible I would like now to have the members of the committee ask me questions, so that we may have some discussion on the matter, because there is only one point I have not touched upon, and that is the question of whether there should be one commissioner or more than one—and I made some remarks upon that yesterday.

Mr. BULKLEY. Perhaps you had better proceed with whatever you have to say now, and the members of the committees can question you later.

Mr. VON ENGELKEN. What I had in mind in regard to the commissioner is that in the bill one commissioner is provided for at a salary of \$6,000 a year; but it seems to me that at the time of the inception of a system of this sort more help should be provided for purposes of inauguration. It is going to take a good deal of work to get these various locals started, and the matter will have to be helped and pushed and encouraged and advice given; and it seems to me a board of three or five or even seven men familiar with the subject, and having the prestige of coming from here, would facilitate this movement very largely; and then, as the system grows and becomes more solid and flows along more easily, that commission can be reduced in number; because, eventually, when you have arrived at a degree of confidence on the part of the investor and general public

that it is a sound system, one man can probably handle the situation very readily.

I see that Senator Fletcher provided in his bill for nine commissioners. The number of men provided in this bill, I think, is correct.

Senator HOLLIS. Senator Hitchcock told me that he was receiving some letters from parties who were opposed to the general terms of the Fletcher-Moss bill; have you any idea whether anyone is instigating such letters, or whether they come naturally from the farmers?

Mr. VON ENGELKEN. I know nothing that would indicate to my mind that anyone was instigating a movement of that kind.

Senator HOLLIS. I have not received any such letters myself, but I know some remarks were made at the hearings about the way those letters were being sent out, and I wondered if you could tell us anything about it?

Mr. PLATT. Have not the farm journals, or a good many of them, opposed the plan; or, at least, have they not indorsed their own plans—plans for direct loans, for instance, by the Government?

Mr. VON ENGELKEN. The only journal with which I am familiar which has given this matter a good deal of publicity is one of the Orange Judd publications, and they had various schemes proposed in the beginning, until this bill came out; and now I notice that they have gotten on the band wagon, but they are still advocating this question of credit unions.

Mr. WOODS. Do they not request the farmers or their subscribers to send in a printed slip?

Mr. VON ENGELKEN. Yes.

Mr. WOODS. Advising Members of Congress to support this measure?

Mr. VON ENGELKEN. Yes.

Mr. WOODS. Well, it seems to me that that is as much of a conspiracy as it was charged existed on the other side, is it not?

Mr. VON ENGELKEN. Well, they have changed now. I saw a clipping this morning, which is very moderate compared with what came out in that paper a month or two ago. A month or two ago this man Myrick had a plan all worked out. In fact, according to him there was no use in holding these hearings, because he had the matter solved; and he suggested the farmers writing to Members of Congress, requesting the approval of this Myrick plan. The farmer had nothing to do but to sign his name. Now, since this bill has been introduced the other has been dropped, and now they are encouraging the farmers to write to their Representatives and sustain this bill.

Senator HOLLIS. Can you tell us, very briefly, how the Myrick plan differed from the Fletcher-Moss plan?

Mr. VON ENGELKEN. I can not, because I did not take the trouble to read it.

Senator HOLLIS. I did not, either. That is why I wanted to get it from you.

Mr. PLATT. You spoke this morning, Mr. von Engelken, about shoe-string farming, and rather implied that in cases where loan agents or loan sharks, or whatever you call them, would sell a man a farm and take a mortgage for the whole amount, that was done often for the explicit purpose of getting the farm back again on foreclosure, with the improvements on it. Is that being done now?

Mr. VON ENGELKEN. Yes; that is very largely the case. It has come to my attention repeatedly, where a man opening up a tract of land would sell a piece of land to an investor and let the mortgage cover the entire purchase price, and let the buyer take what money he had and make improvements, and then make the time limit on the mortgage one, two, or three years, and then foreclose the mortgage every time there was even a hesitancy on the part of the buyer to pay—take that property from him, with the improvements and the added value that he had put on it, and do the same thing over again.

Mr. PLATT. This plan proposed in the bill would stop that sort of thing, would it not?

Mr. VON ENGELKEN. Absolutely; this bill with the amortization feature would absolutely stop that.

Mr. PLATT. But at the same time it would not enable the man who did not have a margin of 50 per cent of the purchase price to buy a farm at all?

Mr. WOODS. I do not see how the bill would stop that practice.

Mr. PLATT. Well, the buyer would have to have 50 per cent of the purchase price himself in order to buy a farm.

Mr. WOODS. This bill would not apply to his case if he did not have that.

Senator HOLLIS. There is nothing proposed here to prevent a man borrowing from somebody who would lend him the whole value of the farm, of course.

Mr. PLATT. No; of course not.

Senator HOLLIS. Did you discuss all you cared to the feature of direct loans from the Government to the borrower?

Mr. VON ENGELKEN. I touched on that.

Senator HOLLIS. I did not hear you on that, and I would like to hear your views on the question.

Mr. VON ENGELKEN. I do not approve of that at all.

Senator HOLLIS. Well, we would like your reasons for that.

Mr. VON ENGELKEN. I can not see any reason for the contention that the Government should dip its hands into the Treasury for the benefit of the farmers, for several reasons. In the first place, if you treat farmers that way, the next man who will want to dip his hands into the Treasury is the man in the city who owns a house and lot. And it would redound to the benefit of the farmer infinitely more if he was compelled to work out his own salvation. He has the assets; there is no question about that; it is just a matter of making them available and presenting them to the investing public in a safe, impersonal way.

Mr. PLATT. The argument that has been made here is that agriculture is the basic industry on which everything else depends, and therefore if we help the farmer we help everybody, and that only a small portion of the lands of the United States are now under cultivation, and if you could give the farmer loans at a low rate from the United States Treasury you would add greatly to the productiveness of the country. Would that be true?

Mr. VON ENGELKEN. No, sir; it would not. We are having now, as we progress, a good many basic industries. A railroad is a basic industry. If you eliminate all railroads from this country to-day, what would we do? It is almost as basic as farming is—and a great many other things are the same, and I do not see that the distinction

between farming and certain other lines of industry is fine enough to admit of anything of that sort. And why really should the Government take upon itself the burden of saying to the farmer, "Now, because you are a farmer we are going to act in the guise of a father and help you do what you need. You come to us and we will furnish you the money."

Mr. PLATT. Would it be possible, if the Government should do that, for it to get the money back?

Mr. VON ENGELKEN. That brings up something that happened to me in Europe. I was talking with a German who was a director of a federation of land-mortgage banks subsidized by the Government. This was in the Duchy of Baden. And he told me that the Government had recently called upon him for the return of \$2,500,000 of the money that he had been loaned at $2\frac{1}{2}$ per cent interest, whereupon he told them that if they persisted in trying to call his loan he would see to it that they were politically undone, and the call was called off.

In other words, the European experience indicates that a loan once made from the Government is a fixed loan; that it is the most difficult thing in the world to ever have that money returned; it is practically impossible.

Mr. BULKLEY. Do you mean to say that on an amortization system they would not pay anything at all if the Government made the loan?

Mr. VON ENGELKEN. Do you mean if the Government made the loan directly to the farmer on the amortization plan?

Mr. BULKLEY. Yes.

Mr. VON ENGELKEN. Well, I was unable to find anything that would guide me in arriving at a conclusion on that, because I did not find that it was done.

Mr. BULKLEY. You were talking about calling loans; of course if you have an amortization plan there is no question about calling the loan.

Mr. VON ENGELKEN. Well, it was an organization of the farm banks that was getting money from the Government, not the individual farmer; but the organization was being subsidized by the Government in order to start it and keep it going.

Mr. BULKLEY. Well, when you say "subsidized," tell us just what you mean.

Mr. VON ENGELKEN. They actually loaned millions of dollars to this organization, practically without security, at $2\frac{1}{2}$ per cent interest.

Mr. BULKLEY. At $2\frac{1}{2}$ per cent?

Mr. VON ENGELKEN. Yes; and when the Government was in need of money and tried to get this money back it was impossible for it to get it, because the Government had really loaned the money to the people, and the people decided that the Government was the people; that they had been borrowing their own money, and why should they pay it back? And they did not.

Mr. BULKLEY. Did the Government have any trouble in collecting its $2\frac{1}{2}$ per cent interest from time to time?

Mr. VON ENGELKEN. No; the interest of $2\frac{1}{2}$ per cent was paid.

Mr. PLATT. Suppose the Government should loan money on the amortization plan in a Western State, where after a series of prosperous years, a series of droughts should come along, and the farmers found it hard work to make the payments which would be higher

than interest on account of amortization, would it be possible for the Government to foreclose on those farms?

MR. VON ENGELKEN. Well, the Government can do almost anything it likes along certain lines. I think the Government could foreclose.

MR. PLATT. What would be the result to the Congressmen who represent those districts? [Laughter.]

MR. VON ENGELKEN. That is a matter that Congressmen are better able to pass on than I; but you can imagine what it would be.

Senator HOLLIS. When this matter comes up for discussion in either House of Congress it will be argued that, under the general banking and currency law, the Federal reserve act, the Government has indirectly helped the commercial banks by providing that the Secretary of the Treasury may deposit funds of the Government with the Federal reserve banks.

MR. VON ENGELKEN. Yes.

Senator HOLLIS. And the idea, of course, is that the Secretary will deposit funds; the act is drawn in that way so that he will not be obliged to do so if the Treasury needs the money for other purposes.

Now, it will be said that as long as we have extended help to the commercial system of banks we ought to extend some help to this system. Can you think of any way in which the Government could help out this system?

MR. VON ENGELKEN. It might be possible in this way: Of course you must not lose sight of the fact that you are going to make these bonds eligible for postal savings deposits. The Government can take its postal savings deposits and buy these farm-mortgage bonds with them, which is a perfectly legitimate transaction, because the farm-mortgage bonds pay a higher rate of interest than the Government pays to the depositors of the savings' fund, and there is a profit in it to the Government, to which it is entitled.

Now, if it is desired, it can be further provided that if it is found that the demand at the beginning for these bonds is not sufficient to keep them at par, the Government may step in and buy a sufficient quantity of them temporarily to sustain the stability of the security; I can see no objection to that.

MR. BULKLEY. Do you see any danger of those societies refusing to pay their bonds on account of the Government owning them?

MR. VON ENGELKEN. It is unnecessary for the society to know which of the bonds the Government owns, as far as I can see.

MR. PLATT. This bill provides that postal-savings funds may be deposited in these banks, does it not, under conditions?

MR. VON ENGELKEN. I object to that provision.

MR. PLATT. I was going to ask you whether they would be safe depositories for the Government bonds?

MR. VON ENGELKEN. I think the only use that should be made of postal-savings funds or trust funds is in the purchase of the bonds issued under Government supervision—not to be deposited as cash in these banks.

Senator HOLLIS. What would be your objection to that?

MR. VON ENGELKEN. Because I have not the confidence, as I said this morning, that the farmers are sufficiently good bankers to make it safe; and trust funds and postal-savings funds should be utilized only for the very best available security—particularly trust funds.

Senator HOLLIS. I think it was stated in these hearings that the postal funds now amount to about \$40,000,000?

Mr. VON ENGELKEN. Yes.

Senator HOLLIS. Do you think that the friend of this measure would consider that that would be a sufficiently large amount to give this system fair treatment, as compared with the Government deposits, which are supposed to be about \$200,000,000 in the Federal reserve banks?

Mr. VON ENGELKEN. Well, I do not know as to that; but I feel this, that \$40,000,000 of postal-savings money would go a very long way toward achieving the result that I indicated a few moments ago, lifting up and maintaining the stability of these bonds as near as possible to par, or perhaps above par. And you must bear in mind that unless you can sell these bonds at par, the whole thing is going to collapse: it is all predicated upon selling these bonds as nearly as possible at par.

Senator HOLLIS. You heard Mr. Breitung testify before us yesterday about the chance of selling the bonds in Europe. Does it seem to you that there would be much of an outlet for them there?

Mr. VON ENGELKEN. Yes; I believe there will be. I had some experience while I was in Europe along that line. I find this, that the only objection that the European bankers made to our real estate security was that it was inaccessible to them, in a measure. Of course, what I had in mind was something infinitely smaller than what you have in mind. But they were quite willing to accept that security if underwritten by some house known to them: do you see what I mean?

Senator HOLLIS. Yes.

Mr. VON ENGELKEN. At a fraction of 1 per cent; and I immediately suggested Lloyds, and with the Lloyds underwriting of these bonds they would take them at any time. And I may say that they would take those bonds at 5 per cent. A land-mortgage bond is a very favored security in Europe.

Mr. BULKLEY. Did you agree to the suggestion made this morning that there should be a limit to the amount that could be borrowed on any 1 acre of land?

Mr. VON ENGELKEN. Yes.

Mr. BULKLEY. What do you think that limit should be?

Mr. VON ENGELKEN. Well, I would suggest that the limit should be \$100 or less.

Mr. BULKLEY. Not more than \$100 should be loaned on any one acre of land?

Mr. VON ENGELKEN. Not more than \$100 on any one acre.

Mr. BULKLEY. Do you believe in a limit on the amount that any one man can borrow?

Mr. VON ENGELKEN. Yes.

Mr. BULKLEY. At what would you place that limit?

Mr. VON ENGELKEN. Well, I think that the stipulation made in this bill is about as good as you could devise—that he could only borrow 20 per cent, or, rather, that the bank can only loan 20 per cent of its capital to any individual.

Mr. BULKLEY. That is a limitation upon the bank and not upon the borrower, who may borrow more money from another bank: or, in

case of a very large bank, an individual could borrow a very large amount from it.

Mr. VON ENGELKEN. Do you believe that it would be possible through legislation to restrict the individual in that respect?

Mr. BULKLEY. Well, you could restrict the total amount that he could get from any banks operating under Federal charter.

Mr. VON ENGELKEN. Yes.

Mr. BULKLEY. Of course, what he did outside of that you would not have any control over. But if we provide an easy way to get certain funds we certainly could limit the amount of benefit that could go to any one individual if we see fit to do so.

Mr. VON ENGELKEN. Why would it not be possible to do this: To say that no bank or no individual shall be loaned from any one bank of this system more than a certain amount, except by the authority of the commissioner of farm-land banks in Washington?

Mr. BULKLEY. That is a suggestion which we might consider.

Mr. VON ENGELKEN. Because, while we are primarily trying to help the small man, there is no reason why we should cut the large man out entirely.

Mr. BULKLEY. The idea is that there will be plenty of demand from the smaller farmer.

Mr. VON ENGELKEN. Yes.

Mr. BULKLEY. And if we are trying to do a public service here we want to help as many men as we can.

Mr. VON ENGELKEN. Yes. I think you will find it, as a rule, now to be the case that the large farmer is not the man who needs any financial assistance.

Mr. BULKLEY. That is what we thought.

Mr. VON ENGELKEN. But it is the little man who needs to be helped.

Mr. BULKLEY. Almost every witness who has appeared here has agreed that we ought to have some such limit; but they have differed as to what the amount of the limit should be.

Mr. VON ENGELKEN. You mean the limit that any one man may borrow?

Mr. BULKLEY. Yes.

Mr. VON ENGELKEN. That is a hard question to answer, because it depends upon widely varying conditions. You take conditions in the West, where they have farms of 10,000, 15,000, or 20,000 acres, and then compare conditions there with those in Florida, where we have farms of 2 acres.

Mr. BULKLEY. I suppose that if a man has a farm of 15,000 or 20,000 acres he could get credit without regard to anything that we might do here.

Mr. VON ENGELKEN. That is what I had in mind.

Mr. BULKLEY. So that we do not need to concern ourselves very much with him.

Mr. VON ENGELKEN. Except that this condition might arise: You may find one of these lands companies spring up all over the country now, that might want to use this institution as a vehicle for securing funds.

Mr. BULKLEY. I do not think you will find it very popular in Congress to make it easy for corporations to own the land; I think they want individual owners.

MR. VON ENGELKEN. Could they not borrow on that land through one of their individual owners? They might transfer the land to the individual—deed the land to the individual for the purpose of securing money through this bank.

MR. BULKLEY. Well, if we decided to make a limitation as to the amount an individual may borrow, and if we desired to limit those loans to actual owners of the land mortgaged, we would see that the law is drawn stiff enough so that there will be penalties attached to any deception in the matter.

MR. VON ENGELKEN. Yes. Still, I do not see why, if all the people in this room, for instance, own a tract of land and all of you deed it to me—I am the owner of it; there no getting around that; what ever contract I may make with you as to what shall be returned can not have any effect on my ownership. I am the actual owner of that land in the eyes of the law, because it has been deeded to me. Now, I come along and want to borrow \$50,000 or \$60,000 on that land.

MR. BULKLEY. Yes; you would have the legal title, but if we deeded it to you in trust you would not have the equitable interest in it. It is quite possible to so draw this bill as to cover both the equitable title and the legal title.

MR. VON ENGELKEN. It was with that in mind that I made the suggestion that, in order to protect worthy cases, it be made possible to borrow more money than the limit set in the bill, but only with the permission of the commissioner of farm-land banks.

MR. BULKLEY. I suppose if we set a limit it will be based on the land that any one man or any one family can take care of themselves.

MR. VON ENGELKEN. Yes.

MR. PLATT. There is one thing about setting a limit, and that is that we might shut ourselves out from a whole neighborhood.

MR. BULKLEY. That depends upon whether you are setting up your system for the purpose of providing for the investment of funds or for the purpose of enabling people to buy lands and to improve lands which they own; I think the purpose is clearly the latter.

MR. PLATT. Well, if you borrowed from a bank in a neighborhood where the farms are very large, you may, by that act, prevent those lands from being divided up into small farms.

MR. BULKLEY. Not by that act; by limiting the amount which could be loaned to any one man you would promote the dividing up into small farms.

MR. VON ENGELKEN. That is a question that has a good deal of bearing on this, and it is a very interesting one, and I do not see just what is the best way to get at it. I think that this committee could—

MR. BULKLEY (interposing). No; I did not intend to ask you how to do it. What I intended to ask you was whether you would be in favor of any limitation of that character, and if so, how much in dollars the amount should be. You can leave it to us to figure out a legal way to do it.

MR. VON ENGELKEN. I believe in a limitation, but I do not believe I would be competent to say what the amount should be.

MR. PLATT. I want to ask a question or two about the matter of foreclosures; something about the German laws on that subject, and

whether, as a matter of fact, the expense of foreclosures has not got a good deal to do with the high rates of interest in this country and the risk on them?

Mr. VON ENGELKEN. It is undoubtedly a fact that the foreclosure experience in this country has been one of the most determining factors in making farm-land security no more attractive than it is; because it is a matter of great difficulty in this country to foreclose a farm mortgage. It involves litigation that might be dragged on for two or three years; whereas, in Germany, the *Landschaften* and like organizations are exempt from the foreclosure provision; they are the court of last resort and can step in overnight into a man's property and put him out. That, of course, simplifies their transactions wonderfully. An the question has occurred to me, whether it would not be advisable, and serve the double purpose of acting as a check upon the borrower, the enthusiasm of the farmers, if you injected into this bill some provision making it easier for the banks to secure the property of a borrower in case of failure than it would be for outsiders.

Mr. WOODS. Of course, under this plan the matter of foreclosure is not so much involved, because the investors do not buy the mortgages; they buy the bonds.

Mr. VON ENGELKEN. Yes; I understand that.

Mr. WOODS. So that it would not be so material to the investor.

Mr. PLATT. Well, it would, too, perhaps; it might affect the whole solvency of the banks, possibly, if they had every once in a while to go to high expense on foreclosure.

Mr. VON ENGELKEN. Yes; it might be very advantageous to the united locals and the State unions, if you paved the way for them to secure easily the property which had failed to meet its interest and amortization; is that not right?

Mr. PLATT. Certainly.

Mr. BULKLEY. It was suggested the other day that we provide that mortgagors should pay all costs and attorneys' fees under foreclosure.

Mr. PLATT. Would it not be possible to require the State in which these banks were organized to allow the banks to take the property without foreclosure, just as they do in Germany? Would not that be a thing that would make the whole system successful, if you could get it through the States?

Mr. BULKLEY. I do not believe it would be a very popular proposition.

Mr. VON ENGELKEN. How would this plan appeal to you, Mr. Bulkley? Instead of allowing the farm-land bank to accept mortgages, let them accept deeds of trust; that may not be the exact phrase, but if some one will correct me—

Mr. BULKLEY. (interposing). Well, I understand the distinction, but without a very careful examination of the laws of all the States of the Union in that respect, I would not feel sure that that would solve the problem. In other words, I know there are some States where a deed of trust can be operated so as to extinguish the title of the borrower pretty rapidly. I am not sure that that would be true in every State.

Mr. PLATT. There is one State in this Union, I understand, where, if a mortgage runs for 10 years, even if the interest is paid on it year after year, that mortgage becomes outlawed at the end of 10 years. Now,

that law would have to be changed; we could not do business there until it was changed.

Mr. Woods, I think that statement is somewhat erroneous, Mr. Platt.

Mr. PLATT. Well, I will not be sure of it.

Mr. Woods, I think it is if the mortgage is past due 10 years.

Mr. PLATT. If it is past due 10 years, but the interest is paid on it right along it is absolutely a live mortgage. I am not sure about the terms of the law, but I think that is the case in South Dakota.

Mr. Woods, Well, if the mortgage runs for 20 years, it is not past due until the 20 years have expired; but if the mortgage is due in 20 years and then runs 30 years it is 10 years past due and it ceases to be a lien on the real estate.

Mr. PLATT. We could not do business under that law with the banks.

Mr. BULKLEY. Well, I hope they would not let anything run for 10 years past due.

Mr. Woods, Well, under the amortization plan, I suppose it would not be past due.

Mr. PLATT. It would not be past due; perhaps we could get around it that way.

Mr. VON ENGELKEN. Now, in our State, we have the homestead exemption, and any mortgage issued or given which does not waive that homestead exemption is not worth the paper it is written on.

Mr. BULKLEY. Well, I do not think Congress is ready to undertake, even if it had the right to do so, to interfere with State laws controlling titles to real property.

Mr. PLATT. By the way, this matter of foreclosure makes a distinction between farm security and other classes of security, because other classes of security can be taken instantly for a debt and at no expense. They are actually put up in the vaults of the bank as collateral.

Mr. BULKLEY. Of course, you are now referring to State laws?

Mr. PLATT. Yes.

Mr. BULKLEY. I do not think we want to interfere with the State laws, especially about real estate.

Mr. SCUDDER. Mr. Chairman, may I suggest a solution to that question?

Mr. BULKLEY. We would be glad to hear from you.

Mr. SCUDDER. Congress would not take any direct action to force States to pass uniform foreclosure laws, yet in a bill of this kind it could provide, especially if the Government bought the bonds, that the bonds would not be a proper investment for Government postal-saving funds unless they complied with this and that rule.

Mr. VON ENGELKEN. Yes.

Mr. SCUDDER. Such as prompt foreclosure.

Mr. PLATT. Yes; that could be done.

Mr. SCUDDER. Exemption from taxation and all those rules that are necessary to make that bond gilt-edged.

Mr. BULKLEY. That would be possible, I think.

Senator HOLLIS. Mr. von Engelken, Senator Hitchcock listened with interest to what you had to say and he made this suggestion: That the Federal reserve banks be authorized to purchase and sell these

debenture bonds to be issued by the farm-loan banks or an association of farm-loan banks.

The situation would be this: Federal reserve banks are not permitted to deal generally in what are called open-market securities; that is, open-market operations generally are prohibited to them. They are allowed to buy and sell certain classes of securities and bullion and gold and so on.

Now, if they were permitted to buy and sell these debenture bonds, without guaranteeing them, they could have their agents, who will be situated in different localities all over the country, look them up, inspect them, and pass on those that they think are safe; they could buy and sell them; and they would have facilities for selling them in this country and abroad. You will readily see the advantage of that. Have you any comments to make on that?

MR. VON ENGELKEN. I may reiterate here that the more confidence the Government shows in these bonds the more confidence investors will have in them. But let me inject here into the record a very interesting scheme that was proposed by the gentleman at my right [Mr. Moss] while we were in Europe; I do not know what has become of it; but it was this: All banks are, I believe, supposed to keep a reserve, are they not?

Senator HOLLIS. Yes.

MR. VON ENGELKEN. Why not allow those banks to keep that reserve in the shape of farm-land bonds?

Senator HOLLIS. The reason that that that could not be done is very clear; the reserves must be the most liquid thing there is, and they must be immediately available.

MR. VON ENGELKEN. I see.

Senator HOLLIS. That is what reserves are for, for quick action; so that plan would not work. It would not work for the same reason that commercial banks are not allowed to loan money on long-time securities.

MR. VON ENGELKEN. Yes. Well, that practically covers what I can volunteer on this subject; I shall be glad to answer any questions.

MR. WOODS. Was it your intention under the plan you proposed, that national bank examiners should examine the local banks as well as the State banks?

MR. VON ENGELKEN. I am not prepared to answer that, because the plan as written here, while it is the work of Mr. Jones and myself, Mr. Jones who will appear before you later is much more qualified as a banker to answer those technical questions than I am. I am afraid I would be in a position of doing more or less guessing.

MR. PLATT. Instead of having a State central bank to issue bonds, would it not be possible to have State appraisers who could appraise the value of the land; who could be sent to the various little banks in the State to appraise the land so that the local barrowers should not do their own appraising?

MR. VON ENGELKEN. What would you gain by that?

MR. PLATT. Well, would you not gain something in saving the charges of an additional bank?

MR. VON ENGELKEN. Do not let us lay too much stress upon the saving that you are going to make to the farmer in his interest rates, because it is impossible to derive any benefit from any system, or in any way, without paying for it. This thing is going to benefit the

farmer tremendously, and he certainly must be prepared to pay for the benefit he is to receive.

Now, when you get to the local unit issuing bonds, you see you get back to where we were this morning, and that is to the degree of confidence which the investor is going to have in that local, and that really is the keystone of the entire arch, because what you are going to try to reach is not the farmer, but the investor.

MR. PLATT. Well, if an appraiser were designated for the whole State—if it were known that the bonds of every bank in that State were based upon real estate appraised by a central authority, would not that give confidence in the bonds?

MR. VON ENGELKEN. That is what you provide in this central authority, in this State union organization. It is this appraisal—if you choose to make that appraiser a State official, well and good.

MR. PLATT. What I mean is having this State officer appraise the lands without having the central bank organization.

MR. VON ENGELKEN. There you would again throw this heterogeneous mass of bonds on the market without any system; you would be getting back to the very question of a selling agency. How can all these little banks in a State each one open up a selling agency? Just imagine what would happen.

MR. PLATT. It seems to me that a central bank would be of some service there, unquestionably. But I am not sure that—

MR. VON ENGELKEN (interposing). It is really a clearing house, is it not?

Senator HOLLIS. Not in the sense in which we use the term "clearing house." A clearing house is an institution for adjusting the balances between banks, you know. This would perform the functions of a bank of issue; if we might call this a form of currency, this would be a bank of issue. This is the counter where you sell your goods.

MR. VON ENGELKEN. You see there is another function of the State organization. The State organization has a larger capital, by far, than any one unit. Now, let us say that any one unit happens to have a more rapid call than another. That unit does not have to wait until it can sell its bonds in the open market. It simply gets money from the State organization in exchange for its mortgages and expedites its business very materially in that way.

If that little unit had to wait until it sold its bonds, then there is no telling how long it would take to sell those bonds, and then you do not know whether you would get par for them or not. And it looks to me as a farmer, and from what business experience I have had, as if you would be very much more apt to get par for bonds issued from a State organization than from bonds issued by some little unit in a State.

MR. PLATT. Suppose that a State official had appraised the value of the lands on which those bonds were based, would not the local banks take them—would not the local banks of that State take them very readily; the savings banks, or the State banks, or even national banks, perhaps?

MR. VON ENGELKEN. Why should the savings banks take the bonds when they can go right out in the open market and place their money on mortgages at a higher rate of interest? You are not going to clear the field by this system of the savings institutions that are now in

the mortgage field. You will find in Europe, side by side with a system of this sort, independents who are actively engaged in the same business in the same field.

Senator HOLLIS. Well, Mr. Platt's suggestiton would work in my section of the country. We can not get as many first-rate real estate loans even on a basis of two-thirds or three-fourths of the value of the land as we would like; so we invest our deposits in stocks and bonds, and in western mortgages, and I think our bank would be very glad to have a line of these bonds. We do not want to get too many of these eggs in one basket.

Mr. PLATT. Yes; I think that is correct.

Senator HOLLIS. And I think a 5 per cent or even a 4 per cent bond would be very attractive to our New England savings banks, if they were supervised by some State authority.

Mr. VON ENGELKEN. That is what I mean. But would you not, as a banker in that locality, rather deal with an organization in a State that covers the entire State than with a little unit?

Senator HOLLIS. Undoubtedly so. As it is now we have some agents in the West that we buy some farm loans from. I remember that we have an agent at Topeka, Kans.; we have one at Minneapolis; and we depend on those men; they have always done us good service; and we have an agent go out and visit these sections where the mortgages are made. But if we could do that through the State Farm Land Bank of Minnesota, or of Kansas, for instance, I think we would be very glad to do it; I think we would take half a million dollars of those bonds.

Mr. PLATT. Would not your banks do that, if it was not a central organization, but simply a State official whose business it was to appraise the land?

Senator HOLLIS. Yes; I think we would buy them just as quickly then.

Mr. VON ENGELKEN. But you are getting away from this point: Suppose that your bank buys our bonds at Hastings, and our lands have been appraised by this State official, and we have had three or four years crop failures. We are going to have trouble in meeting our amortization. Then you are dealing directly with us; it is the personal equation. Now, if you are dealing with a State organization, you do not care whether there is a crop failure in one particular section or not, because the balance of the State is going to see to it that this organization is helped through its troubles, in order to maintain the standard of the bonds throughout the entire State. They can not afford to let the small units suffer.

Mr. PLATT. There is a good deal in that argument.

Senator HOLLIS. I would rather buy the bonds through the agent of the Florida State Farm Land Association than through the John Smith Mortgage Co., of Kansas.

Mr. VON ENGELKEN. Yes; I think so.

Mr. PLATT. I would like to know what Mr. Moss would have to say in answer to that argument.

Senator HOLLIS. Yes; let us hear from Mr. Moss. Mr. Moss, Mr. Platt suggests that he would like to hear you in answer to that argument.

Mr. Moss. Yes; I was going to ask for permission to come before the committee again and present some matters in a more precise form

than I can to-day. I would like, however, to answer briefly now what I have been thinking about while sitting here listening to the discussion.

The liability that the bank assumes is not in the bonds which it issues; it is in the mortgages which it accepts. The loan on the mortgage is the real liability. If, as a matter of fact, the loan is well placed—

Senator HOLLIS (interposing). Now, the asset which underlies the mortgage is a thing of importance, is it not?

Mr. MOSS. I recognize that; but if you will let me finish my statement I think you will see my point. I say that under the governmental supervision, if the loan itself is well placed, so that the loan is repaid promptly to the bank, the bank has its funds to redeem its bonds; but if the mortgage is badly placed, then the bank itself has no funds with which to redeem its bonds, and therefore that is the reason I say that the real liability is in the loaning on the mortgage.

Most of the discussion that I have heard around the table to-day, and indeed most of the discussion in this whole matter, has been upon the question of making the bond good.

My first impression that I got of this subject was through Ambassador Herrick, and I will get my notes and see just what that conversation was. And Mr. Herrick outlined practically the nucleus of every plan that I have seen about having successive organizations that passed on the bond.

It is impossible that under this system successive organizations of capital can add anything to the value of the bond unless at the same time they add greater prudence to the borrower or the bank at the source at the time the bank places its money on the farm.

A central bank, unless it is going to have its own appraisers and follow out its appraisements—or if the supervising authority does not have the power to control the loaning—then the central authority will add no safety to the system.

I do not care how many names are written on the bond. If, as a matter of fact, the central bank is the one that is going to make the appraisement and control the loan, then it is true that these local banks are not anything more than agencies. They have lost their initiative altogether. So that you have got to do either one of two things.

You have either got to give the locals the right to make the appraisement of the land and to make the loan; and if you do that you have no need of a central bank. Now, I admit that there is a question in regard to the appraisement, but the real difficulty about this proposition is the same difficulty that any man has when he goes out to buy, as Senator Hollis has suggested, any real estate mortgages. It is a question whether the loan has been well made, and that is the whole question on that.

I have given this subject more careful study, because it is the kernel upon which the whole thing depends; and I believe it will be found that when you put this system into operation that that system which confines the loans down to the locality where the appraiser is best known—on the lands which he appraises—is the one that is going to give the soundest appraisement; and you can take

any system that has ever been devised and find some ways by which it can be abused. There is no doubt about that proposition.

It seems to me that if you make the association itself responsible in a business way its reputation is at stake about the matter. Let us take Senator Hollis's illustration that he used a few moments ago. He said that the people in his section now depend upon an agent in buying these loans, and it was that agent's judgment that was used in the matter. If you were buying under these local associations, the management of that bank and the general reputation of the management of the bank itself would be just as great a guaranty as to the amount of business it does as would be the case if you had a great central authority. I think you will agree with me on that.

Now, if it was so that the central authority could add any greater guaranty—if the central authority brought independent capital into the enterprise, then I could see how it would be an advantage. But I want to call your attention to the fact that for every bond that is issued there is a mortgage that is outstanding against it; and if there is a bad loan made by any association there will be a deficit of that amount, and the most you can do by an association is to take out of the net profits of all of them a sufficient amount to make up the bad loan of any one of them. The real difficulty of getting up such an association is to compel the banks to go into it. If you have a central organization and then say that all the banks must go into it, that no bank shall form under this system unless they subscribe stock in the central institution and assume a joint insurance, those banks will at once take up and decide the question whether or not they will do business under State laws or under the national law. If the State law were to exempt mortgages from taxation, and the State can give just as liberal a law as the Nation does, I can readily understand how a bank would go under the State law in order to avoid having to go into these associations; and, as a matter of fact, that has been the greatest stumbling block in the system—to compel banks to mutually insure each other's loans. I can readily see, also, that if you make a central bank you have added to the administration charges.

Now, if the State were to free all mortgages from taxation, the private lender would have the advantage of 1 per cent, which under the bill goes to the bank for administration—or whatever the bank charges; therefore the savings banks and others would have a great advantage over the Government bank, because they would be out from under the administration charge.

In Germany, while the local associations had brought their administration charges down as low as 0.15 per cent, yet, as a matter of fact, the savings banks have loaned and are loaning as much money to-day on rural real estate in Germany as all the landschaften associations put together.

Now, I would like to present that in a more condensed form after I have had a little more time to consider this particular matter.

But that is the real thought I have, and what I would like to call attention to—that the kernel of this whole system is the making of the loan; it is not in the issuing and guaranteeing of the bonds. If you fix it so that the loans are safe the whole system is safe.

Senator HOLLIS. It seems to me that the success of the system will be not alone in making the loans safe, but very largely in making the investors believe that the loans are safe.

Mr. VON ENGELKEN. That is the kernel of it.

Mr. PLATT. Yes.

Senator HOLLIS. And I personally have more faith in a State institution, formed by an association of various banks, than I would in one bank, or in any one private corporation. It seems to me that it does dignify it and give it more currency. That is the way it strikes me.

Mr. MOSS. That was the argument that Ambassador Herrick used. But Ambassador Herrick went further and wanted a national association by successive organizations. But the weakness of that proposition, it seems to me, comes from the fact that by assessing the lower bank and taking the capital away from the lower bank your aggregate capital is not increased the least bit—your aggregate income is not increased the least bit. What you have increased has been your administration charges, without, in any sense of the word, adding any element of safety, unless it is the prudence of the man that makes the loan.

Senator HOLLIS. It seems to me that you would not increase your administration charges very much. That is the way it impresses me.

Mr. VON ENGELKEN. Senator Hollis, I have said a good deal on this subject, and Mr. Moss and I do not seem to be able to get together at all on it.

Mr. MOSS directs attention to this question of prudence at the source, and says that if the State organization is going to check the loans that the local bank is nothing but an agent.

Now, I do not agree with that in any particular. The local must make the loan. All that the State organization does is to say to the local, "Be careful; do not lend more money on this real estate than is perfectly safe, because if you, in the judgment of the man who is to pass on the values designated by us collectively, have loaned more on John Smith's farm than John Smith's farm is entitled to you will be required to make up to the State organization sufficient collateral yourselves to make that loan good."

In your bill, Mr. MOSS, you have provided absolutely no check upon the appraisalment of the land between the bunch of three farmers, for example, and the man in New York or New Hampshire, who is to buy the bonds.

Furthermore, you speak of the security of the bond. It is not a question of the security of the bond. The whole question is conservatism of appraisalment. You have the agent now, the appraiser of the State unit. Then comes the Government; it steps in and makes a further appraisalment. I will tell you this, that if you have 50 appraisalments, your bonds will be 50 times as attractive to the investing public as they would be if you had only one appraisalment. The investing public has confidence in the security of land. What you must give them now is confidence that conservatism and good judgment is going to be used in deciding how much of that security is behind loans that are going to be sold to the public; that is, the crux of the question. Now, we get to the locals making the loans. The locals do make the loans in every sense of the word.

Mr. MOSS. I was speaking of the appraisalment.

MR. VON ENGELKEN. I know; but I was just making comments on what you said.

Then we come to the question of administrative charges, and there we are widely apart again. I do not see that the administration charges are going to be materially enhanced if they are enhanced at all, because you congregate the administrative charges into one spot, that otherwise would be scattered among the local units.

You take, for instance, your local unit; it has an administrative charge for its own office expenses, etc., whatever that may be. Then comes the expense for a fiduciary agent of the local. Then comes the expense for inspection or examination; and then comes the expense for providing a market for these bonds. Now, you have the expense of the fiduciary agent that each local is subject to in this bill; the expense of the examination and the expense of the selling of the bond; and if you take that away from the local and bunch it at the central organization, I will almost guarantee that you can do it cheaper than the local can do it, and can cut down your administration expenses rather than enhance them.

MR. PLATT. It might be that the marketing of the bonds alone would be so much more cheaply done as to make up any other increased expense?

MR. VON ENGELKEN. Yes. Now here is another element, Mr. Moss: take this into consideration: If your locals make a loan and the farmer once gets his hands on the money, and if the bonds that that local would then issue do not sell at par, who is going to put up the margin on them? It has got to come out of the one local, has it not?

MR. MOSS. I guess so.

MR. VON ENGELKEN. Now, if through an organization you bring your bonds nearer par, do you not see where that would strengthen the situation? And take Senator Hollis's statement that as an investor he would prefer to pay par for a bond backed by an organization of a State than, perhaps, to pay 90 for a bond of a local organization—and if a local organization ever has to sell a bond at 90 it is gone—

MR. MOSS (interposing). We have in our State of Indiana what we call the "3-mile law." That is, under that law 50 freeholders may petition to have a road built which does not exceed 3 miles in length. And a great quantity of roads that have been built in Indiana are built under what we call the 3-mile law. That means that there is a vast amount of small issues of bonds; and you can hardly pick up a newspaper in the State of Indiana to-day without finding an advertisement of such an issue of bonds. Those bonds are promptly taken up, and nearly always by local capital. And when you want to build a schoolhouse now in our State, and I presume in other States, we have found out there that it is better to issue those bonds and then tax the people to pay them rather than tax them in advance to build the schoolhouse. Therefore, when a bridge or a schoolhouse is to be built, the bond itself is always advertised and sold.

Now, in the case of those bonds the investors come from the immediate locality. I have very little confidence in a proposition that has to go far away from home to get the money. There are some localities in the United States where you have to do that; and the very weakness of this central system lies in that one point, and I want to call attention to it:

Under the bill that the commission suggested the persons who are forming the bank are permitted practically to underwrite the bonds with a large credit capital, if they care to, and each bank can assume its own measure of credit capital.

Now, taking the instance we had at Colorado Springs, Colo.—and I wish to say that these banks will not be formed by farmers; at least not necessarily so—here is a community where they want to develop the agricultural industries, and the reason they want to develop the agricultural industries is because that will improve the business of the whole country. So that the question of public spirit comes in—people have faith in the system. So they form an association or bank, and recognizing their disadvantage from a lack of large capital at the present time, they decide to make that up through the assumption of a large credit capital. So here is a bank that has been formed with reputable stockholders, business men, farmers, and others, and they issued \$150,000 of bonds with a \$10,000 capital. But they assume, we will say, a \$40,000 credit liability if they want to, assuming that this is precisely Mr. Breitung's proposition. Then, if they are going away from home to get their funds, they say, "Here is an organization formed; we have a land-mortgage bank; we have a capital of so much; we have a credit liability of so much behind the bonds;" and we sell the bonds of that guaranty, and the United States Government buys them and holds them on our guaranty.

My judgment is that that will assist the bonds on the market; I may be mistaken.

Now, against that, this central proposition proposes that in a given area, whether it be a State or a larger area, you shall compel a bank before it enters the system to practically underwrite or assist in underwriting the whole business. Take the instance which has been cited here, where the Missouri River divides the State into two sections, and where they recognize that the interest rate shall be 1 per cent higher on one side of the river than it is on the other, as a legal requirement you would find extreme difficulty in putting that into operation if you had all the banks in one central organization such as that. I think you will find a difficulty there.

I would not want to say the last word on this subject to-day, because I want to bring together some facts for the benefit of the committee: but I have not been able to convince myself that an elaborate organization will be successful. And there is one very marked difference between mortgage securities and those of ordinary commercial banks, and that is this:

Suppose a commercial bank is doing business largely upon deposits, and there is in this section over here [indicating] a time in the year when people are depositing more money than they are drawing out; and there is a time when these people over here [indicating] are drawing out more money than they are depositing. That being true, the commercial banks, dealing in deposits, if they can, take measures to strengthen themselves by the deposits in one section to meet the demands in the other, and that is true. I think you will find, in all of the other systems. But in mortgage credit there is not any element of that kind, because the moment you have an asset there you incur a liability, and there is not any means by which they can strengthen the financial solvency of the bank, except by the plan of joining a number of them together, and then you can only do that out of the

net earnings of the whole institution. There is not any other way to meet these requirements, except the net earnings, because there are just as many bonds outstanding as there are mortgages, and it makes no difference whether you have only one bank or a hundred together the same conditions prevail; one exactly balances the other.

Senator HOLLIS. Well, you recognize the value of the insurance feature, where you have a crop failure in one section and no crop failure in the other sections, do you not?

Mr. MOSS. I would not recognize the insurance feature in any way excepting this: Here is a block of bonds on which the interest has not been paid. There is not any way, unless you maintain a reserve fund, by which they can get that interest back again; and how could you do it unless you have maintained a reserve fund? And under this plan, each bank maintaining a reserve fund of 5 per cent is just as good as if they all have a reserve behind them—

Senator HOLLIS (interposing). Excuse me, but I want to ask you a question there.

Mr. MOSS. Yes; that is a part that I would like to discuss with you further.

Senator HOLLIS. Assume that you have a local land bank?

Mr. MOSS. Yes.

Senator HOLLIS. And that one of its mortgages is defaulted; the bank has to make it up out of its capital, unless it has a surplus. That is what the capital is for, to "chink up" from. And so, if one bank should fail, suppose the mortgages generally in that locality became defaulted, then that would have to be paid out of the State association's capital. I do not see that there is any distinction in there.

Mr. MOSS. Well, just take these four sections of land of which I have drawn a sketch here [indicating]—sections 1, 2, 3, and 4. If all of the mortgages in this section [indicating] default in their interest because of crop failure, and these three sections pay, the whole association is not going to have enough income to pay its interest.

Senator HOLLIS. That is true.

Mr. MOSS. And unless they have reserve funds to draw upon they must commence to draw upon their capital?

Senator HOLLIS. Yes.

Mr. MOSS. Now, if they draw upon their capital, they can only do that by an assessment on their stockholders, because under the terms of any bill they would be prohibited from reducing their capital, because they must keep it at the ratio of 1 to 15, and if they have issued bonds to the full amount they can not take it from the capital which is paid in; they can only do it by an assessment upon their stockholders.

Now, the question comes up, Will the people in sections 1, 2, and 4 be willing to submit to an assessment to make up the deficit which has occurred by a crop failure in section 3?

Mr. BULKLEY. Well, what happens if they do not?

Mr. MOSS. The question would be, under this proposition, that if they would not do it, of course, this interest would not be paid. The way to meet that situation, however, is to collect a reserve fund, to be prudent, to hold back the interest, and if 5 per cent reserve is not enough make it 10 per cent, or whatever reserve you want to carry. Of course, I recognize that if you have a 5 per cent reserve on all

of these banks in an association which can be used in case of loss by any one bank, you have the advantage of aggregating them together, but you are still drawing upon your reserve fund.

Senator HOLLIS. It seems to me, Mr. Moss, that under the supposition of a State association you distribute or thin out that assessment, spread it more widely, and therefore it would be less of a burden on any one bank.

Mr. Moss. That is true.

Senator HOLLIS. And I think when you have a crop failure in section 3, to use your illustration, if they can not reach out to sections 1, 2, and 4 for help, it looks as if they would have to close their shop.

Mr. Moss. But there is another question that you are forgetting. First, the reserve power of the farmer to pay his debt; the matter of fact is that the average farmer who goes into debt can meet his obligations, where they are out upon a long term, by some sacrifice; and, after all, that is going to be the safety of the whole proposition, the sacrifice that the American farmer himself can make, the reserve capital that he himself is able to pay upon the debt when necessary. The mere fact that there has been a crop failure in one year is not going to cause him to fail to pay his interest, because under this plan a man is only borrowing 50 per cent of what he is worth and he has within himself a much larger reserve than you can have in any one of your banks.

Senator HOLLIS. Yes.

Mr. Moss. And the safety of the system is that it has stood for more than 100 years in Europe, through all of the crop failures and all of the devastations of war, and at the same time they have been able to meet their payments when the loans have spread out over a long period of time. So I say that after all the safety of the proposition is going to be in the individual farmer meeting the debt when it is due; and I am going to have some statistics which I will lay before the committee to show that there have been no failures of the kind you are anticipating, resulting from the failure of the farmer himself to pay his obligation.

Mr. VON ENGELKEN. I do not see yet, Mr. Moss, although I have tried to listen pretty carefully to the discussion, where you have presented any argument against the organization. I think you have swung right around, as a matter of fact, in your argument, in favor of that question.

Mr. BULKLEY. Mr. Moss, do you agree with what Mr. Breitung said yesterday, that a farm loan in the United States is a greater risk than a farm loan in Europe?

Mr. Moss. No; I do not, excepting in the frontier section; and I have not very much acquaintance with the frontier section. I speak of that part of the country which I know, and there the mortgages are the safest loans you can have.

Mr. BULKLEY. Well, do you ever have any crop failures or depreciation of land values?

Mr. Moss. I have only a knowledge of 50 years in one locality; I have lived in one locality for 50 years. I have seen crop failures, and have farmed when we did not raise anything, and I think my father was always in debt. But when the time came to pay his interest, he always sold something that had been saved from a previous year and paid his interest; and any other good business man, and

the farmer preeminently of all other men, would do just that very thing. I know of no landowner, and I could not conceive of a man who was a landowner, who would not have absolutely enough cash to pay his debts. I can not conceive of that condition as arising.

And in my own section I do not know of a man who has ever lost any money in loaning to the farmer, except where a man has practically loaned the entire value of the farm. Here comes a man, for instance, without anything to pay down, and gives a mortgage upon it. Then he very likely begins to improve the land and he even adds to his debt; and where a man is carrying a very large loan of that kind, unless he is a good business man, it sometimes happens that there is a foreclosure, but not often: and I must confess that I have never heard of a case where the loan itself was prudently made where there was a failure to pay the loan. Of course there is always a chance for loans to be imprudently made, and I do not know of any possible system that is not subject to abuse. But I would think that a system organized under Government supervision, with the degree of prudence and responsibility that any man would have before he became a director of a bank, that there would be very little danger—

Mr. BULKLEY (interposing). Are there not greater fluctuations in values in this country than there are in Europe?

Mr. MOSS. I could not say as to that; I do not know. In the Middle West there have been practically no fluctuations in value except in cases of this kind.

A man may go out in Indiana in some sections where nobody wants to sell lands, and if you get a farm you would have to give more for it than the people in the neighborhood recognize the farm is worth, because nobody wants to sell. But when a man wants to sell a farm, you will find that the price compares very favorably with what the land could have brought in any year for a number of years past. And I think you will agree with me that that has been also true in Ohio. I had an illustration of that. There are 80 acres of land adjoining a piece of land which I own, and that land came upon the market. A man had been renting it for some years, and he wanted to buy it. The owner put a price of \$125 an acre upon it, and four people wanted to buy that land, and the owner decided that he would let them take their turn; if the renter could raise the money, he would have the first choice; if not the man whose land adjoined that land would have the second choice, and that happened to be myself; then, if I did not buy it, the third man would have the choice, and then the fourth. But the man who rented the land borrowed the money and bought it, as he ought to have done. Now, that land 20 years ago was offered to me at \$50 an acre, and I did not have the money at that time to buy it. But there was not any time after the land was offered to me at \$50 an acre that it would not have sold for more than it was offered for.

Mr. PLATT. Mr. MOSS, you were speaking a moment ago of the bonds issued in your section under the 3-mile road law. You would not say that those bonds would sell at a better price than county or State bonds, would you?

Mr. MOSS. No; they sell at just as good prices, I would say.

Mr. PLATT. Can not the larger unit borrow money at a lower rate than the smaller unit?

Mr. MOSS. I can not say as to that in Indiana, because Indiana has not sold any bonds for a long time. We sell county bonds in our State. But these township bonds are really sold as county bonds, and I will give you the reason for that; it is not because they sell better in that way; it is because of the fact that Indiana has a 2 per cent constitutional limitation against debt. And if a township wants to go into debt for the purpose of building a road, it can go into debt to a very small amount under that limitation; but a county being a larger unit, that gives an opportunity to issue a larger amount of bonds for that purpose. We also have drainage districts in our section. They are very small districts. I suppose you know that the northern half of Indiana was originally very swampy and wet, and it had to be drained out.

Mr. PLATT. Yes.

Mr. MOSS. And that has been done entirely by drainage districts and drainage bonds. Since those bonds have been free from taxation, they have been selling at as good a rate in the market as county bonds would. I do not think Indiana has sold any State bonds for a good many years, and I could not say what they would bring. It would not be unreasonable, however, to suppose that the State of Indiana could borrow at a lower price than a county, for instance, because the State would probably want to borrow a larger amount.

Mr. PLATT. Would you not think that a central organization, for instance, could save money in brokerage—in the selling agency?

Mr. MOSS. I would say that that would seem to be reasonable; if, on the other hand, it was not dissipated by the expense of inspection and of appraisement. I doubt very much, Mr. Platt, if the central organization is issuing bonds based upon mortgage taken by the local associations without any central appraisement whatever, the local appraiser doing the work altogether—I doubt very much whether that would give them any advantage in the market.

Mr. VON ENGELKEN. No.

Mr. PLATT. I think it would.

Mr. MOSS. I am inclined to think that a State appraiser—and I want to say that in nearly all of the European countries the State does make the State appraisement and the banks do have to accept the appraisement—that is a very common custom in Europe for the State itself to make the appraisement of the real estate and that State appraisement must be accepted by all the banks making the loan, and one bank can not compete against another by giving a higher appraisement.

Mr. VON ENGELKEN. I do not think that an appraisement by a State official would appeal to our farmers at all, for the very reason that Dr. Coulter mentioned yesterday, that whenever they wanted the real value of the land they would have to say to the farmer first of all that they would not give the appraisement to the tax collector; but here would be the State official coming in and appraising this land for loaning purposes and he could give the information to the tax collector.

Senator HOLLIS. As a matter of fact, I think it is held generally that the appraisal for purposes of taxation is not admissible in court as a measure of value. I know that is true in my State. I do not

know how far the principle goes. I think these matters are usually looked on with more or less suspicion, so they are no really a basis for taxation purposes, and probably the appraisalment for the purpose of a loan would not be considered a basis for taxation.

Mr. Moss. There is a good deal of favoritism in that.

Senator HOLLIS. The reason of that is that when an appraisalment is made for taxation or any other purpose there is no opportunity to cross-examine or to produce evidence on the other side, and it is a judgment issued to them under the sanction of the court, and no other judgment is admissible unless it is the judgment of a court of record. That is the reason for it, and I think it is a very good reason. I do not think we will have any trouble along that line. I should not pay much attention to that.

Mr. PLATT. In the minority report of the American commission it says:

It might be found advisable to even provide the central with a larger capitalization than the aggregate amount to be taken by the different locals. In that case provision could be made for selling founders' shares, similar to the plan working most excellently in Hungary. Such shares could be made preferred, if deemed advisable, or could be placed upon an equality with the shares owned by the locals. This might be found necessary in order that the country bankers and farmers might have desirable financial assistance and strong connections in the recognized financial center of their State in assisting to establish a market for the securities.

Would there be any objection, in the case of an organization of central banks to handle these mortgages, to having outside capital coming in?

Mr. VON ENGELKEN. It seems to me, Mr. Chairman, that the greatest objection that could be raised to Mr. Moss's argument is that it is really an Indiana argument. Now, Mr. Moss is very fortunate in living in Indiana as a farmer, because he is living in one of our best farming States. And with locals independently all over the country issuing bonds he would sell 10 bonds where I would not sell any—and I need the money more than he does.

Senator HOLLIS. You want the opportunity to sell these bonds in New Hampshire?

Mr. VON ENGELKEN. Yes; if I can.

Senator HOLLIS. And you want to make them attractive so that we will buy them?

Mr. VON ENGELKEN. Yes; but I want to sell on a more equitable basis than would be possible if Mr. Moss and I were merely each members of individual locals; unless our interest rate is abnormally higher than is natural the investor would say—

Well, I do not know anything about Florida, but Indiana is one of our best agricultural States, and I prefer Indiana.

Where do I get off? And it is really those sections of the country which are going to profit more by this system and will benefit the country at large more by being developed in this way.

Mr. Moss. I was struck by one thing which I observed in Europe, and I merely mention it to show that the local influences sometimes rise above other influences in the rates on money. In Austria farmers' associations, purely local associations, of which there are 450 in a little county in Austria, are organized for the purpose of loaning money among themselves, and they had a surplus of money to loan

at $4\frac{1}{2}$ per cent interest. Now, the national banking rate of interest in Austria at that time was 6 per cent; the banks in Vienna were giving 5 per cent for deposits, and the National Government of Austria had floated some millions of dollars of bonds here in the United States at $6\frac{1}{2}$ per cent interest.

Now, there you have a condition that is an absolute fact, and here were those farmers, having an absolute faith in their own management of their own local affairs, contributing their own deposits, doing their own business at a rate of interest below the rate of the Imperial Bank, and they were loaning money to each other at a lower rate than the banks in Vienna. I know that, because I went to the largest banks in Vienna, and I had the secretary of the American embassy with me, and I found that they were giving 5 per cent on deposits and were loaning for 6 per cent or $6\frac{1}{2}$ per cent on the best commercial paper. There you have an illustration of what local influences will do in finance to overcome this general cost that you speak about. That is an actual fact; there is no question about that.

And yet we are here gravely speaking about organizing a central which will overlook the local influences and the local conditions. If anybody can tell me how, in Indiana or in any other section of the country where there is a large amount of capital that has been accumulated and is in possession of the people, and where the local banks have actually more money than they can loan to the local people—if anybody can tell me how you can overcome those advantages by any law that you can make here in Congress which will take those advantages away from them, it is something that I would like to know.

As a matter of fact, if Indiana and all of those sections will leave the tax off of mortgages, I should say in more than half the counties in Indiana a man could borrow money at 4 per cent interest upon his land individually. The best farmers will borrow money at 4 per cent interest without any question of the organization of a central bank at all. And I think that most of this discussion is based upon the thought of trying to take capital to some more undeveloped sections of the country and trying to create a national rate of interest.

MR. VON ENGELKEN. No, sir.

MR. MOSS. A uniform rate of interest. If that be true, I think the Government can do that, but I doubt if you can do it by an organization.

MR. PLATT. That case that you spoke about in Austria. Mr. Moss, was a special case—where the commercial banks paid a higher rate of interest and the Government borrowed at more than 6 per cent interest—and was due to the Balkan War and to the shortness of money in commercial centers, and also to the desire of the Austrian Government to get some money from outside sources without disturbing local conditions, was it not?

MR. MOSS. But here is the proposition: If, as a fact, the commercial banks in Vienna—not the Government—were paying 5 per cent interest on deposits, and the central banks of these associations were located in Vienna, in the same city, and the merchant had to go to his commercial bank to borrow money, because they could not get money from the farmers' banks, which only loan money to the members of those associations; and that merchant had to pay 6 or $6\frac{1}{2}$ per cent interest, and the farmer could go to his local bank and bor-

row money at 4 or $4\frac{1}{2}$ per cent at the same time—there you have got a condition that has no reference to the National Government.

Mr. VON ENGELKEN. Let me suggest to the committee that you ought not to confound European conditions and peoples with our conditions and peoples, because we have absolutely nothing in common with them, except physical construction.

Mr. BULKLEY. What do you think about the proposition that a farm loan is a greater risk in this country than it is in Europe?

Mr. VON ENGELKEN. I would like to answer that pretty carefully.

Mr. BULKLEY. Do you understand the question?

Mr. VON ENGELKEN. Yes. I think a farm-land loan has been a bigger risk in this country than in Europe for one reason, and that is, the availability in Europe of the markets to the producer, and the greater certainty of his income.

You will find in Europe almost universally that few, if any, farmers are out of reach of large markets. There is no such thing as sending produce from one end of the country to the other, and putting it in the hands of some commission man as we have to do in this country; and the certainty of selling his produce, if he can raise it, is infinitely greater in Europe. The land is not as good in Europe, on the average, as it is in this country. You have, however, a stability of population in Europe which outweighs that advantage, and you have also the advantage of accessibility to markets.

All the farmer in Europe has to do is to raise the produce; and I know of cases in this country where the produce has been raised, and it has been of splendid quality, and it has not brought back anything to the farmer when he ships it, except a bill for freight charges.

Mr. PLATT. Would you not say also that there has been a great deal more speculation in this country and a great deal more fluctuation in the value of lands?

Mr. VON ENGELKEN. There is practically no speculation in the value of farm lands in Europe; that is, from our standard.

Mr. PLATT. Yes.

(Thereupon, at 4 o'clock p. m., the committees adjourned until Tuesday, March 3, 1914, at 10.30 o'clock a. m.)

TUESDAY, MARCH 3, 1914.

UNITED STATES SENATE,
Washington, D. C.

The subcommittee assembled in joint session at 10.30 o'clock a. m.,
Hon. Henry F. Hollis presiding.

Present: Representatives Bulkley, Stone, Seldomridge, Ragsdale,
Hayes, Woods, and Platt.

**STATEMENT OF CLARENCE OUSLEY, EDITOR OF THE FORT
WORTH RECORD, FORT WORTH, TEX.**

Senator HOLLIS. You live in Fort Worth, Tex., do you not, Col. Ousley?

Mr. OUSLEY. Yes, sir; I am editor of the Fort Worth Record.

Senator HOLLIS. And you came to Washington for the purpose of appearing before the committee?

Mr. OUSLEY. Yes, sir.

Senator HOLLIS. We have been referring to Senate bill 4246, introduced in January by Senator Fletcher and introduced at the same time in the House by Mr. Moss, and it provides for a national farm-land bank system, for the creation of depositaries for postal savings and other public funds, and other purposes, and we shall be glad to have your views on that bill and the general subject covered by it.

Mr. OUSLEY. May I ask if that is the same measure that is in this Senate document [indicating paper in witness's hand]?

Senator HOLLIS. Yes; that is the one.

Mr. OUSLEY. I wanted to be sure that I had the right bill.

Gentlemen, I want to say at the outset that I am not before this committee as an expert on rural finance, or on finance at all. I did make some observations on the subject in the tour that I made with other American citizens, Mr. Moss among them; but I specialized rather on the subject of distribution of farm products than on the question of rural finance, and such conclusions as I have come to concerning the question of rural credits are rather tentative and I fear are not definite enough to be of very much value to the committee.

And I wish, rather than to try to give advice to the committee, to suggest some of the difficulties that are to be encountered in the solution of this problem.

And I will speak of some points that I have observed in this bill.

I notice that the bill provides that no stockholder shall own more than 10 per cent of the shares of the capital at any time, and I would like to inquire why that limitation is put in the bill?

Senator HOLLIS. Mr. Moss can answer that question.

Mr. OUSLEY. Yes; I should like to know why the limitation of 10 per cent was put in the bill.

Mr. MOSS. That limitation is the same as that contained in the national banking act; the limitations in this bill on individual stock ownership and the making of loans to individuals are precisely the same as in the national banking act.

Mr. OUSLEY. But this provides that no stockholder shall own more than 10 per cent of the stock.

Mr. MOSS. You will find that same provision in the national banking act.

Mr. OUSLEY. And you are simply conforming this bill to that act?

Mr. MOSS. Yes. I may say, Mr. Ousley, that in all of these administrative features this bill was made to conform to the national banking act as nearly as it might be made so.

Mr. OUSLEY. Yes.

Mr. MOSS. As that was entirely familiar to the American public and had been tried for many years; and we presumed that the same reason for the limiting of ownership in one bank would apply to the other bank.

Senator HOLLIS. That is to prevent it, so far as possible, from being a one-man bank, I suppose.

Mr. OUSLEY. Well, this thought entered my mind in that connection: There are many landowners in my State, many large landowners, who would like to break up their holdings if they could fund their property; and it occurs to me that it would be very wise if you could allow a large farmer to take a considerable part of the stock in this bank. I submit that thought for the consideration of you gentlemen who are going to perfect this legislation. I am merely presenting to you the conditions.

Mr. MOSS. Yes.

Mr. OUSLEY. A man has a large farm, some 5,000 or 6,000 acres, which he is very anxious to break up and sell, but he can not get purchasers for it at a fair price under these conditions. Now, it just occurs to me that if that man could take a large part of the stock in this bank he could organize one of those banks, practically. What would be the objection to having such a man organize such a bank under those conditions, with his neighbors and friends associated with him? He could take 50 or 75 per cent of the stock of such a bank. I simply present that to the committee to consider as one of the problems which I fear you are not going to meet with this legislation. I am afraid you are going to exclude with that limitation many men who would put their property in liquidation, so to speak, and into separation.

Now, coming a little further, to the basis of the loan, the bill provides, on page 14—

That such loans do not exceed 50 per cent in amount in the case of improved farm lands, and do not exceed 40 per cent in amount in other cases, of the value of the said lands, to be determined by an appraiser, as provided in this act.

My judgment is that that ought to be a flexible basis of valuation. Farm lands in north Texas, around Dallas and Fort Worth, are perfectly safe at 66 $\frac{2}{3}$ to 75 per cent of their value. Farm lands in west Texas, for instance, where the land has not been so thoroughly developed, where the conditions are still somewhat experimental and

uncertain, and where there is more or less of a speculative spirit, perhaps, might not be safe at 50 per cent, because I have seen those lands out there decline in value during the last 20 years—advance and decline, never back to the point of the original price, but decline sometimes as much as 50 per cent—as the result of the long droughts. Then, at other times people get excited, and they put the price too high.

Senator HOLLIS. Where would you place that discretion as to the percentage of value which could be loaned?

Mr. OUSLEY. That is what I am trying to develop. I think there ought to be some discretion. I think there ought to be some flexibility.

Senator HOLLIS. Where would you place that discretion; in what official?

Mr. OUSLEY. I would not place it in the directors of the bank, because they are located there where the loan is made, and they share the same spirit of hopefulness and anticipation.

Senator HOLLIS. Do you think it might be desirable to have some association of banks with some State organization, say, and put the discretion in the State organization or its officials? Do you think that would work?

Mr. OUSLEY. I think there ought to be a relation between the officer—

Senator HOLLIS (interposing). The commissioner of farm-land banks?

Mr. OUSLEY. Yes; I think there ought not to be an appraisal in the State, if you are going to allow discretion, for the reason that the State organization might itself, in a small State, share this general spirit of hopefulness and speculative anticipation. I do think that that ought to be flexible, because, as I have illustrated, those north Texas lands now selling at \$50 to \$125 an acre are just as stable as gold, and it is perfectly safe to lend on them up to 75 per cent. They are increasing in value at the rate of, perhaps, 20 per cent a year.

Senator HOLLIS. It might, perhaps, be left to the commissioner of farm-land banks to make some regulations and place the appraising power with some representative to have control of it nationally, might it not?

Mr. OUSLEY. I do not think the local organization ought to have any control of it.

Senator HOLLIS. Yes.

Mr. OUSLEY. Perhaps the national commissioner ought to have only a veto power over it, not the power to fix the amount, but merely to have a veto power on it.

Mr. HAYES. Excuse me, Mr. Ousley, but is there not a danger that we would hamper the local organization in that way, by referring the matter to the central authority, because those banks must always be local in their dealings or they can not do business.

Mr. OUSLEY. I am assuming that the national commissioner will be a man of fair intelligence, and with the desire to promote the system. He would not deliberately smother it.

Mr. HAYES. True; but it will take a long time in California, or in Texas, for instance, for it to reach him; to begin with he would have to have independent information on the loan.

Mr. OUSLEY. I would not have him pass on the appraisement for each separate loan.

Mr. HAYES. Oh, that is not your idea, then?

Mr. OUSLEY. No; I would only have him fix the percentage for that area, that section, that State. For instance, he might say to the bank in north Texas that upon certain kinds of land they can loan up to 66 $\frac{2}{3}$ per cent.

Mr. HAYES. I see your idea.

Mr. OUSLEY. While upon certain lands in west Texas, they could only loan up to 40 or 50 per cent, as this bill provides for unimproved land.

Mr. HAYES. Yes.

Senator HOLLIS. That is, he would establish rules and regulations?

Mr. OUSLEY. Yes; he would establish zones, so to speak, of farmland values.

Senator HOLLIS. Yes.

Mr. OUSLEY. Just like the taxing boards do in many States; they fix a basis for taxing all lands in a certain area or section, to be appraised at a certain rate.

There is another point that has occurred to me. I notice that the bill provides that the loan may be paid off at any interest period, after five years; and I do not remember whether the bill provides that that shall be done by the purchase of bonds, as they do—

Mr. Moss (interposing). Either way; by the purchase of bonds, or by the paying of cash, the option being with the debtor.

Senator HOLLIS. And the bank having the right to call an equal number of bonds, if necessary; that is, in order to maintain the equilibrium.

Mr. OUSLEY. Yes; that is the point that I wanted to ask about.

Senator HOLLIS. You think it is desirable, do you not, to allow the debtor to pay off the debt at any interest period, as provided in the bill?

Mr. OUSLEY. Decidedly. The only thing was that I did not want to embarrass the bank.

Senator HOLLIS. Well, these bonds that the banks put out are all subject to call—or probably will be so.

Mr. OUSLEY. That is, so that the banks can retire the bonds if necessary?

Senator HOLLIS. Yes.

Mr. OUSLEY. There is one question I would like to ask in that connection. Will the making of those bonds subject to call interfere with the market for them? What would be the attitude of purchasers in view of that provision?

Senator HOLLIS. I suppose that would interfere slightly with the market; but it is such a valuable privilege that it is probably worth any difference in price that would result.

Mr. OUSLEY. Yes.

Senator HOLLIS. You feel that way about it, do you not, Mr. Moss?

Mr. Moss. Yes, sir. The investment in those bonds is always sure to be protected as long as they pay interest, and then the man who holds the bond gets par value of his bond at the time that it is called.

Mr. OUSLEY. Yes.

Senator HOLLIS. But I believe that the average man investing in these loans will be more concerned to find that they will be paid at some time, than that they are to be paid too soon. I should think it would work that way.

Mr. OUSLEY. Yes. It does not occur to me that there is assurance enough; certainly there is not enough assurance in this bill; and I do not know what other prospect you have—as to a market for these bonds, Mr. Moss. I notice that you provide that they may be security for the deposit of postal savings funds, and also as a legal investment for time deposits of national banking associations, and as a legal investment for trust funds in the States, under the charge of any court of the United States. It does not seem to me that those provisions are going to provide a sufficient market for those bonds.

Senator HOLLIS. Well, we want every possible suggestion that you can give us along that line.

Mr. OUSLEY. Yes.

Senator HOLLIS. We want to be sure to make a good, broad market, and anything you have to suggest upon that point we will be glad to hear.

Mr. OUSLEY. That is the great problem in the system. It is going to be very difficult to sell these bonds, in my judgment, because our people are not accustomed to invest in securities of that kind, as they are in Europe.

Mr. HAYES. I do not know how it will affect other people, but as we have been discussing this matter I have thought this: I sometimes have a little money to invest, and I have made up my mind that I would buy some of those bonds in my home bank.

Mr. OUSLEY. Well, you have studied the question closely. If I had any money to invest, I would like to invest in them; I think they would be safe.

Mr. HAYES. Absolutely safe.

Mr. OUSLEY. But I think it will take a long time to get the American people up to buying these bonds.

Senator HOLLIS. Well, what can we do to hasten that? We want to encourage them to do that.

Mr. OUSLEY. I can not give you any remedy, or any positive assurance of a method that will do it. I am just raising the question. I think that is the biggest problem in the bill.

Mr. RAGSDALE. Do you not think that that provision in the banking and currency act, by which loans are permitted to be made by the national banks for five years, secured by real estate mortgages, will have a tendency of itself to make a market for those bonds, because that of itself will, through this system of national banks, educate the public as to the value of mortgages as security?

Mr. OUSLEY. It will have that tendency; but you provide in this bill for a very small bank, \$25,000.

Mr. BULKLEY. No; as low as \$10,000.

Mr. OUSLEY. Yes; \$10,000.

Senator HOLLIS. But we hope that they will be bigger.

Mr. OUSLEY. Yes; that is the minimum.

Senator HOLLIS. Yes; the minimum.

Mr. OUSLEY. But you are going to start with small banks. Suppose we start a small bank at Fort Worth, Tex., and we offer the

bonds of that bank on the market; suppose you have got no postal savings funds to let us have; suppose there are no trust funds which we can get the benefit of, and we have got to sell those bonds on the open market. It is not my judgment that we can sell those bonds in the city of Fort Worth, or in my State of Texas.

Mr. HAYES. At any price?

Mr. OUSLEY. At any price—oh, yes; we could sell them at some price, but not at any price that would relieve the farmer.

Mr. RAGSDALE. They could be sold at a price at which the rate of interest would be attractive and the security would be good, but not at a price that would relieve the farmer?

Mr. OUSLEY. Yes; that is it. You are contemplating that these bonds shall have a low rate of interest, because you desire to furnish the farmers money at a low rate of interest.

Mr. SELDOMRIDGE. Do you think there would be any stimulus to the city dweller to make an investment in a security that would contribute to the increase of agricultural wealth in the country immediately surrounding the city?

Mr. OUSLEY. Not in my city.

Mr. SELDOMRIDGE. Do you think there would be no appeal to business interests to respond to the needs of agriculture in that neighborhood?

Mr. OUSLEY. Not by taking 5 per cent interest when a man can get 8 per cent on his money.

Mr. SELDOMRIDGE. Do you think that the city man would not realize an indirect benefit that might give a larger return to him than even the difference in interest?

Mr. OUSLEY. No, sir. The man that lends money for interest is going to get his 8 per cent if he can, or he is going to get his 10 per cent if he can.

Mr. HAYES. But bear in mind—

Mr. OUSLEY (interposing). We have no 5 per cent money to lend in my country.

Mr. SELDOMRIDGE. Nor in mine.

Mr. PLATT. Would not these bonds bear 8 per cent interest then?

Mr. OUSLEY. If they did that, what relief have you afforded the farmer—except the long time which he can get? You have only given him then the benefit of the amortization plan.

Mr. RAGSDALE. Your idea is that there shall be some Government guaranty behind the bonds, in order to make these bonds saleable throughout the United States?

Mr. OUSLEY. Very reluctantly I have come to that conclusion.

Mr. PLATT. How about having a central guarantee association, and listing the bonds on the New York Stock Exchange?

Mr. OUSLEY. That is an aspect of the problem that I have not considered at all; but I have come to the conclusion, as I said a moment ago, very reluctantly, that we will not be able to establish a system of rural credits without some kind of Government aid.

Mr. BULKLEY. Why do you say "very reluctantly"?

Mr. OUSLEY. Because I do not like to see the Government go into that kind of business.

Mr. RAGSDALE. Why should not the Government go into it in America when all the European countries have done so?

Mr. HAYES. Oh, they have not done so.

Mr. RAGSDALE. Nearly all of them do it.

Mr. OUSLEY. Yes; nearly all of them.

Mr. HAYES. Well, a good many of them do not.

Mr. RAGSDALE. It is a fact, I think, that Norway is handling bonds, without security, for the first five years not requiring any payment of either principal or interest, and after that letting them have the money at 2 per cent on long-time bonds. I heard a lecturer explain that system recently at the Belasco Theater.

Mr. OUSLEY. I think Mr. Moss will sustain me in the statement that there would not be a system of rural credits in Europe to-day, without Government aid.

Mr. RAGSDALE. I am convinced of that.

Mr. HAYES. No; the only system they have is the *Landschaften* system; they have not Government aid.

Mr. OUSLEY. If not Government aid, then Government privileges which amount to Government aid.

Senator HOLLIS. Mr. Moss, I would like to hear you upon that subject.

Mr. MOSS. If Col. Ousley means by Government aid that the Government guarantees the bonds, or furnishes a market for the bonds, or that the Government furnishes the money to loan to the farmer, I can not agree with his statement.

Mr. RAGSDALE. Will you please repeat that statement, Mr. Moss?

Mr. MOSS. I will ask the stenographer to read my statement.

(Here the stenographer read the last preceding statement of Mr. Moss.)

Mr. MOSS. That is true in Austria, and it is true in nearly every country of Europe, that loans are furnished for the purpose of acquiring a homestead, where a man has no land of his own, and where he can not get land except by Government aid; that is furnished in order to establish homesteads; and I think that Mr. Ragsdale's observation in regard to Norway means precisely that; that he was speaking about the acquiring of homesteads.

Mr. RAGSDALE. Yes.

Mr. MOSS (continuing). And not loaning money to persons who already own land.

Mr. RAGSDALE. Yes; that is true, but has not the effect been, by the Government rendering aid in acquiring homesteads, that has in itself naturally resulted in creating a market for this class of bonds, and it has put the public in a position to purchase those that were not issued for the purpose of acquiring homesteads?

Mr. MOSS. I should not think so, because in France the aid for homesteads has just been granted, whereas the loans on the bonds had been selling for 15 years before aid was granted, and in Germany land bonds had been selling for at least 100 years before the Government began giving aid to the homesteaders.

Mr. RAGSDALE. Now, what do you mean by "Government aid"?

Mr. OUSLEY. That is a point I would like to have determined.

Mr. MOSS. Well, before they began to loan—and I do not want to inject too much into Mr. Ousley's statement—I mean before the Government began making direct loans to enable its subjects to acquire homesteads; that is what I mean.

Mr. HAYES. It seems to me that if Col. Ousley has a statement to make we ought to hear it, and we then discuss the question among ourselves afterwards.

But since this question has come up, I would like to ask Mr. Moss if it is true that where there is Government aid to establish homesteads is it Russia or some place where there is an unusual condition that seems to demand such action?

Mr. MOSS. Yes. Now, in justice to Col. Ousley, I want to make another statement: That if he means by his statement rigid Government supervision and relief from forms of taxation and speedy methods of foreclosure, and so on, then I think that Col. Ousley is right in his statement.

Mr. OUSLEY. I think I was careful to say "Government aid in some form."

Senator HOLLIS. We have got that in some form in the bill. Col. Ousley, realizing that the bill does contain provisions for Government supervision and exemption from taxation and an amortization plan, do you favor any direct form of Government aid, such as guaranteeing the bonds or loaning money?

Mr. OUSLEY. I would favor such additional Government aid, either in the form—well, preferably in the form of lending some money.

Senator HOLLIS. To whom—to the bank or to the individual borrowers?

Mr. OUSLEY. To the banks.

Mr. BULKLEY. Does that take the form of buying the bonds?

Mr. OUSLEY. Yes; to make sure that we have a market for the bonds. I believe if the Government would make a small investment in these bonds you would establish confidence in them; otherwise, I am afraid of a want of confidence in them.

Senator HOLLIS. That is, you would have the Government raise money by issuing its own bonds for the purpose of buying these bonds, would you?

Mr. OUSLEY. To a limited extent, to indicate its own confidence in this system.

Mr. BULKLEY. You would have the Government buy the bonds, would you, rather than deposit the money in the banks?

Mr. OUSLEY. That is a question that should be left to the wisdom and statesmanship of the committee; I would not undertake to say which would be the better plan. The point I want to make is this: That I believe it would be necessary—it may not actually be necessary; these bonds may have a sufficient sale, but if they do not I would have the Government come to the relief of the situation.

Mr. SELDOMRIDGE. Could not the Government come to the relief of the situation by depositing a sufficient margin with the banks to protect the difference between the actual value represented by the bonds and any possible deficit that might arise through depreciation of the mortgages underlying the bonds?

Mr. OUSLEY. I did not quite catch your question.

Mr. SELDOMRIDGE. My idea is this: Could not the Government stand between the bonds' value and any possible depreciation that might take place in the value of the land which was mortgaged?

Mr. OUSLEY. Well, of course, that would be one form of Government aid.

Senator HOLLIS. That would be a guaranty?

Mr. OUSLEY. Yes: that would be a guaranty.

Senator HOLLIS. By putting up the money, really, as collateral?

Mr. OUSLEY. Yes, sir.

Senator HOLLIS. It would not be an ordinary guaranty, which is backed by a pledge.

Mr. OUSLEY. My thought is that if in the initiation of this system the Government should provide a limited loan that will, perhaps, be of itself sufficient; if it established a good system of well-organized and wisely conducted banks, I think private capital later will come to the relief of the system. Possibly you have got enough market for the bonds here without doing that; but I fear you have not.

Mr. BULKLEY. When you say a "limited loan"—

Mr. OUSLEY (interposing). A limited amount of money.

Mr. BULKLEY. Do you mean that you would fix in advance the amount that the Government would invest in these bonds?

Mr. OUSLEY. Yes: I would provide in this act that the Government would invest 5, 10, 15, or 20 millions of dollars in these bonds—or whatever you decide would be wise.

Senator HOLLIS. And where would you place the discretion of apportioning that money among the different districts—with the commissioner of farm-land banks?

Mr. OUSLEY. That is all put under the Treasury Department, is it not?

Senator HOLLIS. That is a division of the Treasury Department.

Mr. OUSLEY. Yes: well, it ought to be in the hands of more than one man; I would not be willing to trust one commissioner with that.

Mr. BULKLEY. Do you think a loan of \$20,000,000 would have any effect on the market?

Mr. OUSLEY. I think it would have a very decided effect.

Senator HOLLIS. That is, to make the bonds look desirable?

Mr. OUSLEY. Yes: a very decided effect.

Mr. BULKLEY. If we should provide for investing postal-savings funds in those bonds, that would, in your judgment, be more than adequate, would it not?

Mr. OUSLEY. I did not understand that.

Mr. BULKLEY. If we should provide for investing postal-savings funds in these bonds—

Mr. OUSLEY (interposing). Oh, if you would put all the postal savings in this system, it would perhaps be ample.

Senator HOLLIS. They amount to about \$40,000,000.

Mr. OUSLEY. But you do not provide that.

Senator HOLLIS. No: we do not provide that in the bill.

Mr. OUSLEY. But if you were to put all the postal-savings funds in the bonds, I do not think you would have to do anything more than that.

Mr. BULKLEY. But even that is a small amount.

Mr. OUSLEY. I know it is a small amount; but when the Government impresses its confidence upon the system in that way, I believe that private investors will take the bonds. If these sources that you have provided now in the bill are sufficient, of course they would not have to loan any money. But if we are going to do anything with this system, I think we ought to make sure of a market; and the only way to make sure of a market, in my judgment, is to empower the Government by this act to make loans, under certain con-

ditions, up to a certain amount. Now, then, if private individuals take the bonds eagerly, the Government would not have to do that. But I can not believe that we are going to introduce such a wide departure from the customs of 100 years in this country without some Government aid.

Mr. PLATT. You are assuming that these bonds are going to draw 5 per cent interest. What reason is there to suppose that they will not draw 8 per cent interest?

Mr. OUSLEY. If they are going to draw 8 per cent interest, you are wasting your time establishing this system, because you are not giving the farmer any relief. He can get money now at 8 per cent interest.

Mr. SELDOMRIDGE. Do merchants pay 8 per cent interest in your section?

Mr. OUSLEY. No.

Mr. SELDOMRIDGE. What interest do they pay?

Mr. OUSLEY. The large merchants pay 6 per cent; some of them sell their commercial paper in New York or elsewhere in the East at 4 per cent—short-term paper.

Mr. PLATT. I doubt that at the present time. That may have been done some years ago, but I doubt whether it is done now.

Mr. OUSLEY. A banker of New York, whom I met in Austin about two weeks ago, told me that money was loaning freely in New York then at 4 per cent for four months.

Mr. PLATT. That is on stock-exchange collateral, is it not?

Mr. OUSLEY. No; on commercial paper.

Mr. PLATT. I have not seen any such quotations as that.

Mr. OUSLEY. I got that from our former bank commissioner of Texas, Mr. Gill, who is connected with some New York bank. He said that they were not lending beyond four months, because they were waiting for the new banking and currency bill—that was the National City Bank of New York.

Mr. PLATT. Yes.

Mr. OUSLEY. But if you are not going to provide for money for farmers at less than 8 per cent, you are wasting your time. You would only be providing for a long amortization—for 30 or 40 years—instead of the five-year loans.

Mr. PLATT. I do not think that Mr. Moss calculates that money will be any cheaper for farmers than the rates of interest prevailing now in the neighborhood.

Mr. OUSLEY. Then, so far as my State is concerned, I venture the opinion that you would not have a bank in it under this system.

Mr. PLATT. Why not? They will be profitable, will they not?

Mr. OUSLEY. That remains to be seen. It is an experimental bank system. I do not know whether, if I were a banker, I would care to invest in a system like this or not under those conditions.

Senator HOLLIS. Col. Ousley, you find a very general interest in the plan among the farmers, do you not? They are all alive to it, are they not?

Mr. OUSLEY. Yes; I find a very eager, hopeful interest in some prospect of relief. But the hope is for cheap money.

Senator HOLLIS. The national grange met in my State last fall and discussed the matter and passed resolutions.

Now, in my part of the country there are a great many farmers who have no incumbrance at all upon their farms and who have money in the banks—savings banks and others. We have \$101,000,000 in savings banks in my State. Now, I think there would be a great many of those farmers who would hear the matter discussed and who would know that these were safe investments and would take their money out of the savings banks and put it in these bonds. I hope so. I know that the more the matter is discussed the greater interest there is in it—the more likely the wealthy farmers will be to invest in the bonds.

Mr. OUSLEY. Yes.

Senator HOLLIS. That is, they do not want the trouble of looking after the loans themselves, and perhaps foreclosing them, if they can buy a bond that will relieve them of the expense of foreclosure, and so on, and make it an impersonal thing. I think they would want that class of security.

Mr. OUSLEY. That may be true.

Senator HOLLIS. I hope so. I think there will be a great many wealthy men in New England who would buy these bonds. I know there a great many who have invested in loans on western lands.

Mr. OUSLEY. Well, in my State, the farmer if he has any money is likely to invest it in more land; he is not likely to put his money in savings banks. If he is a wealthy man, he may be buying some bank stock. There are a large number of farmers who own bank stock in our State.

Mr. PLATT. Are they borrowing money to buy more land with now?

Mr. OUSLEY. I can not say that they are borrowing more money to buy land with; no, sir. The landless man, of course, is trying to buy land, and in some instances I am quite sure that men are borrowing money to buy land with; but if they do that it is just a speculation for a quick turn.

Mr. BULKLEY. Does the law of Texas permit a man to mortgage his land for the purpose of improving it?

Mr. OUSLEY. For the purpose of improving it?

Mr. BULKLEY. Yes.

Mr. OUSLEY. I think our homestead law permits a vendor's lien—I mean mechanic's lien on the house, or something of that kind. I do not think it permits the borrowing of money to lay out the farm, or to—

Mr. BULKLEY (interposing). Irrigate, for instance?

Mr. OUSLEY. No, sir.

Mr. BULKLEY. What do you mean by the law not permitting it?

Mr. OUSLEY. I mean that you can not mortgage a homestead in Texas.

Mr. PLATT. Do you mean before the title is taken?

Mr. OUSLEY. What is that?

Mr. PLATT. Do you mean before the man gets title to it?

Mr. OUSLEY. After he gets title to it.

Mr. BULKLEY. But purchase-money mortgages, I understand, are valid.

Mr. OUSLEY. Yes; vendor's lien notes.

Senator HOLLIS. Do you mean that if a man owns a farm, clear, he can not mortgage it if he wants to do so?

Mr. OUSLEY. No, sir; not if it is a homestead.

Mr. PLATT. That is a queer law.

Senator HOLLIS. I have never heard of that law. Is that true of other States?

Mr. OUSLEY. Of several States, I think.

Senator HOLLIS. How long has it been in operation?

Mr. OUSLEY. Ever since the days of the Republic.

Senator HOLLIS. Does it work well? How does it work?

Mr. OUSLEY. Just in that way; you can not mortgage a home; that is all; it is not subject to debt: it is not subject to execution of any kind.

Mr. PLATT. That would have to be repealed before we could do anything under this bill.

Mr. OUSLEY. That is precisely the point I was raising. Under this bill Texas could not have a bank.

Mr. BULKLEY. Is that true? Could they not borrow and use the money for buying land? Suppose a man has half of the price of a farm and wants to buy a farm, could he not borrow the remaining half in Texas under this law?

Mr. OUSLEY. Well, you say before the bank will have this privilege under the bill the States must waive the homestead exemptions. In other words, before a bank can be located in Texas under the bill, we would have to change our constitution and abolish our homestead exemption; and you might just as well talk about abolishing the Ten Commandments in Texas.

Mr. BULKLEY. Do you mean that they would not make the change?

Mr. OUSLEY. They would not give up their homestead exemption even for 3 per cent a month.

Senator HOLLIS. Dr. Coulter, what do you say about that?

Mr. COULTER. You can start a bank in Texas if you want to, or start one in any State, and go right along and do business. The privilege that Mr. Ousley speaks of is the privilege of the bond——

Mr. OUSLEY. Yes.

Mr. COULTER. That is to say, that you do not give all the advantages to the bonds in a State having laws like that that you do in other States. Now, I have not any doubt that bonds even in that State would still hold a good place in the market and sell better than the farm mortgages do in that State. But still the bonds would not be given all the advantages which bonds from other States would be given. They would just have the normal standing of normal bonds, while the idea of this bill is to give a special value to the bonds in a State which do certain special things.

Mr. OUSLEY. You would not accept our land-bank bonds for postal savings?

Mr. COULTER. No.

Mr. OUSLEY. You would not accept our land-bank bonds for time deposits of national banks?

Mr. COULTER. No; the bonds would have to take the same place as other bonds.

Mr. OUSLEY. Then they would have to carry the prevailing rate of interest in Texas.

Mr. COULTER. There is some doubt whether they would get very much lower. I might say, that as to Mr. Moss's State, Indiana, he

does not expect much reduction in interest rates, because, as a matter of fact, farmers are now getting 5 per cent money pretty easily there.

Mr. MOSS. That is true.

Mr. COULTER. But he has not any idea that there would not be, in the Mountain, Western, or Southern States, a very material reduction, because the tendency would be, having bonds of the same type, under the same Federal inspection, coming from all parts of the country, for those bonds to seek very nearly a level; and it would be only a matter of a few years before bonds on Texas farm lands, at least in part of the State, wherever they felt absolutely sure of them, would come to seek the same level as bonds of the other sections of the country.

As an illustration, take the township bonds of Mr. Moss's State, Indiana; when they started issuing those bonds the law prohibited them from selling the bonds under par. And when they started issuing bonds they could not sell them unless they bore 6 per cent interest, although they were tax exempt, because people did not know about them and they were afraid of those bonds.

Now, almost every year they can sell their bonds at a lower rate. They are selling $4\frac{1}{2}$ per cent bonds now at par.

Mr. OUSLEY. Yes.

Mr. COULTER. Of that same type of township bonds. That is just a matter of leveling down when the market becomes acquainted with them. And those township bonds have not any of those special advantages that you speak of.

Mr. OUSLEY. No.

Mr. COULTER. So that it is merely a matter of their getting into the field, being recognized, being properly inspected and gradually finding their way into the market and finding purchasers.

Mr. OUSLEY I hope I will not be understood as having the opinion that this bill will not tend to lower the rate of interest, and that these banks are impossible to establish. I hope I have not conveyed any such impression as that. But I am now pointing out the fact that, under that provision—and there are other States besides Texas that have homestead exemptions—under that provision, our banks could not obtain any of the postal savings, nor the time deposits of national banks, nor trust funds.

Mr. BULKLEY. What would be the effect of that homestead exemption law in this situation: Suppose a man has a purchase money mortgage on his homestead; can he give a valid new mortgage for the purpose of refunding that?

Mr. OUSLEY. Yes, sir.

Senator HOLLIS. Mr. Scudder, I believe, has had some experience in Texas. Mr. Scudder, what do you say about the possibilities of these farm-land banks being established in Texas?

Mr. SCUDDER. Mr. Chairman, in Texas a piece of land could be bought and the vendors' lien retained; and that vendors' lien is very often made the basis of a loan.

Mr. OUSLEY. Oh, yes.

Mr. SCUDDER. And passed from hand to hand; it is just as good a first lien as a first mortgage or first deed of trust; in fact, it is considered as prime security, is it not?

Mr. OUSLEY. Yes; first class.

Senator HOLLIS. Is the paper evidence of the nature of the security?

Mr. SCUDDER. Yes; the vendor states in it that it is for the purchase price of the property; and that is the best paper in Texas to-day.

Mr. OUSLEY. Yes; it is the best paper we have got. But after that note is paid you can not put a mortgage on the land.

Mr. SCUDDER. No.

Mr. COULTER. Is that 160 acres?

Mr. OUSLEY. No; it is 200 acres.

Mr. PLATT. That has not any relation, then, to the homestead laws of the United States, allowing 160 acres to each man?

Mr. OUSLEY. No, sir. That was the homestead act established by the founders of the Republic.

Mr. PLATT. I should think that would have to be repealed in order to make this bill effective there?

Mr. OUSLEY. Absolutely so.

Mr. PLATT. If you have an exemption of 200 acres of land, that is too much of an exemption. It is more of an exemption than anybody needs.

Mr. OUSLEY. Yes. Now, if you could provide in this bill to take care of our vendors' lien notes, and make them somehow available for use in these banks, then you could afford some relief to us. But we could not proceed at all under this bill.

Mr. SELDOMRIDGE. The bill provides that there must be certain acts performed by the State before these banks can be organized; so that matters of this kind, it seems to me, would be subject to action by the legislature of your State.

Mr. OUSLEY. Yes. Well, I am just stating this fact, and I think my friend here from Texas will confirm me in the opinion that Texas would not sacrifice its homestead exemption for any consideration; and I am simply asking whether the committee can not conform this bill in some way to meet that condition by utilizing our vendors' lien notes, which are a perfectly valid security.

Senator HOLLIS. What is there about that law that makes it so dear to the people? Do they think that it has kept their homes for them?

Mr. OUSLEY. Yes.

Senator HOLLIS. Do you think it has?

Mr. OUSLEY. I think it has in many instances. I am sure I would not be willing to see it sacrificed. I would like to see it modified in some degree. I would like to see a value limit rather than an acreage limit, because there might be 200 acres of land in the suburbs of a city now that would be worth great fortunes; and, on the other hand, 200 acres in other sections would be worth very little. I think there ought to be a value limit on the exemption.

Senator HOLLIS. You see the old theory was that to get into debt was a disgrace. But the modern theory is that a man is not using his tools to the best advantage unless he borrows enough money to work his property to the best advantage.

Mr. OUSLEY. That is true.

Mr. PLATT. We are trying to work up a bill which will persuade a man to go into debt. In Texas you have a law which tries to prevent him from going into debt. [Laughter.]

Mr. OUSLEY. That is, on their homesteads.

Mr. PLATT. Any man who can borrow money at 4 or 5 per cent interest on his farm is a fool not to borrow it, provided he can make more than that on the investment of the money.

Mr. OUSLEY. I think our homestead exemption law might be modified to the extent that a man might be permitted to borrow money for the improvement of his farm. I think perhaps that condition might be met.

Senator HOLLIS. Well, they are now allowed to refund the original purchase-price lien, are they not?

Mr. OUSLEY. Yes. But I would not undertake to hold out any promise that I would waste my time trying to get the people of Texas to change their homestead law. My opinion about it might be one thing, but there are some things that are just utterly impossible in the present state of the public mind. It would take 20 years to educate the people of Texas out of that idea.

Senator HOLLIS. Yes.

Mr. PLATT. They are not willing to trust themselves to go into debt?

Mr. OUSLEY. It is not that; but it is a provision against the speculation and the bad business management and the improvidence of the heads of families, and it is preserving the shelter of the home over the women and children against the mismanagement and the ill fortune and the ill providence of their fathers and husbands.

Mr. PLATT. Well, that simply means they are paying a higher rate of interest for any money that is borrowed, because it prevents a man from using the only property he has, and there is no use trying to get away from it. That ought to be understood.

Mr. OUSLEY. That is true; but that is the price we are paying for it; and we are willing to pay the price, so far as that is concerned.

Mr. PLATT. The success of the credit organizations in Germany is largely due to the fact that they have no exemptions at all.

Mr. OUSLEY. That is true. I had quite a discussion on that with some of our friends on the other side. I wanted to point out that fact, and some of them did not want to admit that fact.

Now, if we are to get any benefit in Texas—and you will find that there are other States having homestead exemptions too——

Mr. BULKLEY (interposing). Do you know what States they are?

Mr. OUSLEY. I could not tell you that.

Senator HOLLIS. Is not this the usual homestead law, that a certain value, \$500 or \$1,000, is exempt from attachment and execution for debt, but that the owner, by the signature of himself and his wife, can waive that exemption and borrow money so as to pledge the entire homestead? That is the law in my State, and I think it is general in New England; but how far it extends beyond that I do not know.

Mr. OUSLEY. Yes. I am not familiar with the homestead provisions of any other State. I simply know that there are some States that have homestead provisions.

Mr. PLATT. It does not apply to city homes, does it?

Mr. OUSLEY. Yes.

Mr. PLATT. It does apply to them?

Mr. OUSLEY. Yes. And it has been very greatly abused, too, in our State. Men have held property as homesteads that are not

homesteads. There has been a great deal of fraud practiced. There is no question about that. It is a provision that has been very much abused.

Senator HOLLIS. The man can not sell his homestead without his wife's signature, I suppose?

Mr. OUSLEY. No, sir.

Senator HOLLIS. Does the wife have to be examined apart from her husband?

Mr. OUSLEY. Yes, sir. I take it that this next provision in the bill here, that no State can obtain the benefit of this act without a system of land title registration, that you contemplate establishing thereby a uniform system of land titles.

Senator HOLLIS. Well, I did not draw the bill. But for your information, I will say that I think the idea is that it will tend in that direction.

Mr. OUSLEY. Yes.

Senator HOLLIS. I am not entirely clear about that land title part. I think that is left to regulation, is it not? I do not think the bill undertakes to fix that definitely. How is that, Dr. Coulter?

Mr. HAYES. No.

Mr. COULTER. No; the idea is that banks may start in any State with any kind of registration or recording laws.

Mr. OUSLEY. Yes.

Mr. COULTER. But it is left to the commissioner of farm-land banks to extend certain additional advantages in those States which have a registering or guaranteeing title system. That is to say, there are at the present time—we had the laws looked up on all of these points, on the present taxation, for instance, of mortgages; the present registration and recording systems; the present homestead exemptions, etc. If the committee desires it, I have a lot of statutes and pamphlets, etc., from the various State officers of practically all the States piled up in my office.

We thought it was desirable to make it possible for this bureau to help toward a standardization or uniformity of laws by making it possible for the commissioner of farm-land banks, with the sanction of the Secretary of the Treasury, to extend certain additional privileges or advantages to the bonds from States as they improved their laws on these various subjects.

Senator HOLLIS. Who is to pass on whether they have a satisfactory system or not—the commissioner?

Mr. COULTER. It would be really up to the Secretary of the Treasury to O. K. or to approve any order by the commissioner of farm-land banks. If he found, for instance, that 10 States had a system of land-title registration which made it so that the State practically guaranteed title, and there was no chance of some one who had disappeared for 40 years coming back and claiming title to the land, and all that sort of thing; if it seemed to him that the titles were absolutely safe and sound in those States beyond question, he might issue an order that the bonds from those States should be recognized for certain additional purposes, or issue an order that the bonds from those States were safer because of this guarantee and give them an increased beneficial standard.

Then other States would probably hurry to improve their legislation.

I may say in that connection that we found various Government offices in the National Government which are making an effort to standardize the laws of the various States on various subjects. There is one office here in Washington that has drawn up a model law on the registration of birth and deaths. And I think there are over 25 States now that have adopted that law that has been drawn up here in a Government office. There is no infringement of State rights, but there is encouragement to them to enact uniform legislation.

I know of other Government offices which have as their principal business the drawing up of what would seem to be pretty nearly a model law for the various States under peculiar State conditions on a specific subject. And after that measure has been before the State legislature a few times the State will adopt it, and then another State will adopt it, and finally you find 25 or 30 States with uniform legislation on a certain subject.

We thought that, in view of the great variety of laws with reference to the recording or registering of titles, with reference to exemptions, and with reference to foreclosures, it would be wise to make it possible for this bureau, through the commissioner, with the approval of the Secretary of the Treasury, to give advantages and to extend privileges to the bonds in all States where these special laws were passed. It would not prevent banks from starting in any States, but their bonds would have just the normal, common, everyday advantages. They would not have any special advantages.

Mr. OUSLEY. Yes; but that provision might be very seriously abused. The language is this (p. 32):

That in the judgment of the commissioner of farm-land banks the State laws providing for registration of land titles, conveyances, and foreclosures in any given State are such as to give reasonable protection to the holders of first mortgages and first deeds of trust on lands located within that State.

You see, it is wholly in the discretion of the commissioner of farm-land banks.

Mr. COULTER. What is the provision above that?

Mr. OUSLEY. The provision above that relates to homestead exemptions. This is one of the conditions upon which banks can participate in the postal savings funds and in trust funds. Now, if you had a hard-headed and stubborn fellow in there as commissioner, who had a notion that he was going to reform the land titles in the United States in his term of office, he might cut out several States from participation in this—

Mr. COULTER (interposing). In that special advantage?

Mr. OUSLEY. Yes.

Mr. COULTER. That is to say, that it all hinges on the first two lines in section 34 of the bill:

That the national land-bank bonds of any national farm-land bank shall be available for the following purposes.

Mr. OUSLEY. Exactly.

Mr. COULTER. But those bonds would have their normal standing in the market, under normal conditions. For instance, we have now \$2,000,000,000 worth of farm-land mortgages outstanding—between two and three billions—which have not any special advantages at all.

Mr. OUSLEY. I understand.

Mr. COULTER. In some States they find such a fine market that they are negotiated at 5 or 6 per cent. And so we have hundreds of millions, and, in fact, billions of dollars of bonds outstanding now, many of which sell at part, at $4\frac{1}{2}$ per cent interest, without any of the special privileges. Now, the idea here is that State after State as they perfect their laws will be given special advantages over normal conditions. Do you think that would be carrying it too far?

Mr. OUSLEY. I am afraid it would. I am afraid there might be a great abuse there. If in my State, as the result of this act, we are excluded from participation in these special funds, because of our homestead exemptions, and if we modified or abolished that, we would have to change our land-title system; and if we are encumbered with a lot of requirements of that kind, we simply will not have any banks in Texas. And I fear that you may make the requirements in the bill so hard that the people are not going to trouble themselves to get rid of those requirements of our laws and that you will have a land-bank system with half a dozen or a dozen States participating in it, and it will take a generation or perhaps two generations to give the system a national effect. You may make the conditions so hard, you understand, that you can not easily put the system into effect; and I would hate to leave that particular discretion altogether in the commissioner of farm-land banks. I think there ought to be somebody else to share that responsibility with him.

Mr. COULTER. This is with the approval of the Secretary of the Treasury.

Mr. OUSLEY. Does the bill say that?

Mr. COULTER. Yes; only by a general rule that would apply alike to all parts of the country once ordered—it would apply to all with that condition existing—

Mr. OUSLEY. This does not read so [indicating pamphlet in witness's hand]. It says, "In the judgment of the commissioner of farm-land banks."

Mr. COULTER. Well, the rule that covers the whole thing is at the bottom of page 67 of the pamphlet which you have in your hand:

The foregoing privileges, or such of them as the commissioner of farm-land banks, with the approval of the Secretary of the Treasury, may, by general rules applicable to all banks organized hereunder—

Mr. OUSLEY (interposing). That may cover it; yes.

Mr. WOODS. Col. Ousley, do you know the rate of interest paid by tenants who are obliged to borrow money in the State of Texas, especially in the western part of the State?

Mr. OUSLEY. They do not borrow very much money. They get advances from their landlords in the way of supplies or they buy their supplies from merchants on crop mortgages. They do not borrow very much money—it is a trifling amount.

Mr. WOODS. How about the eastern part?

Mr. OUSLEY. The eastern part of the United States, do you mean?

Mr. WOODS. No; the eastern part of Texas; do not tenants there borrow money?

Mr. OUSLEY. Perhaps some of them over there do. I do not think as a rule that there is much borrowing of money by tenants. They

get their credit from their landlords, or from merchants on a crop mortgage. There are very few tenants who would borrow money at a bank. If they did, they would pay the 8 per cent interest that small borrowers pay.

Mr. PLATT. Can a homesteader mortgage his crop?

Mr. OUSLEY. Yes.

Mr. PLATT. He can mortgage the uncertain security, then, but not the good security?

Mr. OUSLEY. The tenant can mortgage his crop, subject to the landlord's lien.

Mr. HAYES. The homesteader can mortgage his homestead by joining his wife in the mortgage, can he not?

Mr. OUSLEY. No, sir.

Mr. SELDOMRIDGE. Is there any demand for short-time credit for farmers?

Mr. OUSLEY. Not much. The demand in my State is for cheap money, whereby the man without a home may obtain one. That is the demand in my State.

Mr. PLATT. Of course, we all want cheap money.

Mr. WOODS. How much are farms worth around Dallas?

Mr. OUSLEY. Improved black-land farms around Dallas are worth \$175 an acre.

Mr. WOODS. How would a man there be helped under the provisions of this bill?

Mr. OUSLEY. We could not take the provisions of this bill.

Mr. WOODS. Suppose the State passed a law waiving the homestead law; how would it help a man to borrow money down there?

Mr. OUSLEY. It would not help him unless you get the money cheaper, except that you have the amortization plan under which a man could have the money for a long time.

Mr. WOODS. He would be obliged to have considerable money on hand before he could buy a farm, under this bill, would he not?

Mr. OUSLEY. Oh, yes. Of course, it is contemplated that a man shall have some money, and not borrow the whole amount necessary to buy the land.

Mr. SELDOMRIDGE. Do you have a large number of tenants there?

Mr. OUSLEY. Most of our farmers are tenants.

Mr. SELDOMRIDGE. Is there any disposition on their part to secure land, if possible?

Mr. OUSLEY. They are very eager to do so.

Mr. SELDOMRIDGE. Are there any financial remedies to aid them in that direction?

Mr. OUSLEY. Not at all, sir.

Mr. SELDOMRIDGE. How could they be helped in that way?

Mr. OUSLEY. With an amortization plan, at a rate of interest which they could afford to pay. There are tenants now buying farms, you understand, and they are paying 8 and 9 per cent interest.

Mr. WOODS. How much do they pay down on the farms that they buy?

Mr. OUSLEY. One-fourth or one-fifth; maybe a little less.

Mr. SELDOMRIDGE. Would there not arise in the case of those men the need of short-term credit to carry them over?

Mr. OUSLEY. No; they can get that accommodation from their merchants on their crop mortgages.

Mr. SELDOMRIDGE. Is that done—the giving of crop mortgages?

Mr. OUSLEY. Yes, sir.

Mr. SELDOMRIDGE. What is the rate of interest on them?

Mr. OUSLEY. They do not borrow money on mortgage. They mortgage their crop to their supply merchants or their landlords.

Mr. SELDOMRIDGE. About what do they have to pay to the merchant for that accommodation?

Mr. OUSLEY. They have to pay very handsomely.

Senator HOLLIS. It is very expensive if the merchants have to take that risk?

Mr. OUSLEY. Yes; it is very expensive.

Mr. SELDOMRIDGE. Would it not be better to have short-term credit and pay cash for the supplies?

Mr. OUSLEY. Very much better.

Mr. SELDOMRIDGE. Then there seems to be some need and demand for short-term credit?

Mr. OUSLEY. There is need for it; but it never has been presented in that aspect to those people.

Mr. SELDOMRIDGE. And they are paying 25 per cent interest, perhaps, on these crop mortgages?

Mr. OUSLEY. Possibly more than that, sir.

Mr. SELDOMRIDGE. Under those conditions are they managing to remove themselves from the tenant class to the home-owning class?

Mr. OUSLEY. Very few of them.

Mr. SELDOMRIDGE. So that we might anticipate their desire in that direction is not likely to be gratified?

Mr. OUSLEY. Not under present conditions.

Mr. SELDOMRIDGE. Not under present conditions?

Mr. OUSLEY. No, sir. They are getting very restless about it; they are getting very turbulent about it.

Mr. WOODS. You say they pay from one-fifth to one-quarter down?

Mr. OUSLEY. Yes.

Mr. WOODS. Under the provisions of this bill they would be obliged to pay one-half down?

Mr. OUSLEY. Yes. I was raising the objection that on some of our land they ought to be allowed to borrow at a higher appraisement.

Mr. WOODS. Then they would have to borrow money to stock the farm, and implements and horses and things of that kind?

Mr. OUSLEY. Certainly.

Mr. WOODS. And that would take considerable money.

Mr. OUSLEY. Yes.

Mr. SELDOMRIDGE. What is the average-sized farm of a tenant in Texas?

Mr. OUSLEY. Well, from 50 to 150 acres, I should say.

Mr. SELDOMRIDGE. They are mostly engaged in cotton growing; that is the staple, is it not?

Mr. OUSLEY. In one section of the State—in most sections of the State it is; yes.

Mr. SELDOMRIDGE. Is that where the tenant conditions largely exist; in the cotton-producing area?

Mr. OUSLEY. Yes, sir.

Mr. HAYES. Are these tenants white or colored?

Mr. OUSLEY. They are both white and colored.

Mr. SELDOMRIDGE. You say they are getting rather turbulent; what is the cause of that?

Mr. OUSLEY. Their dissatisfaction, their unrest, their hopeless condition; lands advancing in value and money high and the time short.

Mr. BULKLEY. You mean that they are losing hope of being able to own land of their own?

Mr. OUSLEY. Yes, sir.

Senator HOLLIS. Do you think in those communities that the cooperative credit associations that you had a chance to observe abroad might be worked up so as to be helpful?

Mr. OUSLEY. What was that?

Senator HOLLIS. You went abroad with the commission, did you not?

Mr. OUSLEY. Yes, sir.

Senator HOLLIS. And you had some chance to see what was done there with cooperative credits among farmers, did you not?

Mr. OUSLEY. Yes, sir.

Senator HOLLIS. Do you think that is likely to prove successful in Texas?

Mr. OUSLEY. Not in Texas.

Senator HOLLIS. Why not?

Mr. OUSLEY. For the reason that our tenant class is composed of men of unstable habits of mind. They shift about from place to place. They are not fixed to the soil, like the people are in Germany and other European countries. They go and come. They are moved by the prospects of better conditions somewhere else. And besides all that, they do not live in the village communities like they do in the European countries, where every man knows his neighbors' affairs and their history and their dependability. They are more aloof. Our farmers live on their farms. In the European countries they cluster largely in villages, and it makes a different social condition; it make a different family condition; so that a man does not object to indorsing for his neighbor. But among the tenants we have, where a man is not well acquainted with his neighbors a mile or a half a mile away, he does not feel that social interest in them; there is not that neighborhood feeling.

Mr. WOODS. You are speaking of the unlimited liability feature?

Mr. OUSLEY. I am speaking of the rural-credit societies for short-time loans; that is what I mean.

Mr. WOOD. You spoke about "indorsing"?

Mr. OUSLEY. Well, even in the limited-liability associations, the borrower must furnish security—some neighbor.

Mr. WOODS. Yes; but not necessarily signers as security?

Mr. OUSLEY. Oh, no; some good security. But I spoke of his neighbor indorsing for him, just as evidence of the friendly relation that exists there and does not exist with us.

Mr. WOODS. Of course, there are two systems over there, you know?

Mr. OUSLEY. Oh, yes.

Mr. WOODS. You spoke of the tenant class being restless and rather turbulent.

Mr. OUSLEY. Yes.

Mr. WOODS. What is your suggestion as to assisting them and making conditions better?

Mr. OUSLEY. As I stated, at the opening of my remarks, I have no sure or confident remedy. I am simply hoping to aid them by some means that will afford them a cheap rate of interest and a long time to pay for their homes.

Mr. WOODS. Well, do not those tenant classes that you speak of need assistance more than the man who has the farm half paid for and well stocked?

Mr. OUSLEY. I can not say that one has the need more than the other, but they both need assistance.

Mr. WOODS. Would it not be of greater advantage to the Government to assist them? Would they not make better citizens?

Mr. OUSLEY. The tenants?

Mr. WOODS. Yes; if they were encouraged to become owners.

Mr. OUSLEY. It makes better citizens of them if they become home owners; yes, sir.

Senator HOLLIS. To what part of Texas did John W. Gates go?

Mr. OUSLEY. Port Arthur.

Senator HOLLIS. How far is that from you?

Mr. OUSLEY. That is away down on the coast.

Senator HOLLIS. Do you know whether land values went up in that vicinity after he established himself there?

Mr. OUSLEY. Do you mean in his oil business?

Senator HOLLIS. I did not know. I thought he went into business generally there.

Mr. OUSLEY. No; he went into that Port Arthur commercial development.

Senator HOLLIS. Oh, I see.

Mr. OUSLEY. I do not think that had much affect on land. He did not do any farming.

Mr. BULKLEY. Are most of those tenants anxious to own farms of their own?

Mr. OUSLEY. Yes, sir.

Mr. BULKLEY. What proportion of them have half the price of the farm, so that they could buy under this system?

Mr. OUSLEY. A very small proportion of them, because, under present conditions, they can not accumulate much.

Mr. BULKLEY. Well, now, if we should accept a plan allowing them to borrow on long time 50 per cent of the value of their farms, very few of them would be able to take advantage of it?

Mr. OUSLEY. Very few of them would be able to take advantage of it immediately; but many of them would begin to get themselves into condition to take advantage of it. They would strain themselves and deny themselves and save up money.

Mr. BULKLEY. You think that they would save more money if they had that prospect in view, do you?

Mr. OUSLEY. I think they would save more money if they had that prospect of cheap money at long time. I think many of them would begin to accumulate by self-denial of the most rigid kind. But when you face this condition, Mr. Bulkley, where a man who is not any too energetic to begin with, that he must pay \$100 an acre for land, and he has got to buy it on five years' time—100 acres of it—you can see what it amounts to, even without the improvements. He can not pay for it out of the ground in five years: it is utterly impossible for him to do that. It costs him, in labor, allowing him-

self and his family a wage of only \$1 a day—it costs him 12 cents a pound to grow cotton under those conditions.

Mr. BULKLEY. Do they ordinarily have any great difficulty in getting those five-year loans extended?

Mr. OUSLEY. No; they have no difficulty in getting them extended, but they always have to pay a big commission.

Mr. WOODS. You spoke of 100 acres of farm land for \$100 an acre; that would be \$10,000.

Mr. OUSLEY. Yes, sir.

Mr. WOODS. Under this proposed system it would be necessary for a man to have \$5,000 cash before he bought that land?

Mr. OUSLEY. Yes, sir.

Mr. WOODS. Do you think there is any man in Texas now who really wants to buy a farm and who has \$5,000 and does not buy one?

Mr. PLATT. Is not land held at a speculative value in Texas? Is it not too high?

Mr. OUSLEY. That is a matter of opinion. Do you mean to ask whether it is worth the price as an earning proposition?

Mr. PLATT. Yes.

Mr. OUSLEY. That is a matter of opinion, as to how much you consider a fair rate of interest. I do not think lands in Texas are yielding as much as the ordinary bank rate of interest on an investment; so you might say that the values are somewhat speculative.

Mr. PLATT. When you speak of cheap money, you do not necessarily mean 5 per cent or some rate of interest that is not obtained by anybody in Texas, do you? You mean, for instance, the average rate of interest merchants pay or that anybody else would pay, do you not? Suppose farmers could get money as cheaply as the average merchant in Texas?

Mr. OUSLEY. I think they would be entirely satisfied.

Mr. PLATT. That is what I wanted to know.

Mr. OUSLEY. Yes; I think they would be satisfied; but they do not get it at that rate in my State.

Mr. PLATT. There are evidently good reasons for that, because they can not give the security under the present laws.

Mr. OUSLEY. That would not affect the vendors' lien note. There is no higher security in the world than the vendors' lien note.

Mr. PLATT. The rates of interest are always higher on those than—

Mr. OUSLEY (interposing). Yes; but the homestead is simply not available for a loan, so that does not affect the rate of interest.

Mr. PLATT. How do you go about collecting the vendors' lien? Suppose they do not pay them?

Mr. OUSLEY. They are foreclosed; just like a mortgage.

Mr. PLATT. Do you mean that they practically are mortgages?

Mr. OUSLEY. Yes; they are practically mortgages. So that there is no better security in the world than the vendors' lien, and we ought to get the money on them at a low rate of interest, but we do not. Now, I understand that Mr. Moss in his State can get money at practically 5 or 6 per cent on some of the farm lands there?

Mr. MOSS. Yes; that is the ordinary rate of interest in my section of country. Six per cent would be considered the ordinary bank rate and would be considered high. There is a great deal of money

loaned on promissory notes. I am satisfied, at less than 6 per cent, but that is the ordinary rate.

Mr. OUSLEY. Yes.

Mr. MOSS. The tax-free bonds are selling to the local banks at a premium, bringing $4\frac{1}{2}$ per cent interest. At the proper time I will bring before the committee actual sales of bonds in my own section at $4\frac{1}{2}$ per cent, which were sold to a local bank at a premium.

Mr. OUSLEY. Yes; you will understand, gentlemen, that I am discussing this bill purely from the standpoint of my local environment, and I presume that is what you want.

Mr. PLATT. Yes.

Mr. MOSS. But is this not true, Col. Ousley, that where bonds are difficult to sell is where interest rates are now very high?

Mr. OUSLEY. Yes, sir.

Mr. MOSS. And thus it is, you will nearly always find that the land itself is cheap compared with the conditions I am talking about.

Mr. OUSLEY. I did not quite understand that.

Mr. MOSS. I say that where interest rates are high and where bonds would be hard to sell, is it not true that the land values are cheaper than they are in the sections where interest rates are lower?

Mr. OUSLEY. I presume that is true.

Mr. PLATT. I do not believe that is always true. For instance, there is good land in my territory that sells for \$60 or \$75 an acre, and yet it would probably produce just as much as that land in Texas at \$100 an acre; it is within 75 miles of New York City, with water transportation.

Mr. MOSS. You will understand, Mr. Platt, that I am using the words "cheap" and "high," relatively, as comparing the particular neighborhood; for instance, in my section of the country land sells all the way from \$75 to \$200 an acre; and so you will understand what I mean by "cheap."

Mr. BULKLEY. Col. Ousley, what has been the general tendency of interest rates on mortgage loans in Texas? Have they been going down?

Mr. OUSLEY. They have not gone down perceptively during the period of my observation of this problem.

Mr. BULKLEY. How long has that been?

Mr. OUSLEY. Five or six years.

Mr. BULKLEY. You do not think there is a tendency one way or the other at the present time?

Mr. OUSLEY. I would modify that statement. Money is freer; more money is offered. Lenders are eager now for mortgages on farm land—on vendors' lien notes. That condition rather indicates a tendency downward, of course, because where money gets to bidding for a security it tends to reduce the rate of interest of course. During the 30 years of my residence in Texas, of course, money rates have declined very sharply. When I went there we used to pay $1\frac{1}{2}$ per cent a month for a little loan.

Mr. BULKLEY. In the absence of any legislation would you look forward to money going down, do you think?

Mr. OUSLEY. Not for a long time; very slowly.

Senator HOLLIS. Have you anything further to suggest to the committee, Col. Ousley?

Mr. OUSLEY. Nothing further, Mr. Chairman.

Senator HOLLIS. Does any member of the committee desire to ask Col. Ousley any further questions? If not we will hear Mr. Ady.

STATEMENT OF ABEL ADY, OF KLAMATH FALLS, OREG.

Senator HOLLIS. What is your business, Mr. Ady?

Mr. ADY. Farming.

Senator HOLLIS. You have had some special experience about loans on lands; will you tell the committee about that?

Mr. ADY. Well, at present I am president of the Klamath Water Users' Association, an organization of the settlers and landowners on the Government project—the Klamath project.

In my official position I am daily meeting with the farmers who are in financial distress, so that I am somewhat familiar with their conditions and their needs.

Senator HOLLIS. This distress that you speak of, is it widespread and due to some particular cause?

Mr. ADY. It is quite general among the settlers, the real home makers in that project.

Senator HOLLIS. That is, they have not been able to get ahead as fast as they wanted, and they are short of funds?

Mr. ADY. Short of funds, due to various reasons.

Senator HOLLIS. Will you tell us what those reasons are?

Mr. ADY. First, the project was estimated to be completed by the Government at about \$16.40 per acre, and farmers entered into the contract to pay whatever it might cost, believing that it would cost what the estimates stated, obligating themselves to pay, in 10 annual payments, the payments to begin when water was delivered upon each farm.

They did not take into consideration the fact that in addition to paying these amounts to the Government there would be quite a heavy amount of fencing, farm buildings, leveling, seeding, etc., that would probably cover all they would be able to produce during the first four or five years.

Mr. BULKLEY. How about clearing; is there any of that to be done?

Mr. ADY. Sagebrush; yes sir.

Mr. BULKLEY. Does it cost much?

Mr. ADY. It cost from \$5 to \$10 an acre to clear the sagebrush alone; and then they have to level the land, and that will range from \$5 to \$20 per acre, according to the condition of the soil. The advertising was done generally throughout the Nation by the Interior Department, the Reclamation Service—you have seen it, probably; it said "Homes to the homeless on the irrigated lands of the West." Naturally, the men who would respond would be the homeless men. The man who had wealth would not respond to that kind of call; he would stay in the civilized country. But the man with a few hundred dollars would go out and put his few hundred dollars in the land, believing all that he had to do was to turn on the water and reap great crops. Where the necessity for spending \$10 or \$15 for leveling and \$5 for clearing, and the fencing, and the buildings, and grubstaking his family came up he would be stranded, of course. He would be helpless. He had to borrow money, which he could do by

paying 10 per cent, and in addition to that a commission, which was usually divided between the lender and the agent, and frequently a bonus beyond that, in order to get the money.

Next year he would have to borrow more money; the next year he would have to borrow a little bit more, until he got to the limit of his credit.

Mr. SELDOMRIDGE. And no water?

Mr. ADY. In some instances no water. But on the project in which I am interested he got water; some of them did not get water. We have been for years making an appeal to the Government and the Department of the Interior for an extension of time, and there are bills now pending before Congress that will doubtless give us an extension of time for the payment of the amount due to the Government for delivering water upon the land.

But that is not all that we need. Our people are in debt, and at the rate of 10 and 12 per cent interest on the deferred payments for the balance due upon their land; and it requires more than the land will produce to pay the rates of interest and pay the Government charges as per past demands.

Mr. BULKLEY. What are those deferred payments due on the land? I did not quite understand that?

Mr. ADY. These lands on this particular project were all private lands prior to the Government undertaking to irrigate them.

Mr. BULKLEY. And are these settlers undertaking to pay something in addition to the Government's charges?

Mr. ADY. Yes; these settlers are paying their purchase price to the former owners of the land.

Mr. BULKLEY. How much is that?

Mr. ADY. From \$25 to \$150 an acre.

Mr. BULKLEY. Do you mean to say that they could sell that land without water for \$125 an acre?

Mr. ADY. They have sold some of it subject to the Government's tax for that price.

Mr. BULKLEY. What Government tax?

Mr. ADY. The Government tax covers the cost of irrigating, building the reservoirs, and the ditches, tunnels, etc., to irrigate the lands.

Mr. BULKLEY. Then, do you mean to say that the cost of irrigating is a first lien?

Mr. ADY. A first lien.

Mr. BULKLEY. Then the owner of the unirrigated land sells it for \$25—

Mr. ADY (interposing). From \$25 to \$150, subject to the Government lien.

Mr. BULKLEY. Uncleared land?

Mr. ADY. No; the uncleared land would be \$25 an acre; it depends upon the improvements and condition of the lands.

Mr. BULKLEY. Well, did you give as high as \$25 for uncleared land?

Mr. ADY. I have known of none of it selling for less than that.

Mr. BULKLEY. You have to pay the cost of the water in addition to that?

Mr. ADY. We have to pay the cost of the water in addition to that, which will range from \$30 to \$50 an acre.

Mr. HAYES. It is the same everywhere in the West where I know anything about it. It is so in Colorado.

Mr. ADY. It is the same everywhere.

Mr. BULKLEY. You may proceed.

Mr. ADY. Now, the conditions that we need help on are these: When we appeal to outside banks for loans, the outside banker always refers the matters to the local banks before advancing the money. You are familiar with that dodge. The local banker has such a good thing of it that he advises the outside banker he does not loan on that kind of property, because he likes his 10 and 12 per cent and the bonus sometimes for getting it.

You will readily see how a cooperative bank that would take the deposits of the farmers and take in some Government money would prevent our people being constantly bled by sharks. We are quite in hope that some such conditions would be developed in the near future.

Mr. BULKLEY. Now, do you say that the actual cost of the Government project putting water on this property runs to \$30 an acre?

Mr. ADY. From \$30 to about \$60 an acre.

Mr. BULKLEY. You mean on other projects, do you not?

Mr. ADY. Yes; on ours it is \$30. That is one of the lowest projects in the West.

Mr. BULKLEY. The actual cost was \$30 an acre?

Mr. ADY. Yes, sir.

Mr. BULKLEY. About double the estimate?

Mr. SELDOMRIDGE. Yes.

Mr. ADY. Yes; and the cost of most of the projects will be very nearly double the regular estimates of 10 years ago.

Mr. BULKLEY. What is the character of that land? Is it all irrigable: is every acre good?

Mr. ADY. Yes; that that they put under the big system. There may be occasional patches here and there that are not good. But those, I suppose, are provided for and do not worry us.

Mr. BULKLEY. When they distribute the cost do they distribute it against all the land?

Mr. ADY. Yes; all the irrigable land.

Mr. BULKLEY. Is there any rocky land in there?

Mr. ADY. There is rocky land, but it is not taxed.

Mr. BULKLEY. So you pay the \$30 only on that part which is irrigable and capable of being used?

Mr. ADY. Yes.

Mr. BULKLEY. As to the amount which the settlers owe to the Government, do they pay any interest on that?

Mr. ADY. No, sir; with the exception of the last 20-year bonds. Those will draw 4 per cent interest. Those were issued two years ago. But very little of that money has been spent. But the original amount that came from the sale of timbers of the West and that came from sale of Government lands is loaned to the settlers without interest.

Mr. BULKLEY. So that the actual cost, amounting to \$30 an acre, does not include interest on the investment? The Government really loses interest, does it not?

Mr. ADY. The Government loses interest, but it is only loaning to the farmers of the West the proceeds of their own resources. You

understand that we in that respect are like a boy going to his father and asking for a loan of what he has helped to produce.

Mr. BULKLEY. Yes.

Mr. ADY. But the thing that is burdening us is the amount of interest we have to pay to the original landowner. The result of the irrigation and the putting in of these projects was only to boost the price of the land in the hands of the original owners, and we buy them from the original owners.

Mr. BULKLEY. How much did it raise the price on your land, for example?

Mr. ADY. Oh, they were worth an average of \$7 an acre, and they sold for an average of \$50 an acre.

Mr. BULKLEY. They sold for an average of \$50 an acre?

Mr. ADY. Yes; they were worth an average of \$7 an acre 10 years ago, when I went in there, and they have now sold for an average of \$50 an acre.

Mr. BULKLEY. Did these private owners make that large profit by reason of the Government going in there?

Mr. ADY. They surely did, and they are the men who are lending the money now at 10 and 12 per cent.

Mr. BULKLEY. That is a very interesting fact.

Mr. HAYES. Well, was there no Government land in this project at all?

Mr. ADY. None at all.

Mr. HAYES. That is very unusual.

Mr. ADY. There are several other projects of the same kind.

Mr. HAYES. I did not know that there was any.

Mr. ADY. There is the Salt River project, with \$10,000,000 invested under the same conditions.

Mr. BULKLEY. What proportion of those settlers have been able to make all their payments and keep "trimmed up"?

Mr. ADY. We had a meeting of our settlers last August, when Assistant Secretary Miller and the present director of the Reclamation Service visited our project. At the assembled meeting of our people I asked the question as to how many of them had been able to meet their payments up to that date without going into debt, and three out of the entire number had done so.

Mr. BULKLEY. What was the entire number?

Mr. ADY. About 400, and those three admitted that they paid the charges out of other resources than the lands.

Mr. SELDOMRIDGE. Well, now, if the Government should relinquish its right to collect its payments, say, for 15 or 20 years, could not these people gradually work out of the obligations to the owners of the land?

Mr. ADY. Yes; but even that would be unjust. We are not asking for that; we are only asking that they reduce it sufficiently so as to make it possible for us to meet those payments.

Mr. SELDOMRIDGE. But granting the fact that there is not only a lien upon these lands now held by the Government, but also a further lien held by the landowners, to what extent could the Government come in and relieve that condition, when these people have nothing in the way of security to offer? What equity, in other words, have they in this land?

Mr. ADY. The Government holds the first lien, and the original landowners hold the second lien; the mortgage to him is the second lien.

Mr. SELDOMRIDGE. Yes; the mortgage is the second lien; now, what have they, what equity upon which to base or to secure a still further loan?

Mr. ADY. The landowners usually require from 25 to 60 per cent down. So that the balance due to the landowner is a percentage low enough to make him absolutely safe; and when the land is well cleared and fenced and improved, after several years of hard work by the settler, it is a very good proposition for the original owner to foreclose. And that is the thing that we have been struggling against last year and have made desperate attempts to get the Government to extend our time on the Government lien, in order to save us from foreclosure and enable us to pay all of our crop returns to the original landowner and get him out of the way.

Mr. SELDOMRIDGE. If they get rid of the present lien by a long-time loan running 15 or 20 years, that would help them out of that condition, would it not?

Mr. ADY. The present law is going to do that.

Mr. BULKLEY. That does not take care of the amount which they owe the original landowners, does it?

Mr. ADY. No.

Mr. HAYES. No; but we could pass a law something like this bill—the Moss-Fletcher bill—and they could then refund those debts in those cases that you speak of where the settler has improved the land, cleared it, and fenced it, and so on.

Mr. ADY. That is what I am suggesting.

Mr. HAYES. He could come into one of these banks and secure enough money to clear him all up—the Government debt and all, could he not?

Mr. ADY. I should think so.

Mr. SELDOMRIDGE. What is the average mortgage indebtedness upon this land per acre, apart from the Government obligations?

Mr. ADY. The average is \$20.

Mr. SELDOMRIDGE. \$20 per acre?

Mr. ADY. Yes; \$20 per acre.

Mr. HAYES. What is that?

Mr. ADY. The average of the mortgage indebtedness of the land. There is occasionally a farm that is clear of debt.

Mr. SELDOMRIDGE. And how much are the average holdings of the settlers?

Mr. ADY. About 80 acres.

Mr. HAYES. And what is the land worth when he gets it cleared off in shape to cultivate?

Mr. ADY. From \$90 to \$100 an acre.

Mr. SELDOMRIDGE. So that with a small owner, from \$1,500 to \$2,000 would meet his requirement?

Mr. ADY. It would.

Mr. HAYES. \$2,500, or something like that?

Mr. BULKLEY. Is that project pretty well sold out?

Mr. ADY. It is quite extensively, in small holdings.

Mr. SELDOMRIDGE. What interest are they paying on land mortgages?

Mr. ADY. Not less than 8 per cent, and that is only on the deferred payments upon sales of land.

Mr. BULKLEY. What is the extent of the whole project?

Mr. ADY. Thirty-six thousand acres at present, but there is twice that amount yet to be reclaimed.

Mr. BULKLEY. Has most of that 36,000 acres been taken up by settlers?

Mr. ADY. It has been sold to home-seekers by the original owners.

Mr. BULKLEY. Almost all of it?

Mr. ADY. Yes, sir.

Mr. SELDOMRIDGE. Has it sold on long time?

Mr. ADY. Usually on rather short time.

Mr. SELDOMRIDGE. What do you mean by "rather short time"?

Mr. ADY. From two to five years—too short a time for a man to make it from the lands; and it would leave an excellent opportunity for foreclosure before the man can make it.

Mr. SELDOMRIDGE. Did the Government go in and develop that project without there being any Government land to be developed by it—do you mean to tell the committee all of the land under the project was in the hands of private individuals?

Mr. ADY. I will explain: All of the uplands—all of the 36,000 acres—was wholly private land before the Government went in. There were two lake beds to be included in the project, and one of those was afterwards cut out of the project.

Mr. SELDOMRIDGE. Do you want us to infer that the people who derived the greatest benefit from that project were individuals, and that there was no development of Government lands through this project?

Mr. ADY. The original landowners are the persons who got the benefit of the Government working on that project; yes, sir. Some of them still remained there, but, then, most of them are in the banking business now. [Laughter.]

Mr. SELDOMRIDGE. Well, I supposed that the Government reclamation projects were simply to develop unused and unoccupied land that was open to entry and was not available without irrigation?

Mr. HAYES. That is what I thought. I thought that was the Government's primary purpose.

Mr. BULKLEY. Mr. Ady, you have had some association with settlers on projects other than your own, have you not?

Mr. ADY. I have.

Mr. BULKLEY. What are those other projects?

Mr. ADY. Oh, some twenty-odd different projects.

Mr. BULKLEY. In what States?

Mr. ADY. Washington, Nevada, Arizona, New Mexico, and Colorado.

Mr. BULKLEY. Now, what has been your association with those other projects?

Mr. ADY. I personally did the agitating and the pioneer work to organize these settlers on all the different projects into a national association, for the purpose of urging legislation that would save their home conditions for the home makers.

Mr. BULKLEY. Have you been around among those other projects?

Mr. ADY. Many of them; yes, sir.

Mr. BULKLEY. Do you find similar conditions to those you described on your own project on the others?

Mr. ADY. Yes.

Mr. HAYES. In all of them?

Mr. ADY. Almost.

Mr. HAYES. In Fallon, Nev., were the conditions the same?

Mr. ADY. Practically.

Mr. HAYES. It did not start that way—it was all Government land when it started?

Mr. ADY. It was all Government land, but the payments to the Government in 10 annual installments were too high and the citizens were unable to pay that.

Mr. HAYES. That is all right, but I wanted to find out how it started. Now, are you familiar with the Klamath River project in northern California?

Mr. ADY. That is what I am representing. I am president of the association of farmers in Klamath, Oreg., and have been for years. It is in Oregon.

Mr. HAYES. That is not in Oregon.

Mr. ADY. All of the reclaimed lands are in Oregon. It is the lake beds that are in California.

Mr. HAYES. And that would be public land?

Mr. ADY. But they have cut that out from the project.

Mr. HAYES. Why; do you know?

Mr. ADY. I do not know. I lost all I had in the world because they cut it out. I had my money invested in that.

Mr. HAYES. Did they not have water enough to cover all three places?

Mr. ADY. There is water in the lower Klamath Lake and there is water in the Klamath project to irrigate ten times over all the land they have got there.

Mr. SELDOMRIDGE. Then, as I understand it, this project was originally begun to take care of this lake region that you have mentioned, and that was the principal object of the project, but, indirectly, it has only taken care of the people that owned the land and not the entire section. Is that correct?

Mr. ADY. It was to take care of about 45,000 acres in the Reht Lake and about 75,000 acres of the lower Klamath Lake and incidentally about an equal number of acres of private lands that could be very conveniently included in the project. The practice has been, however, to cut out the lake beds that had the Government lands and put in the private lands, and the rest to be considered some time in the future—the Lord only knows and He will not tell when.

Mr. SELDOMRIDGE. Yes. Then the Government did not originally devise the project simply to assist private landowners—its purpose was to take care of the public lands?

Mr. ADY. Its purpose was to take care of both, in its origin.

Mr. SELDOMRIDGE. But when it worked it out, it resulted in the private landowners getting the benefit and the public land still being with the benefit. That is the condition, is it?

Mr. ADY. Yes, sir. Now, in the Salt River project, there are about 150,000 acres of private lands and about 10,000 acres of Government lands have been added to that.

Mr. HAYES. That is in Arizona, is it not?

Mr. ADY. That is in Arizona. That is the largest project we have in the country. I do not know where the Government land was that justified the expenditures.

Mr. SELDOMRIDGE. Well, this discussion is not germane to the bill, but I would like to know the reason that the projects you referred to did not take care of the public-land situation here. Was it due to an engineering difficulty or lack of water, or what was the cause?

Mr. HAYES. Or because there was no demand for the land, or what?

Mr. ADY. One lake bed they cut out upon the report of the soil experts of the Department of Agriculture. The first report compared the land favorably to the overflow lands of the Sacramento Valley, and which were then worth \$200 per acre. Those published reports were such as would induce any man to invest, and I, with others, invested. Then later, the soil experts reported that the land was questionable, and a little bit later they reported that it was more questionable, and finally the market broke, so that I lost what I had and other men did the same.

Mr. SELDOMRIDGE. Were those reports verified by any practical demonstration?

Mr. ADY. By an analysis of the soil. The lands are all under water; they are overflow lands.

Mr. SELDOMRIDGE. Yes.

Mr. PLATT. The United States Government is a rather uncertain agent on whose recommendations to buy land then?

Mr. ADY. Sometimes.

Mr. PLATT. It is a pretty uncertain corporation to do business with, on general principles.

Mr. HAYES. I am afraid it is.

Mr. PLATT. The worst trust in the country is the United States Government; there is no doubt about that—the worst to do business with, or have anything to do with.

Mr. ADY. I will make the same suggestion that I did to the Department of the Interior. Uncle Sam is no better than the man who represents him, and if the man who represents him is a shyster, Uncle Sam is a shyster. That has been our experience in the West. But if the man who represents Uncle Sam is a square fellow, with sympathy for the man on the ground, Uncle Sam is all that he ought to be.

Mr. PLATT. Is not the trouble—since we are in a discussion that is not germane to the bill under consideration anyhow—is it not the trouble that the corporation or trust known as the United States Government is altogether too big to be handled economically? It tries to do too many things.

Mr. ADY. Either that, or else it is not trying to do enough—and I think it is the latter.

Mr. BULKLEY. Mr. Ady, if we worked out some plan for loans to be made to actual farm owners for productive purposes, do you believe in placing a limit on the amount any one man can borrow?

Mr. ADY. Most assuredly I would.

Mr. BULKLEY. What would you make the limit?

Mr. ADY. \$2,000 or \$3,000.

Mr. BULKLEY. Do you think that is enough to take care of a man having a farm?

Mr. ADY. It is enough for a start.

Mr. HAYES. Would you not make it \$5,000?

Mr. ADY. No.

Mr. RAGSDALE. Do you mean that you would apply that to the entire United States, without regard to the local conditions that might obtain in the different sections?

Mr. PLATT. You would not loan a man \$5,000 on a \$10,000 farm, a 100-acre farm worth \$100 an acre?

Mr. ADY. A man with that class of farm would not need Government help.

Mr. PLATT. This is not Government help; this is banking.

Mr. ADY. I supposed that we were considering Government assistance.

Mr. BULKLEY. Well, Mr. Ady's answer is a fair answer to my question. I meant Government assistance. I did not mean a direct loan from the Government, but I did assume Government assistance.

Mr. ADY. In case of Government assistance I would limit the amount so as to do the greatest good to the greatest number; and only to such amounts as would be absolutely necessary to assist the man to make a home in good faith for himself. But, in where I am, it would not be a matter of taking chances at all; half a million dollars could be placed in that county in 60 days on gilt edge security at 6 per cent interest.

Mr. BULKLEY. Would they be satisfied to get it at 6 per cent?

Mr. ADY. Yes, sir; although they would like to have it for less.

Mr. BULKLEY. Of course.

Mr. RAGSDALE. Do you not think yourself that 6 per cent would be a high rate?

Mr. ADY. I do; yes.

Mr. HAYES. You think 5 per cent would be better, do you not?

Mr. ADY. Rather.

Mr. HAYES. That is what I thought.

Mr. ADY. Although I have paid 33 $\frac{1}{3}$ per cent bonus to get money in my own country.

Mr. HAYES. What do you think would be a reasonable rate?

Mr. ADY. Under present economic conditions, 6 per cent would be a reasonable rate.

Mr. HAYES. That is what I thought; but you did not seem to think so.

Mr. ADY. Oh, no. I guess I must have misunderstood your question; you wanted to know whether I thought it would be high.

Mr. HAYES. Yes.

Mr. ADY. I would think so, under economic conditions.

Mr. BULKLEY. Do you mean high in the sense of hard to pay? [Laughter.]

Mr. ADY. Yes.

Senator HOLLIS. Does any member of the committee desire to ask any questions of Mr. Ady.

If not, I would like to ask Mr. Scudder to express his view, in the few minutes we have left before 1 o'clock, about what could be done to handle the Texas situation.

ADDITIONAL STATEMENT OF S. D. SCUDDER, OF NEW YORK CITY.

Mr. SCUDDER. It seems to me a very easy proposition. The objects of the bill, as far as the land-mortgage proposition is concerned, are two: First, to aid in the improvement of the property, and, second, to aid in the purchase of the property.

For the first object you would not naturally get the homesteader of Texas, but you could cover it under the second object very easily, by changing the phraseology, or adding to the phraseology "first vendors' lien," which lien is absolutely as good as a first mortgage or a first deed of trust. All you would have to add would be the phraseology covering vendors or "purchase-money" liens.

Mr. PLATT. Would that be necessary?

Mr. HAYES. Could those be transferred—are they transferable?

Mr. SCUDDER. Oh, yes; this paper is largest in circulation in Texas to-day; I believe also in Louisiana; and perhaps in Arkansas, but I would not be sure about that.

A person buying a piece of property in Texas and giving a vendors' lien is giving as good a lien as you could get under a deed of trust or a mortgage. If foreclosed you can get the property just as quickly as if you held a mortgage or deed of trust.

Senator HOLLIS. How would it do to say in the bill "farm-land loans" and then define farm-land loans?

Mr. SCUDDER. So as to cover the different States?

Senator HOLLIS. Yes. So as to cover the different States and the different classes of collateral, and then leave the determination of what loans and securities come up to the standard to the authority of the commissioner of farm-land banks, or somebody else. It occurs to me that that is the way it might be handled in different sections of the country, by placing the authority with some official to say what is the equivalent of a first mortgage in different section of the country.

Mr. SCUDDER. Yes.

Mr. MOSS. I would like to say, Mr. Chairman, that I have received a letter from a banker in Wisconsin, where they are putting a recent State law into effect. He stated that the language of the law itself would not have permitted it to go into operation, under the most favorable conditions; but the large powers that were given to the State official made it possible, under his regulations, to remedy some of the defects of the law itself; and the law was put into operation under the regulations of the State official. And the suggestion of this banker was that there ought to be, in a law of this kind, the power to make regulations of that kind to overcome just the difficulties that you have suggested, and I think that is true.

Senator HOLLIS. Yes.

Mr. PLATT. Would not the commissioner of farm-land banks rule that those vendors' liens are mortgages?

Senator HOLLIS. I should think he would; but we ought to take care of those contingencies.

Mr. SCUDDER. My point is that where you are covering the case by the language of the bill for some States where there are no mortgages, by saying "first deeds of trust," you can at the same time

cover those other States where they have the very best paper of that kind that there is, the "first vendors' liens."

Mr. PLATT. Anything that is security for land is a mortgage; it does not make any difference what they call it in one State or another.

Senator HOLLIS. I do not think it is a mortgage, however.

Mr. HAYES. No; it is a lien, but not a mortgage.

Senator HOLLIS. You will find that the law books are full of the differences between liens, deeds of trust, mortgages, conditional sales, and so on.

Mr. SCUDDER. You see, in Texas a homesteader can not give a "mortgage," but he can sell his property and allow a vendor's lien to remain on it. A person in Texas having property outside of the homestead can give a mortgage on that portion that is outside of the homestead.

Mr. PLATT. But a vendor's lien is a mortgage; you say he has the land as security?

Mr. HAYES. It is a lien, but not a mortgage.

Mr. SCUDDER. It is a first lien, but not a mortgage.

Mr. PLATT. They are exactly the same thing.

Mr. SCUDDER. But you have got to define it in the bill, or you close it out.

Mr. BULKLEY. Is there any doubt that vendors' liens may be refunded—for instance, that a homesteader can give a new mortgage for the purpose of paying off the vendor's lien?

Mr. SCUDDER. No; there is no doubt at all. It would be absolutely good in Texas. We used to attach the taken-up "vendor's lien" to the new "mortgage paper," so as to show that for all time that there could be absolutely no question.

Mr. HAYES. And is it good in anybody's hands until the lien is satisfied?

Mr. SCUDDER. Absolutely good.

Mr. PLATT. Mr. Scudder, there is one question that I asked Col. Ousley, though not for the record: Is there any special reason why these vendors' liens should bear as high a rate if they are just as good as mortgages?

Mr. SCUDDER. They do not. You can get them at a lower rate of interest in Texas than on mortgages to-day.

Mr. PLATT. Do they promote speculation in land rather than production?

Mr. SCUDDER. No; if anything, they prevent speculation. A vendor's lien has the earmarks of a bona fide purchase. A vendor's lien is the actual purchase price—

Mr. RAGSDALE. What might be called a "purchase-price mortgage"?

Mr. SCUDDER. Yes.

Mr. PLATT. When a man has borrowed on a vendor's lien, he can not get any further loan on that security. Is that not an inducement for a man to borrow with the idea that it is going to increase in value, rather than with the idea of making it produce something?

Mr. SCUDDER. Well, there are some sales, of course, made in Texas on vendors' liens in installments; for instance, a man will pay one-quarter down in cash, and he will give three-quarters of the purchase

price in vendors' liens, payable, say, one-quarter in two years, one-quarter in four years, and the third quarter in six years. Under this bill he could not make a loan on more than the first two installments, which would represent 50 per cent of the original purchase price. The other and last installment he would have to raise on a second mortgage. In other words, this man would have to provide for a second mortgage on his property. But the same principle of allowing a 50 per cent loan—or whatever the percentage is in the bill—should apply to the "vendor's lien" as well as to a lien called a "mortgage" or "deed of trust"—

Mr. PLATT (interposing). Well, does not this system permit the turning over of the land—buying with a vendor's lien—and when a man can not delay any more the only thing he can do is to pay it off; and if he can not do that, the only thing he can do is to sell it? Does not that promote sales rather than production on the land?

Mr. SCUDDER. The idea of "vendors' liens" makes it easier for the homesteader to get a piece of land. I will say that this has been the result in Texas; that because of this vendor's lien and the excellent security it affords, a homesteader or a man who wants to get a piece of property is able to purchase it more easily than if it was simply a mortgage proposition: because if I have a piece of land of 100 acres, and I want to sell it to a person, I am more apt to sell it under a vendor's lien, and more apt to get a fair price because of the vendor's lien, than if there was simply a mortgage law, which would only allow the borrower to go out and get 50 or 60 per cent of the value of his land, whereas I am willing to sell it to him on a vendor's lien, leaving perhaps 75 per cent of it to remain under such a lien.

Mr. PLATT. It promotes sales, then?

Mr. SCUDDER. It does help a man to get a piece of land.

Mr. PLATT. It helps to sell a piece of land if he owns it. Those are only two different ways of saying the same thing.

Mr. SCUDDER. Yes; naturally it must work both ways. It operates to make land more liquid.

Mr. RAGSDALE. The natural tendency of it is to break up the large farms into small farms, with that many additional home owners, is it not?

Mr. SCUDDER. Undoubtedly; and that has been a great benefit to Texas. It has been made possible to split up those big ranches and have homesteaders come there, and I think it has been a blessing rather than a detriment.

Mr. PLATT. But it does promote speculation in land, because it promotes sales, does it not?

Mr. SCUDDER. No; it is just the other way; it develops the homesteader. It induces the man who has a little money to come in and live on his land, and to split up those big ranches.

Mr. PLATT. And to turn around and sell it again?

Mr. SCUDDER. No; because, if he has bought it and paid one-quarter on it, say, 25 per cent, he has got a 25 per cent interest in that farm and, in certainly a large majority of cases, there must be some object for his putting every dollar that he has into the purchase of this land, other than speculation. Generally speaking, the man who pays a small amount on his land has been the "settler," and not the

“speculator.” Your theory may work in the case of city lots, but it does not go in the case of farm lands.

Mr. PLATT. If those vendors' liens are such good securities, why should they bear such a high rate of interest, as Col. Ousley testified that the rate of interest paid on those vendors' liens was above the ordinary rate of interest in the community, as I understood.

Mr. SCUDDER. Did he? That has not been my experience. Of course, there are special instances where a large discount is obtainable in the purchase of vendors' liens, when those notes represent a very large proportion of the value of the property sold, and the holder desires to realize cash at once on those notes; but my experience has been that ordinarily the vendors' lien has the advantage over a mortgage or deed of trust.

Mr. RAGSDALE. The rate on the vendors' liens?

Mr. SCUDDER. Yes; that has not been my experience. My experience in Texas was that vendors' lien notes—that is, provided the “percentage” was confined to a reasonable percentage of the value of the land, brought a lower rate of interest than mortgages. In other words, when I was loaning money in Texas, I preferred to purchase a vendors' lien (or make a mortgage by deed of trust to take up a vendors' lien) provided it was within my 50 per cent—that was my rule in those days—than to make a straight mortgage, because I had the bona fide evidence of the object of the purchaser of that property—generally, the object was improvement, especially where it was a refunding of a vendors' lien—and I knew also that that was the very finest kind of security under the Texas law; i. e., the vendors' lien is unassailable.

Mr. RAGSDALE. Aside from that, the very fact that a man was buying a piece of property and putting his money in it would show that he was going ahead; whereas a man giving an ordinary mortgage might mean that he was retrograding.

Mr. SCUDDER. Yes, sir.

Mr. RAGSDALE. One is the case of the acquisition of a property, and the other is the encumbering of a property?

Mr. SCUDDER. Yes, sir.

Mr. PLATT. It seems to me that, as a general proposition, if a man holds a piece of property on which he can not borrow and upon which he owes money, the only thing he can do is to sell, and, therefore, a law of that sort must promote speculation. It can not do otherwise.

Mr. SCUDDER. Dr. Coulter has asked the question whether they have the “deed-of-trust” system in Texas. I will say that they also have that in Texas; that you can make a loan, give a deed of trust, and follow out the general rules of a deed of trust.

Mr. HAYES. You think, then, that we would cover the Texas situation, if we were to put into the bill the words “vendors' lien,” or “purchase-money lien”?

Mr. SCUDDER. Yes; not only the Texas situation, but, perhaps, that of other States—Louisiana and others.

Mr. HAYES. Yes.

(Thereupon, at 12.55 o'clock p. m., the subcommittees adjourned until to-morrow, Wednesday, March 4, 1914, at 10.30 o'clock a. m.)

WEDNESDAY, MARCH 4, 1914.

UNITED STATES SENATE,
Washington, D. C.

The subcommittees met at 11 o'clock a. m., Hon. Robert J. Bulkley presiding.

Present: Senator Hollis and Representatives Stone, Seldomridge, Hayes, Woods, and Platt.

STATEMENT OF JOHN SPRUNT HILL, OF DURHAM, N. C.

Senator HOLLIS. Will you state your office and official connection with this matter, please?

Mr. HILL. I am 45 years old; a farmer; have three farms, one operated on the tenant system and two operated under personal direction with foremen. I am president of a loan and trust company; vice president and general manager of a savings bank that lends a great deal of money on city and farm property on a strictly 6 per cent basis. I have had many years' experience in New York and North Carolina in the land-loan business, especially in fighting loan sharks and bringing money down to a 6 per cent basis. I am a director and promoter and a large stockholder of a building and loan association, and am familiar with its workings and a great believer in its principles.

I was a member of the American commission that went to Europe to study rural credits and cooperative production and marketing, appointed by the governor of North Carolina, and traveled at my own expense. I was chairman of the committee on rural credits—

Senator HOLLIS (interposing). Of the American commission?

Mr. HILL. Of the American commission. I made a special extensive study of rural credits both in Europe and since my return. I was much pleased to be associated with my friends Dr. John Lee Coulter and Hon. Ralph Moss, whom I see present.

Senator HOLLIS. Mr. Hill, have you made any printed or formal report of any kind?

Mr. HILL. To the governor of North Carolina; yes, sir. I will bring that in later. I wish to state that no two gentlemen on the whole American commission or the United States commission impressed me more favorably than these two, and I regret that I have to differ with them as to their conclusions as set forth in the Moss-Fletcher bill and also in their statements before this committee. Probably their opinions have been influenced somewhat by their surroundings and by their personal observations. What I shall say is in reply to many statements that have been made before this com-

mittee. It has no personal bearing, as I have great respect for them personally and they are my friends.

With the permission of your committee, I will take up, first, a brief discussion of the Moss-Fletcher bill; then a brief reply to the statements made by Messrs. Moss and Coulter; and, third, a brief outline of a general plan for relief to be granted to the American farmers.

The Moss-Fletcher bill may be divided into two parts—a joint-stock plan and a cooperative plan. The two parts are loosely thrown together, in my opinion, and, evidently, the cooperative plan was an afterthought thrown in to save the bill. So far as I was able to observe, no other country attempted to unite the joint-stock and the cooperative plan under one particular act. They do not mix well. The joint-stock idea is absolutely and fundamentally opposed to the cooperative altruistic idea, and I can not imagine how any man's mind can associate the two.

First, the joint-stock plan. I wish to say that the joint-stock plan as set forth in the Moss-Fletcher bill is fundamentally wrong in principle, has been repudiated throughout Europe as a plan for relief of farmers. It is false in its assumptions; it will prove worthless in its results; in my humble opinion, it should be eliminated from further consideration by this committee. But in order that I may develop my subject in proper order I will have to assume, first, that there is a real need in this country at this time for farm-land banks—(a) organized for profit; (b) owned and operated by money lenders; and (c) devoid of altruistic principles.

This brings me to a discussion of the sections of the Moss-Fletcher bill, section by section.

Section 11, page 24, "Restrictions." Mr. Moss, on page 29 of his statement before this committee says:

It offers you a system of banks that can go into operation at once in every State of the Union under conditions as they now exist.

Yet the bill provides that these banks shall be only operated in those States which pass suitable laws—first, requiring simplification of titles; or, in other words, the Torrens land system. That in itself makes the bill hopeless. I am a great believer in the Torrens land-title system. So far as I am able to understand, only the State of Massachusetts has ever practically adopted a Torrens title system as a working basis. Three or four other States have passed such laws. The State of North Carolina has passed such a law; and yet, so far as I know no title has been registered under the Torrens system. In every State there is tremendous opposition to it on the part of lawyers and also interested persons.

MR. BULKLEY. Mr. Hill, did you say these banks could not operate in any States that did not adopt such a law?

MR. HILL. That is the restriction of the bill, as I understand it.

MR. BULKLEY. Do you mind my asking, Mr. Moss, right there, if that is a correct understanding of the bill?

MR. MOSS. Of course, Mr. Chairman, I feel that Mr. Hill had better go on and make his statement and analysis as he has it—

MR. HILL (interposing). I have no objection to the interruption.

MR. MOSS (continuing). And then I will ask the permission of the committee later on to put my own analysis on the proposition.

Mr. HILL. It would take a great many years for the 48 States of the American Union to be educated up to the adoption of the Torrens title system; therefore, there could be no immediate assistance to the farmers.

Second is the waiver of the exemption and homestead laws. A State like Texas, for instance, in order for a man to mortgage his house, his homestead, and 200 acres of land, it would require a constitutional amendment; hence, a tremendous campaign. There are other States that have restrictions along this line very difficult to remove.

Third is taxation. That is also set forth in section 18, page 30, of the bill, "Exemption from taxation." The capital stock and the income derived from these joint-stock-company banks and the mortgages, deeds of trust, notes, and bonds, shall be exempt from Federal, State, and local taxation. No greater obstacle to the immediate granting of relief to the American farmers could be imposed than that one.

All of these restrictions are, in my judgment, reasonable and good; but they are submitted and dwelt upon by me to show that there could be no immediate relief for a great number of years under this bill. Hence the real facts, in my judgment, will show that any prospect of immediate relief is not based on the facts.

Senator HOLLIS. Mr. Hill, it was called to our attention yesterday that the bill does not provide that a land-title system or that a mortgage system opposed to the Texas rule was necessary for the establishment of the bank for doing business. You will note on the top of page 30 that these restrictions apply only to investment in these land-bank bonds, and that they are only allowed where such restrictions are imposed. Have you thought of that? I think that is what the bill provides; that is my understanding of it.

Mr. HILL. That may be, and there may be a difference of opinion as to that. The point in regard to restrictions is, in my opinion, not a very serious one, and I only mention it in passing.

Mr. HAYES. Mr. Chairman, is Mr. Hill going to point out why this particular provision he speaks of is going to prevent the relief that is desired?

Mr. HILL. Yes, sir. If you have restrictions that can not be overcome readily in a State, why then that would appear to me to be a serious objection to the adoption of this bill.

Mr. HAYES. Yes; but I think you were just then speaking of the exemption from taxation as something that was going to prevent the results we desire. I understood you to say so.

Mr. HILL. I am afraid I did not catch the question exactly. If I do, my understanding of it is this, that if the stock of these banks, or if these banks can not be established until the stock of the bank is made nontaxable by the State legislatures, under the constitutions of our States then it will be a very serious restriction that will prevent immediate relief.

Mr. HAYES. How? That is just what I want to understand.

Mr. HILL. Because it would take a 10-years' campaign to educate the people of the various States up to the point to amend their various constitutions.

Mr. HAYES. They do not have to. Don't you understand that the United States can exempt from taxation so the States can not reach it, a bank like this—a corporation of its own creation?

Mr. HILL. No, sir; I do not understand that at all.

Mr. PLATT. The United States could not exempt mortgages that might be taken by the banks.

Mr. HAYES. No.

Mr. HILL. It is not a municipality, not a part of the State, not a part of the county.

Mr. HAYES. I am not sure about that.

Senator HOLLIS. We are on debatable ground there, and, so far as I understand the bill, we do not attempt to make that a condition of having the banks go into effect in any State. We have, or at least the bill provides, they shall be exempt. Just how far that will be effective I am quite doubtful, and it is something we will have to examine quite closely.

Mr. HAYES. The thing I wanted to bring out was to know what his idea was.

Mr. HILL. The time it will take. I am for these restrictions, but it is the time it will take.

Senator HOLLIS. That is, if it is constitutional and proper for Congress to provide they shall all be exempt from taxation, you are for it?

Mr. HILL. Yes, sir.

Senator HOLLIS. But you are not in favor of it if it will entail great delay if we exempt it?

Mr. HILL. Yes, sir. I asked the representatives of the Farmers' Union of North Carolina, with whom I was in conference, to consider the matter of exempting land-mortgage bonds from taxation, and with one accord they opposed it.

Senator HOLLIS. What were their grounds for that?

Mr. HILL. They thought it was a rich man's scheme to escape taxation.

Senator HOLLIS. That is, they thought the lender was the man who paid the tax and it did not reach the borrower?

Mr. HILL. Yes.

Mr. HAYES. They have the same prejudice in California.

Mr. HILL. The next section is section 14, on page 25, the legal rate of interest. Under the head of "Dividends" it says, "The dividends shall be limited to the legal rate of interest in the State where such banking corporation is situate." The legal rate of interest in many of our Eastern States is 6 per cent. It ranges from 6 to 10 per cent in the Western States. Therefore your dividends in these banks in the Eastern States would be limited to a lower rate than in the Western States. It should not be elastic. If this bill should be adopted, there should be some fixed amount. Your market for your bonds is practically the same in many centers. I presume it is expected that the bonds will sell for $4\frac{1}{2}$ per cent. Therefore there should be a fixed rate of interest instead of an uncertain rate of dividends.

Mr. PLATT. You speak of section 14?

Mr. HILL. Under the heading of "C, dividends."

Mr. PLATT. That is section 37 in the copy I have.

Senator HOLLIS. It is on page 9 of the bill before us.

Mr. HILL. Probably my numbering is a little different.

Senator HOLLIS. It is a little different; yes.

Mr. HILL. The next subject is the statement under the head of "Dividends" that the balance of such net earnings, if any, shall be distributed among the patrons of such banking corporation in proportion to the amount of business transacted by such banks.

Senator HOLLIS. It is "with" such banks here.

Mr. HILL. It is "by" such banks in my copy. Transaction with such banks.

Senator HOLLIS. That means the amount of business which each patron does. That is the cooperative plan of business.

Mr. PLATT. This is all cooperative.

Mr. HILL. The whole provision is taken from short-time credit banks and has no bearing, in my mind, upon land-mortgage banks at all; would be impossible to carry out; would create a tremendous bookkeeping, and should be stricken from the bill. If there should be profits from these banks, these cooperative banks, they should not be divided like a cooperative store among the patrons, but they should be used to build up a reserve and to bring down the rate of interest. There can be no such thing, in my mind, as distribution of profits to the farmers borrowing money from long-time on banks. It would be ridiculous in its execution.

The next section in section 14 is under the subject of "Capital." Under the act the amount of capital and the number of shares into which the bank is divided it is provided that such capital shall in no case be less than \$10,000—in my opinion a most ridiculous provision. How can any man who has made any study of the subject of land mortgages conceive of a land-mortgage bank doing business with \$10,000 capital, issuing bonds, paying overhead charges, paying for clerical work, having an agent to sell the bonds, bookkeeping, paying for a fiduciary agent? It is inconceivable, in my mind, for so small a bank.

Senator HOLLIS. Where would you place the limit, Mr. Hill?

Mr. HILL. The limit should not be, under any circumstances, less than \$100,000, and perhaps \$200,000.

Senator HOLLIS. Right there: You know there is a large number of very useful national banks doing business on \$25,000 capital?

Mr. HILL. Yes.

Senator HOLLIS. Tell us why so much larger capital is needed for a land-mortgage bank.

Mr. HILL. Because the national banks with small capital do not have to market bonds. The whole principle of land-mortgage banks hinges around the proposition of marketing your bonds at a low rate of interest. If the bonds are not marketed at a low rate of interest you can not bring any 5 per cent or 4½ per cent money to the farmers. It seems to me that any bill Congress should enact ought to aim to bring money to the farmer's door at at least 5 per cent. How can a little bank of \$10,000 capital, with overhead charges of 1½ per cent, perhaps, with clerk hire, pay for the issuing and marketing of bonds?

Mr. BULKLEY. Is not that very thing done in Europe by banks without any capital stock at all?

Mr. HILL. No, sir. I shall show you by the evidence I will come to that the bond-issuing institutions in Europe are tremendous institutions. There is no authority whatever for this trifling \$10,000 bank

It is one of the worst provisions I have ever seen. I can not conceive how any man could think of a \$10,000 bank who has studied conditions in Europe.

Senator HOLLIS. Will you just amplify that? You mean they have to have so much money tied up at any one time in the loans they have made before they can convert those loans into bonds and sell the bonds, and you mean that that takes a large amount of capital?

Mr. HILL. Yes, sir. I also mean that the small bank is at a great disadvantage in selling its bonds in comparison with the large banks.

Senator HOLLIS. You mean on account of its lack of credit?

Mr. HILL. Yes, sir. It also means that where large banks are organized they will be able to sell bonds at a lower rate of interest and therefore be able to sell money to the farmers at a lower rate of interest. Therefore the small bank will be crowded out of competition in a few years.

Mr. BULKLEY. That sounds all right, theoretically. I wish you would throw the light of experience on that as much as you can, and tell us what are the smallest banks in Europe that do issue bonds.

Mr. HILL. Yes; I will in a minute. I am trying to base my whole speech on the evidence I have here, and I will give you the evidence as it is.

To secure the blessings of small loans to the farmers, it is not necessary to have small banks.

The experience of European countries is just to the contrary. On page 391 of the evidence of the American and the United States commission, under the head of "German mortgage banks," is the following statement:

Moreover, these mortgage banks are allowed to issue mortgage bonds but only for a sum not exceeding 15 times the amount of the paid up capital and the reserve funds which shall be created solely for the purpose of covering deficits for the security of the holders of such bonds. In Germany we now have 40 mortgage banks, which have together loaned out on mortgages the amount of 10,000,000,000 marks, but only 6 per cent of this large sum is loaned out on rural property—the great majority of mortgages are given on land in towns. Two great banks, the Central Land Credit Joint-Stock Co. and the Bavarian Mortgage Bank, hold together 90 per cent of all those mortgages on agricultural property, so that all the other joint-stock mortgage banks have no great importance for agricultural purposes.

Then it comes to this point, in view of all the experience in German joint-stock company banks, with the exception of two, do not loan money in any appreciable quantities to farmers. Of those two banks, one is the Great Central Bank at Berlin, with something over \$10,000,000 capital, with great State privileges, with a different plan of valuation from other banks granted to it by the State. When all of the other banks in Germany of the landschaften kind were compelled to value on a basis of the returns from the land—that is, the valuation should not be more than 20 times or 30 times the income from the land—this one great institution was granted the great privilege of lending money on its own valuations. It also had a royal commissioner in its offices at all times, and many other special privileges from the Government.

That is the kind of a joint-stock bank that loans money to farmers in Germany.

In other countries there is no such thing as a joint-stock company bank loaning money to farmers in any appreciable amount.

Senator HOLLIS. Does this particular German bank do a commercial business also?

Mr. HILL. I will read what it does. This particular bank underwrites bonds of municipalities. It is only allowed to take deposits up to one-half of its capital stock. Cahill, on page 37, says:

With the object of furthering rural mortgage credit through this bank, the State accorded to it special privileges not possessed by the other Prussian joint-stock mortgage banks—a royal commissioner and valuation matters. The possession of the power of making independent valuations was also of a very great material advantage.

It does not do a general banking business. I will come to that a little later; it is another part of my speech.

I hope that I have made myself perfectly clear that relief to farmers in Germany does not come from joint-stock company banks owned by money lenders and operated for profit and not operated upon any altruistic principles. Why, therefore, should the members of any commission pick as its model this giant stock bank, with its millions of capital, with its special privileges, with its special officers all over Germany? This bank operates all over Germany. It is a great central bank operating all over Germany, and when it was first proposed to the German parliament it was voted down because of its tremendous powers. Yet the gentlemen take this bank as their model and hand to the American farmers a bill proposing relief on a joint-stock profit-making plan.

Mr. HAYES. You do not count the Credit Foncier in France, a joint-stock institutions, then?

Mr. HILL. In a measure; but it is so surrounded by monopolistic and lottery and other State privileges and grants of money from the State that, in my judgment, the relief that the Credit Foncier grants to the farmers should be eliminated from discussion before this committee, as it would be unfair to the whole proposition of land-mortgage banks.

Mr. HAYES. As a matter of fact, does the Government furnish much money?

Mr. HILL. It organized the Credit Foncier, and my recollection is that it loaned them about \$2,000,000 to start with.

Mr. HAYES. That is all, I guess.

Mr. HILL. I am coming to a plan somewhat similar to that, but Americanized and cooperative. (Evidence, p. 23.)

Mr. BULKLEY. That is page 23 of Senate Document 214, is it?

Mr. HILL. No; page 23 of the agricultural cooperative evidence, taken by the commission.

Under the Italian's system, such loans were generally made by public utility corporations, such as savings banks, which are institutions without shareholders and consequently with no distribution of dividends. * * * The surplus is added to the reserve fund and guarantees all the operations of the banks. These large reserve funds are the strongholds of the credit of the banks.

* * * * *

The Milan Savings Bank charges 4.88 per cent on its mortgage loans, inclusive of everything. It can afford to make loans at this low rate of interest because it is a public utility corporation without shareholders and therefore does not distribute dividends. The charge made by other banks issuing such bonds is 5.77 per cent.

Which verifies my point made above.

Page 164, in regard to Hungary:

Q. Have all the banks of Hungary been forced to place loans on real estate, on nearly the same basis as your institution and those similar to it?—A. They are forced to grant money practically on the same conditions, but a little dearer. Only the provincial savings banks give a little bigger loan, compensated for by the higher rate of interest.

Mr. BULKLEY. What is referred to there "by your institution"?

Mr. HILL. The Hungary small-holding banks.

This institution and the provincial savings bank are distinctly antagonistic by reason of the fact that in former times, before the institution of cooperative societies, the banks were able to lend money to people in want of it at an enormous rate of interest.

Mr. PLATT. Does that mean the savings banks?

Mr. HILL. The savings banks. In Hungary the savings banks are all joint-stock companies.

Mr. PLATT. Not mutual?

Mr. HILL. Not mutual. When there was a financial crisis the central organization of the country savings banks was obliged to announce at the general meeting that 52 institutions had to be wound up, but not a single cooperative society was wound up for the want of money.

Talk about stability and permanency, why these little \$10,000 institutions would be like the Hungarian country savings banks if they undertook to lend money on long-time mortgages.

Evidence, page 408, under the "Heading of Germany"—the Prussian land-credit bank operates over the whole of Germany; it pays dividends of $9\frac{1}{2}$ per cent—

Q. Do the bonds you sell have any date of maturity?—A. No fixed date.

This great central bank, with its tremendous capital, issues bonds that have no fixed date of maturity—a scheme entirely different from what has been evolved here.

Mr. BULKLEY. Which bank is that?

Mr. HILL. That is the great joint-stock-company bank of Germany, lending money to farmers.

Senator HOLLIS. I wish you would explain the application of that point, that they do not have any fixed time of maturity for the bonds?

Mr. HILL. Well, that may or may not be an advantage, as the initial money of the institution is loaned out to farmers on mortgages, and collateral-trust bonds have to be issued against these mortgages strictly in proportion to the amount outstanding. Hence the date of maturity of the collateral-trust bond is of no particular importance, they being constantly recalled. It is an endless-chain proposition.

Mr. BULKLEY. Do they recall them in order?

Mr. HILL. I think not, although I am not sure.

Mr. BULKLEY. Is it by lot?

Mr. HILL. By lot, they are generally recalled. The actual working basis, however, is that the bonds are not issued until absolutely necessary. If you have funds in hand you use those funds to lend to the farmers and do not issue bonds unless necessary.

Senator HOLLIS. The point is that it must be to the advantage of any institution not to be compelled to pay money at any particular date, but to use its own time.

Mr. HILL. Yes.

Senator HOLLIS. That is an advantage, of course.

Mr. HILL. Yes. Mr. Moss, in his statement on page 19, says, "We wish to afford every possible means of competition among themselves."

I am unable to grasp what he means by that statement. Two small land-mortgage banks in the same community competing with themselves, owned by money lenders, competing to lower the rates of interest to the farmers is, in my mind, inconceivable. Has anyone in the whole history of the American people ever seen money sharks and money lenders competing with each other to lend money to the farmers at a low rate of interest?

Mr. PLATT. Mr. Hill, right there, if I may interrupt you: We had a gentlemen testify here a day or two ago there was danger of these banks being organized by money borrowers who would appraise their own property. That was one of his chief objections. What would you say to that?

Mr. HILL. I would say that the organization of a large joint-stock company bank, somewhat like the Prussian Central Bank, would be a tremendously profitable institution. All of these concerns make money rapidly. Even where the difference between the interest rate of the trust bond is only one-quarter of 1 per cent below the interest rate of the money loaned to the farmers, they make money. The evidence here shows that these institutions make a great deal of money with a reasonable capital. They make, perhaps, \$100,000 per year. I have a great deal of information here, tabulated, which, perhaps, is unnecessary to take the time to develop, but they are tremendously profitable institutions. The incentive, if any man wanted to go into this proposition, would be to form large banks, not small banks. Any banker, in my opinion, would not be so foolish as to organize a small bank. If he did, he would lose his money.

Mr. PLATT. But might not a group of well-to-do farmers organize a bank themselves? They could easily raise \$10,000 in some parts of the country?

Mr. HILL. My reply to that is this: The whole history of Europe shows that the joint-stock idea is absolutely repugnant to the interests of farmers. You must inject into the banks the altruistic idea, the idea of brotherly love—of standing shoulder to shoulder—in order to make the institution successful. That is the story of Europe, and I deny that there is any substantial authority for joint-stock companies offering relief to farmers in Europe. Mr. Wolf and other eminent authorities will sustain my point.

Mr. STONE. Since you think it is inconceivable that banks having a capital stock of \$10,000 will be organized, do you think that larger banks will be organized? They are not prohibited under the bill.

Mr. HILL. It is quite possible that some large banks would be organized. That is only an opinion. In my judgment they should not be encouraged to organize. We have enough banks in this country exploiting farmers; we have enough money lenders in this country now. We now have one bank for every 4,000 people in this country, and that is the story of Germany with all her great density of population. If we are going to have any credit banks, let us put

the strong arm of the State behind them, so that the rate of interest will be brought down to the farmers at 5 per cent or perhaps $4\frac{1}{2}$.

Senator HOLLIS. Mr. Hill, it has been suggested that if these small banks were formed locally, and then were combined into an association, say, an association for each State, that that State association might furnish the investigation of the security of the loan, issuing the bonds, and so forth. Have you thought of that?

Mr. HILL. Yes, sir. I have thought of that a great deal. It means centralized power of the money lender, and I am fighting that, and I propose to fight it as long as I live. What you want is an institution controlled in part by farmers themselves. No other institution will bring money down to the farmer and bring it to his door at a reasonable rate. Let your institution be controlled by the United States Government, by the State government, and inspected by them, and partly controlled by the farmers, and you have got a proposition that brings money to the farmer. There is no reason whatever in my opinion for injecting the money lender into it. There is plenty of room for banks. I am a banker myself, and I am proud of it, and I want to say here, as I said in the American commission, if this question of cooperation interferes with my business, then by business it is wrong, and it must come down. This proposition of bringing money to the farmers must be settled by the Government and not by the money lenders.

Senator HOLLIS. The dangers you fear would be very largely minimized if these State associations of banks incorporated under Federal law could be put under the charge of the Federal Reserve Board? That has been suggested.

Mr. HILL. Well, I will try to give a rough outline of a plan I prefer.

Senator HOLLIS. Take that in your own time; I only make these as suggestions.

Mr. HILL. In reply to Mr. Moss's statement I would like to ask if banks and banking corporations compete simply because they are given the privilege? I believe it is the experience in this country that our Government is eternally trying to make them compete under the provisions of the Sherman antitrust law. You must be able to reach the great money centers to sell these bonds. I have great respect for the opinions of the gentlemen that come from other States. Necessarily my opinions are somewhat shaded by my surroundings. What we want in the great South is to bring us close to the money centers through the aid and assistance and the brains of the Government. I can borrow money in New York at $4\frac{1}{2}$ per cent from year to year, and I do borrow money in New York at that rate now—something like \$50,000. My security is no better than the improved, dependable land of the farmers of North Carolina.

Now, the whole proposition in my opinion before the committee is to bring the security of the farmer to the attention of the money centers where capital is cheap. Capital is high in North Carolina.

The report of the committee to the governor, composed of representatives of the Farmers' Union and other gentlemen, and myself, shows that money in North Carolina loaned to the farmers ranges from 8 to 20 per cent; and I was astounded at your Government expert, Mr. Thomson's statement, that money in North Carolina was being loaned to the farmers for 6 per cent. With all of the ability

of that gentleman and the aid of the Government, it seems that the money lenders constantly and eternally deceive this Government about the prevailing rates of interest.

Mr. STONE. Do you get the money in New York at $4\frac{1}{2}$ per cent from money lenders?

Mr. HILL. Yes, sir; from banks or trust companies.

Mr. STONE. From money lenders?

Mr. HILL. Yes, sir.

Mr. STONE. Why is it that you can get money from money lenders at $4\frac{1}{2}$ per cent whereas farmers can not get it from money lenders at less than 8? What is the difference?

Mr. HILL. The farmer is not organized. I have my business organized, and I can reach the New York trust companies—the investing public in the big cities. The farmer can not reach the investing public.

Senator HOLLIS. That is, the farmer has to reach them through intermediaries?

Mr. HILL. Yes, sir; he has to reach them through intermediaries. I know of banks that borrow money in New York at 5 per cent and are loaning it to our people at from 8 to 12 per cent. I tell you, what I have said on the public platform in North Carolina, there is more usuary in one State in the South than in any country of Europe.

Mr. PLATT. Just why? When you borrow money from banks at $4\frac{1}{2}$ per cent you put up a security that can be marketed instantly, do you not?

Mr. HILL. Yes, sir.

Mr. PLATT. Can the farmers do that?

Mr. HILL. Yes, sir.

Mr. PLATT. What kind of security?

Mr. HILL. The land-mortgage trust bond.

Mr. PLATT. That is the whole thing, is it not, that you give them a security which can be marketed readily?

Mr. HILL. It must be marketable. That is the point I was leading up to. And it must have a tremendous backing, or it will be "hawked around" at a great premium.

Mr. BULKLEY. What is the legal rate of interest in North Carolina?

Mr. HILL. The legal rate is 6 per cent, and it is a misdemeanor to charge more.

Mr. BULKLEY. It is a misdemeanor to charge more than 6 per cent?

Mr. HILL. Yes, sir.

Mr. BULKLEY. And you say loans are not made at less than 8 per cent?

Mr. HILL. The report says so.

Senator HOLLIS. The point is, the law is not enforced?

Mr. HILL. The law is not enforced. Not only is the law in many of the Southern States not enforced, but the money lenders are banded together to prevent the enforcement of the law. A distinguished citizen of one of the Southern States said to me that no man would dare repudiate an interest charge or a commission charge.

Mr. WOODS. Mr. Hill, you spoke of the interest rate being from 8 to 20 per cent?

Mr. HILL. Yes, sir.

Mr. WOODS. Do you ever pay as high as 20 per cent on first mortgages, or is that personal security?

Mr. HILL. It comes this way: On a small loan which came under my personal observation a man wanted to borrow \$300 on a piece of property worth at least \$1,200. He came to a certain citizen who is engaged somewhat in that business. This citizen said "money is tight; it may be I can find it for you through some of my clients." He immediately called up a bank and got permission to loan \$300 at 6 per cent. He charged the man \$30 for getting the money; \$5 for fixing the title. At the end of 12 months he wrote him, "Unless you pay that bank its money, they can sell you out. Call at my office and maybe I can fix it for you." He thereupon called up the bank to renew the loan, which was done without charge.

Senator HOLLIS. It was a one-year loan?

Mr. HILL. It was a one-year loan. Renewal fees in respectable banks are not charged. He charged the man \$10 for renewing his loan and never had a cent of capital invested.

Now, I will tell you that is not a very extraordinary case.

Mr. WOODS. Was that on town or farm property?

Mr. HILL. That was on town property. Farm property is worse than that. Perhaps I might read just a few words from the report to the governor of North Carolina on that subject.

Senator HOLLIS. Made by yourself?

Mr. HILL. Made by the committee:

It is clear that there is something radically wrong with the facilities for borrowing money on farm lands in North Carolina. From general inquiry in many parts of the State the fact is revealed that few banks in North Carolina lend on farm land, and that the average farmer desiring to borrow money on his land is compelled to deal with the land-loan sharks, and is compelled to pay from 6 to 20 per cent on money borrowed. As a general rule he is subjected to many kinds of extortion, usury, and exploitation, and, naturally, the average farmer of North Carolina is very much dissatisfied with the present land-loan shark business and avoids borrowing money whenever possible. Frequently the land-loan sharks prey upon the necessities of the distressed farmer, and regardless of law against usury, without conscience, and without heart gets all for the money loaned that his victim will pay. Another curious fact about this business in North Carolina is that the more remote the farmer lives from the money centers, the greater the usury, the higher the commission and renewal fees, and the more exacting the oppression and the extortion.

Mr. PLATT. That is not curious, is it? That is natural, isn't it?

Mr. HILL. Well, farm land in one section is as good as farm land in another if it is dependable.

Mr. PLATT. No; it may not be; because of the distance from the market making a difference.

Mr. HILL. I will say, a farmer who has land in value worth \$10,000, and only wants to borrow \$1,000, even though it is a long distance from the railroad, his security is as good as anybody else's. Your point has to do with place?

Mr. PLATT. Yes.

Senator HOLLIS. You know there are two theories about the rate of interest. One is that the interest rates are high or low in proportion to the amount of capital that is available for lending. The other is that interest rates are high in new communities where enterprises are bringing large returns and where the use of capital is more profitable than in older communities where industry does not bring large returns.

I wish you would apply those two theories to North Carolina and give us your solution of it.

Mr. HILL. I have for 10 years been engaged in loaning money on land—city land and rural land—at straight 6 per cent basis. It has been entirely profitable. The savings bank organized for that purpose increased its deposits about \$100,000 last year. I happened to be manager of that bank. That bank discharges anybody, and every institution with which I am connected discharges promptly anybody who gets a commission on a loan or charges usury. Our business is profitable. There is a great deal of profit in loaning money at 6 per cent.

My opinion is that when you come to discuss farm-land mortgages it has nothing to do with the commercial rate. The story of Europe is that the farmer, on his good security, gets his money from 1 to 2 per cent under the commercial rate. Money is worth what it will bring in commerce. But we are talking about a different kind of money. We are talking about stored-up capital that is seeking a safe, sure investment. Hence, in discussing the farm-land proposition, all you need to do is to connect the farmer with the man who wants the sound investment. It has very little bearing upon the interest rate.

Senator HOLLIS. Your idea is that individual farmers are charged high rates in North Carolina on their land loans because the capital is not readily available to them?

Mr. HILL. Yes, sir—I beg your pardon. It is not because capital is not readily available. Capital is readily available in North Carolina, but it wants its pound of flesh.

Senator HOLLIS. It is not readily available to the individuals at reasonable rates—to a great many individuals?

Mr. HILL. Yes.

Senator HOLLIS. In my community I am connected with a very large savings bank, a mutual savings bank, and the depositors get all of the profits. A farmer comes in and wants to borrow money. Before the bank can loan on that security the title has to be examined and the mortgage has to be drawn. Our bank limits the fee for examination of title and making the papers, I think, to \$3. The result is that my firm does not like to do the work because we could make more money in other law work. That is, it is a very small fee for the amount of work that may be required.

Now, the way your usury law is avoided, apparently is by making excessive charges for examining titles and drawing papers and for services in getting the loan, which is commission. That is the situation, isn't it?

Mr. HILL. That is the system.

Mr. PLATT. Does your savings bank make farm loans?

Mr. HILL. Yes, sir; a great many.

Mr. PLATT. I do not see them shown here. Your statement says "Loans and discounts," and below you say "All other stocks, bonds, and mortgages" only \$5,000. It looks like a commercial statement only.

Mr. HILL. That is a formal statement. Nearly all loans are on real estate. I did not want to advertise that particular bank because I happen to be connected with it; but that bank loans money to farmers at 6 per cent. It fights the money sharks. It has brought

money down in that section to 6 per cent, and it guarantees to loan all the money to farmers in its county at 6 per cent; and it will discharge anybody that charges above that. It has over \$500,000 loaned on real estate, and a considerable part of it is on farm-land loans.

Mr. PLATT. Do you carry that under the heading of "Loans and discounts"?

Mr. HILL. Yes, sir.

Mr. BULKLEY. Is it your statement, Mr. Hill, that those who loan money at rates higher than the statutory rate evade the statutes by these indirect methods?

Mr. HILL. Yes, sir.

Mr. BULKLEY. But they do not directly violate the statute. Is that the case?

Mr. HILL. Yes, sir. They violate the statutes directly and indirectly, and in every other way imaginable.

Senator HOLLIS. Have you ever known of the usury law being enforced?

Mr. HILL. Very rarely.

Senator HOLLIS. It is winked at?

Mr. HILL. Yes; but not by the courts.

Mr. BULKLEY. Does that obtain generally in North Carolina?

Mr. HILL. It is charged in the high places as well as the low places, and, judging by my own observation, there was nothing unusual about the Divine One overturning the money tables when he walked into the temple.

Mr. STONE. Why is it, if you offer to loan at 6 per cent to all the farmers of that county, that the farmers undertake to get loans at a higher rate? I should think that they would come to you for the 6 per cent.

Mr. HILL. This bank was organized eight years ago with a philanthropic purpose of building homes for poor people, of bringing money to the door of the poor man at 6 per cent. We built homes in the towns first. Last January a year ago our business had grown so strong we found that we could reach out and help the farmer also, and we commenced to do it. Now our loans are coming in, and in the particular community in which I live there is not any further need for a short-time land-mortgage bank.

Mr. STONE. Has usury disappeared among the farmers of your county?

Mr. HILL. To a certain extent. All of the best loans come to our bank in this county, in so far as I am able to observe.

Mr. STONE. All of the best loans come to your bank?

Mr. HILL. All of the best loans come to our bank and all the second rate go to other people.

Mr. STONE. Is it true, then, that usury exists only where the loans are not classified as the best loans?

Mr. HILL. In our particular county. I want to say this particular bank with which I am connected is, I believe, the only bank in that section that loans money on such a basis.

Mr. PLATT. You do not loan money except on select risks, apparently?

Mr. HILL. No; and nobody else loans money except on select risks. It is a wrong thing, in my mind, to bring to the American farmer—to inject into the minds of the American farmer the idea that every

fellow—good, bad, and indifferent—can get money at a low rate of interest.

Mr. STONE. High rates and poor security go together, then?

Mr. HILL. Yes, sir.

Mr. PLATT. Then there is a justification for high rates, and if a man wants to borrow money on poor security he must pay for the risk?

Mr. HAYES. Or if he has not credit.

Mr. HILL. If he has not credit he should get a short-time loan in a different direction. The land-mortgage business, in my opinion, can not take up the unsafe loan.

Mr. PLATT. Would you prevent the man who has not got the credit from borrowing at a high rate if wants to—at 8 per cent, 10 per cent, or whatever he wants to pay?

Mr. HILL. No, sir. I should give him short-time credit, which is an entirely different proposition. I have very distinct ideas on that which I would prefer to go into later. It is another branch of this subject. It is reached through the Morris plan, which is an altruistic plan, and other plans. By injecting altruism into it, by making it your business to loan money, you can practically reach every man, good, bad, and indifferent; and you once shut out the altruistic idea, and you have the money-shark idea injected into it.

Senator HOLLIS. I wish you would tell us just what form of man the money shark is. Does he work as an individual or as a corporation? What form does he take in North Carolina?

Mr. HILL. In some cases he is a movable quantity, and comes from Chicago one month, from New York another month, and from Richmond another. As soon as the authorities get after him he moves and somebody else takes his place, if it is the small, short-term credit money shark. The land-mortgage money shark is the skin-flint director around your small bank. There are men in most small towns that do not work, yet make money. The secret is that they are the back-door cabinet or the kitchen cabinet of some bank. The system is complete in many banks.

Senator HOLLIS. Just describe it a little more in detail.

Mr. HILL. The applicant to a bank—I will give you the statement of a cashier of a certain country bank. Mr. A applied to him for a loan of \$1,000 on property worth \$3,000. The cashier in most of these banks is a mere figurehead. He does not run the bank. This cashier said, "Why, we have no money now: the money is all locked up in New York. Money is tight."

Mr. PLATT. A common complaint.

Mr. HILL. The actual fact was the bank had plenty of money in its vaults. "Money is tight," he said. Mr. A was depressed. He must have the money for certain purposes, pressing purposes. Finally, to make a long story short, the cashier said, "I directed him to a certain attorney, who is attorney for the bank." I saw Mr. A some time after that, and he recounted this conversation. He said, "I went to this attorney, Mr. B, for the loan and told him the bank cashier had sent me there. Mr. B said, 'Money is awful tight. Oh, I tell you, I do not know how in the world I can let you have it. Oh, it is dreadful. Everybody wants money. All the money is locked up in the great banks of the North.'" And he gave him the usual

demagogue cry of the money lender. The purpose was, in my opinion, to shake down the applicant, to reduce him to a state of mind where he would pay his charges. When that was reached, he said, "I think I can arrange it for you as a special favor to you, but," he says, "it will cost you \$50 for that \$1,000." That \$50 was divided as follows, according to the statement of the cashier: \$10 each went to the attorney and three of the directors of the bank for commission on the bank's money. The remaining \$10 was divided between the attorney and the cashier of the bank equally. The paltry \$5 was the rake-off of the country cashier. The victimized A then got his money, but he did not get all of it. He only got \$850. Fifty dollars had already been paid out. That left \$950. The bank then required him to deposit \$100 in the bank so as to take care of any possible contingencies, out of which was deducted the interest in advance for the first three months. That is the rake-off of the bank.

MR. PLATT. I should think that is a rake-off of a lot of criminal sharks outside of the bank who are to take no responsibility. The bank takes the responsibility. These men did not indorse for him or anything?

MR. HILL. No, sir. His security was \$3,000.

MR. HAYES. They ought to be in the penitentiary.

MR. HILL. I have great respect for the opinion of my friend from Indiana. There may be some difference in special cases, but the rule is not much below that; and after talking with representatives of the South many times. I am satisfied that the great curse of the South to-day is usury. It is as great, perhaps, as a curse as whisky has been to the South.

MR. PLATT. Let me ask you one question: Suppose the usury law was abolished and the banks allowed to loan at straight 8 or 10 per cent, or whatever they thought the risk was worth; would not that be better than the present arrangement?

MR. HILL. No, sir.

MR. PLATT. What is the good of the usury law?

MR. HILL. The usury law should be rigidly enforced. Under the new national bank act I believe it is to take a commission on a loan in national banks. That was in the law.

SENATOR HOLLIS. Yes; it is very drastic.

MR. HILL. That is going to be a great reformer, to my mind. That is one of the best provisions, if it is enforced. I tell you the enforcement of the usury provisions in Colorado has been of great value to the people.

MR. WOODS. The provision in the national-bank act would only apply to officials or directors of national banks?

MR. HILL. The officer of the country national bank, in my opinion, is as great an offender as the officer of the State bank.

SENATOR HOLLIS. It applies to everyone; that is my understanding of it.

MR. PLATT. It won't apply to the person outside?

SENATOR HOLLIS. Yes; if he gets it he has got to get it from the money of the bank, and we drew it with the intention of taking them all in.

MR. HILL. I think it will do the work.

MR. WOODS. That would not prevent a money lender loaning \$100 and then going and selling that note to the bank?

Mr. HILL. No, sir. We have other methods of reaching that. The Morris plan is about to be organized in other parts of the country, and then the short-term rural credit will seek to inject the idea in men to cooperate and then to mold the character of others, so that everybody can get a loan. That is the ideal to which they will work.

On page 27 is the question of deposits. The act states:

Shall accept and pay interest on deposits to an amount not exceeding 50 per cent of the amount of its combined paid-up capital and surplus.

So far as I am able to gather from the evidence of all the European countries, that is taken from the German law, word for word, applying to joint-stock company land mortgage banks, of which there are 38 and only 2 pretending to loan money to farmers. Deposits should be unlimited. Savings-bank deposits. I mean. Savings-bank business works hand in hand with the land-mortgage business. It is a story of Europe everywhere, except in these little individual cases; and that particular illustration, that where this rule applied, was this tremendous bank with its \$10,000,000 capital that did not need anything to bring down its overhead charges.

Senator HOLLIS. You would not permit commercial deposits of any kind?

Mr. HILL. No, sir.

Senator HOLLIS. They must all be time deposits?

Mr. HILL. They must all be time deposits; yes, sir.

Mr. Moss, on page 26, says:

We have in this bill permitted a limited-amount deposits—only 50 per cent of the capital. * * * It is entirely arbitrary where you fix a limit. I would put it so small that the banks could neither compete largely with the commercial banks nor be subjected to temptation of going far out into the wide commercial field of bank activities.

I regret very much that my distinguished friend made that statement. If I had not known that he was such a fine fellow, the product of the soil like the rest of us, that would have hurt me very much. He misunderstood the meaning of that, in my mind. Now, these gentlemen, in one breath, tell you that these banks shall compete. They are great apostles of competition. Then they fix it in the bill so that they can not compete with the savings banks. They actually go further and provide that institutions now doing a land-mortgage business, like the Home Savings Bank here, must come down to this basis: in other words, that we have to give up \$400,000 of our savings deposits that we have worked for years to build up in order to come under this system. It is a great mistake, in my mind, in considering this legislation, to put the farmer last. Put the farmer first; let it benefit the farmer, if so, then the battle is half won. Then see how bad it is going to hurt the other fellow.

Mr. PLATT. I do not quite understand what you mean. It seems to me your savings bank, and if there was one of those savings banks organized in Durham, your savings bank would go right on doing business, wouldn't it?

Mr. HILL. Why, of course. But the fact is that taking savings pays our overhead charges. We have to send people out in the country to look over these risks at our own expense. We do not charge for the inspection of property; the savings business pays our overhead charges. We are not in any commercial business. Our savings

bank loans money only on security. The savings business is tremendously profitable and would pay the overhead charges, and should not be limited. Our savings bank does not handle commercial paper.

Senator HOLLIS. How much do you pay on deposits?

Mr. HILL. Four per cent and compound interest quarterly.

Senator HOLLIS. You are able to do that?

Mr. HILL. The actual result, however, is practically to pay about 3 per cent. because of the movement of accounts. So that there is profit. This bank, loaning strictly at 6 per cent, has built up a surplus of \$26,000 notwithstanding the tremendous fight that was made upon it. And it is a tremendously profitable institution. Its profits last year were $17\frac{1}{2}$ per cent on its capital.

Mr. PLATT. Why would you want to come into this organization? These banks are not allowed to loan on town property, and your bank is loaning mostly on town property.

Mr. HILL. I would not; I could not go into it.

Mr. PLATT. That is what you implied, and you could not go in and loan on town property?

Mr. HILL. The statement in the bill is that other people could come in if they want to come in. As they are not forced in nobody is going to want to come in.

Mr. PLATT. Right there; there are, especially in the Northwest, a good many small banks that only have \$10,000 capital, practically farmers' banks and owned by farmers and doing business almost exclusively with farmers. Why would not they come in?

Mr. HILL. If they wanted to come in that is the privilege of those people. They should be allowed to continue business just as they are. There is no conflict between a land-mortgage business and their business.

Mr. Woods. They could not come in under the system as proposed, because they go after a commercial business. They could not afford to pay the overhead charges and do that small amount of farm-land business.

Mr. PLATT. I do not believe they could increase their farm-loan business.

Mr. HILL. It is no wonder that the bill has been called the "bankers' bill." It is no wonder that organized farmers all over the country are protesting against this bill. Now, I will show you the authority for the kind of deposits. Cahill's report (page 21):

The State provincial and the district mortgage credit banks of Germany, "besides taking deposits, they lend money to individuals on mortgage, on bonds with surety, and the deposit of securities."

On page 22:

Other working capital is derived from deposits from the repayments to sinking-fund accounts—from accumulated funds.

That is the State banks of Germany.

Page 32, "Capital":

Mortgage banks are authorized to accept deposits at interest, but may only accept such deposits up to an amount not exceeding the half of their paid-up capital.

That is, the joint-stock company mortgage banks that do not loan to farmers.

American commission evidence, page 23—I want to take some time to develop this question of deposits—to show you overwhelming evidence in favor of taking unlimited deposits.

Page 23, under "Italy":

Under the Italian system, such loans are generally made by public utility corporations, such as savings banks, which are institutions without shareholders.

I may explain that in Italy there are three institutions that loan money to farmers. They are the big savings banks that take unlimited deposits. They are big, mutual public utility savings banks. Now, as I understood the land-mortgage business in Italy, it was confined almost entirely to the big savings banks, showing you the intimate connection between the savings-bank business saving overhead charges and the philanthropic business of lending money to farmers at cost.

Senator HOLLIS. Now, Mr. Hill, can you tell us whether those savings banks in Italy loan on long-term notes?

Mr. HILL. Yes, sir; just the same as the German idea in the proposed plan. Practically all over Europe the plan is very much the same.

Mr. BUCKLEY. Mr. Hill, do you mean to say savings deposits are invested in loans running from 30 to 50 years?

Mr. HILL. In Italy the mutual savings banks have accumulated tremendous reserve funds—indivisible. I want to say here the greatest thing in Europe, in my mind, is the indivisible reserve. That is the thing that brings down the money. Now, these big savings banks in Italy have tremendous reserves. They also loan a certain per cent, I think 40 per cent, of their savings deposits on land mortgages. And I may say that my own experience is that that is perfectly safe. One to five year land-mortgage business is a liquid business and not a slow business like the 40-year amortization plan.

Mr. BULKLEY. What are the terms of those savings deposits? How are they payable?

Mr. HILL. Deposits are taken in different ways, I think, in Italy; some on current account—that is, you can draw out without notice—and some with notice.

Mr. BULKLEY. With a long notice?

Mr. HILL. I am not sure about that; but, so far as I know, it is a regular savings-bank business, like in New York and New Hampshire, except they have the idea of aiding agriculture.

Mr. BULKLEY. When you say those loans are liquid, do you mean they can sell the mortgages?

Mr. HILL. Yes; even the collateral trust mortgages are easily sold, so that the money is coming back into the bank all the time.

Mr. BULKLEY. Then, in case of a run on the deposit accounts, would you sell new bonds or sell mortgages?

Mr. HILL. The great difference between the banks of Europe and America is that everyone in all of Europe has a bank of issue in close touch where it can go and get good, hard money on asset security promptly.

Mr. BULKLEY. They can rediscount, you mean?

Mr. HILL. Yes, sir. If we take these bonds—that is, if they were unable to sell these land-mortgage bonds—they could still get money from the Government.

Mr. BULKLEY. They would sell bonds to the Government; is that the proposition?

Mr. HILL. Sell to the investing public.

Mr. PLATT. You do not mean that they could get currency on the bonds?

Mr. HILL. Yes, sir: short-time land mortgages.

Mr. PLATT. From the Government?

Mr. HILL. Yes, sir.

Mr. PLATT. Rediscount the bonds?

Mr. HILL. Rediscount the securities. If the banks in Germany get in difficulties, they can simply go and have a call on the Government.

Mr. HAYES. And put up bonds?

Mr. HILL. And put up short-time secured assets.

Mr. HAYES. Yes; but not these long-time bonds?

Mr. HILL. My investigation is they put up short-term securities.

Senator HOLLIS. Mr. Hill, is it a fact that under our Federal reserve act, in case of an emergency, the Federal Reserve Board can authorize the bank to take any securities?

Mr. PLATT. I thought bonds were expressly excluded?

Senator HOLLIS. I think they were in the original bill, but that that was cut out. If that is in there, it is a dangerous provision.

Mr. HILL. Page 106, under the head of "Hungary," "The Hungarian Land Credit Institution, apart from issuing mortgage bonds and giving loans, the institution also takes deposits in money, shares," etc. So that apart from her borrowers, which number 13,000, there is a deposit clientele which numbers about 1,320.

Mr. WOODS. Those large savings banks in Italy, do they issue debenture bonds?

Mr. HILL. Yes, sir. It shows you that the fact they are doing it in Italy is some evidence that the large savings banks there like yours in New York could issue bonds. The Bowery Savings Bank, with which I am familiar, in New York, could easily issue bonds if they wanted to. The great moral wrong with the directors of the great savings banks in the United States is that they sit there and put their deposits in railroad bonds and other securities, some of which are questionable. But they do not try to loan money where they collect it. The banks, or some of the banks, in New York, with which I am familiar, collect their money from these people in savings deposits and refuse to lend money to the people in that town. That should be changed and some legislation should be passed to compel them to do that.

Mr. PLATT. I guess that is not quite true that they refuse to loan a dollar to the people in the town?

Mr. HILL. One statement is that \$5,000 out of the deposits of \$2,000,000 in one town.

Mr. PLATT. In New York City?

Mr. HILL. No, sir: up State.

Mr. PLATT. That is possible.

Mr. HILL. In most of the cities of New England and New York where mutual savings banks are established there is a reluctance to loan on farm property so far as I am able to gather from my experience there.

Mr. PLATT. That is true.

Mr. HILL. Because of the trouble in handling it.

Mr. PLATT. That is it.

Mr. HILL. It shows you that there should be a marvelous change in that board of directors. They are mutual concerns; they are for the benefit of the public, and the new idea in banking is the idea of service. That is the idea in Europe in many, many of these banks; and these mutual concerns must be made to render this service in some sort of way, or we must establish institutions that will render it. I would consider it a social crime to ask my people of North Carolina to put money in my bank, and then go to Colorado and lend the money that those poor people have brought and put in my bank.

Mr. PLATT. You know the reason the savings banks buy bonds—the same reason the national banks do; that they may have some liquid assets in case of a run?

Mr. HILL. My own opinion is, that some person either connected by family or remotely connected in some sort of a way with the big savings bank is also quite well acquainted with the bond houses in New York City, and he has his mind also so bent upon the subject of buying corporation securities that it never crosses his mind to loan money to the struggling farmer in his country or the struggling landowner in his town.

Mr. PLATT. There is some truth in that, I think; but not very much.

Mr. HILL. Other things may be written between the lines there, which I would not like to say in full.

Page 338, I want to make this matter of deposits so overwhelming on all the authority that there can be no question in the minds of this committee:

This bank is connected with the Nassau Savings Bank, and the savings bank has deposited with it no less than \$35,000,000 from 250,000 depositors. There are 150 branches of the savings bank. As part of their business the savings banks grant mortgages on town buildings and on town lands, but only in the towns of Weisbaden and Frankfort.

Now, the landschaften, the old landschaften, was not connected with any banks. When other banks were established, they were compelled to put themselves in touch with other banks. So they kept their land-mortgage business on one floor and their savings-deposits business on the first floor, showing you that the chief business was the savings-bank business, in order to pay overhead charges. So far as I know, the evidence shows that there is a landschaften bank association in every Province of Germany, and connected with that land-credit association is a landschaften bank which sells these bonds and does its financial business, showing you that all of the tremendous business of the landschaften system in Germany is connected with savings banks. They are not state institutions, the landschaften.

The evidence, on page 357, says:

No; it does no banking business. For such business there is a special department attached to the landschaft, but not controlled by it nor by the Government; it is only in the same building. When you go to see the landschaft here in Halle you will find on the first floor the landschaft bank; that is, the banking department, and on the upper floors there is the landschaft itself.

Mr. PLATT. That is quite possible under this bill, isn't it?

Mr. HILL. Well, it is somewhat possible, that they could form a bank to do their banking business.

In Germany (p. 408) the joint-stock company land-mortgage banks, which are prohibited from taking deposits of more than one-half of the capital, in discussing them the witness says:

Being share banks, we like to have deposits, although the money for the mortgage is secured by the issuing of bonds? Joint stock companies can always make a profit out of deposits, and therefore like to have them. But there is, however, no necessity for deposits, because we can get money from the State.

I wanted to bring that out particularly, showing you that the joint-stock company, when it wants money, gets it from the State. That is the idea always.

* * * and then we have bonds which sell in the open market.

Evidence (p. 412), under the heading of the "Manorial Land Mortgage Bank of Kur and Neumark says:

Q. This bank has the right to accept deposits—how many deposits can it accept?—A. Unlimited.

Mr. HAYES. Excuse me, Mr. Hill. What you meant there by that quotation is that they can get money from the State by rediscounting at the central institution?

Mr. HILL. Yes. That is this big central institution.

Mr. HAYES. Yes; of course, that is not, strictly speaking, the State.

Mr. HILL. In Switzerland, the canton banks, as I understand, furnish a great deal of the land-mortgage credit to Swiss farmers. At present there are 23 such banks in Switzerland. Their capital furnished them by the cantons. The means by which the Zurich Canton Bank supplies itself with funds is: (a) The issue of bonds; (b) savings-bank deposits on which interest is paid to depositors; (c) acceptance of funds against evidences of deposits or in current accounts; (d) increase of the reserve fund.

The condition of the savings bank at the end of 1912 showed, in round numbers, deposits amounting to 86,000,000 francs—\$17,000,000. The savings banks, the similar canton banks, showed deposits on hand of more than 320,000,000 francs.

Senator HOLLIS. Now, Mr. Hill, in my own town, a town of 20,000 people, we have one mutual savings bank with deposits of over \$12,000,000.

Mr. HILL. Yes. It could easily afford, in my opinion, to loan the farmers and to pay for the inspection of the loans if there were a few farmers upon that board of directors, or if the people arose in their might and called upon them to do it. There is a charge upon rich people of this country to take care of the poor people; and unless a man of means understands he is a trustee of money in that respect he is going to fail, of course, I mean that savings deposits should only be loaned to farmers for short periods—two to five years.

Senator HOLLIS. I made myself very unpopular with the other trustees of the bank by insisting on taking care of the local people first. We had one farmer on the board, and he has never interposed any objection at all. But we do now take care of the local people when they apply to us, and I brought that about. They would much rather deal with some one out in Kansas or Minnesota and have the work all done for them than to go out and investigate the loans.

Mr. HILL. I believe that is true of the mutual savings banks in this country. They prefer to run after that which they know not of than to take the good security that lies at their own door. They prefer to let the man in Colorado make a tremendous commission out of the mortgage; they prefer to help build up the loan-shark business in this country, to help oppress the farmer rather than hold out a helping hand that the rich should hold out to the weak.

Mr. PLATT. You can not say that these mutual savings banks are owned by the rich men. For instance, in my own town, which is comparable with Senator Hollis's town, we have a savings bank with \$15,000,000 deposits, and the average deposit only about \$400, I believe.

Mr. HILL. Not owned, but directed. Whose money is it in the bank?

Mr. PLATT. It is the poor people's money.

Mr. HILL. If it is the poor people's money, then let it go back to the poor people.

Mr. PLATT. The first business of the trustee is to keep it safe: not to loan on poor security.

Mr. HILL. The first duty in all banks in Europe is safety: but I tell you the home security is just as good as foreign security. I tell you that the mortgage on land at home is just as good as the mortgage on a railroad in Colorado or any Southern State.

Mr. PLATT. Yes; as a general proposition, that is probably true; but in these eastern towns, such as Concord, N. H., and my town, there is a great deal more money collected than can properly be loaned out at home safely. There is no question about that whatever. What are you going to do with the surplus?

Mr. HILL. That shows that there should be an organization of the farmers and the poor people of this country to demand their rights. It is the poor people's money that is there, and the poor people some day, in my judgment, will rise up and demand their rights. It is a matter of education of the men who are sitting there and directing the great banks and never see the poor man that is on the ground. You can not bring relief to the farmer unless you bring the God-given sunshine to the farmer down on the ground. Think of the man on the ground first, because he has furnished the money. In my judgment it is the altruistic spirit that has got to get into your mutual directors, in your banks all over this country; and Congress should start a campaign of education. That is one of the most important things in this business, is to educate the people of America to get away from the skinflint's business, oppressing the poor man, taking from him his savings and spending it somewhere else.

Mr. PLATT. Have farms in your territory ever been sold for less than the mortgages on them?

Mr. HILL. I think not. My own record is that we have never lost a dollar on a mortgage. We find that the mortgages are liquid; that they are paid off within four years, as a rule; that they are constantly in movement of liquidation; that is, the poor man pays. And the story of Europe in these pages everywhere is that the poor man pays his debts; that the small mortgage is the safest security; that it is good business and the best business to go out and reach down to the poor honest man that has security and lend him money.

Mr. PLATT. I think this bill contemplates doing just what you are talking about—having land-mortgage associations organized in connection with the savings banks. But farm mortgages have not been considered good security in my own territory, where it is a long-settled country. Many, many farms have been sold for less than the mortgages, and it is not regarded as good security. And I believe that is the case all over the country, or it was a few years ago.

Mr. HILL. That brings up a good many questions I would not have time to discuss now, but which I would like to take up some other time.

Now, under the heading of Denmark (p. 553), under the heading of "Credit institutions":

Yes; it started quite as a philanthropic institution; but in the last 20 or 30 years many of the big banks have savings departments where they take in savings, too.

Showing you that in Denmark they take in savings. Now, I believe it is unnecessary—I have a great many of these statements here. I call upon these gentlemen to produce evidence showing that land-mortgage banks in Europe that lend money to the farmers limit their deposits to a paltry one-half of the capital.

Mr. PLATT. They do a commercial business, too, don't they—these landschaften banks in Germany?

Mr. HILL. I am not sure about that. The rule is they couple up with savings business, because a bank doing a commercial business loans on two-name paper—strictly accommodation paper. It is a different commercial banking, in my opinion—is a different proposition entirely—from the savings-bank business. The man running a savings-bank business, first, is safety; second, he has a long time proposition; third, his overhead charges must be small, because his profits are small. You can not mix the two very well. I believe it is disastrous to most banks to try to mix the savings-bank business; and all over Europe, so far as I could see (that was not a part of our particular work) the commercial banking business was not coupled, as a general rule, with the savings-bank business. I believe Dr. Coulter will bear me out on that.

Mr. Woods. What is the capital stock of the local farm-land banks in Germany?

Mr. HILL. I could easily find out. It is very large.

Mr. Woods. Of the local institutions?

Mr. HILL. Yes. There are 38 of them, and I could easily find out. The fact that they did not lend money to farmers relieved me from further investigation of those banks. Their capital, however, was always large. The model of these banks that seem to have impressed the minds of some of our commissioners was this great bank that had \$10,000,000 capital with special privileges from the Government.

I have dwelt on earning capacity and overhead charges and administration charges. The third proposition is elasticity. The whole banking business must be considered with a view to elasticity. The bank must fit the community. The banks that fit North Carolina will probably not fit Texas. My own personal experience with the gentlemen from Texas was that they thought quite differently from men in North Carolina. The people in the South think more like people in the Middle West and the East; and the distinguished gentleman from Indiana is probably good North Carolina stock, for

all I know. What will fit one section will not fit another. Therefore I would strike down, out of this bill, any effort to make a grand national system with all of its petty officers to be appointed, its fiduciary agents, its red tape, its tremendous rate, and the machinery. It will not fit in many localities. I believe it is fundamentally true, and I believe you will all bear me out, that the same kind of a bank may not fit all localities.

Now, we come to the question of the decentralization. Mr. Moss, in his statement, dwells upon the great decentralized system of Germany—I will tell you that in my opinion he thoroughly misunderstood the idea of decentralization. The decentralization of Germany is the big bank with the central management, but with its arm reaching out into every section. The *landschaft* had its committees in every county in Hungary; the great Hungarian land-mortgage banks had their committees out in the various communities of Hungary. That is the decentralization they are talking about. It is a decentralization of organization, as there is no such thing in the business as the decentralization of forming these little banks whose securities you could carry around in your vest pocket. Any plan that Congress places upon the American people should be the simplest sort of national legislation, so simple that it can reach all the States alike, some general principles, and furnishing some capital in deposits or a fund to start this proposition off, on certain conditions. Those conditions are best to be carried out by these States in their own way. I am a believer in the great fundamental idea that the American wants to carry out the plan in his own way, and I believe that any plan that seeks to fasten a rigid system upon all parts of this country, several times greater than Germany, Hungary, or any other, would fail. I think that is a fundamental proposition that your plan must fit. My own experience in banking for many years shows me you can never put an \$80 saddle on a \$10 horse and win the race. You must fit your bank to your community, and your big bank to your community, to the needs of your people.

Senator HOLLIS. How would you do that, Mr. Hill? Give some one particular description?

Mr. HILL. Yes, sir; I will give the plan. I would not come here to try to tear down a plan that has already been built without trying to offer another plan. I will say here, however, I did not draw a bill and shall not attempt to frame a bill, and I will only give out some suggestions which might be of value or not.

Section 19, "Federal fiduciary agent"—the salary and some of his duties.

The committee evidently believed that they had found some thing new here. They openly stated that this was a new idea, absolutely original. I am glad that they were so frank. There is no authority for it anywhere, so far as I know, in any bank anywhere else. Hence, being such innovation in the grand plan that has worked in Europe for 100 and more years we should take it with much doubt and hesitation.

Now, here is a man appointed by the Government. This bill, apparently, in the minds of these gentlemen provides for a great number of little, so-called, competitive banks—so-called competitive fiduciary agents, representing two masters, the Federal Government and the bank, probably employed in the bank at a salary of \$1,500 a year. Now, one of the duties of the fiduciary agent is that he has

to see that these mortgages are promptly paid. He has also to credit on the bond issue, the collateral trust bonds, the installments. The bill does not exactly say that, but Mr. Moss, as I understand, in his statement, claimed that is one of the strong features of the bill—one of the great securities of the bill. In my humble opinion it is entirely impracticable. In a "Ramskat," with its small community, can you find a fiduciary agent capable of doing this complicated business of marketing the bonds, to stand up with the great bond men of New York, Cincinnati, Philadelphia, and Boston? Why, it is incredible: it is unbelievable, that the duties of this fiduciary agent should be to sell the bonds and credit the little payments on the little collateral trust bonds.

He would have a collateral trust bond, that every six months there was to be a little payment credited on it. I understand Mr. Moss to say the money must go promptly there. Now, that is not the story of Europe. He talked to this committee, making a great point about sinking funds—the danger of sinking funds. Well, how can the business be otherwise transacted? Would any of you gentlemen have a bond that every six months—a bond payable to bearer—there was to be a small amount taken off of it? That would ruin the sale of the bond. In the first place—I am not talking about the interest on the bond that is clipped off in coupons, but I am talking about the principal of the collateral trust bonds—how could this fiduciary agent take the money from the hands of the farmer and carry it and put it on the bonds payable to a bearer somewhere else?

Mr. HAYES. I think, Mr. Hill, you are under a misapprehension. I do not think that is the idea of anybody.

Mr. HILL. The bill does not say that clearly, but I was developing Mr. Moss's statement: I am talking now about Mr. Moss's statement.

Mr. PLATT. You are mixing the bond up with the mortgage.

Mr. HILL. I will give you what Mr. Moss says on that. I hope he is mistaken.

Mr. Moss. Have you the hearings on the bill that you are referring to in which my statement occurs?

Mr. HILL. Yes. Mr. Moss, on page 58 of his statement, says:

The fiduciary agent provided here is a broad original feature, which I do not think you will find in any mortgage system anywhere.

I am glad he was so frank—

His duty is to credit the payments on the mortgages and turn the money over to the bondholders directly.

Mr. Moss made a point of that. I hope he is mistaken, and if he will withdraw that conclusion, I have nothing more to say about it. I read the words of the bill, and the bill does not seem to call for that construction. If it did it would be fatally defective right there; but Mr. Moss made a point before this committee of the wonderful duties of this fiduciary agent of transferring the money from the hands of the borrower to the hand of the city investor, which is impracticable.

Senator HOLLIS. The hour has now arrived when we take a recess, and we will suspend here.

Thereupon, at 12.55 o'clock p. m., the subcommittees took a recess until 2.30 o'clock p. m.

AFTER RECESS.

The subcommittees reassembled at the expiration of the recess.

STATEMENT OF JOHN S. HILL, OF DURHAM, N. C.—Continued.

Mr. Woods. Mr. Hill, you spoke this morning about the business done by the large savings banks, or farm-land banks of Europe, and about the savings accounts of all those institutions. Do not the same institutions take on what they call a current account, keeping such accounts separate from the others?

Mr. HILL. Some do.

Mr. Woods. Loaning such money on short time?

Mr. HILL. So far as I was able to see, the short-term credit business was done almost entirely separate and aloof from the land bank. It was done by the local credit unions. Most of them, in all the countries, were coupled up into large central institutions, and once in a while that central institution had a connection with the land mortgage bank, as, for instance, the small holders' land-mortgage bank in Hungary seemed to operate very much through the central of small unions. The land-mortgage bank for small holders in Hungary undertook at one time to do a personal credit business, but abandoned it because it would not work well with their other business.

Mr. Woods. Well, I did not refer to the personal credit feature in a broad sense, but as I remember, in the case of the large savings banks of Italy, they also have what they call current accounts?

Mr. HILL. Yes, sir.

Mr. Woods. And they do receive quite a large amount of deposits on that account?

Mr. HILL. Well, I think that is quite likely, though I am not quite positive about that particular point. The question of current accounts was noticed by us in a good many places in Europe, especially in Scotland.

Mr. Moss can give you information about this splendid plan that the Scotch people have of using current accounts in banking. He is more familiar with that than I. It struck me as a very good plan.

Now, applied to one of our local institutions, it would mean that a farmer would simply go into the bank and give his security—his mortgage, which would establish him a line of credit—for instance, for \$2,000. The interest on that mortgage would not run for \$2,000, but would only be calculated on the amount that he actually borrowed from day to day. That is what I understand by the current-account system as established in Europe. It is a very valuable thing to all the poor men.

You understand that the system in America is that a man takes a loan, and he pays interest generally on the whole loan, in advance.

He frequently leaves the entire loan at the bank for three, five, or six months, and in some cases for several years, for some peculiar reason. He gets four per cent interest, if it is left for three months, on the money deposited, which he is borrowing at 6 per cent, hence there is a great deal of money in every bank—

Mr. Wood (interposing). I never heard of a farmer doing that at a bank.

Mr. HILL. Yes, sir; in my own personal experience I have seen it; it is quite common.

Mr. PLATT. You mean a farmer leaving the money that he has borrowed with the bank?

Mr. HILL. Yes; and there is a reason for it.

Mr. PLATT. In the Scotch bank the deposit automatically pays off so much on the mortgage.

Mr. HILL. Yes. Mr. Moss is more familiar with that than I am.

Mr. BULKLEY. Can you explain that expression "peculiar reason" that you just mentioned?

Mr. HILL. Yes. Frequently, it has come to my knowledge, that a man wanted to buy a certain piece of property; and a great many farmers do not believe in options. They would not give you an option at all. They trade a little differently from other people; and this man borrowing the money would have to have the actual money in the bank before he made any deals, and sometimes the deal is delayed for weeks on that account. He is negotiating for it around through some "grapevine" channel. That is generally the best reason which I have ever heard for that custom. There are other minor reasons.

Mr. PLATT. In such case does the man actually draw the money out of the bank and pay it over to the seller, or will he give his check to the seller at the bank?

Mr. HILL. He generally brings the seller to the bank and draws the money right out of the bank and hands it over to him in cash. We have a room in our savings bank where two farmers may get together, or the farmer can arrange that with the city people, if they are the purchasers.

Mr. BULKLEY. You did not mean that there was any frame up by the banker for the purpose of keeping the deposit, did you?

Mr. HILL. No, sir; you understand that the rule of the banks in most of the Southern States is that whenever a loan is granted to a man by a commercial bank he must leave 20 to 25 per cent of the money in that bank. The institution with which I am connected believes that that is usury and will not allow it. No man should be clubbed into leaving his money in a bank. He should deposit only if he wants to do so. In our institution if a man borrows \$1,000 we seek to give him the \$1,000.

Mr. PLATT. Well, you do not object to his leaving any part of it there, do you?

Mr. HILL. No; we may politely ask him to leave it there; we do not compel him to leave it there; that is the point; we put the money to his account, and he can draw it out at once, every dollar of it. And that system of the banks which enables them to compel a man to deposit a part of his loan with them should be prohibited, in my judgment it is wrong in principle, and it frequently makes a bank loan money to a man when otherwise it would not do so, in order to swell its deposits; and I have known of considerable losses coming about in that way.

Mr. PLATT. This system that you speak of, the farmers of this country never borrow on mortgages in that way, do they?

Mr. HILL. Frequently.

Mr. PLATT. Take a mortgage to the bank?

Mr. HILL. Take a mortgage to the bank and establish a line of credit, yes; that is, they get the money, in the case of our institution. We have no line of credit, because it requires a lot of bookkeeping to keep the daily balances; it would increase the overhead charges considerably. As I understand, the Scotch have worked it out so as to get it on a very economical basis, and that is the system of Scotland, as I understand it; and for that reason they have no interest in this European land-mortgage short-term credit proposition at all. That is what I was informed by members of the American commission who saw the Scotch system working.

Mr. PLATT. Would it not look as if the Scotch system was simpler than any other system for short-time credit?

Mr. HILL. Yes; it looks like a wonderful thing, and it ought to be looked into carefully and encouraged. If I had had time I would have made a special visit to Scotland just for that purpose.

Mr. PLATT. I should think the cost of the constant partial payments, in the way of deposits, and keeping track of those things would be considerable, unless they were required to be made at regular intervals in some way.

Mr. HILL. No, sir; it is a mere matter of training at your bank. You understand that a small bank generally clears through the large bank in this country. The large bank allows 3 per cent, and sometimes 4 per cent, interest on daily balances. They have a plan of working out your daily balances. In fact, a great many New York banks pay interest now on daily balances, and it seems to be quite simple. We never instituted that plan in any of our institutions, because I was not familiar enough with it.

Mr. PLATT. Yes. That is the Scotch plan. The daily-balance plan.

Mr. HILL. Yes; it is the Scotch plan. That is right, is it not, Mr. Moss?

On page 18 of Mr. Moss's testimony he stated as follows:

We are not endeavoring to do anything more than provide a system of favorable contracting between lender and borrower. Government supervision should see that the terms of the contract are faithfully carried out: but it seems to me to be going too far to attempt to direct the expenditure of the money.

If the gentleman means the contracting between the banks and the farmer—which would appear to be what he does mean—then that in itself should defeat the bill. If the gentlemen who drew the bill believed that this whole problem hinged around the question of contracting, or providing a system for the money lender to loan to the farmer, then they have only partially seen the proposition. The broad proposition is, as I have stated before, to bring the cheap money of the money centers to the farmers, and this is not a mere bargain between the bank and the borrower. That is the joint-stock-company plan; and the joint-stock-company plan is always, in my opinion, the bargaining plan, and that is the wrong idea—fundamentally wrong.

Mr. PLATT. Is it your idea that this thing could be put on what you might call a philanthropic basis?

Mr. HILL. Not entirely a philanthropic basis. The farmer, in my opinion, is not entitled to any special privilege, and I, representing farmers as I do, and being in close touch with them and having

their confidence, would be unwilling to stand here and argue for any special privilege for them.

All the farmer asks is a certain amount of Government assistance to enable his proposition to get on its feet; to put him on his feet and to connect him with the money center. I have no sympathy with the Government issuing mortgages and loaning money promiscuously to farmers all over the United States on a 3 or 4 per cent basis. The French Government did that and I thought it was a great piece of paternalism; and I believe in the long run that it is wrong. But I do think that the farmers of the United States who have the security ought to be able to have the hand of the Government behind their security sufficiently strong to give them their rights. Every other body of men in America has the arm of the Government behind them in some way; the national bank has—

Mr. STONE (interposing). How do you account for the fact that merchants who have no special bank devised for their use are able to get lower rates of interest than the farmers?

Mr. HILL. For this reason: The banker is looking around at the merchants. He drops in their place every day, he knows them, and he has been so used to crediting the merchant that he gives him a line of credit frequently for \$2,000, when he is not worth over \$300 or \$400 in actual property. He wants to do business with him; he has been trained to do it; and the banking man, as a rule—and I speak with great experience in association with him—is not trained to reach the farmer. For some reason, some unexplainable reason, they are not in touch with each other. My own observation is, in the country, that the farmer oftentimes either distrusts the bank—he looks upon the bank as a monopoly—or he thinks that city banks will not give him his money when he wants it.

Mr. PLATT. Would you say that that was true of Lancaster, Pa., and Frederick, Md.?

Mr. HILL. I would not know about that, but I am just giving my own personal experiences.

Mr. PLATT. Well, there is a town in Maryland of 10,000 people—Frederick—which has a bank with deposits of \$3,500,000, and it is only one of four or five banks in that town. Where does that money come from? That money comes from the farmers only in the surrounding section.

Mr. HILL. That must be an unusual situation. It may be true that in that case the farmers are actually in touch with the banks.

Mr. STONE. I can hardly understand from your argument why the merchants can get the low rate of interest when they are not organized, and, as you suggest, they have no better security and no better rights given to them under the law. Yet they go to the banks and get a low rate of interest, whereas the farmers, as you state, can not get a low rate.

Mr. HILL. I think I can explain that. As a rule the merchant is thoroughly organized. In every town of any size they have a merchants' association; they are closely affiliated; they have Dun's reports; they keep books, and they are in daily touch with the banks.

Mr. STONE. Then it is simply a matter of organization?

Mr. HILL. Yes; a matter of organization.

Mr. STONE. If a bill should propose a method whereby farmers could organize do you think that would lower the rates of interest at which the farmers could get money?

Mr. HILL. Yes; organize or industrialize their security; that comes under the head of short-term credit. My own view, stated just as briefly as possible, on that is, that short-term credit will come to the farmer just as soon as he is organized.

Mr. STONE. Does not this bill to which you are objecting furnish a method whereby the farmers can organize?

Mr. HILL. No, sir. There is a cooperative feature in there which I am pleased to approve. I am a believer in cooperation from top to bottom as the best method of bringing cheap money to farmers; but that particular cooperative method which I am coming to in a few minutes is incomplete as it is in this bill. I want to develop that idea; that is what I came here for.

Mr. PLATT. Are you going to develop your objections to the bill further before you go on to other matters?

Mr. HILL. Yes; I have only a few more remarks in regard to the objections to make.

On page 29 of Mr. Moss's testimony he says:

Your commission has come before you with a purely competitive bill. It has been prepared with the idea of creating competition, not only between different institutions but between different types of institutions; but if your committee adopts the monopoly idea, if you are to accept the central-bank plan, then you must strike out of this bill or any bill that you report either cooperative banks or joint-stock banks.

That is not a proper conclusion. If this committee—as I believe it will do when it thoroughly considers this matter—drops the whole joint-stock idea, you do not have to fall over into the arms of the first Fletcher bill and adopt one great national land-mortgage bank operating over the whole United States, which is several times larger than Germany. There is no bank in the world that has such a field of operations as that. But there is a great middle course to pursue, and that is the plan that I am trying to develop and which I came here to develop.

Roughly speaking, it is the Hungarian plan, adapted to our country, and based on the present building and loan plan.

There is no monopoly about the plan of having a central bank in every State in the Union; for a central bank handling this proposition would give no monopoly to anybody.

I believe that the farmers do not come here and ask for a monopoly about anything; and I do not think the bankers of any State would have any just right to come here and object to a central bank in North Carolina, for instance, loaning money to farmers on 30-year payments, which is a line of business that they do not now engage in, an absolutely new line of business entirely. The plan that I seek to bring before you is a decentralized plan of the right kind. It is decentralized sufficiently to be elastic, to touch the needs of every State and of every people. It could so fit North Carolina that it would work out our salvation, and it would not work a hardship upon Texas or upon Massachusetts.

I can not believe that it is necessary to speak further on monopoly. There is no intention in any man's mind, so far as I have been able to

see, to ask you gentlemen to turn loose upon the American people a grand national farm-land bank, with red tape and machinery to carry it out; I would not stand for that proposition. And I believe Senator Fletcher has withdrawn his first bill; I think it met with universal opposition in this country.

Coming to the cooperative side, it is very difficult for me to thoroughly grasp the cooperative side of this bill. It appears to me that it was a second thought; it was probably the inspiration of some master mind on the committee that hung on, and hung on to the cooperative idea, despite the protests of his associates. It therefore is incomplete, necessarily a weak compromise, which would not work. The fundamental idea is right, because it is nonprofit making to the money lender. It seeks to give the profit to the farmers themselves, if there is any, which, of course, is the right idea, and is the real European idea. On account of the vagueness of the organization of the cooperative feature in this bill, I am unable to thoroughly analyze it within the very brief time that I have had to consider this proposition. It is only three or four days since I received a communication from Mr. Bulkley about it.

I will therefore pass on quickly to some of Dr. Coulter's testimony, which in my mind should be answered before this committee, as impressions which may have been fixed in the minds of some of the members of the committee ought to be removed.

The first is on page 47 of Dr. Coulter's testimony. Dr. Coulter is a man, like Mr. Moss, of such tremendous information and ability that I hesitate, as I did in the case of Mr. Moss, to find fault with anything that he said. But my knowledge of the building and loan business is greater than his. Ten years ago I took hold of a small building and loan association and built it up and developed it until now it is one of the most prosperous in our part of the country. It has a surplus of \$15,000, which is, of course, apportioned every six months among the holders of the shares. I am familiar with the workings of the building and loan association plan; but I will bring forward first Dr. Coulter's idea. He says:

And I first was inclined to think that the building and loan association might do the business pretty well; but after studying it and after interviewing the leading officers of the national building and loan associations of the country and writing letters and studying it, I have come to the conclusion that the building and loan association is not the organization for this purpose.

Well, I am sorry the gentleman did not stick to his first impressions about it. I am satisfied, absolutely satisfied, that he struck the nail on the head in his first impression: he probably had the Ohio Building and Loan Association in his mind; and I think that the farmers there have grasped the right idea of bringing cheap money to the farmer. The building and loan association, as you gentlemen all thoroughly understand, is entirely mutual.

Dr. Coulter, on the same page, objects to the building and loan association on account of its being a local institution and depending on the savings of the members for the money which is used in making loans. It is not necessarily a local institution at all. Building and loan associations can spread all over the State. The building and loan associations need not be dependent upon their little dues. The building and loan association of which I spoke owes the trust company of which I am president \$20,000 now. It does not have to

wait until it gets dues from members. It is allowed by law in most States to borrow from banks in order to meet the demand for loans, from 25 to 50 per cent of the amount that is unpaid on its mortgages which it holds.

Now, there is the germ of the whole thing. There is no practical reason why a large building and loan association, changed and adapted to suit the farmers, could not issue bonds. I have talked with a number of secretaries of building and loan associations and they assured me that to-day the weak spot in the building and loan business is the failure to meet the demand for loans, and that building and loan associations could easily issue bonds.

Now, if you develop the building and loan idea along the land-mortgage plan and let it reach out for the farmers you would start with a guaranty fund, which must come from somewhere; it can not just float out from self-help—it must come necessarily from the State and the Government.

The farmer who comes in to apply for a loan would take stock in the building and loan association, and immediately his loan would be considered, and in the course of a few days it would be granted.

Now, the farmer would give his mortgage—numbers of farmers would give their mortgages—to the building and loan association, and on those mortgages it would go ahead and issue collateral trust bonds. The great beauty of the thing is the building and loan association, by reason of its ability and business hustling ways, would not be issuing all the bonds to flood this earth with. They would not have to issue more than 40 per cent of the amount that is unpaid on their mortgages, in the opinion of some building and loan experts with whom I have discussed this proposition.

Now, that is a very important point, I think, with the building and loan associations. Do not let the farmer have the idea that every man could get a loan in 30 minutes on his collateral trust bond plan. Let him feel that he has got to pay as he goes along. The farmer wants to pay his way. The building and loan plan simply permits him to pay his way without usury and oppression.

Senator HOLLIS. Mr. Hill, I wish you would state, briefly, the plan on which the building and loan associations are run, for the record. I am tolerably familiar with it, but many people who read the record will not be.

Mr. HILL. I have a constitution here of a building and loan association, if you would like to have that in the record.

Senator HOLLIS. I should think that would be too long. I think you can give the plan in a few words, so that we can have it in the record.

Mr. HILL. The building and loan association, briefly stated, is a mutual association, semiphilanthropic, of borrowers, generally for the purpose of building homes in the suburbs of cities, but in some sections it extends to improved farm lands.

Mr. PLATT. Now, that is not quite complete, is it? It is a mutual association of borrowers and investors, is it not?

Mr. HILL. Yes; I should have said and investors. There are two branches of it. One is the investment plan, which provides that—

Senator HOLLIS (interposing). You mean the investment feature?

Mr. HILL. Yes; investment feature, which provides that A. for instance, who is desirous of saving some money, is allowed to be

extended the privilege of taking stock in the building and loan association, so that he will feel that he is compelled to save 25 cents each week on every share of stock. The compulsion idea is very important, because my own experience shows me that it soon teaches that man the great value of saving. He has no compulsion to go to the savings bank and put his dollar in the savings bank; if it rains or he feels lazy he may not do it, and there is nothing that would happen. But he would get to the building and loan association with his dollar every time. There is a fine of 5 cents a week if he is more than one week behind. It looks like a hardship, but as an actual fact it is a great blessing to the building and loan association man in most cases, because it teaches him the great value of systematic saving, and it has an educational value for the man. I am equally interested in the building and loan association and in the savings bank. I have more stock invested in the building and loan association than I have in the savings bank, so I am in a position to be entirely impartial.

As to the investment, I have some information here that I would like to read:

Investment of \$2.50 weekly savings in a building and loan association:

For 334 weeks at \$2.50 per week, the investment would amount to \$835. The earnings, by compounding, 51 times a year at 6 per cent, under the building-and-loan plan, would amount to \$165, making a total of \$1,000 for 10 shares.

Under the savings-bank plan \$2.50 for 334 weeks would amount to \$835. Earning, by compounding, every four months at 4 per cent, \$108.33. Total, \$943.33; a difference in favor of the building and loan association of \$56.67.

That difference, however, is made up out of the earnings, the compound interest on those installment payments. It is really about $6\frac{1}{4}$ per cent investment. A man who simply wants to invest in the building and loan association, finds that it is a splendid nontaxable $6\frac{1}{4}$ per cent investment. There is no better investment that I know of. It earns a little more than 6 per cent, because the building and loan association, like life insurance companies and some other institutions, earn something by people dropping out along the way. The man who drops out of the building and loan association does not get anything in interest on his installments for the first year. The man who pays fines, of course, those fines go to the profit also. Therefore, it is a little more by reason of persons withdrawing, not getting the full 6 per cent, and by reason of the fines and other little incidentals that might come in, it is a little better than a 6 per cent investment.

The other side of the building and loan association is the borrowing side. Upon a vacant lot, which he has generally paid for, a man wants to build a house. He figures out about what the house is going to cost, and generally files an estimate from a reputable contractor, and he is allowed to file an application for 75 per cent of the fair valuation of the lot and of the estimated cost of the house. He commences to pay his installments, \$2.50 each installment—

Senator HOLLIS. He is allowed to bid for the loan in our part of the country.

Mr. HILL. Yes; I will come to that. His installments continue to pile up, and, of course, the theory of the building and loan association is that it lends out only the aggregate installments. Now, there is the weak spot in the building and loan association. All the building and loan associations that I know anything about are very much

behind; most of them a year behind. Five or six times I have loaned the association with which I am connected the money to meet the demands. That is practically coming to the bond basis.

Mr. PLATT. That means to meet the loans they have?

Mr. HILL. Yes; to meet all applications for loans that they have. To get up to date. That is the way to make a large, prosperous building and loan association. In the course of six months or a year the average man reaches his time. Perhaps there will be five who will file applications on the same day and want the same \$1,000.

Then, the secretary of the building and loan association puts it up and says, "How much will you give, Mr. A?" Mr. A says, "I will give you \$5." Then, the secretary says, "Mr. B, how much will you give?" He says, "I will give \$10"; and, then, Mr. C says that he will give \$15.

Well, the highest bidder gets the money, and the association gets the premium. Sometimes there is quite a little income that comes in in that way. I will not allow the premium idea in our building and loan association. I believe it is wrong. It is making a man pay more than 6 per cent interest for his money. I would rather loan the money at 6 per cent myself, because I do not believe in that system.

Now, when the loan is made the mortgage is placed on the man's property. The loan is charged to him on the books as he draws the money out. The inspector from the building and loan association examines the house from time to time, and has a certificate from the contractor stating how much has been done on the house; and the money is paid out in proportion to the work done on the house. When the house is completed, the total \$1,000 has been paid out and interest has only been paid on the installments as the man actually drew the money; so the building and loan association really has the current-account feature somewhat developed.

Mr. PLATT. The amortization plan, however, is not based on the payment of installments.

Mr. HILL. Now, coming to the amortization plan—the installments on 10 shares, the man pays—

Mr. PLATT (interposing). \$5 a month, in my neighborhood.

Mr. HILL. He paid by the week; 334 weeks his standard time, at \$2.50 a week, \$835. He pays interest for 334 weeks at \$1.16 a week, that makes \$378.44, making a total of \$1,222.74 for the whole period of time to the maturity of the stock. The matured stock then works a cancellation of the \$1,000 mortgage.

Compared with a bank, if he borrowed \$1,000 from a bank, at the end of 334 weeks he would owe \$1,000. He would have paid interest 334 weeks at 6 per cent, the same as the building and loan association, \$387.44. In the bank, therefore, he would owe \$1,387.44 as against \$1,222.44 for the building and loan association. The difference of \$165 in favor of the building and loan association is made up of interest compounded on his installments. So that it is absolutely clear to any human mind that the man who borrows money from the building and loan association gets the money at about 6 per cent. While his interest charge remains the same until maturity, yet he is getting interest on all his installments all the time, and the interest on the installments at the end finally offsets the interest on the mortgage.

I want to make this perfectly clear, because a great many banks are antagonizing building and loan associations and are telling people that under the building and loan association plan in the last half of the period you are paying all kinds of interest up as high as 20 per cent, which is not true, as has been absolutely demonstrated.

Another side of the building and loan association plan is this—the management side of the building and loan association, the administrative side of it: It is generally operated by a secretary who devotes a part of his time to it—two afternoons in the week, perhaps. It operates under the lowest possible overhead charges of any institution in the United States. They are limited by law, in some of the States to one-half of 1 per cent. It therefore seeks, and is compelled by law to deliver the money to the poor man without enormous salaries and graft.

And that is one of the grand qualities of the building and loan association, that the hand of the law is upon it all the time. The very minute the secretary of the building and loan association undertakes to run up his salary the inspector from the insurance department of North Carolina puts his finger upon him and says “hold on.”

Senator HOLLIS. What class of men perform the executive work for those associations?

Mr. HILL. They are generally bookkeepers or real estate men; but as a rule they are philanthropists of the highest kind. I have never yet known a single secretary of a building and loan association that did not have firmly embedded in his mind the philanthropic idea. Mutuality and graft do not go together; mutuality and profit seeking do not go together, and constantly helping a man would make out of a money shark, if he would undertake it, a good man.

On the other hand, the constant shaving out of the little profit and putting it into your pocket for a stockholder who is grasping, and who is frequently living somewhere else, perhaps, will change a man from a philanthropist to a hard-hearted man—or will have a tendency to do that. I will not say that it will necessarily do that, for there are a great many good men who do that. There is a small charge for the inspection of the property. That is generally done in the association I am connected with for nothing, and we pride ourselves in giving money to the working people. That is what our association is organized for, and what it is going to continue to be organized for, as long as I have anything to do with it.

Its bookkeeping is considerable. As the payments come in they are credited in the book which the stockholder in the building and loan association holds all the time. That is an evidence of payment. The payment as well as the interest is also credited on the building and loan association books.

Now, the building and loan association is an immensely profitable concern. The one with which I am connected now has in profits \$15,000, the surplus January 1, 1914, on 3,753 shares.

There are a small number of shareholders. It has not been organized many years. It has a surplus of \$15,734 on 3,753 shares.

Mr. PLATT. You mature your shares in 334 weeks, do you not?

Mr. HILL. Yes, sir.

Mr. PLATT. That is about seven years?

Mr. HAYES. No: six years and five months.

Mr. HILL. A little less than six and one-half years. This surplus is apportioned every six months among the shareholders. The building and loan association offers a premium for a man to stick to the last. The man who stays in the building and loan association gets his money at a little under 6 per cent, $5\frac{3}{4}$ per cent. The man who draws out early loses the first year the interest on his installments, the second year he gets a part of the interest only, after the fourth year, I believe, he gets as much as 6 per cent, compounded on all installments paid in.

Mr. PLATT. That is a matter of local regulation.

Mr. HILL. Yes; a matter of local regulation.

Mr. PLATT. Sometimes the State laws govern that, as in New York State?

Mr. HILL. Yes.

Mr. PLATT. There is no hard-and-fast rule that building and loan shares should be matured in 334 weeks. In New York State I think they ordinarily mature in 12 years.

Mr. HILL. The matter of maturing the shares and the period for which the shares run is a mere matter of detail; each association probably has its own term period. I have never looked up the statistics in regard to building and loan associations particularly, except as to carry in mind that there are several million stockholders in the building and loan associations—two or three or four million. But what I do know is that in the great Southland the building and loan association is in the minds of the people and in the hearts of the people. You find a building and loan man, and he is going to stand. He is not going to pay any usury. He is proud of his building and loan association. He knows what a blessing it is.

You have to educate the people to understand the building and loan association. It is perfectly clear to you gentlemen, as it is perfectly clear to my mind, how it works, but it is a very difficult thing to explain the workings of the building and loan association to the man who can not read and write. Therefore, in a manufacturing town like that where I live, where a great many people are uneducated, it was an uphill business to teach the people the building and loan idea. All of which comes back to the great fundamental idea of education. The United States Government, in my judgment, must prepare itself promptly to furnish tremendous aid along educational lines for rural economics, for building and loan plans, and circularize about the advantages of these philanthropic propositions—show the people how to organize. We need that in the building and loan association plan. The building and loan people all over the United States will unite and ask Congress to circularize about the advantages of helping the man to build his own home; and I tell you gentlemen frankly that I do not know anything that a man can do in this country higher and better than helping the man to build his home and helping a man to improve his home. And that is why I am here to-day, to make this fight if I can.

Mr. PLATT. You would not say that a 25-cents-a-week plan could be carried out with farmers, would you, or even \$1 a month?

Mr. HILL. Yes; the 25-cents-a-week plan would not apply generally to the farmers. But farmers in my country are being taught to diversify farming. The one-crop idea is being discouraged. Everywhere farmers are taught to have three or four crops; they are

taught that dairy farming is profitable; they are taught that egg farming is profitable and that truck farming is profitable. I come from a truck-farming section and have a truck farm myself. They start in with asparagus the 15th of March, and with different trucking crops go clear on up to September and ship something every week. The tenant farmer can pay his dues. All the tenants on my farm are engaged in trucking. Those men can pay their building and loan association dues just like anybody else; they pay by the month. There is no reason, fundamentally, in the operation of the building and loan plan why you should pay by the week.

The farmer could pay three months in advance, and the same money would be compounded. I would like to see this.

If the farmer now borrows in the South, he not only pays his interest in advance for three or six months, but pays the commission, and pays every other charge in advance. So why could not the farmer pay in installments in a building and loan association three months in advance, or pay them six months in advance? It is nothing more than he is doing now. But I believe the building and loan plan can be so standardized and developed that he can pay it at the end of the six months. It simply means a little longer in maturity.

But coming to the great thing, which to my mind, is absolutely fundamental, let us, by all that is holy and good, give this money to the farmers at actual cost, and demonstrate to him that it is at actual cost. If a man is to pay 6 per cent for his money, let it be actual cost. If he pays 5 per cent for his money, let that be at actual cost; and it is my opinion, based on experience, that you will get all the money for him that you want to at actual cost, 5 per cent.

Now, the building and loan association plan can be adapted to the farmer by carrying the plan a few more weeks longer; instead of 334 weeks, make it 350 weeks, enabling him to pay at the end of the period, and he simply loses the small interest.

Dr. Coulter also says, on page 48 of his testimony:

That (borrowing money) is a very exceptional and rare part of their business.

Of course, I have shown that that is not in accordance with the custom of building and loan associations in our part of the country. They do borrow money largely from the banks or individuals who are friendly, and they pay 6 per cent for it. The idea of Dr. Coulter on community loans is shown on page 62, where he says that he changed his whole idea, because he got information that small municipalities and small parts of the county, or the township, and so on, were borrowing money at low rates of interest without any difficulty. I want to ask if he saw the real difficulty? In my State, just as I was leaving, a small county sold its bonds, \$30,000 of bonds (Warren County, N. C.) at 5 per cent. And what do you suppose the charge was? The lawyers' fees in New York City, the roundabout grapevine fees and commissions, amounted to \$3,200 for selling a \$30,000 bond issue. Now, that is the actual fact as to Warren County, N. C.

Mr. SELDOMRIDGE. Let me interrupt you there, Mr. Hill. My city, of 35,000 people, floated a bond issue of \$100,000 among its own people, without paying any commission whatever.

Mr. HILL. You obtained the money from your own people.

Mr. PLATT. How long ago was that, Mr. Seldomridge?

Mr. SELDOMBRIDGE. Within the last three or four months.

Mr. HAYES. Our people in California have got money from their own people, and sold the bonds at a premium without paying any commission at all.

Mr. HILL. I think the reason, however, for floating municipal bonds is the community interest, the great strength behind it. I have not any idea that if a small \$10,000 bank was started there and you undertook to float those bonds these people would buy them. But you let that be a lien upon the whole community and you have got a belief in the minds of the people that you have got something strong; and if your bonds are sold locally they are sold cheaply, showing that they are sold without much rake-off and showing the community spirit that there is in the transaction.

But the plan that I have in mind provides for making a State institution the fiscal agency for all bonds issued by municipalities, counties, or any public corporation in the State issuing bonds.

Mr. PLATT. Municipal bonds are largely taken by the savings banks in our country.

Mr. HILL. Yes. Unless something is done to check the whole bond business in the South there is going to be a great financial collapse. People are issuing bonds for all sorts of purposes. In at least one-third of the instances that come under my observation the bonds were irregular. Members of the legislature have frequently told me that a certain bond bill was drawn up by the local city attorney or the county attorney and rushed through the legislature, and nobody paid any particular attention to it, and they have had to go to the supreme court time and time again contending for the validity of those bonds.

Mr. PLATT. That is the reason for having to pay the legal expenses, etc., that you mentioned a moment ago.

Mr. HILL. That is one of the reasons. Suppose a small municipality in North Carolina—we will call it "Ramscat"—should start in to repudiate an issue of \$20,000 of bonds. It has been done; that is no flight of the imagination. Immediately the credit of North Carolina would be ruined. It would be advertised all over the financial centers of the United States that North Carolina had repudiated her bonds.

Now, there might be some reason in the minds of those people for that. But we want some central, stable body standing there between the man in New York that loans us his good money and the man down in North Carolina that is spending that money on streets and sidewalks and good roads, which soon wash away and wear away.

I can imagine no greater service that this central bank, under the Hungarian plan, adapted to the building and loan association plan, would perform in North Carolina than to act as a fiscal agent, with the State certifying to the regularity of those bonds, selling those bonds and establishing an everlasting sentiment against any sort of attempted repudiation of those bonds—in short, organizing the bond business of North Carolina and other States.

That is one of the most profitable businesses in Europe, and is done by many of these institutions, as the evidence shows. I have not time to give you a number of illustrations which I have of that, because I believe you will agree with me that it is a great business.

And it is an immensely profitable business. Would you send a boy to do a great man's work? Would you send an average fiduciary agent to New York to sell an issue of bonds? He would get lost in New York; he would never sell his bonds. What is the practice? A general junketing trip of the city attorney, and probably the mayor and the mayor's son, and two or three other people, and get lost; and finally they land in the office of some trust company, and a smart boy in the trust department finally makes the trade with them—about the fees and about the marketing of the bonds, and the regularity of the bonds.

The profit of this concern from this business alone would probably take care of the overhead charges. Why not send the secretary of your institution, your big institution? That is his business; he studies markets everywhere. If there is anything true about finance, it is that when you go to market a security you want a man to do it; you do not want a boy; you do not want a blundering ignoramus marketing bonds. You want a man to market the bonds who can go to New York or to Cincinnati or anywhere else. I have marketed bonds myself, and I know what it is. It is a man's job.

Mr. PLATT. The man is not the man ordinarily for the job, then?

Mr. HILL. I should not think so. Now, I have figured as to the plan which I have in mind, which I will only develop roughly, because of lack of time to consider it; and I want to say that I do not consider it perfect at all; and I expect you gentlemen can make improvements in it.

Following up the idea of the State central land-mortgage bank having charge of the issue of bonds of public corporations, I submit that it would be of very great advantage to the corporations in at least some of the States to standardize the issue of these bonds, to standardize the methods of establishing sinking funds, to standardize the rates of interest paid by banks for sinking funds, and to require that at least a part of the sinking fund be paid into this central bank, thereby guaranteeing organized supervision over the whole bond-issue business of public municipal corporations.

Generally speaking, the plan which I desire to submit to these committees is the modified Hungarian plan, applied to our building and loan associations that may be organized to meet the needs of the farmers.

The history of European business shows that it has been the cooperative land-mortgage companies, or partly cooperative, like the Hungarian land-mortgage institute, which have set the pace for cheap long-time money and have educated the public into purchasing debenture bonds. There can be no objection to the legal provision whereby the joint stock companies of ordinary type, organizing for profit, may be permitted to go into the land-mortgage business.

In my opinion, the farmers of the country do not ask any special privilege along this line, and do not ask any legislation that would prevent private capitalists from going into the land-mortgage business. But they do not want the whole business of marketing their securities intrusted to the money lenders. They want a State-controlled institution to help them secure their money at cost.

I respectfully submit that the great agricultural interests of the United States should not be left to the mercy of joint-stock institutions. I submit that they need in each State at least one large State

land-mortgage institute, with sufficient foundation capital of the building and loan investment kind and a sufficient guaranty fund furnished by the State and by the National Government, bearing interest at the rate of 3 per cent from the National Government and 4 per cent from the State, to act as a revolving fund to be used to start off the business and thereafter to be gradually repaid as the reserve fund or the profits of the business shall accumulate.

There should be a limitation requiring that founders' shares, or paid-up building and loan shares, should not draw a greater interest than 5 per cent. There should be a provision whereby the farmers themselves can have a large voice in the management of the institution. In all probability the institution could be established by the joint efforts of three commissioners, one appointed by the United States Government for each State, one appointed by each State government, and one appointed by organized bodies of farmers in each State.

After the business has been once thoroughly established, then in all probability a plan could be worked out by which the local stockholders in each State of this mutual land-mortgage association would have the right and power to elect one commissioner. The other minor officers of the institution could be selected by the three commissioners referred to.

This institution should act as fiscal agent of the State government, in whole or in part. This institution might reasonably control the issue of bonds of public corporations, and sinking funds thereunder, and thereby do a profitable business. This institution should be allowed to do what is commonly called a mutual savings-bank business, and allowed to take unlimited deposits. Its savings-bank deposits should be used for making short-time loans of less than five years on dependable property, possibly city property, as well as farm property.

I also respectfully submit that from the municipal bond business, and from the savings-bank business, the overhead charges of the institution would be paid, or largely paid. If not, however, the farmer applying for a loan should be compelled to take out a certificate of stock in the association to the amount of his loan. He should then pay interest at no higher than 5 per cent on the loan, and the loans might run at periods of as long as 20 or 30 years, and be repaid on the installment plan.

The borrower should pay the proper amortization charge, and also a small premium charge or entrance fee, which said entrance fee should be transferred at once to the reserve fund for the purpose of building up a large reserve in order to return the loans in the shape of deposits from the State government and the Federal Government.

I also respectfully submit that a large institution of this kind would earn great profits. These profits should be devoted, first, to the building up of a reserve; second, to bringing down of the rate of interest to the farmers.

Under all circumstances it should be clearly and absolutely demonstrated that the farmers in the State are securing their money at actual cost, all charges counted in.

The organization of this large State association, with a guaranty fund furnished in the shape of deposits by the Federal Government of at least \$500,000, should be started, in all probability, by an

appropriation from the Treasury of the United States, or by a law requiring the postal deposits, to the extent of not to exceed \$20,000,000, to be placed in these large State land-mortgage institutions, 48 in number.

Mr. BULKLEY. By way of deposits, Mr. Hill?

Mr. HILL. Either by way of deposit upon a stated period of time, not to be withdrawn until the sinking fund permits it to be withdrawn, and gradually retired by the entrance fees and other sinking-fund fees. There are many ways of securing the money; and I would not like to be held responsible for offering a perfect plan of securing the money. I am informed by eminent authority that there is no constitutional objection in the way, either in the Constitution of the United States or in the constitutions of most of the States. Under the Federal reserve act, as a last resort, the United States Government is permitted to take stock in the reserve banks—

Mr. BULKLEY. Well, do you suggest that the United States should take stock in these banks?

Mr. HILL. No, sir; only to deposit.

Mr. BULKLEY. Well, did you not suggest that there was some alternative besides deposits?

Mr. HILL. I say there are so many plans that I have not had the opportunity to develop them; but there are several plans that could be worked out, all of which are satisfactory, so far as I am concerned.

Mr. BULKLEY. Which is the Hungarian plan?

Mr. HILL. The Hungarian Land Mortgage Institute is as follows:

On May 31 a small committee from the American commission examined the Hungarian Land Mortgage Institute at Budapest, Hungary, which was organized in 1863 on altruistic principles. It has a capital of \$200,000 loaned to it by the State at 4 per cent and a further capital of \$470,000 in the shape of founders' shares, limited as to dividends to 5 per cent. Only 10 per cent was paid in on founders' shares. The balance was guaranteed by deed, and in the first 12 years of operation of the institution all the founders' shares were remitted out of the profits of the concern. The chief aim of the institution was to give the cheapest credit possible to its members. The membership in the institute was composed of its founders and its largest debtors and delegates elected by groups of small debtors. The small borrowers, grouped by districts, elected their representatives to the national meetings. Thirty-six members of the institution constitute a committee of control.

LOANS.

The loans of this institution were made on real estate on a 50 per cent basis, on dependable land. The loans were made generally for 63 years at a rate of $4\frac{1}{2}$ per cent interest, 0.29 per cent was added as a mortization fee or annual payment on the principal, and 0.06 per cent was charged for administration, making total of 4.85 per cent to cover all expenses. The loans could be repaid at any time by the borrowers without penalty. Application for a loan was made in writing to the institution, then turned over to a legal department for investigation. The institution had a committee on loans in every county, and the application for a loan was referred to the committee on loans in the particular county in which the property was located. This committee served without salary and membership was considered to be a mark of great honor. Other outside information was also secured by the institution about the value of the land, but the institution relied mainly upon the report of the county committee. If the report of the committee was favorable the institution proceeded to make the loan, and, instead of paying over the amount of money directly to the borrower, it delivered to him collateral trust bonds issued against a great number of aggregated individual mortgages. These trust bonds were payable to bearer and paid interest at the rate of 4 per cent. The borrower found ready market for his bonds at from 98 to 93. These collateral trust bonds were exempt from State taxation and were considered the safest investment in Hungary. They

sold on about the same basis as Government bonds, and, in time of financial distress, were considered to be stronger security than Government bonds. The land-mortgage institute was inspected by commissioners appointed by the Government each year. It confined its operations to loans on land in Hungary. No charge was made for investigating the title to the land and no commission was charged for placing the loan. The institution received savings deposits from the general public and paid interest on them at a slightly lower rate than savings banks. The loans made by the Hungarian Land Mortgage Institute and now outstanding amount to \$100,000,000, and during the first 47 years of operation the institution has paid back all of its founders' shares and has accumulated a surplus fund of \$2,000,000.

Each State might be granted by the Federal Government a deposit of \$200,000 and then a further deposit not to exceed \$300,000 additional, in proportion to the rural population of that State. The State institution might be decentralized in its government as soon as farmers applied for loans and became stockholders. In the beginning it might be advisable to require the chairman of the board of county commissioners of each county, the chairman of the board of education of each county, and the register of deeds of each county in each State to act as an advisory committee to the State central land-mortgage bank.

There are many plans offered by the foreign authorities for decentralizing the work of appraising the property, and making it easy for the money to reach the farmers themselves without expensive charges, traveling expenses, and red-tape obstructions.

The Hungarian plan is, in substance, a capital furnished by the Hungarian Government as a loan, to be repaid in an estimated period of 20 years; also a capital, composed of founders' shares, upon which founders' shares a dividend of not to exceed 5 per cent is paid, which permits well-meaning persons in Hungary to help in this great work of bringing cheap money to the door of the farmer.

I respectfully submit that there is a great deal of money, and there are a great many men in every State in the United States, who would be willing to take out founders' shares in such institutions.

After the institution had been operated for a short period of time, a natural result of its organization would, in all probability, be the formation of local cooperative credit unions, organized partly by the members of the State central building and loan association, and part of its members would probably be other farmers who did not desire long-term credit, or were not in a position to secure long-term credit, but would want short credit. The loans to the farmers should be on dependable land, on a 50 per cent basis, without direct consideration of the value of the buildings on the same; and the natural result of these loans would, it is respectfully submitted, mean better farming and better business and more enthusiasm in the local county association or township association.

I have said that it would be the duty of the chairman of the board of county commissioners, the chairmen of the board of education, and the register of deeds of the county, who generally acts as clerk of the county commissioners, to be especially charged that these organizations should meet at least once a year, and in a properly organized manner, so as to receive reports in regard to loans and transmit such information to the central State office.

I also respectfully submit that the great problem of short-term credit would be greatly helped by the institution of this State-aided building and loan plan.

In the light of European experience it does not seem wise to attempt to couple directly the State land loan association with the short-term credit proposition, except indirectly, as I have outlined. It is the history of Europe that State-aid institutions somewhat similar to the one I have outlined have laid the way toward bringing cheap money to the farmer.

In the book published as Senate document 214, *Agricultural Cooperation and Rural Credit in Europe*, where the evidence is collected, we find the following:

Q. Have all the banks in Hungary been forced to place loans on real estate on nearly the same basis as your institution and those similar to it?—A. They are forced to grant money practically on the same conditions, but a little dearer. Only the provincial savings banks give a bigger loan, compensated for by the higher rate of interest.

Q. The two branches of institutions for the loaning of money are in active competition with each other?—A. Yes; land-mortgage institutes act against the banking institutes.

This institution and the provincial saving banks are in distinct antagonism, by reason of the fact that in former times before the institution of cooperative societies the banks were able to lend money to the people in want of it at enormous rates of interest.

Wolf on Cooperative Banking (p. 244) says:

Another most successful offshoot of the landschaft system is the Boden Credit Institute of Hungary, which has to some extent been based upon the possession of an independent capital figuring as a reserve fund. In addition to the 1,000,000 crowns (something over £40,000) granted by the Government, 209 founders subscribed collectively £13,900, with liability for nine times the same amount, held in reserve. This seems to have been considered necessary for making the institution go on new, untried ground.

I respectfully submit that no cooperative institution for providing cheap money on farm lands would be able to start off of its own initiative without the help of some outside capital furnished by the State, or by individuals, to enable it to make a start.

Wolf further says:

Gone it certainly has, and that exceedingly well. So well as, in course of time, to suggest the formation of a similar institute for mortgage loans for peasant lands. The Boden Credit Institute is intended for large properties only. It grants no loans below the amount of 2,000 crowns (or \$400); and the majority of its advances to landowners are above that amount.

On page 249 Wolf says:

The Government institutions have plainly done good, and have, above all things, achieved their particular purpose of bringing appropriate assistance to the small agriculturist.

On page 250 Wolf says:

The Government institutions have certainly succeeded exceedingly well—better than our own joint-stock companies formed for the same purpose, and that without loss to the taxpayer.

Wolf (p. 253) says:

The State-endowed institutions then have, on the whole, not a bad record to exhibit. They have placed money within the reach of the peasant proprietor, who was previously too small for the savings banks, which are abroad the great purveyors of mortgage money, to look at, since his business was, in each individual case, only petty and troublesome; who, furthermore, if not too small, was at any rate too distant from the pay office of the landschaften to deal with and who was deemed altogether unworthy of the notice of the joint-stock mortgage banks. They have done this in an efficient, appropriate way by stationing their officers in every district and making application, valuation, and borrowing decidedly easier for those peasantry.

On page 256 Wolf says:

They are borrowers' institutions. They may be regarded as landschaften with the cramping and hampering features of those institutions removed. They are borrowers' institutions, which admit any agricultural borrowers as members who may desire to become so in their district. In respect to one point, they have departed rather materially from the principle of the landschaften. Persons desirous of furthering the movement are eligible as well and many of them do take shares. In Saxony such members are required to be either agriculturists or landowners. The idea of proceeding without a command of ready cash appears to have presented itself to the originator of this modern movement as so inconsistent with business principles that in both of the two countries to provide the first working funds an advance from the Government was accepted.

In the Saxony society it amounted to 37,500 pounds and was paid off within four years. In the Bavarian society it was considerable, beginning with 50,000 pounds, advanced free of interest, and another 50,000 pounds, since increased to 200,000 pounds, advanced at 3 per cent interest.

On page 258 Wolf says:

Absence of funds of their own would place such institutions absolutely at the mercy of the confraternity of bankers. With money in their pockets, the societies are able to meet such machinations and to regulate the supply of the market so as to keep it absolutely at a steady quotation, which is not only desirable in itself and certainly benefits their credit, but it is in addition specially important to their members.

Cahill, on page 21, mentions, as one of the characteristic features of the State, provincial, and district mortgage banks "a certain decentralization of business by the utilization of local officials."

And, on page 30, Cahill says:

The organization of the latter—

Meaning the joint-stock land-mortgage banks—

was not capable of sufficient decentralization consistent with adequate returns upon the expenses incurred by the maintenance of local representatives or offices necessary for such business. In the case of the other banks, which limit their operations to a province or a small district, adequate knowledge of intending borrowers and supervision over mortgaged estates is more easily secured and the general expenses of administration are reduced by the fact that their administration, apart from those actually in permanent office employment, is largely honorary; nor were the land-mortgage banks inclined to seek such business.

In brief, the simple plan of a proposed bill is for the Congress of the United States to appropriate out of the Treasury to be deposited an amount not to exceed \$20,000,000, upon some general conditions. Those conditions have been largely outlined in detail, but may be briefly summed up as follows:

- (1) That the deposit or loan from the United States draw 3 per cent interest.
- (2) That the amount be granted on condition that each State contribute a like amount for a like purpose, except that the State fund shall draw 4 per cent interest.
- (3) This joint cooperation of the State and the Federal Government in providing a fund shall act as a revolving fund for the purpose of starting off the institutions, and shall be gradually retired as a surplus accumulates from the operations of these State land-mortgage banks.
- (4) The United States should have one commissioner, who should have full and proper powers for the inspection of the bank at all times, requiring monthly reports and frequent examinations.

(5) Upon condition that the institution be cooperative, nonprofit seeking, and all profits remaining after meeting expenses of management to go toward the building up of a sufficient reserve fund, and after that, to the benefit of the borrowers, by lowering the rate of interest on their mortgages; or in cutting down the administration charge from one-half of 1 per cent to one-quarter of 1 per cent or less.

(6) Upon further condition that the founders' shares of said institution shall be nontaxable for all purposes, both State and national; and that the collateral trust bonds shall be made nontaxable by State and national governments.

(7) That the management of said institution shall keep in view the interests of the small borrowers, for the purpose of lending aid wherever necessary and advisable to the small farmer, to buy and develop his land, thereby bringing into cultivation millions and millions of acres of good farming land now uncultivated. (In the State of North Carolina there are now 14,000,000 acres of land classified as farm land not in a state of cultivation.)

(8) For the purpose of securing the interest of the general investing public in the United States, that such institutions be made fiscal agent and have direct supervision over the issue of all public bonds within certain prescribed limits.

There are many other characteristics, which are roughly outlined in the report of the Agricultural Credit Commission of the Province of Saskatchewan, page 199, and also on page 217, which gives recommendations for a State-aided cooperative land-mortgage bank. For lack of time I will not read that into the record.

In closing I wish to say that already the committee appointed by the governor of North Carolina, composed of men familiar with conditions there, has reported as follows:

There is pressing need in North Carolina for a great State land-mortgage institute—

Mr. BULKLEY (interposing). You may incorporate that report in the record, Mr. Hill.

(The report referred to is as follows:)

THE NEEDS OF NORTH CAROLINA FARMERS WITH REGARD TO CREDITS, MARKETING,
AND COOPERATION.

To His Excellency Hon. LOCKE CRAIG, *Governor of North Carolina*:

We, the undersigned committee appointed by your excellency to report on conditions affecting agricultural credit, marketing, and cooperation in North Carolina, beg leave to submit the following report for transmission to the American Commission on Agricultural Finance, Production, Distribution, and Rural Life:

It is clear that there is something radically wrong with the facilities for borrowing money on farm lands in North Carolina. From general inquiry in many parts of the State the fact is revealed that few banks in North Carolina lend on farm lands and that the average farmer desiring to borrow money on his land is compelled to deal with the land loan shark, and is compelled to pay from 6 to 20 per cent on money borrowed. As a general rule he is subjected to many kinds of extortion, usury, and exploitation, and naturally the average farmer of North Carolina is very much dissatisfied with the present land loan shark business and avoids borrowing money whenever possible. Frequently the land loan shark preys upon the necessities of the distressed farmer and, regardless of law against usury, without conscience and without heart, gets all for the money loaned that his victim will pay. Another curious fact about this business in North Carolina is that the more remote the farmer lives from the larger money centers, the greater the usury, the higher the commission and renewal fees, and the more exacting the oppression and the extortion.

Hardly any greater blessing could befall the farmers of North Carolina than the institution of a system of land-mortgage credit that will bring money to the farmers and land owners at a low rate of interest, and by the process of amortization or annual installments, extend to them the privilege of repaying this money over a long period of years. Our farmers are willing to pay what money is worth in the markets of the world, but they are not willing to be robbed by land loan sharks and "blood suckers." Rather than subject themselves to oppression, they prefer to allow about 14,000,000 acres of land to remain in a state of waste that is a menace to the health and happiness of the entire population of our State.

COLLECTIVE CREDIT OF CITIES UTILIZED; WHY NOT COLLECTIVE CREDIT OF FARMERS?

Collective credit for public purposes and at from 4 to 5 per cent has already been extended by investors to nearly all the counties of North Carolina and to many townships upon satisfactory amortization basis, but collective credit has been denied the citizen in his individual capacity. The result has been that the counties and cities in North Carolina in their corporate capacities have made such marvelous progress as to attract the attention of the rest of the country, yet the farmer in North Carolina is making little progress in developing his lands. The average Tar Heel farmer is only making a bare living. He enjoys none of the profits derived from the business handling of his products.

It is a fairly established fact that there is a great deal of money in North Carolina that would be invested in land-mortgage bonds bearing 5 per cent interest payable to bearer and secured by aggregated mortgages on farm lands, but, in order that money for such investment may be attracted, we should first make some reforms in our present system of taxation; second, we must institute the necessary financial machinery for handling land-mortgage bonds; and third, we must remove from the minds of the bankers their unjust prejudice against lending money on real estate. The actual experience of a few banks in different parts of our State shows that this prejudice is unjust, and that loans on real estate, especially small loans on real estate, when handled with intelligence, are just as liquid and active as loans on other security and are safer and better loans than the average loan found in commercial banks.

But in view of the fact that the great commercial bank is highly organized for the purpose of supplying credit to the manufacturers, merchants, and business men, it would be difficult for such a bank to extend its business to the handling of land mortgages. There is pressing need in North Carolina of a great State land-mortgage institution (or some institution rendering similar service) with proper capital and with proper equipment for mobilizing individual land mortgages placed on property located in the various counties, and issuing bonds against these aggregated individual land mortgages, controlled by the farmers. The form of organization of this great land-mortgage institution should be largely determined by the security behind the collateral trust bonds and the ability of the institution to find a satisfactory market for its issues of bonds, whether at home or abroad.

While the greatest need of the farmer is probably for long-time credit, yet there is also a great and pressing need of short-term credit for North Carolina farmers.

At the present time the manufacturers, the merchants, and business men in the cities of North Carolina have a practical monopoly of short-time credit. The average farmer either has no credit at all or is compelled to use such forms of high-priced credit as he can obtain from the merchant. We have a great many banks in North Carolina, but we have scarcely any banks willing to do the banking business of the poor man. The farmer who has little or no property which can be taken by law for debt—the man who has no stored-up capital in North Carolina—has practically no standing at its banks. This great body of borrowers does not receive consideration at the banks because the average bank is not organized to handle this class of business.

It is estimated that there are at least 200,000 persons engaged in agriculture in North Carolina that have not sufficient stored-up property to give them standing either at land-mortgage banks or at the present commercial banks, but these people greatly need money at reasonable rates of interest for purchasing supplies, fertilizers, seed, and for paying for labor. A cheap, safe, and elastic form of credit which could be reached by this tremendous class of small farmers would work wonders in rebuilding agriculture and bring much new business to our commercial banks.

PRESENT BANKING FACILITIES UNSUITED TO FARMER'S NEEDS.

The small Tar Heel farmer has no use for a 90-day loan that the commercial bank handles, and upon which it charges interest in advance and requires 25 per cent of the money borrowed to be left in the bank without interest. The farmer wants money for 6, 9, and 12 months with the privilege of renewing the loan until he has marketed his crop, and, in the event of crop failure, until he can raise another crop. Rather than pay from 8 to 20 per cent for his money and have himself subjected to the uncertainty of call by the bank, he will either join (or be forced to join) the great hosts of farmers who have moved to the cities, or become a crop-lien farmer, closing entirely the door of hope for land-ownership and home building.

It is respectfully submitted that the collective paper of neighborhood groups of North Carolina farmers is as good security as the collective paper of neighborhood groups of farmers in any other country in the world. There is a great and pressing need for steps to be taken as rapidly as practicable to organize neighborhood cooperative credit unions among our farmers in order that they may secure short-term, cheap, safe, and elastic credit to which they are so justly entitled.

THE NEEDED FORM OF CREDIT UNION OR FARMERS' BANKS.

The particular form of this credit union can be determined by the particular locality in which it is to be organized. The credit union of each neighborhood should be thoroughly adapted to its necessities. Generally speaking, the constitution and by-laws of the credit union must conform to the means of securing funds.

If the organizers believe that sufficient deposits can be secured from the community to take care of the loans of the farmers, then the cooperative credit union would take the form of a savings and loan association and naturally would follow somewhat after the Raiffeissen model.

If the organizers believe that the deposits secured from the neighborhood would only be sufficient to take care of a part of the loans required by the farmers, and the balance of the money needed is to come from rediscounting the paper of the union, the form of organization would probably follow somewhat after the Hungarian model.

If the organizers did not take into consideration at all the deposits from the neighborhood and expected to rely entirely upon rediscounting the paper of the credit union in order to raise funds to meet the demands for loans by the farmers, then the form would probably follow somewhat after the French model.

No matter what cooperative form the local credit union adopted, the foundation principle would be the same—that is, that any man of good character and industrious habits may secure financial assistance if needed for productive purposes, and that this necessary credit shall be advanced to him at as low a rate as the rate charged by banks to any other citizen of the State. Many of these unions may find it advisable to incorporate some specific features of our town building and loan associations.

RELATIONS TO EXISTING BANKS.

As any cooperative system of local credit unions would substitute industry and honesty for stored-up property as security, it is respectfully submitted that they should be organized separate and apart from our highly organized commercial banks. It is not only possible but highly desirable that this new agency shall be connected with the existing banks and not projected against them, provided that the banking institutions of our State be willing to rediscount the paper of the neighborhood credit unions on a satisfactory basis, and thus share in the great volume of new business that the organization of these cooperative credit unions will be sure to create.

But if our existing banks, through neglect, stupidity, or selfishness, fail to meet this great movement kindly and assist in its organization and development, then it will be up to the farmers of North Carolina to go it alone and organize a big central cooperative bank to act as a monetary adjustment institution, a clearing house for all the local credit unions in the State.

SAFETY OF COOPERATIVE BANKS ASSURED.

Under the provisions of the pending national currency bill such a State central cooperative bank would have little difficulty in rediscounting the bulk

of the paper of the local credit union with the nearest regional bank of issue of the United States. The power to rediscount agricultural paper by order of the Federal Government at a fixed rate of interest granted by this currency bill ought to be sufficient argument to induce our existing banks to make a thorough study of this great problem and do all in their power to give us the very great blessing of cheap, safe, elastic credit for our North Carolina farmers.

There need be nothing startling about the proposition to the banks to rediscount for our local cooperative credit unions a reasonable amount of the paper, which is secured by the earning capacity of our best farmers instead of by land, buildings, stocks, and bonds.

Experience shows that the earning capacity of farmers organized in cooperative credit unions is about the best banking security in all the world. A signed statement from Dum's agency in Austria states that this agency did not have any record of a single failure of the Raiffeissen (cooperative) banks, and that the system was founded on such a strong, conservative basis that failure was practically impossible. In Germany, where there are many thousand cooperative credit unions, there are 57 failures of commercial banks to 1 failure of the cooperative credit unions.

In Hungary, during a recent financial crisis, all of its 2,412 cooperative banking institutions stood the strain without failure, while 52 banks of the ordinary joint-stock kind which we have in North Carolina, or 10 per cent of the entire number of such banks in the country, were compelled to close their doors.

INEFFECTUAL MARKETING SYSTEM HINDERS PRODUCTION.

Reports from the agricultural department show that last year North Carolina imported \$5,000,000 worth of corn for feed purposes, \$4,000,000 worth of vegetables, \$15,000,000 worth of hay, 12,000,000 pounds of butter; and despite the fact that probably no country in the world, in proportion to its acreage, offer better facilities for raising hogs and cattle, we imported last year 52,000,000 pounds of meat in order that our people might be fed. All in all, the value of food products imported into North Carolina during the past year reached the enormous sum of \$50,000,000. It is clear from the above facts that our farmers either have not learned the great lesson of diversified farming or they have not learned how to produce food products as cheaply as farmers of other parts of the country.

It is clear that, step by step, the farmers of other States are capturing our markets for foodstuffs and our farmers are driven more and more to the one-crop system of production. It is necessary to place farming in North Carolina on a business basis. Step by step the great manufacturing centers in North Carolina are capturing the markets of the world. Why can't our farmers do likewise? Perhaps our farmers might profitably learn from our captains of industry the secret of thoroughly industrializing the business of farming. In order to accomplish this great result there is need of organized community effort; the farmers in North Carolina need to follow the example of farmers of other parts of the world and turn to cooperation as the great working system that will give them a fair share of the profits of their labors, by bringing them in closer relationship with the consumers.

STANDARDIZATION OF FARM PRODUCTS

must be the rule in North Carolina if our farmers expect to meet outside competition. In all probability one of the greatest reasons for the failure of our farmers to present a better showing in the production of foodstuffs for our people in their persistent refusal to standardize the products they sell.

The strawberry farmer who fills the bottom of his baskets with small, knotty strawberries and crowns the top with delicious, large, red berries, is only cutting off his nose to spite his face. When his crate of berries reaches the market the consumer overturns the baskets and penalizes the farmer by refusing to buy his crate of berries at all or by paying the price of knotty berries for the whole crate, one-half of which would bring first-class prices.

The good, honest housewife who, in her ignorance, sends to town a couple of dozen eggs which, by mistake, include six of uncertain age, is sure to get a low price for her eggs; and furthermore, she brings about hard feelings between the merchant and the consumer.

The apple grower who "faces" his barrel of apples and fills the center of the barrel with off-color, off-shape, undersize, and wormy apples is bringing dis-

credit upon his State and low prices for himself and his neighbors. Upon reaching the market the barrels have to be opened, every apple standardized and repacked, and all this work must be paid for at high prices, plus many extras. The producer is thereby penalized and the consumer is made to pay for the extra work of repacking the apples. A properly labeled, standardized barrel will obviate the necessity for repacking, bring better prices for the farmers, and, by cutting out waste, lower the price to the consumer, bring smiles to the faces of American wives, and encourage them to use more apples.

If the farmers of North Carolina will only standardize their products and label them "North Carolina" they will quickly build up a world-wide market for all their products and secure at least 25 per cent better prices. Irish farmers captured the London markets by standardizing; why can't North Carolina farmers capture the market of New York by standardization? Sharp dealing in the marketing of farm products brings low prices, overproduction, and tremendous waste, while square dealing and standardizing in marketing farm products bring greatly increased prices and world-wide markets.

DISTRIBUTION OF FARM PRODUCTS

in North Carolina is characterized by tremendous waste, complicated methods, outworn ideas, and general dissatisfaction. Lack of proper system of marketing and distribution of our farm products is costing North Carolina farmers an annual tribute of millions of dollars.

One illustration, the marketing of eggs, will be sufficient to show the waste and duplication of service, the loss to the farmer, and the loss to the consumer. Eggs that are served on the breakfast table of the leading men in the leading cities of North Carolina have frequently passed through a wonderful around-the-country trip. They have been collected by the farm wives at odd times and kept until the number was sufficient to carry them to the nearest store. From the country merchant they pass to the collector, who makes it a business to go through the country gathering eggs from the storekeepers. The collector ships the eggs in large quantities to cities like Richmond and Baltimore, where they are received by wholesale dealers, known as commission men. The commission men then sell the eggs in large quantities to jobbers, who in turn sell the eggs to the retailer, the small corner groceryman. Then our city housekeeper orders the eggs over the telephone and the groceryman delivers the eggs, which are of ancient age, to the home of the consumer; and finally the family cook stops the merry-go-round of the eggs from the hands of the farm wife, the storekeeper, the collector, the commission man, the jobber, the corner groceryman, to the city consumer. At each transfer there is loss in handling, expense for trucking, storage, and margin of profit.

The same amount of unnecessary waste in more or less degree is found in handling the poultry, vegetables, fruit, peanuts, and other articles of farm produce other than staple crops as cotton and tobacco.

There is something radically wrong with the present method of marketing when the farmer of Halifax County gets \$2 a bag for peanuts, which, after taking the merry-go-round journey of the commission merchant and the jobber, finally lands in Guilford County at \$7 per bag.

It is poor encouragement to the farmer of Craven County when he can get only \$1.50 a barrel for white potatoes which finally reach the consumer in Durham County at a price of \$4.80 per barrel.

The Buncombe County farmer is going slow in mortgaging his land for cheap money, repayable in small installments over a long period of years, in order that he may acquire sufficient capital to plant his waste farm land in apple orchards when he is compelled to sell his apples at \$1 per barrel that have to take a round-about journey through several States and several cities and finally reach the consumer of Wake County at \$6 per barrel.

We need to establish a great system of community marketing whereby the best brains and the best energies of the State are employed in bringing the producer and the consumer closer together. Individual marketing by the farmer, as well as individual marketing by the consumer of the city, has proven a failure in North Carolina as elsewhere in the world. We need a system of cooperation, or association marketing, whereby the products of the farmer are offered to the consumer in uniform quantities, thoroughly standardized, and guaranteed in quality, and thoroughly suited to the requirements of the consumer. The Tarheel farmer will then receive a fair market price for all the marketable produce that he can grow upon his farm.

PROPER ORGANIZATION

of the farmers of North Carolina is greatly needed to devise the ways and means for establishing institutions that will provide long-term and short-term credit desired by the farmers, and that will institute proper systems of cooperative production and cooperative distribution.

The last census shows that about four-tenths per cent of the population of North Carolina, or 1 person out of every 250, was foreign born; hence it is apparent that the two and a half millions of white people in our State are about the most homogeneous body of white people on the face of the globe. There would seem to be no serious obstacles, therefore, in the way of finally organizing our white farmers along cooperative lines after they have had sufficient opportunity to learn what cooperation really means and after they have had time to acquire the true cooperative spirit.

Let us proceed on the principle that cooperation means "organized self-help"; all these needed reforms must be brought about mainly by the farmers themselves. What the farmers can do for themselves along these lines is immensely more valuable than what well-meaning friends in the cities and subsidies from the State can do for them; but there is great need of encouraging the voluntary efforts of the farmers in these organizations by the judicious aid of the State itself, mainly along educational lines. There is urgent need that all institutions controlled by the State capable of rendering such service should lend a helping hand in the launching of this great movement for the upbuilding of the State. There is need in North Carolina for a great agricultural forward movement in order that our Federal Department of Agriculture and our State department of agriculture and our rural public schools and our educational institutions offering courses in agricultural economy, forestry, and domestic science, can come in closer contact with and widen their usefulness to the farmers themselves.

Now that the farmers are greatly interested in the subject of cooperation, there is immediate need for a great central bureau of information with the hearty cooperation of State and National Governments, where persons interested in the formation of cooperative enterprises can promptly secure all the proper legal forms and the proper system of bookkeeping for the organization of such enterprises in North Carolina and to provide ample information on marketing subjects. There is also great need, even at this early stage of this movement, for the services of experts in cooperative credit, cooperative production, and cooperative distribution, in order that the farmers may start their organizations on the right basis and with the best expert information that the State can afford.

SUMMARY

1. We find that credit costs the average North Carolina farmer 8 to 20 per cent normally.

2. We believe that some form of rural credit society not dependent upon our present system of commercial banks must be evolved, based on the European models but adapted to American conditions, with the addition, perhaps, of certain other features of our building and loan associations. There is great need both for short-time credit and for providing money on long-time and low rate to enable worthy citizens to build houses, buy land, drain it and stock it, provide home conveniences, etc.

3. North Carolina has just adopted the Torrens system of registering land titles, a system which will greatly cheapen and facilitate agricultural credit, and which we would commend to other States.

4. At the same time our system of taxation should be reformed so as to discourage speculation in lands, stimulate home ownership, and stop taxing the farmer on the full value of a farm he has just contracted for when perhaps he has only paid for one-fourth of it.

5. Largely because of our undeveloped marketing system we find that North Carolina is importing \$50,000,000 of food or feed products which should be produced in the State.

6. One of the chief needs in providing markets for these potential products and in economical marketing of what we already produce is the proper standardization of these products.

7. We believe that the main dependence of our farmers must be self-help, but that it is the duty of the State through its agricultural agencies to educate, stimulate, and guide their efforts in these respects.

8. Our farmers need to develop a complete system of cooperation in (1) getting credit; (2) in buying supplies; (3) in buying and using machinery; (4) in converting raw products into more finished forms as in ginning cotton, grinding grain, converting cotton seed into meal and oil, milk into cream, butter, and cheese, etc.; and (5) in marketing the finished product directly to the consumer.

Respectfully submitted,

E. L. DAUGHTRIDGE,
H. Q. ALEXANDER,
CLARENCE POE,
JOHN SPRUNT HILL,
Subcommittee on Report.

Full committee: E. L. Daughtridge, chairman; Clarence Poe, secretary; A. E. Tate, J. H. Evans, S. H. Hobbs, R. G. Vaughn, H. Q. Alexander, John Sprunt Hill.

It has been called to my attention that the governor of New York has also recommended a large State land-mortgage institute, which appears to be very much of the same kind as is above recommended.

Mr. B. F. Harris, chairman of the agricultural commission of the American Bankers' Association, an eminent authority upon banking, and especially agricultural banking, states as follows:

My notion is that if your State laws provided for the organization of such land-mortgage banks, these banks would not issue the debenture bonds, but would pass their local mortgages up to a central State bank, which would use these hundreds of local mortgages as a basis for central bank debenture issues. You will get quickest action and lowest rates. This would contemplate most careful legal safeguards and supervision of local bank guaranties, etc. The State should have no legal liability, but the high moral one of so hedging about the system and central bank that these bonds would have the State's good faith and security back of them. Such a bond would have a wider market, and therefore lower the rate than the average individual bank debenture would have.

I have now finished, gentlemen, and I thank you very much for your patient indulgence.

Mr. BULKLEY. We are very much obliged to you for your statement.

(Thereupon, at 5.07 o'clock p. m., the subcommittees adjourned until to-morrow, Thursday, March 5, 1914, at 10.30 o'clock a. m.)

THURSDAY, MARCH 5, 1914.

UNITED STATES SENATE,
Washington, D. C.

The subcommittees assembled in joint session at 11 o'clock a. m., Hon. Henry F. Hollis presiding.

Present also: Representatives Bulkley, Stone, Seldomridge, and Moss.

**STATEMENT OF ROBERT B. VAN CORTLANDT, MOUNT KISCO,
WESTCHESTER COUNTY, N. Y.**

Senator HOLLIS. Your full name, Mr. Van Cortlandt, is Robert B. Van Cortlandt

Mr. VAN CORTLANDT. Yes.

Senator HOLLIS. And you live in New York City?

Mr. VAN CORTLANDT. I live in Mount Kisco, Westchester County, N. Y.

Senator HOLLIS. What is your occupation?

Mr. VAN CORTLANDT. I am a retired banker and farmer. I was in the private banking business for about 17 years, and I retired 3 years ago, and I have owned my own farm for about 12 years.

Senator HOLLIS. You were a member of the commission that went to Europe last summer?

Mr. VAN CORTLANDT. I was one of the New York delegates.

Senator HOLLIS. Which commission was that?

Mr. VAN CORTLANDT. The American commission.

Senator HOLLIS. You accompanied the others on the trip?

Mr. VAN CORTLANDT. I sailed with them and was with them, yes.

Senator HOLLIS. You may go on in your own way and give the committee such information as you care to.

Mr. VAN CORTLANDT. The committee has been holding hearings for some time, and I have read a great deal of the testimony, and you have had before you Mr. Moss and Dr. Coulter, and both of these gentlemen are thoroughly qualified on this subject. I know from my own experience that Mr. Moss made a most thorough study of this, and I can say that while Mr. Moss is only a farmer, the farmers do not need much banking assistance if they have men like Mr. Moss. Dr. Coulter, as we all know, is a most wonderful statistician, and also a thorough student of this whole question, and so I think I will attack it from a little different angle and just present to you an address which I delivered before the New York State Agricultural Society, giving rather more of the fundamental principles rather than a lot of statistics again, which you have already had from these other gentlemen, and then later on there are some

different points which I think might be interesting and which I think it might be well to make.

I have been often asked, "What is agricultural credit? What is it trying to do?"

The subject in all its ramifications is a vast one and many hours might be consumed in its consideration. What I am going to try to do is, as briefly and succinctly as possible, to state some of the fundamental principles and aims of the movement.

I think it may be said that there are three leading features which are not necessarily related, but which a successful realization of the purposes sought must embody.

First. It is sought to place agriculture on a better business basis.

Second. It is sought to mobilize land and land mortgages.

Third. It is sought to form institutions where the primary interest considered will be that of the borrower and not that of the lender.

Let me enlarge briefly on each of these points. Heretofore in America farmers have made little attempt to be business men. Their work is hard and at the end of the day they have small desire to pore over accounts, and so if at the close of the year their unpaid bills are not too large and their stock on hand up to the average, with the farm and buildings in fair shape, they are pretty well satisfied. In the early development of our country this state of affairs did very well. We had vast areas of fertile land which were cheap and did not require much cultivation to yield good returns; labor was fairly plentiful and wages comparatively low. That happy state of affairs has gone never to return. The best land is now practically all occupied. Its virgin richness is gradually disappearing, so that it can no longer produce as heavily under similar conditions. On the other hand, our population has been increasing rapidly and our standard of living has been rising, multiplying the demand for good food even more rapidly than the increase of population.

One of our great sources of wealth has been, as we all know, furnishing other nations with food supplies out of our surplus. This fortunate position is now being gradually weakened, and if not checked one of our chief elements of prosperity will in time disappear.

The remedy, however, lies in our own hands. Science has taught us the elements of which land fertility is composed, and we know how to counteract and repair the exhaustion resulting from the raising of crops. We know that fertilizers, proper cultivation, and rotation not only render the land practically exhaustless, but even increase its yield.

"But," says the farmer, "that is all very well; but it costs a lot of money, and I haven't got it and don't know where to get it." And so we are brought face to face with a situation with which so-called agricultural or rural credit seeks to deal in one of its phases, carrying with it not only better credit facilities, but also the whole question of country life and its betterment, so that the boys and girls on the farm, as they grow up, will be content to marry and live in the country, furnishing an adequate food supply to the whole population and plenty of sturdy youngsters to the State.

The existing banking system is designed for industry and commerce. It seeks as much as possible liquid assets that can be turned

into cash at short notice. For merchants, three months' credit enables them to do their business satisfactorily, with perhaps partial renewals, because the turnover of their goods is normally completed within such a period.

The processes of nature, however, with which agriculture is concerned, are slower. From the application of fertilizer to the harvesting and sale of the crop often a year elapses. The crop of one season is sold before the other season comes on. I think that has a good deal to do with this 90-day credit, which is almost universal in Europe.

Senator HOLLIS. There is probably closer connection there than there is between the sun spots and panics?

Mr. VAN CORTLANDT. Yes, sir; I think so.

In raising animals two or three years are required before a full return can be secured and the loan discharged through the natural working out of the operation. The benefit derived from a piece of machinery is only gradual and requires time to reimburse the farmer for the necessary expenditure. So the conclusion has gradually forced itself on those who have made a study of this subject that if agriculture is to be put upon a proper business basis, if the full development of which it is capable is to be reached, it can only be through the organization of lending institutions especially adapted to its needs.

The second aim I stated to be the mobilization of land and land mortgages.

Our present system of borrowing on land is by mortgages running generally from three to five years, the entire principal coming due at one time. This is expensive, involving nearly always renewals, and dangerous from the possibility of the mortgage falling due at a time of restricted credit, so that it can not be renewed, this danger being greater for the farmer than for the owner of improved city property. On the Continent of Europe this business is handled by so-called land-mortgage banks, or rather associations. These associations are formed along varying lines, some being formed with stock, like the great French institution, the *Credit Foncier*; some having no stock, like the German *Landschaften*; some being guaranteed by a State or Province, as in Austria; and the principal one in Hungary, combining ingeniously various features peculiar to itself. All these institutions, however, are formed along certain general fundamental lines, as follows:

The mortgages which are granted are pledged for the security of bonds which the institution issues and sells in the general market. These bonds have no fixed maturity, but can be retired at par or some small premium at any time. When the borrower mortgages his land to the bank he agrees to pay a certain fixed sum per annum, payable semiannually. This fixed amount is called the "annuity," and is composed of the annual interest plus an amount, generally $\frac{1}{2}$ per cent, toward the reduction of the principal of the debt and known as "amortization," and an additional amount, about $\frac{1}{4}$ per cent, toward the expenses of the bank. The borrower, therefore, at once begins to extinguish the principal of the debt, and as each year the principal decreases, the interest, of course, decreases also, and the

annuity being fixed, the proportion of it applicable toward the extinction of the mortgage increases; and so it happens that, beginning with a payment of $\frac{1}{2}$ per cent toward principal, the mortgage bearing 4 to $4\frac{1}{2}$ per cent, which are the general rates, the entire debt is extinguished in between 50 and 60 years.

All these banks are under close State supervision, and every precaution is taken to insure proper administration and valuations of land. They are usually accorded certain privileges, such as exemption from some forms of taxation; often, also, the right of immediately entering into possession, called sequestration, and quick foreclosure in case of default in the annuity, and in addition the bonds they issue are generally legal for trust funds.

The result is that these bonds sell freely and on almost as good a basis as Government securities. The bond market, as you know, has been poor all over the world lately, but an annual payment of $5\frac{1}{4}$ per cent would even now cover every item and extinguish the debt in about 60 years.

The borrower has the right at any time of paying off the mortgage, a small penalty being generally exacted, but the lending institution can not require payment from the mortgagor, thus guarding against any higher rate of interest being exacted during the life of the loan; whereas should interest rates fall the borrower can anticipate the payment of the mortgage and secure the benefit of the lower rate of interest.

If payment of a mortgage is anticipated, or when the semiannual payments are received by the bank, it enters the market and buys or retires a corresponding amount of its bonds, so that its outstanding bonds never exceed in the aggregate the total of the mortgages it holds against them. This, also, has the additional advantage of making a constant market for the bonds, and there is no necessity of sinking funds for special mortgages, as they are under a general pledge. These banks do not look to deposits to provide funds for lending. In some cases they are forbidden from receiving them, in others they are restricted to a proportion of their capital; in this way they do not compete with ordinary commercial banks.

The mortgaging of land is known as long-term credit, and it may be handled as stated above by joint-stock institutions or by associations of borrowers, the nature of the business being such that both forms of institutions have advantages and defects which may make the one form more adaptable to one community and the other form more adaptable to another; but in institutions furnishing the credit required by farmers for working capital, such as the purchase of seeds, fertilizer, payment for labor, etc., which is known as short-term credit, the third aim of which I spoke, viz, the forming of institutions in which the borrower should be primarily considered rather than the lender, assumes fundamental importance.

On the Continent of Europe a solution is found in the organization of banks by the application of so-called cooperative principles. The purpose is to provide organizations where the borrower receives consideration rather than the lender, and also to keep the money of any body of individuals for the use of that body, it being a fact that under the present system a great deal of money belonging to farmers finds its way into Wall Street and into securities.

In our banking system a bank is organized by inviting people with money to subscribe to the stock, and these stockholders have the sole voice in electing the directors and managers of the bank and in disposing of the deposits that may be secured. This is the practice, because it is felt that if the money is provided there will be little difficulty in finding a profitable use for it. In business, however, there must always be two parties to the transaction, the buyer and seller; or, in the case of loans, the lender and borrower. At present the lenders are organized, whereas the borrower stands alone. In a joint-stock bank the primary consideration is that of the stockholders. The loans taken will naturally be not only the best that in the opinion of the directors may be offered, but they will also be the most profitable to the bank, and the borrower has no alternative but to accept or decline the loan.

The initial capital is secured by entrance fees and subscription to shares where the principle of limited liability is adopted, or, if there are no shares, resort must be had to the principle of unlimited liability—i. e., the equal and unlimited liability of all members who join the bank for every obligation the bank may contract, which is prevalent particularly in Germany, because experience has shown that there, at any rate, it involves practically no risk. In the United States it would hardly be accepted, certainly not generally.

After the cooperative bank is formed the problem of securing funds to loan is, of course, the chief one, but as one of the principles followed is to limit dividends on the stock to 4 or 5 per cent, a reserve can be gradually accumulated and deposits come in as it is seen that the bank is doing a safe business, all speculative business being avoided.

Other important features are that every stockholder should have but one vote, no matter how many shares he owns, although it is provided that no one person shall own more than a certain number of shares, generally 10 per cent, and another absolutely essential feature, where the bank is formed with unlimited liability, is that the area in which it operates should be restricted so that the members can all know and watch each other. The loans must be for a productive purpose and not, for instance, for living expenses, so that when the purpose sought has had time to accomplish the result aimed at, varying in agriculture from six months to two or three years—as would be the case in buying a cow and raising and selling the heifer—the borrower will receive funds to liquidate the loan. Loans are only granted to members of the bank, although deposits are accepted from outsiders. This has the double effect of making a borrower personally interested in repaying his loan, and, secondly, as undesirable men would not succeed in being elected to membership, the bank is protected in the character of those it is loaning to.

I should speak to you of other features of these cooperative banks, such as the encouragement of thrift which they exercise and the beneficial effects they have had on the character of a community, but in this brief article I am confining myself to the business side.

The chief difficulty is that of securing funds sufficient to supply the needs of borrowers, and so, after a time, the advisability of forming a central bank for a group of local banks was clearly seen. The central bank acts as a sort of clearing house for the funds of the

local banks, some of which have a surplus of deposits above the loan requirements of their neighborhood, although as a rule it may be said to be the other way around, but in addition, the central bank, being an institution with very considerable resources, is in a position to do business with the large commercial banks and with the Government banks of issue which exist practically in all European countries. That this whole system of cooperative banks is of no mean proportions is at once shown by the fact that in Germany, for instance, their deposits amount to nearly \$500,000,000, and the turnover of 36 out of 40 central banks in 1910 was about \$2,000,000,000. You gentlemen, of course, all know what the word "turnover" means. It may come in and go out six or seven times during the year and each time it is counted, and that is the reason why it brings that figure up so high.

It is not hard to see many obstacles to the successful working out in this country of institutions formed along similar lines. One of the great requirements being that expenses must be kept down to the lowest point in order that they can loan cheaply, it is essential that they secure much of their service gratuitously. Nevertheless the benefits to agriculture and the results obtained for the betterment of rural life in general have been undeniable and far-reaching.

The prospect certainly is not alluring to anyone considering joining the movement. Hard work, no pay, probably little thanks. I have lived now for a good many years, and, as happens to us all, some of my illusions have been shattered, and yet I am still optimistic enough to believe that competent men will offer themselves to guide the movement simply because it is worth while.

Of course, that is one great feature, that we must find many public-spirited men, that a great deal of this service has to be given gratuitously, or else you can not get the benefits out of it. All European countries always have honors that they can give, and very often a man will work just as hard for a piece of ribbon as he will for a million dollars. But we have not got that here, and it is a different problem with us.

Senator HOLLIS. They have been giving some medals lately to Col. Goethals.

I would like to get your personal judgment as to the advisability of the Government undertaking to make direct loans to farmers.

Mr. VAN CORTLANDT. I think wherever that is done it is only from sheer necessity. It is only where the people are poor and ignorant. I think in this country we have every element for the strongest and best system of agricultural credit. I think the Americans are intelligent and resourceful, and we have great wealth in this country, and I think it is a thing which they are perfectly competent to work out themselves, which is the best way of doing it.

Senator HOLLIS. Then, generally speaking, you do not advise direct loans?

Mr. VAN CORTLANDT. No.

Senator HOLLIS. Do you advise any Government financial assistance to the banks in the way of deposits or purchasing their bonds?

Mr. VAN CORTLANDT. I think it is necessary that the Government should supervise these land-mortgage banks very closely, and as they do that then they are perfectly justified in making them, for instance, legal for trust funds. If they did not supervise them they would

not be justified in doing it. I think that is the reason why they are supervised. The two things go together—the close supervision, and then in return for that certain privileges which the Government is perfectly justified in granting them on account of the supervision, such as making them legal for trust funds. The exemption from taxation is a matter of general judgment; it has nothing to do with the question of supervision. I think the other two things, i. e., receiving deposits and making them legal for trust funds, come directly from the fact that they are closely supervised, and that is the justification for the Government doing it.

Senator HOLLIS. Do you believe that the system can be put into successful practice in the United States without some Government assistance?

Mr. VAN CORTLANDT. I think so. I think in the matter of land-mortgage banks that probably they will gradually develop into very large institutions. If you assume that a bank has \$10,000 capital, and has only \$150,000 it can loan, it might loan that very quickly, and then the only source of further loans would be its amortization payments, which would be very small; and if they want to keep on loaning they must raise additional capital; but I think in a district where that bank has been operating it will have a good effect on the district, and it will become more prosperous, and therefore there will not be any great difficulty in raising additional capital as it is found necessary, and I think through competition the larger banks will be able to do business somewhat cheaper, and I should say the tendency of the long-term credit business will be to pass into the hands of that institution, which will gradually become large, and as it will be a gradual thing it seems to me there should be no danger in their increasing in that way. For instance, the Credit Foncier had reached the limit of the number of bonds that it could put out, so they had—as they are limited to 20 times their capital stock, as you gentlemen know—to issue \$5,000,000 new stock in order to keep on doing business, and they gradually increased their stock until it is now \$45,000,000, and the total number of their bonds outstanding is nine hundred million.

Senator HOLLIS. Did I understand you to say you have been a banker?

Mr. VAN CORTLANDT. For 17 years; yes.

Senator HOLLIS. I would like your idea as to whether the deposits that might be made with these banks should be limited or unlimited.

Mr. VAN CORTLANDT. I feel very strongly that if they were long-term banks they should be limited.

Senator HOLLIS. And how would you limit them?

Mr. VAN CORTLANDT. That is, of course, a matter of judgment, but I think the provision in this bill is a reasonable one.

Mr. HAYES. Do you see any objection to our making the deposits equal to the capital and surplus, giving them a little more chance to take care of other deposits?

Mr. VAN CORTLANDT. That is a matter also of judgment, but I do not want too large deposits where they can get them tied up.

Mr. HAYES. I agree to that.

Mr. VAN CORTLANDT. You would want to have just enough for a working capital for a revolving fund. I am afraid I am using my own stuff a good deal and it might be thought that I am throwing

bouquets at myself, but this is the way I put it here, and this is a little pamphlet that I prepared for my farming neighbors, but which I gave out to some gentlemen like Mr. Victor Morowetz and some others of those gentlemen, and Mr. Morowetz was kind enough to write me back that it was very clear.

Mr. HAYES. Before you begin with that let me ask you, the reason they limit deposits is so that there will not come a sudden call against an institution whose assets are not liquid?

Mr. VAN CORTLANDT. That is just the point I make.

Mr. HAYES. If we have our deposits in such shape that they are easily and quickly salable, then, of course, we can accept more deposits, and the more deposits we accept the more we have to do business with, of course.

Mr. VAN CORTLANDT. Yes; but as soon as you use these deposits you are then indulging in the risks of commercial business, and I think one of the fundamental principles of these banks is that they shall do no business which involves any risk. I think to do that would hurt the sale of their debentures, and the fundamental principle of the thing is to make these debentures salable, because in that way you get a free market and the best rate of interest. If they are to do commercial business then they are assuming the risks that commercial business must involve. They buy securities—and we have seen these securities, even good bonds, within the last five years, go down 10 to 20 points. Buying commercial paper may involve losses, and if they do much of that business it will affect their credit and the salability and rate of interest at which they can put these bonds out.

Mr. HAYES. Is there not this danger to commercial business done on a large deposit line—the loan of deposits is, of course, much more profitable to the bank?

Mr. VAN CORTLANDT. Yes, sir.

Mr. HAYES. And would there not be a temptation for them to leave this business for which they are organized and go into a strictly commercial business?

Mr. VAN CORTLANDT. Yes; there is danger of that, it seems to me.

Senator HOLLIS. I understand, Mr. Van Cortlandt, that there is no proposition to make commercial loans—their proposition is to allow them to take deposits.

Mr. VAN CORTLANDT. What are they going to do with their deposits to make money out of them?

Senator HOLLIS. The only way that they could get away from the disadvantage that you have suggested is by having the bond so good that it is readily and quickly saleable.

Mr. VAN CORTLANDT. If it is felt that they are taking a business risk, and in order to take deposits they have got to pay 2 or 3 per cent for them, and perhaps more, and they have to make those deposits work, and in making them work they begin to take the risk that commercial business involves.

Mr. HAYES. Is it not contemplated that these deposits shall be used to meet the temporary and urgent needs of the fellows that borrow from them? Oh, no; this is cooperative.

Mr. VAN CORTLANDT. Not the long term; only the short term. They can buy bonds if the market declines. They can protect the market for their bonds.

Senator HOLLIS. Now, if you will read what you referred to.

Mr. VAN CORTLANDT. It is just a few sentences. I have attached a great deal of importance to that, because over here in America I think the ideas on the subject are not clear, and it seems to me that it is important.

It will have been noticed that the land-mortgage banks do not secure their resources through accepting deposits but through issuing bonds secured by the mortgages they grant. This is because deposits are subject to recall, either through checks payable on demand or, if they are what bankers call time deposits, through giving notice a few months ahead. With funds such as these, a bank would, of course, be in danger should it loan them out for a period of a number of years, because if the depositors demanded their money the bank would not be able to call in its loans to pay its depositors.

An institution, however, dealing in short-time credit is in quite a different position. As it only makes loans for short periods it is perfectly safe for it to invite deposits and to employ these deposits to meet the needs of its customers, provided that ordinary business judgment is used in limiting loans to a reasonable amount, and in stringing them out, so that money is coming in all the time as the loans are repaid. I would like you to keep well in mind the radical distinction between the two kinds of institutions—those furnishing long-time credit and those furnishing short-time credit, which in a well-organized country like Germany is practically always observed, because here there seems to be a constant tendency to confuse the two and to endeavor to inject dangerous principles into this kind of banking.

Mr. HAYES. That is perfectly sound.

Mr. VAN CORTLANDT. I have two or three other points here that I thought might be interesting to the committee.

Senator HOLLIS. Perhaps it would be best for you to go ahead and finish what you have to say, and then we will allow questions.

Mr. VAN CORTLANDT. I was just going to bring up some specific cases which seem to be rather interesting.

This is a book that was issued by one of the great German banks, the Dresdner Bank, on its fortieth anniversary.

Senator HOLLIS. Is that a Munich bank?

Mr. VAN CORTLANDT. No; this is a commercial bank in Berlin. From time to time I would have talks with the big commercial banks and ask them what they thought about this system of agricultural credits, agricultural banks, and they were all very favorable to it, and in fact this bank acts as the central bank for the Schulze-Delitzsch system of banks, the banks that offer credit to the workingmen in the towns more than to farmers. They give various statistics about the development of Germany, and there are some things in here which I thought quite interesting.

In the first place, they claim, of course, which we all concede, that their return per acre of land is very much larger than it is with us. These figures are given in German measures, but the percentages, of course, would not be affected. For instance, the yield of wheat per acre in Germany increased from 12.8 to 20 per cent, between 1885 and 1912; that is, the yield of wheat per acre in Germany increased 57 per cent; the yield of rye increased 73 per cent; the yield of barley increased 51 per cent; the yield of oats increased 80 per cent; the yield of potatoes increased 61 per cent, and the yield of hay increased 52 per cent. In the fifth volume of our census there is a comparison. It does not go back as far as 25 years, so that we can not make the comparison absolutely the same, but there is a comparison of our yields in the last 10 years, which I think is interesting as bearing on the subject. This is in volume 5 of the census. The value of all cereals

combined increased in acreage from 1899 to 1909, $3\frac{1}{2}$ per cent, and the increase in production was 1.7 per cent, showing that in those 10 years the yield per acre not only has not increased but has actually decreased. The increase in value, of course, was nearly 80 per cent. And there we have, in those figures, the whole subject of the high cost of living.

In Germany this great increase has come coincident, at any rate—and it may be only a coincidence—but at any rate it has come at the same time as the development of their rural banking systems, of the long-term and short-term credits. So that it seems to me that this is an interesting thing. That is an important feature of this whole thing, if we want the public to be interested in it. It is the high cost of living that interests them, and if we can devise a system by which the farmer makes more money by raising two blades of grass where before he only raised one, it seems to me that there is a chance for the purchaser or consumer to get his food at perhaps a considerable reduction, and then it passes out of the class legislation and becomes a great national question. In fact this whole subject is so big when you study it, it is almost staggering in the ramifications through which it reaches. It seems to me that that is the real crux of the thing, to make farming more profitable and at the same time make to benefit to the Nation as a whole, which I believe it will be if we get a proper system.

Senator HOLLIS. I do not believe we are going to be frightened much by the class-legislation cry.

Mr. VAN CORTLANDT. But still if the people at large should realize that it is something that might benefit them they will take a great deal of interest in its development.

Mr. ADY. I would like to ask the gentleman, if I may, to explain more fully how it is that the credit system has assisted in the increase in acreage production?

Mr. VAN CORTLANDT. Because it has enabled the farmer to buy fertilizer, employ labor, etc.

Mr. ADY. That is the point I wanted to bring out.

Mr. VAN CORTLANDT. And at the same time helps the laborer, because if he can raise twice as much per acre he can pay better wages. The ramifications, as I say, are very, very wide in this whole thing, and it makes it a very great question.

Senator HOLLIS. I want to ask you, Mr. Van Cortlandt as a practical farmer, if you find it actually pays to buy large amounts of artificial fertilizer, so-called chemical fertilizer?

Mr. VAN CORTLANDT. Of course my farm is about 350 acres, and I ran my farm, when I was a business man, very largely as a diversion, so that I would not like to say absolutely from my own practical experience on that point; but I think that undoubtedly you can get it not only cheaper, but you can get a better quality, and that is even of more importance.

Senator HOLLIS. I own a farm myself, and I was wondering what your experience was.

Mr. HAYES. In California we spent \$4.50 an acre for artificial chemical fertilizer, and we raised three times the amount of crop that my neighbor just on the other side of the fence raised without fertilizer, on the same kind of land.

Mr. VAN CORTLANDT. There is no question but that fertilizer is a great benefit to the land.

Mr. BULKLEY. How long does the benefit from the fertilizer last?

Mr. VAN CORTLANDT. Of course, fertilizer does not last the way good manure does, and proper rotation of crop is a very important feature in addition to fertilizer.

Mr. BULKLEY. The question I had in mind is whether the purchase of fertilizer is a proper purpose for a mortgage loan or long-time loan.

Mr. VAN CORTLANDT. I do not think so. That is a short-time credit.

Mr. BULKLEY. It is a short-time credit?

Mr. VAN CORTLANDT. It is a short-time credit, yes, sir, which you must get your benefit from within a year or two. The whole crux of the thing is how long will it take you to realize the loan with a reasonable profit, so that you can pay the loan and benefit yourself. Of course, on the long term you can make enough to pay off a 50 per cent mortgage only when you have a long time to do it out of the operation of the farm; but in buying a cow, for instance, you can get all that back in two or three years, as you know. Also in the fertilizer—you get it back in a year, and if you use any judgment in the use of the fertilizer and properly cultivate the land you will get the whole profit back within a year, and you will get all the money back, enabling you to pay your loan on the fertilizer plus the profit, if you are a good farmer.

Mr. HAYES. Which profit is sometimes very large?

Mr. VAN CORTLANDT. Yes; certainly.

Mr. BULKLEY. Do you think we have something to learn from the Hungarian agricultural credit system?

Mr. VAN CORTLANDT. Well, they have a long-term institution, which I think is quite interesting, and I spent some time with the manager of that bank, who spoke English fairly well, and also spoke French, with which language I am very conversant, and in that way it helped me. As the result of that conversation I got a statement from him and went over it with him, and where he used words which the American would not understand I talked the thing over with him so as to see what was exactly in his mind, and then put in the words that the American business man could understand.

That institution was founded about 50 years ago, and at the time 200 founders subscribed about \$600,000, but they only put up 10 per cent. They only paid in cash 10 per cent, and the State loaned about \$200,000 and that was their foundation capital. Then the rest of the 90 per cent of the founders' capital was put up gradually out of the profits of the bank. That institution was founded 50 years ago. It has been growing since that time, and now it is an institution with \$10,000,000 of capital and surplus, with something like \$100,000,000 of bonds outstanding, and all the dividend they have paid is 5 per cent on the 10 per cent actually subscribed until the taking up in dividends of the 90 per cent made up out of the earnings.

They have what you might call a great institution, organized 50 years ago, with a \$100,000,000 bond issue.

And there was a combination of the principles of cooperative and joint-stock banks. Of course, with the cooperative principle the question is how you can sell your bonds. The cooperative bank, I

think, started almost from necessity. The people cooperated because they had to do so.

Mr. BULKLEY. Was there any Government aid for that institution?

Mr. VAN CORTLANDT. That the loan was given them of \$200,000; that is all.

Mr. BULKLEY. At what rate of interest?

Mr. VAN CORTLANDT. It was not very high. It was 5 or 6 per cent. They paid 5 per cent interest on this 10 per cent that was actually subscribed. But it is such a small proportion now of all their resources that whether they pay 4 or 6 per cent on that it is very small, comparatively speaking.

Mr. BULKLEY. At the time it was made it was a large proportion, I understand.

Mr. VAN CORTLANDT. Yes. I have forgotten then whether it was 4 or 5 or 6 per cent, but it was no high rate of interest.

Mr. BULKLEY. You stated that you differed from Mr. Moss on some point in connection with some institution.

Mr. VAN CORTLANDT. Yes. That is the big French institution, the Credit Foncier, and there are some points there which Mr. Moss and I differ on. I have got Mr. Moss's statement to this committee before me.

Mr. Moss. Do you and I differ about the Credit Foncier being a joint-stock bank? Do we differ on that?

Mr. VAN CORTLANDT. No; it is a joint-stock bank. I do not think there is any question about that. It is paying 7 per cent dividends now and its shares are selling at about 180 and it increased its dividend last year up to 7 per cent.

Mr. HAYES. It has a very much higher price, too, has it not?

Mr. VAN CORTLANDT. The book value is somewhere up near 200, about what the shares are selling at, I think. The head of the Credit Foncier, who is called the governor, and two vice governors are appointed by the President of France. The board has to be not less than 20 and not over 23, I think it is. Three of these have to be Government officers. The reason for that is, as I said before, because they get certain privileges from the Government. The two things go together—the Government privileges and the right of the Government to supervise them, and in this case to even more than supervise them by appointing their president and two vice presidents.

Senator HOLLIS. You may go ahead, Mr. Van Cortlandt, on the points where you differ with Mr. Moss.

Mr. VAN CORTLANDT. Is that agreeable to you, Mr. Moss?

Mr. Moss. Certainly. As soon as you make your statement I will make a statement showing wherein we differ. I am very much interested in what Mr. Van Cortlandt has said.

Mr. VAN CORTLANDT. Mr. Moss says:

The deposits of the Credit Foncier come largely from the system of lottery. They have a drawing that takes place, we will say, every six months or oftener, as the case may be. A ticket is really a bond. You buy a ticket, and that is really a bond of the same par value as the price of the ticket, repayable, we will say, in 75 years, and it bears a low rate of interest payable semiannually. There is no security given except the good will of the bank. Now, then, when the drawings take place, if your particular ticket draws a prize, then you surrender your bond at once and get a large cash payment; but there are only one or two who get these large cash prizes or bonuses.

On that question I can give you the number of prizes. It is in the report here.

If you do not draw a prize you would have the bond, which is a note of the Credit Foncier, payable in about 75 years and drawing interest every 6 months. It has no lottery feature except in that way—not in the sense that you put something in and get nothing back.

That is all correct, that all these bonds are not lottery tickets.

Senator HOLLIS. There are no blanks.

Mr. VAN CORTLANDT. There are no blanks; that is right.

You put something in, and you may get a great deal back, and you are sure of getting a small rate of interest and at the end of 75 years getting your money back. And the gambling instinct of the French nation has been so great that it has in fact enabled the Credit Foncier to secure the great bulk of the savings of the French nation.

The Credit Foncier emits two distinct classes of obligations to secure loanable funds, neither one of which is payable on demand. The first class of these obligations represents deposits, and under the terms of this bill would be either demand or time deposits. The French bank, however, sells lottery tickets. Each ticket is a bond or long-time note against the bank bearing interest payable semiannually. The bond itself usually matures 75 years after the date of issue. The obligations have no security except that of the good will of the bank.

In that I think Mr. Moss is wrong.

In this manner the French bank escapes carrying a long line of demand or short-time obligations and can loan its deposits very freely on long-time amortization mortgage loans. The risk, whatever it may be, is carried by the holders of the lottery bonds.

The second class of obligations is land bonds, similar in every feature to the same class of obligations issued by the banks under the terms of this bill, excepting that the French bank can issue twenty times its capital and surplus in land bonds, whereas under this bill banks are restricted to fifteen times.

Now, I spent two hours with one of the head men of the Credit Foncier, who was designated to give me any information that I wanted, and I would like to say that I am very familiar with the French language, because I spent several years there as a boy, and, then, in connection with my banking business, I have been abroad very frequently since then. So that in that way the conference was all carried on in French, but, I think, I understood everything perfectly that this gentleman said.

This is a sort of popular book, but they gave it out themselves, and I can translate readily for you how they describe their bonds, at least one feature of it. The Credit Foncier gets funds for its operations in mortgages by putting out bonds which are like the loans of two sorts. Two sorts, but not in the least the sorts that Mr. Moss speaks of. Mortgage loans and communal loans, because they loan largely to communities, instead of communities putting out their bonds direct the way it is done here. The first are specially guaranteed by the total of the mortgages of the society. The second by the total of the credits of the departments, towns, etc. That means the credit of the department or town—that is, the towns and communities are behind those communal loans.

The total of those bonds put out can not exceed the total of the mortgages of the lender, is the way they put it. The bonds in circulation must always, according to law, be secured by at least equivalent credits.

Mr. Moss. Mr. Van Cortlandt, of course, those two classes come under what I said of one class of secured bonds. I did not divide

them into communal and land bonds, but they are the ones that are secured by the bank.

MR. VAN CORTLANDT. But in this book here, or in their annual statement, I can not find any reference except—as I told you—one statement there which I am going to point out.

MR. MOSS. I wish you would discuss the deposits feature of the Credit Foncier.

MR. VAN CORTLANDT. There [indicating in pamphlet] is a picture of the wheel that they use there, and here is a picture of when they have one of their drawings.

The pamphlet continues:

And lastly, we have reserved for the end the last character of the bonds of the Credit Foncier.

These are the bonds that we use the word "lottery" for, but the French word "lot" is not what we mean by "lottery." It is simply a drawing. The word "lottery" in this country has gotten into disrepute and has now a rather disagreeable significance over here, whereas this French "lot" has nothing of that meaning. It is simply that you are entitled to some premium if you draw a certain number, but it has no disagreeable meaning to them at all in the way our word "lottery" has here.

MR. HAYES. It has not to the German either.

MR. VAN CORTLANDT. No, sir; it has not.

SENATOR HOLLIS. Betting on horse races over there has not the same disagreeable sound that it has here either, has it?

MR. VAN CORTLANDT. No. At any rate we want to get the point there. We will call them lottery bonds then; that is, in each issue a certain number of bonds are reimbursed as the result of the drawing by lot, not 100, 200, or 500 francs, but they have a chance of receiving 1,000, 5,000, 10,000, 25,000, 50,000, 100,000, or 200,000 francs.

MR. MOSS. I see Col. Jordan is about to leave the room. I should like to have Col. Jordan hear this discussion, because he and I were together discussing this matter, and I would like to have him pay attention to these remarks, because I think he has the same opinion I had about the French banks.

MR. VAN CORTLANDT. I am now reading from a document that the Credit Foncier themselves gave me.

MR. HAYES. It is quite likely, is it not, that they would not be apt to put out to you their lottery scheme quite so fully as they might to some one else?

MR. VAN CORTLANDT. I want to say that they have no feeling about it at all about offering a prize to be able to sell the bond at $3\frac{1}{2}$ per cent instead of 4 per cent. Of course the people want their security, but they are satisfied with $3\frac{1}{2}$ per cent instead of perhaps 4 per cent interest on the chance of getting \$40,000 when they have only to put up a few hundred. And that is where the bank makes its profit. Of course it is to the interest of the Credit Foncier to do that, for they save one-half per cent interest for 50 or 60 years; therefore they are perfectly willing to spend a few million francs in these premiums. It says these chances of which the annual total of prizes is actually, instead of being ——— is 2,500,000 francs. That is what they put up there, apparently, annually, and it says "they exercise a considerable attraction." [Laughter.]

Here is the last annual report available. This might be interesting to you, gentlemen. This is what you might call the standard joint-stock institution for long-term bonds, as distinguished from the co-operative ones. This report shows that they have 43,852 shareholders. Is this interesting to you, gentlemen?

Senator HOLLIS. We would be very glad to hear it.

Mr. VAN CORTLANDT. We will not go into the details, but out of these 43,000—

Mr. MOSS (interposing). In order that the record may not be too much encumbered call off from that the amount of deposits that the Credit Foncier has.

Mr. VAN CORTLANDT. I will just finish this one thing, Mr. MOSS. It says that out of the 43,800 shareholders—this is very interesting. I think—over 35,000 have between 1 and 10 shares, showing how widely scattered that stock is.

Mr. MYRICK. What is the par value?

Mr. VAN CORTLANDT. The par value is 500 francs. About four-fifths of those shares are held by people who have less than \$1,000 invested, showing that it is a pretty popular institution. I think.

Under their charter they are allowed to receive 50 per cent of their capital—not capital and surplus, but capital—in deposits. Their capital now is \$45,000,000, so that they would have a maximum that they could receive of \$22,500,000, according to this statement. Their deposits are about \$17,000,000. This, in the main, is where the misunderstanding has come, possibly. There is no representative of the Credit Foncier that I know of in New York, so that I have got to wait until I go abroad and confirm it. But they have an item here which is not very large, considering the size of the institution, of 38,000,000 francs, which is about \$7,600,000, which they speak of as these “bons a lots”—That is, lottery bonds—in circulation. I think that it may be that instead of paying these premiums in cash that they keep the cash and give the winners bonds. That is what I want to find out, whether that is the item. It might very easily be that, that they do not have to pay out the cash in that way.

Mr. HAYES. These bonds that are won are bonds secured, I suppose, by either communal obligations or by mortgages?

Mr. VAN CORTLANDT. In the statement I read they said “almost all” are secured. I think the reason why they say “almost all” is because of this item of 38,000,000 francs, which, of course, is very small, because the total number of their bonds outstanding now, if we were to put it in dollars, is \$900,000,000.

Mr. HAYES. Yes; but what I am getting at is, the bonds that they put up in this game of chance are bonds that are secured by mortgage, so that they would not appear in their statement as separate bonds at all—they are all bonds. Possibly what you suggest may be simply the premiums or the prizes.

Mr. VAN CORTLANDT. That is what I am saying, that they do not pay those prizes in cash, possibly, but they give a bond for them, and that is the item of 38,000,000 francs which is in their report, but which is nothing at all in comparison with the total volume of bonds.

Mr. HAYES. A very large percentage of these bonds secured by mortgage may have been secured through the lottery operation?

Mr. VAN COURTLANDT. That is the fact; yes. But as I understand, Mr. Moss he thinks that a great number of their bonds do not have the lottery feature. I think they all have the lottery feature.

Mr. HAYES. No; he states that all of them do.

Mr. VAN COURTLANDT. What is your statement, Mr. Moss?

Mr. MOSS. I have not had any opportunity to consult with Col. Jordan, but Col. Jordan and I had the honor and pleasure of having an interview with the officers of the Credit Foncier, and the secretary of the American ministry and embassy was our interpreter. I recognize the fact that Mr. Van Cortlandt, who speaks French language fluently, has an advantage in understanding over men who do not speak it, but both Col. Jordan and myself were very much interested in this lottery feature, and we inquired particularly about it.

Senator HOLLIS. Did you make any investigation?

Mr. HAYES. Did you take a chance? [Laughter.]

Mr. MOSS. I am speaking, of course, and our interest was a purely educational one. We did not take any chances in the matter. I have no desire whatever to put the French bank in bad on this proposition even if it were in my power to do it, but the impression that I got from that interview—and if it is wrong it was through the passing it through an interpreter back and forth—is this—

Mr. VAN COURTLANDT. That is just my explanation.

Mr. MOSS (continuing). That while the French bank had the right and does have the right to receive a limited line of deposits, just as Mr. Van Cortlandt has said here, limited by one-half of its capital, that it received from the French Government a special privilege, namely, of selling a line of bonds in the guise of lottery tickets—that is what we would call them. They call them, of course, secured bonds against the French Credit Foncier, payable in 75 years with interest.

I remember particularly Col. Jordan's remark to them when they explained it to him. He said, "That is not a lottery; it is a scheme to get deposits." I think the colonel will agree precisely with my statement. That is not a lottery: it is just a scheme for getting deposits, and I know that I was thoroughly of the mind that in order to escape a large line of demand obligations and at the same time to secure funds to readily loan upon land that they had a right to sell as many of these lotteries as they could sell, which were unsecured in any way except the good will of the bank, and at the same time they had a right under their charter to issue a line of 20 to 1 bonds, secured by mortgages. I ask Col. Jordan if that was his understanding of the interview?

Mr. JORDAN. I think so.

Mr. MOSS. Col. Jordan will state that we have never talked the matter over after we came here or compared our notes about the entire matter. To be sure of the matter, this interview was taken down by a stenographer, it was sent back to the Bank of France, and it was there corrected and rewritten and sent back to us in French language, however. It was here again translated. I think Mr. Van Cortlandt had the matter. It was translated again. But the lottery matter was discussed very much fuller between us, because the officers of the French bank were very anxious to take away from us the idea that they were getting something for nothing, while they were selling this they gave value received.

Mr. VAN CORTLANDT. What part of it do you say describes that fully?

Mr. MOSS. Here is the interview we had, but it is published.

Mr. VAN CORTLANDT. But I mean what part there.

Mr. MOSS. So that the only difference between Mr. Van Cortlandt and myself is this: He believes that the French bank can issue no bond except that which is secured either by municipal bonds or by real estate mortgage. In that I say that he may be entirely right. My impression is—which was gotten by an interview when Col. Jordan was present, who has an opinion precisely the same—that their lottery matter was entirely separate from the sale of land bonds, and the lottery bonds are sold upon the security of the good will of the bank and are not based upon the collective mortgages. If I am mistaken, it has been an honest mistake, and I very much regret it, and if I had thought there was any doubt about it I would have withdrawn the statement very willingly, because I would not like to make a statement about the credit foncier unless I was sure I was right about it. It was based entirely upon that interview.

Mr. HAYES. They would have no right to issue these bonds that they dispose of by lottery except in the two ways the law provides.

Mr. MOSS. I understand that. It has a right to loan it. They loan it out on mortgages.

Mr. HAYES. They have no right to loan it any other way.

Mr. MOSS. That is true; but the matter that I am speaking of began on the question that they have the right—here is the difference between the two propositions. Under the scheme laid down in this bill the bank would have to take its own capital and put it in, and then loan it and then sell these bonds, and then take away and reloan again. In this instance, however, the bank would have the right to go out and attract the amount of capital, and then, having attracted the amount of capital in that way, loan it out. You see the difference in the practicability of the propositions?

Mr. HAYES. There may be a difference in the operation, but the ultimate result is the same.

Senator HOLLIS. If I may be permitted, I heard Mr. Moss testify, and the only impression that this particular testimony made upon me was that the French Government permitted to the credit foncier certain advantages in the way of inducing deposits of money that they could use, that we could not grant to our institutions, and that is all Mr. Moss meant to convey, was it not?

Mr. HAYES. That is the impression that I got.

Senator HOLLIS. That leaves us all straight. And you agree to that?

Mr. VAN CORTLANDT. No; I do not agree.

Senator HOLLIS. Then what is the trouble?

Mr. VAN CORTLANDT. My point is that they are not trying to take deposits. They do not allow them to take many deposits—

Senator HOLLIS (interposing). It does result in their getting funds which they use in their business?

Mr. HAYES. They do not pass it to the credit of anybody, but they use it to sell their bonds.

Senator HOLLIS. Why do they do it if it does not result in getting funds to do business? They do not do it just for pleasure.

Mr. VAN CORTLANDT. They can only sell those bonds against mortgages. That does not help their deposits.

Senator HOLLIS. It helps them to get funds to loan out on mortgages.

Mr. VAN CORTLANDT. They get their funds through the sale of debentures, for which they get a very ready market in France.

Senator HOLLIS. What do they do it for?

Mr. VAN CORTLANDT. You mean the lottery feature?

Senator HOLLIS. Yes.

Mr. VAN CORTLANDT. In order that they can sell their bonds, we will say, at $3\frac{1}{2}$ per cent instead of 4 per cent, saving one-half per cent for 60 years, which is an enormous saving. You see, by putting two or three millions in premiums—figure it out at one-half per cent difference—\$100,000,000 of bonds at one-half per cent for 60 years—that will be 30 per cent on \$100,000,000 in the course of 60 years. They would save, in the course of 60 years, \$30,000,000 on one issue of bonds, and here is their report here, showing that they set aside less than \$3,000,000 a year for these premiums.

Senator HOLLIS. Then it is, in its last analysis, a practical advantage given them by the Government which permits them to do business on more advantageous terms?

Mr. VAN CORTLANDT. Yes, sir; and another feature is that it enables them to loan cheaper.

Senator HOLLIS. But it is a special benefit that we can not grant in this country?

Mr. VAN CORTLANDT. We can not on account of the public Anglo-Saxon sentiment.

Senator HOLLIS. There is no misunderstanding. I think we can leave that with honors even.

Mr. VAN CORTLANDT. Yes.

Senator HOLLIS. What next have you?

Mr. VAN CORTLANDT. I would like to have the number of directors looked into. These are merely details that can be worked out. I think that some of these institutions may become very large; that a board of nine would be a very small board; and that it would be better to fix a minimum and not a maximum of directors. And I would like to see them elected in series.

Then there is another thing that they have over there which I would like to see in this country, but which I have no doubt they did not bring in because it is a new thing, and that is what they call a supervisory committee, which, I think, would be very useful in an American company. This supervisory committee is elected at the annual meeting. They are elected at the same time they elect the directors. It is a committee of three or five—a supervisory committee. This committee during the year is the direct representative of the stockholders, and if they see anything wrong they have full right of supervision. If they see anything they do not like they have got a right then to call it to the attention of the board and then they have the right to call special meetings of the stockholders. The stockholders only meet, generally, once a year. They are a big body and can not go into details to find out the real condition of the institution. They can only accept the statement made by the directors, who naturally wish to make a good statement, and it seems to me that especially with our American character of doing business pretty

quickly a committee of that kind, which in European countries is in these institutions very generally, would be a good thing in America.

Senator HOLLIS. That would be a sort of incorporated Anthony Comstock.

Mr. VAN CORTLANDT. I imagine the Anthony Comstock part they would leave alone.

That is a new principle, and it is said that over here boards of directors would very likely resent having a committee of that kind and you might not get some men to serve as directors because of that feeling. It seems to me that such a committee would go a good ways toward preventing a lot of scandal about "directors who do not direct," as the saying is. It seems to me that a great deal of that scandal has come from the fact that they were not held strictly to account under our system, and it is an impossibility for a man to have a sense of responsibility when everything is vague. In other words, I think the best of the directors are the men who invite the closest supervision; the highest type of men are the men who want to be checked all the time, because they feel it is inherent in human nature to be careless if there is nobody to look after them.

Senator HOLLIS. Do you not think you will have more dummies if you have a larger board? Do you not think a small board of directors is usually more efficient than a large one?

Mr. VAN CORTLANDT. Of course, it depends on the size of the institution. If it is going to be a large institution, such as an institution doing business over a large area, I think it is very natural that different sections should like to feel that they have got some man on the board who is familiar with their special section. If it is a large institution, for instance, doing business through a State you can see that 20 men would be a small board to represent the various sections of the State.

Mr. HAYES. Is it not your experience that about two or three men on the board generally run it and run the bank?

Mr. VAN CORTLANDT. Yes; and that is the reason why this supervisory committee would be a good thing.

Mr. BULKLEY. In connection with this question about directors that do not direct, do you think there is any danger of getting supervisors that do not supervise?

Mr. VAN CORTLANDT. No; I should think that men elected directly for a certain purpose and not meeting often—a committee of that kind would only meet occasionally; they would probably meet only once in every three months unless there was some special reason for meeting—and if you throw enough responsibility on men like that, I do not think there is any danger any more than I think there is danger in the President nominating members of the Federal reserve board—there are those who say, "Oh, you are going to put it into politics." I think it is going to take it out of politics if you throw full responsibility on them. If you do not believe in that, then there is no good in having a republican form of government; we might as well give it up and ask somebody to run the thing for us.

Senator HOLLIS. You have five minutes more if there is anything you wish to add. Your suggestions are very interesting.

Mr. VAN CORTLANDT. There was one little item, the investment of the capital of the bank. You say "commercial paper" without

limiting it in any way. I do not know whether you could put in such commercial paper as would be accepted by the Federal reserve board. It is very important to an institution of this kind, if they are going to sell their bonds to the best advantage, that they must not do any business that is at all speculative. They must be restricted to absolutely first-class business, and of course "commercial paper" is a pretty vague term.

Mr. HAYES. You would be in favor of excluding that commercial paper entirely, would you not, from these institutions?

Mr. VAN CORTLANDT. Except for their capital and deposits. You are going to allow them to have some deposits, therefore you must let them do something with those deposits, but I should restrict them to such a small amount that it is not serious even if they lose it.

Mr. HAYES. So you would allow them, to that extent, to do a commercial business?

Mr. VAN CORTLANDT. Let them use their deposits to buy first-class securities, like Government bonds.

Mr. HAYES. That is not commercial business.

Mr. VAN CORTLANDT. First-class securities; yes.

Mr. HAYES. But that is not commercial banking.

Mr. VAN CORTLANDT. National banks, for instance, will have the power, for instance, to buy Government bonds or bonds of railroads.

Mr. HAYES. They bring panics upon the country and upon themselves by doing it.

Mr. VAN CORTLANDT. I say it is commercial banking.

Mr. HAYES. I do not call that commercial banking. I think that is investment banking, and it is because they are mixed that we have trouble. If they were not allowed to do that we would not have had the panic of 1907.

Mr. VAN CORTLANDT. I mean there is no line of demarcation between investment banks and commercial banks—I am trying to get at the fact that there is no law under which the investment bank—

Mr. HAYES (interposing). There is no statute law, but there is a natural law which I think ought to be observed.

Mr. VAN CORTLANDT. Then I think we are arguing a little at cross purposes. I would let them do what you call investment business and not commercial business.

(Whereupon, at 12 o'clock noon, the subcommittee took a recess to 2 o'clock p. m.)

AFTER RECESS.

The subcommittee reassembled at the expiration of the recess.

STATEMENT OF HERBERT MYRICK, PRESIDENT OF THE ORANGE JUDD CO., SPRINGFIELD, MASS.

Mr. MYRICK. Mr. Chairman, I will state that my name is Herbert Myrick. I am president of the Orange Judd Co. and editor of its five farm weeklies—Northwestern Farmstead, of Minneapolis; Orange Judd Farmer, of Chicago; Southern Farming, of Atlanta, Ga.; American Agriculturist, of New York; and the New England Homestead, of Springfield, Mass.

Am also president of the Phelps Publishing Co., publishers of Farm and Home, a semimonthly published in Chicago and in Spring-

field, Mass. All these papers have nearly 1,200,000 subscribers among the farmers of the United States.

I have been intensely interested in this subject, gentlemen, for more than 30 years, and have had some practical experience in it. I assisted to organize some of the first cooperative creameries in this country; helped to start the Springfield Cooperative Bank, or building and loan association, 25 years ago, which has been very successful.

In 1889 I published the book *How to Cooperate*, which has had some influence on this movement for many years. Helped to put through the Massachusetts Legislature the act of 1909 providing for credit unions, which was the first of its kind in the United States. Frequently have studied this subject abroad, and in 1912 published the book *Cooperative Finance*, covering the whole subject of banking and currency of the farm, and also farm finance, and prepared what we call the standard bill for cooperative farm finance under State laws. It is divided into two parts, part 1 being the cooperative people's bank for personal credit, and part 2 cooperative land bank for realty credit. I think each member of the committee has a copy of that.

Part 1 is based on the Massachusetts statute. Texas adopted part 1, but emasculated it by limiting loans to \$200, and also changed the name of these local institutions to "credit unions" instead of banks, which is a fatal error. Wisconsin has adopted both parts 1 and 2 of this bill. The Wisconsin bill, part 1, is verbatim as I drew it here. Part 2, the land bank, is somewhat changed. You have in Indiana, Mr. Moss, a very good land-bank bill.

Mr. Moss. Yes.

Mr. MYRICK. Something along this general line.

Mr. Moss. I think that Indiana is the only State at the present time that has given the right to issue bonds under the peculiar scheme that they have.

Mr. MYRICK. Yes. The Wisconsin law—the new law in effect this summer—does the same thing in Wisconsin.

Mr. Moss. Yes; practically the same thing.

Mr. MYRICK. Now, to get down to real, practical business on this proposition before you. I assume, gentlemen, that the necessity and the need and the general principles of this matter have been so thrashed out that they are entirely familiar to you, and that your problem now is what is the best way of framing the measure that will accomplish the purpose you desire.

The first principle is that your method must be an American method adapted to American conditions. We have something to learn from abroad, but I think this committee is going through much the same experience that the Committee on Banking and Currency did with the question of reforming commercial banking and currency—you spent a lot of time; you had a commission go to Europe; and you worked over foreign experiences; but then, when you got right down to perfecting your measure, you had to adapt it to American conditions, and there is hardly a line in the Federal reserve act that has to do with European conditions.

Then, another thing: The success of any measure is going to depend on whether it comes up from the people or is carried down to them. If it comes up from us, and we, the people, take our coats

off and make these institutions a success, then we are accomplishing something; whereas, if we sit by and wait for the Nation or the State to bring money to us, our last condition may be worse than our first.

Another thing, Mr. Chairman: The Federal reserve act has introduced new conditions here, that make it possible to develop an American system of short-time and long-time credit that will be workable and that will be practicable. In it we should utilize to the utmost the advantages offered by the Federal reserve act. Let me go on record right here, gentlemen, as saying that that act will prove to be the most constructive financial legislation, other than this bill, that this country has ever had. But if you draw your bill right here, this will be a fair second in importance if its benefits do not even surpass that act in the next 20 years.

Now, I say that we should begin with the individual farmer; with a group of them. The man, the individual citizen, is the wonderful factor in this country. One witness said here, I think it was Mr. Scudder, that the difference between America and Europe was this, that in Europe the State was everything—the Government was everything, and the citizen was nothing. In America the individual, the citizen, is the State, instead of vice versa.

Therefore anything should be done that will develop and draw out the wonderful powers latent but inherent in every citizen; it is so easy for a man to do the right thing when he knows how. The difference between success and failure in life or in farming or in anything else is just the difference of turning your hand. If you turn your hand that way [indicating] and use that judgment, you are successful; if you turn that way [indicating] you are a failure. We all know that. We have all been through the mill.

The individual man, strong as he is, is still stronger when he associates with his neighbors—with others. Therefore, cooperation is the second thing.

Now, the simplest form of cooperation in the world is banking. Finance is easier, simpler, cheaper, less trouble to effect than any other form of cooperation.

The difference between a cooperative bank and a joint-stock bank is simply this, that in the joint-stock bank every share has one vote, and in the cooperative bank each person has one vote. That is practically all the difference so far as the ownership is concerned. Remember that the same principles of management must apply to both institutions.

The other principal difference that the cooperative bank may apportion a part of its earnings to the patrons who make the earnings, instead of all the earnings going to capital.

The next step is to mobilize resources so as to make them available for credit purposes. A dozen, or 20, or 50 individuals unite in a little bank; these individuals have mobilized their resources to that extent. Now, hook up these banks together so that they can help each other and be an integral part of the Federal reserve system.

The bill we have before us here has many excellent features, but it starts back end foremost. Your short-term credits and your long-term credits are two separate parts of one proposition, and you can not and should not attempt to separate them entirely. And yet above all things we must keep in mind that current deposits can only

be used for current loans or for short-time loans, but you must not tie up current funds in permanent loans. Your committee is all unanimous on that point, as I understand it, but it is the point about which there has been a great deal of ignorance and misconception in the public mind.

The first thing to provide is the little local cooperative bank. But this institution is not to be called a "rural credit society" or a "credit union," or any other fantastic, un-American, pauperizing, unpopular name. It is a bank. The American people know of the bank. They know what the national banking system is. They have got confidence in it. I claim that the average poor man, the man of modest circumstances, is just as much entitled to profit by and have the advantages of the national banking system as you or I, who may be of larger means. Therefore, I would have it that "seven or more citizens resident in any place may incorporate a national cooperative bank under the national banking law."

Now, there is your name "national cooperative bank." There is a name that everybody knows about; everybody knows what a national bank is. Here is your cooperative bank. Here is your short-time short-credit personal banking institution for the common people.

Second, let this bank have its Federal charter when it has put up in cash as little as \$1,000 for its capital. Despise not the day of small things. A community of 7, 15, or more men in the poorest neighborhood, who start a little bank with as little as \$1,000 capital, will soon grow to \$5,000, and \$10,000, and so on. This little bank is to have its charter direct from the Government, but when its capital stock paid in amounts to \$5,000 or more it may then become a part of the Federal reserve system. And when its capital amounts to \$25,000, which is the present limit for national banks, it may have any and all other advantages, such as trust companies, etc., that had been bestowed upon the national banks.

The number of shares, the proportion of the stock which one person may hold, should be limited to, say, 10 or 20 per cent of the total.

Senator HOLLIS. Why?

Mr. MYRICK. The par value of the shares is \$5. I want to emphasize that point most strongly. The standard unit throughout the world, almost, for cooperative enterprises is the £1 share. When the Rochdale Cooperative Society started their little store, away back in the early forties—and, gentlemen, they started that store, as I recollect, with about \$25, and many of them saved for it at 2 pence a week; and you know that institution has developed until, in England it amounts to many millions of dollars annually—when they started, I say, they fixed their shares at \$5 each. That has been the rule almost ever since.

Now, the advantage of that is this, suppose that I am a farmer here, and we are trying to start a little bank in my town: suppose I am a poor man; I am struggling. I will take 10 shares, at \$5 each; that gives me a \$50 interest in this bank. My wife, my children, my neighbors, will be encouraged to buy shares. We want everybody interested in this thing. We want them to have a stake in it. I tell you, gentlemen, cooperation is the greatest institution there is, and our trusts in this country that we have had so much trouble with have taken the cooperative idea and abused it. They have run it entirely for the benefit of capital, and their success shows the marvelous power

that there is in this principle. Now, all we need to do is to apply the same principle in our own interest.

Of course the shares will have double liability, the same as the present national bank. The American people are accustomed to that; they are not afraid of it. These little banks—

Senator HOLLIS (interposing). Mr. Myrick, I asked you why you would limit the number of shares that any one person could hold. That is what I wanted to know.

Mr. MYRICK. Oh, I would limit the shares, because we do not want one person to have a preponderance of ownership. We want the whole community to feel that they have an equal show. If the interest on your shares, that portion of the earnings which goes to capital usually being limited to the legal rate of interest, there is no such object for one person to want to get a great number of shares as there would be if this bank stock was going to be worth \$300 or \$400 a share. And furthermore, the principle is not one man in control, but the interest of all the shareholders. Therefore, the more you can distribute it the better.

This little institution will do a regular banking business; it will receive deposits; it may receive Federal deposits, State deposits, the county deposits, postal deposits—of any public funds, and private deposits. In those respects it is the same as any national bank. The people are accustomed to this kind of banking. They know all about it. They have confidence in it.

There is hardly a community in the United States so poor but what they have got money enough to start an institution of this kind.

We now come on to the period—in the spring, if you please, in North Carolina, or some Southern State—where the farmers are accustomed to borrowing money—mortgaging their crop before it is grown. Five years after this institution has been running in that town that practice will be abolished forever, as it has been already throughout much of the country.

But the bank has occasion to lend more money than it has got. It is a member of the Federal Reserve Association, and it rediscounts. That little institution, which may want to rediscount a total of \$5,000 or \$10,000 of paper for 180 days, that rediscount to those people is just as important, in fact, more vital to them, than it is that the rich man's bank should rediscount his paper for \$10,000, \$20,000, or \$50,000, because if those banks will not do it for him he can get the money somewhere else, whereas if these people can not get it at that place they can not get it at all.

I would have these little banks have all the facilities and the rights for lending money that national banks have. They can lend on mortgage under some conditions.

Senator HOLLIS. You would give the Federal reserve board very broad discretion, in the way of experiment, as to how to handle them at first, would you not?

Mr. MYRICK. Yes, sir.

Senator HOLLIS. And in different communities permit different regulations to meet the varying conditions?

Mr. MYRICK. Absolutely. Gentlemen, conduct this proposition on a business basis. Do not fill your law full of unnecessary and superfluous details. Leave those details to be worked out by the administrators.

Now, here is a new principle, and this is the only new principle really for the little local banks: Each bank shall deposit or invest 25 per cent of its capital in the land reserve—that is what I call it; you probably would call it capital stock—of the land bank for that State, and this little bank can not pay any dividends on its capital until it has got a reserve built up equal to this 25 per cent, which is put into the land bank. Whenever we start those little banks we would probably pay in the 25 per cent surplus, as is usually done now with national banks. If we start a national bank we usually pay in \$200 a share capital stock; if the capital stock is \$25,000, we would pay in \$50,000 and start right off with the surplus of \$25,000.

Each national cooperative bank shall not pay any dividends on its shares until its surplus or reserve equals 25 per cent of its capital, which 25 per cent shall be deposited in the land bank; and thereafter half the earnings available for distribution shall be applied to the surplus until the surplus equals 50 per cent of the capital, and the balance may be apportioned between capital stock and dividends or otherwise employed as the by-laws set forth. Do not tie up the bank too closely there. You have got some provisions in this bill about the way they can apportion their earnings that are not practical. I have gone over this draft of the bill with a view of starting a bank.

Mr. BULKLEY. You are referring now to the Moss bill, are you?

Mr. MYRICK. Yes; I have here Senate bill 4246. There are some of those details that should be amended, from the standpoint of a workable institution. If this system can be licked into shape, I shall do what I can to start several of these little institutions throughout the country, not for any matter of profit, because I have spent lots of time and an immense amount of work and several thousands of dollars in promoting cooperative methods, you might say, from an altruistic standpoint.

Senator HOLLIS. You do that through your newspapers?

Mr. MYRICK. Yes, sir; and printing and postage and all that sort of thing. I simply speak of that in order to put right in your mind the fact that I am not here with selfish motives.

Now, your shareholders in this national cooperative bank elect the directors and the directors elect their officers, and that bank is run the same way as any other bank. When it is only a little institution, with only \$1,000 or \$5,000 capital, it will not be open every day; it will only be open at certain convenient intervals and the expenses will be almost nothing, but the system is one that our people know and are acquainted with and have confidence in. And in a great many places I apprehend that the result will be that the little State banks—and there are hundreds of them and thousands of them in the United States with \$5,000 each—I apprehend that a great many of those banks will be taken over and converted into national cooperative banks under this system, because it can be figured right out that it will be better for the local banker to come in under this plan than it will be to have his patrons start a cooperative bank of their own, because in all small communities the cooperative banks are going to get the business; they are going to get it all.

Mr. SELDOMRIDGE. Would you allow more than one bank to start in a community?

Mr. MYRICK. Yes.

MR. SELDOMRIDGE. You would have no limitation on the number in any community?

MR. MYRICK. No, sir; no more than there is now.

MR. BULKLEY. Now, you are referring to banks of the character that are proposed by the Fletcher-Moss bill?

MR. MYRICK. I am talking now of short-term personal credits; I have not yet said a word about land banks. I have not got to land banks yet. All I said about land banks is that the little local credit institutions, short-term credit institutions, which I call a "national cooperative bank," shall invest 25 per cent of their capital stock in the capital stock of the land bank; that is all I have said about the land bank to-day.

I want to settle first this matter of furnishing the local community with an institution in which they shall put their savings.

There has been a lot of talk here; I have read these discussions that you have had for the last two or three weeks; and you have been losing a lot of time in listening to talk along the line that there was no money in the United States—that there was no money in the country districts.

Why, it reminds me, gentlemen, of a back-country meeting up in Franklin County, Mass., during the first Bryan campaign—I do not mean any reflection on Mr. Bryan; I think a great deal of him. But a spellbinder came back to that town from out West. He had left the town two or three years before. He was a ne'er-do-well, with a gift of gab, and he came back to that town to make a speech, and the farmers all turned out to hear him. And he made a very eloquent speech, and he wound it up by saying:

Now, gentlemen, you owe all these terrible debts, but you have not got enough money to pay them; just vote for Bryan, and you can pay all these debts with 50-cent dollars.

And one old farmer, in blue jeans, in the back part of the hall, in his shirt sleeves, who looked as if he was not worth a dollar, stood up and said: "Mr. Speaker, may I ask you a question?"

The speaker said "Certainly." He was very glad to get a "rise." But the old farmer said:

You left town some time ago, owing me \$100. Pay me 50 cents on the dollar now; don't wait until Bryan is elected.

[Laughter.]

There is money in the country; there is a surprising amount of money in the country; and there will be more. As you enable the people to save, they do save. So true is this that although the savings departments in national banks are a comparatively new institution, they have nearly a thousand million dollars in them at the present time, and of that, \$755,000,000 is in the country banks—in the savings department—though I was told in this very room by a prominent member of the committee that the savings departments of national banks were useful only in communities where they had no savings bank. The rural national bank performs a very useful service to the community when it starts a savings department. But in the city of Springfield, Mass., with three savings banks with between \$30,000,000 and \$40,000,000 of deposits in them, and with two large trust companies with \$12,000,000 or \$15,000,000, and with three or four national banks all with large deposits, one of those started a savings depart-

ment, and at the end of one year it had 10,000 new depositors, with nearly \$900,000 of savings deposits.

Senator HOLLIS. Mr. Myrick, right there; you know, of course, that these savings banks are now being run in connection with national banks and as a part of them, rather by sufferance than by any real right, do you not?

Mr. MYRICK. But it is in the Federal reserve act—

Senator HOLLIS (interposing). Just a minute. That is being done that way, and there are no express rules governing what their investments are to be. It is left largely to the discretion of the bank examiners; and I want to ask you if that is not one of the best illustrations of the sort of flexibility that you are arguing for?

Mr. MYRICK. It is; and I have been personally opposed to the unregulated use of those savings deposits by national banks, because there is one case where a national bank got into trouble, and they paid off the other creditors, but the savings depositors, whose money was not on call, could not get their money. In the Federal reserve act, you remember, there was quite a contest over these provisions, and it was finally put into that law that the present system of time deposits may continue, but that 25 per cent of time deposits should be available for loaning on real estate, not to exceed, however, one-third of the capital or vice versa.

Senator HOLLIS. It is 30 per cent of the capital, I think.

Mr. MYRICK. How much?

Senator HOLLIS (examining act). No; it is 25 per cent of its capital and surplus, or one-third of its time deposits.

Mr. MYRICK. Yes. Now, that "or one-third of its time deposits" we, as representing the farmers, interpret as applying not only to savings deposits but to any other time deposits they have got in there on which they are paying interest.

Senator HOLLIS. Well, there is no difference between a savings deposit and a time deposit in a national bank.

Mr. MYRICK. No; I think that is the rule in the comptroller's office. And I would have this system of national cooperative banks a part of the national banking system, administered by the Comptroller of the Currency. I would not put it into the Agricultural Department. I would not mix finance with fertilizers—not directly. I would let the farmer do the mixing, and not have it done in Washington.

Senator HOLLIS. Would you make any distinction here between a farmer and a mechanic—between farmers and city people?

Mr. MYRICK. We are still talking about short-time credit?

Senator HOLLIS. Yes.

Mr. MYRICK. I would let this institution—the national cooperative bank—start in the country or in a town of 3,000 population or less, with as little as \$1,000 capital; but it must have at least \$5,000 capital in a town of over 3,000 population; and I would not restrict—I would allow the working man and the common people in the cities and towns to have their little national cooperative banks, just the same as the farmers. The banks, money, credits, exchange—the whole science of exchange—rest on the principle of being alike to all—the same thing to all—the same privileges, the same right, and same conveniences; and that is why the American dollar is the best money

on earth, because it is just as good for the farmer or the mechanic or the capitalist, or even the Congressman.

Now, why 25 per cent of capital in land reserve? While the national cooperative bank in each locality is mainly a bank for personal credit and for current accommodation for savings and for loans; and although it is authorized to loan some of its savings deposits upon real-estate mortgages, the bulk of the land-mortgage business in its vicinity will probably be absorbed by the land bank incorporated under the national law for its State. The local cooperative bank is to be the local agent, the local representative, and in a local sense the local manager for the land bank.

Therefore the local bank should deposit one-fourth of its capital in the land reserve, for the reason I have described, and this will also disassociate all other business of the local bank from the land-bank business. Your local bank is to receive deposits, current and time, loan them out to the farmer and the mechanic and to the little people in the vicinity in a regular banking way; it is also to rediscount that paper if it wants more money.

When it gets to have a certain amount of capital it may act as trustee and as trust company. The business of the common people in a little village, in the matters of wills and petty estates, and so on, is just as important to them as your will and your estate is to you; and the trust company in your town takes care of that for you.

While by this method we do not in any way involve the local banks' current deposits and time deposits further than the 25 per cent investment of the local bank's capital in the land bank; beyond that there is no obligation—you are not tied up; still you have got your local institution as the local agent and representative of the land bank, and the farmer who is going to take out his mortgage through the land bank comes and does his business through this little institution. You want to consolidate all of this little banking business into this bank that belongs to the people and get the people to coming into the bank.

Senator HOLLIS. That is, you would make these credit-cooperative banks become a part of the land-bank system, just as we have made the national banks become a part of the Federal reserve system.

Mr. MYRICK. Yes; that is it.

Senator HOLLIS. And link them in that way?

Mr. MYRICK. Yes; you have it just right.

Senator HOLLIS. And where the capital is the interest will be also.

Mr. MYRICK. Exactly. And furthermore it helps to protect the farmers. They do all their business with these little banks. The system would work out in this way: I am a little farmer, we will say, in Agawam, Mass., and a hundred of us start a little bank there, and we get \$5,000 or \$10,000 capital. I have got a little deposit there, and in due time I have sold my little farm, and I want to buy a bigger one, and I apply to this little local bank, which is a member of the Massachusetts National Land Bank.

Now, I do not apply to the land bank. I apply to my little bank at home. They come out and appraise my farm. I apply for a loan, we will say, of \$5,000 on a place that is worth \$10,000. It is taxed, we will say, for \$9,000. And these men come out and look the farm over, and they finally say, "We are willing to recommend a loan for \$4,000; that is 50 per cent of \$8,000, which we think is a good, fair

valuation of our farm." I say, "All right, I will be glad to take the loan." I give them my note. My note is made to the land bank, and my mortgage accompanies it. The papers are sent up to the State land bank with the recommendation and indorsement of the local institution.

Then the State land bank grants the loan and sends down the money to the little local bank where I do business. Now, you have had a lot of discussion as to how you are going to know that the man who borrows this money on his farm does not spend it for an automobile or something of that kind.

Wisconsin has established a precedent right on that point. Not only has Wisconsin adopted this standard bill for these two types of institutions—although that State modified the land bank somewhat from what I suggested here—but they also made a further law whereby the State loans its school funds directly upon "cut-over" lands. These loans are for the benefit of settling up that cut-over land. And the law is specific—I have a copy of it here—providing that when the loan has been accepted the money shall be sent to the nearest bank to the borrower, and that bank will pay the money over to the borrower just as fast as he spends it on his farm, or on his buildings, and so on, as the case may be.

I do not believe in encumbering the law with very much phraseology upon that point. I think it is one of those things that will take care of itself. But your local bank will see that if I borrow \$4,000 on my farm to pay for it, they are going to see that I apply the money for that purpose, and they know me, and I am right there in the community; I can not very well go wrong.

Mr. WOODS. Mr. Myrick, you spoke of this local bank sending the papers up to the State bank with their recommendation and indorsement. What did you mean by "indorsement"?

Mr. MYRICK. Well, I mean this—and it is a fair question whether I am right about it or not: Two years ago, when I wrote my views upon this subject, I felt that if the little Agawam local bank was held responsible to the extent of, say, 25 per cent of any ultimate loss that might occur on a mortgage that they recommended, it would make them extremely cautious. Your mortgage provides that you have got to keep your property insured, and if there is a fire you have to restore the property to its normal condition. It is quite feasible to broaden that language just a trifle, so that the borrower must maintain the normal fertility and condition of the farm. And then if a man gets to drinking, if he gets behind, if he skins the farm, or fails to pay the interest—that is the most serious thing. Then the bank warns him, saying: "You have got to look out; your farm is running down, and while you have reduced the principal somewhat by your amortization, we have still got a large loan there, and you must do better, because if you do not, then in the fullness of time and with due notice we will have to foreclose, or you will have to get your mortgage somewhere else."

That never will occur, except where it ought to occur. It seldom will occur, because the bank will notify me in advance, and unless I am entirely down and out I will amend my ways.

Mr. BULKLEY. How would you write a mortgage so as to provide for that? What would be the agreement between the bank and the

mortgagor with respect to foreclosing him in case he robs the soil or gets shiftless?

Mr. MYRICK. You can only do it in much the same general clause that you have on your insurance policy in your contract regarding your buildings.

Senator HOLLIS. This is the way it is done in my community: The savings banks there make their loans all payable on demand. The loan will stay there just as long as the farmer pays his interest and keeps his farm up. But that puts it in the hands of the savings banks; it is a pretty delicate job to do it any other way. That right has got to be somewhere definitely.

Mr. BULKLEY. You do not propose to make loans payable on demand, do you, Mr. Myrick?

Mr. MYRICK. No, sir.

Mr. BULKLEY. Then how would you cover that point?

Mr. MYRICK. It is a point that is subject to a good deal of debate, and the phraseology in which it shall be expressed would have to be very carefully prepared.

Mr. SELDOMRIDGE. Would you not have a man who secured a loan under those circumstances enter into some form of contract by which if he should fail to carry out its terms the loan should become due?

Senator HOLLIS. Well, of course, if we could draft a provision so that it could be made definite and certain we could insert it in the mortgage, which is the contract.

Mr. BULKLEY. Have you ever attempted, Mr. Myrick, to draw such a clause?

Mr. MYRICK. Well, I thought I had one here. In this bill, on page 14, lines 6 and 7, it says:

Second. That such loans are secured by a first mortgage or first deed of trust on farm lands.

I have added to that the words:

One condition of which shall be that the productivity of the land shall not suffer deterioration while such mortgage is in force.

Mr. BULKLEY. That is all right.

Senator HOLLIS. That is substantially only the common-law waste provision, which is put in almost every mortgage—that the property shall suffer no waste.

Mr. MYRICK. That is what I mean.

Senator HOLLIS. That is a matter of judgment.

Mr. MYRICK. Yes; I do not think you can specify it in the law.

Mr. SELDOMRIDGE. In our country you can go and take possession of a chattel under a chattel mortgage in the shape of live stock if you find that the owner is failing to maintain or feed the animals in the proper way.

Mr. MYRICK. Yes; it is a matter of common law.

Mr. BULKLEY. What about a man's personal habits?

Senator HOLLIS. So long as his personal habits do not result in waste they do no harm.

Mr. BULKLEY. Well, Mr. Myrick, you made some reference to the personal habits of the mortgagor a moment ago.

Mr. MYRICK. I do not mean that the banks shall prescribe whether a man shall take a drink or not or in any way limit or infringe upon his personal liberty. But I do mean that if this man becomes so

run down and shiftless from whatever cause, if he allows his property to suffer waste, as the common law says, then the obligation may become due on reasonable notice.

Mr. BULKLEY. Would you let it rest on waste, as that term is known to the law?

Mr. MYRICK. Yes; it is just the common-law principle.

Mr. SELDOMRIDGE. Did I understand you to say that you would allow the appraisal of the land to rest with the directors of the local banks—the little banks?

Mr. MYRICK. Well, now, that is a fair question, and I have been disposed to favor it, provided the local bank assumes some responsibility, say 25 per cent, of any ultimate loss. For instance, suppose I borrow \$4,000 on their recommendation, and in the course of years sometimes happens, the river comes up and washes my farm away, or I waste it, and there is a loss. They close the mortgage out, and there is a loss of \$1,000 finally. In that case the local bank would have to put up \$250 of it.

Mr. SELDOMRIDGE. Would you allow their appraisal to be final?

Mr. MYRICK. Well, I should leave that with the land bank. If they were satisfied, yes; if not, let them come on and examine it.

Senator HOLLIS. What would the local cooperative bank get in return for that 25 per cent liability?

Mr. MYRICK. Well, they get this: In the first place they have got, we will say, \$10,000 capital stock. They have got \$2,500 stock in the land bank, and I will show you directly how they share in profits on that. They get the interest on that; then they get a profit-sharing dividend on that. Then they get one-eighth of 1 per cent on all the transactions that I have regarding this loan. I pay my interest to the local bank and they send it up to the land bank, and the local bank gets a commission of one-eighth of 1 per cent.

The land bank, of course, issues its bonds on the security of these mortgages—and by the way, gentlemen, these bonds are in denominations of \$10, \$20, \$50, or \$100 or larger, all at the option of the land bank; it is not a matter of law. You would be surprised at the number of people that will buy a \$10 bond netting them 4 per cent free of tax.

Out in St. Paul or Minneapolis this last winter the city treasurer undertook to sell 4 per cent bonds. It was when money was tight here, some months ago, and the bonds did not go. Then the city treasurer cut them up into bonds of \$10, \$20, and \$50 and sold them over the counter, and they sold like hot cakes to the average working-man, and his wife, and his daughters, and the cab drivers, and so on. Those are the people that hold these bonds that we have been talking about in France. Dr. Coulter, your man that drove you in your taxicab through the streets of Paris, the man that you would give a franc to, just as likely as not would hold a bunch of these little bonds, either the Credit Foncier or some of those other institutions.

Mr. BADOW. May I interrupt you a moment, Mr. Myrick?

Mr. MYRICK. Yes.

Mr. BADOW. The smallest denomination in which the Credit Foncier issues its bonds is 250 francs?

Mr. MYRICK. How much?

Mr. BADOW. Two hundred and fifty francs.

Mr. MYRICK. Well, that is \$50, is it not?

Mr. BADOW. Yes.

Mr. MYRICK. This city, either St. Paul or Minneapolis, issued a great many bonds as low as \$10 in denomination?

Now, your land bank—and, by the way, you little local cooperative banks are under the same supervision as other national banks; and while I do thoroughly believe in Federal aid, if we may apply that term to it to the extent of having the Comptroller of the Currency provided with sufficient money and a sufficient number of men so that he can send out men into any State or any county and personally instruct the farmers in that county, if they want to start a little bank; let Uncle Sam's man come down there and tell them just how to do it. I would have him go further and train the bookkeeper or the man in actual charge of the details; all that is legitimate. It is just as legitimate for the Federal Treasury Department to do that as it is for the Agricultural Department to tell farmers how much manure to put in the hill.

That is entirely different, of course, from the present system whereby the Comptroller of the Currency, if we want to start a national bank out here in a town of 5,000 or 10,000 people, with \$25,000 or \$50,000 capital stock, we get our papers from Washington, and that is all we do get. We have to employ counsel and work the thing up. But at the beginning of this new movement for the creation of these little banks I would have organizers available without expense to the people.

Mr. THOMPSON. Suppose I lived in a town where there was no cooperative banks?

Mr. MYRICK. You could start one.

Mr. THOMPSON. And I wanted to get a mortgage loan from the land bank, how would I go about getting it?

Mr. MYRICK. You can get it in that case. You can either apply direct, or if there is any other bank in that town you can apply through them. Utilize all the banks. We have got 25,000 banks of one kind or another in this country. Make them all work. Do not introduce something extraneous—a rural-credit society—I get angry and out of patience when I hear that name. The Massachusetts credit union law is a dead letter, partly because of the use of the name "credit union." The first one that was established, gentlemen, under that law was by some of my associates in the Myrick Building. I did not know that the boys were doing it—and I never had a higher honor than when they named it after me; the boys that were working for me and had worked for me for years got it up. But there are a very few in the State. Mr. Robinson, who is present, started one, the first one among the farmers.

"The rose by another name would smell as sweet"; but it would not be the rose, and you can not make a bank out of the name "credit union."

Now, gentlemen, we come to the matter of your land bank. I insist that the two types should be developed as two separate parts of one bill and one statute, because they are interdependent, and also for the very practical reason that you can get them both through Congress at one stroke, and if you got one through alone you might not get the other through.

Senator HOLLIS. May I ask you a question right there, Mr. Myrick. I received, through Senator Owen, a plan for a cooperative bank that was typewritten. Has that since been printed and is this it [indicating paper in Senator Hollis's hand], because I was going to have this printed if the members desire it.

Mr. MYRICK. I telegraphed Senator Owen asking him to send me a copy of his bill, and he said he had not any. I wanted to see what it was. My standard bill is the same as the Massachusetts act of 1909.

Senator HOLLIS. I presume that was the one you sent to Senator Owen, and it was in typewritten form, and I suggested having it printed.

Mr. MYRICK. Oh, that was my brief on this bill, was it not?

Senator HOLLIS. Yes; I suppose it was.

Mr. MYRICK. Now, my criticisms on this bill are really in the nature of a very warm recognition of its merits, as far as it goes—

Senator HOLLIS (interposing). Excuse me, Mr. Myrick, but I diverted you from discussing your land-bank system, which was to be a part of the same statute as the other system.

Mr. MYRICK. Yes, sir.

Senator HOLLIS. And I would rather that you would develop that before you begin to criticize this Fletcher-Moss bill. I wish you would go right on with that.

Mr. MYRICK. I will do so. I hope that a great many of the best provisions of this bill will be embodied in the land bank, as I advocate it.

Senator HOLLIS. Well, you have not stated it, but you have intimated it two or three times—would you make each of your land banks a bank representing a district which would be an entire State?

Mr. MYRICK. Yes.

Senator HOLLIS. You would get your districts in that way, would you?

Mr. MYRICK. Yes, sir. And yet I think it is a fair question whether we should limit—for instance, the State of Illinois may have one institution named the "Illinois National Land Bank." That would not interfere with several other institutions under other names forming land banks of a smaller nature—or larger, if they could build up the business. In other words, is it wise to give one institution in a State the monopoly of the national Federal charter for land banks?

Senator HOLLIS. Why not, if you have the Government with a strong representation on the board of directors, and put it under the control of the Federal reserve board, just as the Federal reserve banks are?

Mr. MYRICK. That is a fair question, especially since the Federal reserve law has come within the past few months. I said at the beginning of my remarks that that act introduced a situation that solves a great many of these points. So, whether you had one institution in a State that had a monopoly of the charter for that State, or whether you left it open for more than one, there is something to be said on that.

Mr. BULKLEY. Your idea is that you might have competitive banks, each covering a whole State?

MR. MYRICK. Yes, sir; certainly. Remember, gentlemen, that this business is vast—you take the State of Texas. It is so big you could put all of France inside and have 60 miles on the outside all around to keep them quiet. And one Texas national land bank to cover that whole State would have to be very well conducted in order to satisfy the demands. If it had a little competition, it might be a very good thing for both of them.

MR. BULKLEY. If you had three or four of them, would each one of them have their constituent member banks in all parts of the State?

MR. MYRICK. Well, there is the other side. You see, you are getting right up against some of the details now that have got to be very carefully thought out. I will show you what I do propose to do with this land bank. It is on page 270, "Cooperative finance":

Organization of a land bank in each State under national law. There shall be a national land bank in important States, incorporated under the national banking law, which shall be suitably amended for the purpose. Such institution shall be named "The National Land Bank for Nebraska," the name changing for the respective State. Each land bank shall have a permanent capital reserve called the "land reserve."

Now, that is foreign to American practice. We are in the habit, of course, of speaking of capital stock; but I used the term "land reserve" in place of "capital stock" to emphasize that we are mobilizing the land, and the land is the fundamental reserve of the United States. For, as you will notice on the front cover of this book, we say "What is back of our American money?" At the bottom of the picture is our land reserve, with our crops, worth nearly 10 billions of dollars, and over three and one-half million square miles, and then comes our gold reserve, and then comes our health reserve. Gentlemen, the health of the people is the greatest reserve. It is worth more than gold. Then comes your character reserve, and then comes your cooperative reserve, the power of associated effort.

Each national cooperative rural bank in said State shall deposit 25 per cent of its paid-up capital stock in the land-bank reserve.

Now, I want each of the other national banks to invest in this capital stock or land reserve at least 1 per cent of their capital stock, surplus, and undivided profits. I want them to do that for the same reason that they put 1 per cent into the Federal reserve bank. They did that two years after this was written. Every national bank in that State of \$25,000 or more capital has got a great stake in the prosperity of the land. The least it can do is to subscribe 1 per cent of its capital stock, surplus, and undivided profits to the land bank.

Senator HOLLIS. They will say "Those banks are our competitors." I do not say that makes that true.

MR. MYRICK. But see what the land bank is going to do for the national bank other than the cooperatives. The national bank may lend on first mortgage. As a matter of fact, as public sentiment grows, that word "may" in effect will become "shall"; and the national bank does not like to bother with taking out mortgages. But it is perfectly willing to buy the land-bank bonds for \$5,000, \$10,000, \$20,000, or \$50,000, and we make these bonds a legal investment for banks—that is very beautifully covered in the commission bill. These bonds are not only legal investment for all funds under the United States courts, but also are collateral security for postal savings.

MR. MOSS. That provision is in the bill.

Mr. MYRICK. I thought you had it in there, Mr. Moss. It is a very fine feature. On that point, however, I have made a suggestion on this paragraph of the bill. The splendid feature of this bill is the inducement you give to each State to come in and modify its land laws, so that they can take advantage of these new institutions.

Senator HOLLIS. That feature has been pretty severely criticized, on the ground that at present there are only one or two States that can qualify under it, and that it would postpone the full benefits of the bill too long, while the other States were changing their laws.

Mr. MYRICK. You might have to modify the provision and not have it so strict. But the principle is there. You may find on inquiry—and I hope to have an inquiry with the governor of Massachusetts to-morrow, or the next day, as to the appointment of a commission in that State to see what, if any, change is necessary in that law. And a movement is already under way in the State—

Senator HOLLIS (interposing). What law do you refer to now, the land-registration law?

Mr. MYRICK. The present land laws.

Senator HOLLIS. Well, tell the committee about that. We have been informed that Massachusetts is the only State that has that law now in workable form. Tell us how much it is availed of.

Mr. MYRICK. The Torrens system is in effect in Massachusetts theoretically. It is on the statute books, but it is not very much in use, for the reason that every lawyer and every title company and all that crowd look on it as an infraction of their perquisites.

Senator HOLLIS. Most lawyers that I know consider it a nuisance to look up a title. They do not like that work. But perhaps where they specialized on that work, it is profitable.

Mr. MYRICK. I think that you should not require a State to adopt the Torrens system before it may have this type of institution. I think there is a good deal to be said about not making these restrictions too strong on the State.

Mr. Moss. If you will permit me, Mr. Myrick, I would like to say a word.

Mr. MYRICK. Yes.

Mr. Moss. I would like to say that the whole question of restrictions under this bill is left to rules and regulations that shall be formulated—

Mr. MYRICK. Yes.

Mr. Moss. By the commissioner of farm-land banks. They are not suggested in the bill itself; only the power to make regulations is given. The only suggestion in the bill is that they shall be uniform and apply to every State in the Union. But there are no restrictions at all suggested in the bill; but that is left to the regulations that shall be formulated by the commissioner of farm-land banks.

Mr. MYRICK. Yes. Well, whether the phraseology here is the best for the purpose or not is a detail to be studied out yet.

Mr. Moss. Oh, yes; entirely so.

Mr. MYRICK. But that is one very excellent way of avoiding what might be a complicated question.

Now, as to the State itself—

Any State bank or any corporate body or any individual may deposit cash in the land bank's capital reserve—that is, the capital stock—such amounts as may be accepted by the land-bank trustees.

Why, gentlemen, in many of our States you will have more money offered to you for your land-bank capital than you can use. That will be increasingly so as the years go on.

Mr. BULKLEY. That is for the State land banks, Mr. Myrick?

Mr. MYRICK. Yes, sir.

Mr. BULKLEY. Are not the dividends limited on that?

Mr. MYRICK. Now, when we come to talk about the interest on capital and the interest on your bonds, you must remember that what we seek to accomplish is, first, absolute safety, and therefore, in the absence of risk, lower rates of interest, both to the borrower and to the investor.

Secondly, not only safety, but availability. We are going to make these bonds about as salable a thing as there is in the United States. In 10 years the bonds of the Illinois National Land Bank, for instance, will be the most salable and have the steadiest market of any market of any bond that is sold in that State, if it is managed all right.

Mr. BULKLEY. I thought you were referring to the stock of the State land banks.

Mr. MYRICK. Now, the stock and the bonds are exempt from taxation. You have thrashed that all out here. And I imagine that you are getting pretty nearly all of one mind on it—until you come to the income. And there is an enormous market awaiting a bond of small denomination, or large, which net 3, 3½, 4, or 4½ per cent, according to the market and the times, and be absolutely free of taxation. The tax averages 1½ per cent. There are millions of dollars to-day, right on to-day's market, that will go into 3½ per cent absolutely tax-free bonds, free of all taxes. State. Federal, local, inheritance, and death taxes, because there is nothing else that is so free; the Government bond is subject to inheritance tax, is it not—the United States bonds?

Senator HOLLIS. Well, it probably is, in States. There is no inheritance tax nationally. I do not see why it should not be taxable in States, but I do not know.

Mr. MYRICK. Yes; I do not know whether that point has been adjudicated or not.

Senator HOLLIS. But your idea is that as the Government may make the bonds free from ordinary taxation, and the theory on which these bonds are to be allowed, anyway, is that it is a governmental function under the Constitution, the Government may also exempt these bonds from taxation?

Mr. MYRICK. And, furthermore, that these bonds are simply the paper representative of real estate, which already pays the taxes and which can not escape the taxes.

Senator HOLLIS. Well, that is a question of policy rather than of principle, because in most States they have decided that that is not double taxation, I believe.

Mr. BULKLEY. Now, Mr. Myrick, what is there that is attractive about the stock of these banks? It is exempt from taxation, but it is limited in dividend, is it not? What is the limit that you propose on the stock?

Mr. MYRICK. I propose on the stock for land reserve that it shall first receive an interest as an expense. That rate of interest shall be something that must vary according to the different States. In

Massachusetts it might be 3 per cent; in Arizona it might be 6 per cent. But that first preliminary charge is an expense. Net earnings in excess thereof are to be carried to surplus until the surplus reaches an amount of, say, 25 per cent of the capital. Then three-fourths of the excess earnings shall be applied to surplus, until it amounts to 50 per cent, and, meanwhile, the other one-fourth of the earnings may be paid out as a cooperative sharing dividend only upon such certificates or shares of capital stock as constitutes one-fourth of the capital stock of the member banks.

I make a distinction, and it is a very important one. Here, we will say, is the Agawam National Bank, of Agawam, Mass. It has got \$10,000 capital stock, and it has \$2,500 surplus, and it has invested \$2,500 in the land bank. Now, that is in Massachusetts. It is entitled to 3 per cent interest on that \$2,500 as an expense, one of the expenses of the land bank. The land bank runs along, and pretty soon they begin to make money pretty fast. And we will assume that they have accumulated their surplus, and they have some net earnings to divide.

First, these net earnings shall be apportioned as an extra dividend on the shares of all these little banks that have got 25 per cent of their capital in this institution; then as it goes on and makes further profits and additional profits, makes an extra dividend to all the stock, thus making it an inducement to the local banks, giving them a little extra inducement over and above the ordinary corporation or individual or State that owns these shares.

Mr. BULKLEY. What would be the outside limit that an individual might hope to get on his stock?

Mr. MYRICK. I have suggested here that the limit should be not to exceed double the fixed rate of interest. The extra dividend may not exceed that. If you pay 4 per cent, the extra dividends in any year can not exceed 4 per cent more.

Mr. BULKLEY. You would not have cumulative dividends, would you?

Mr. MYRICK. No, sir. Never pile up on the encumbrances; each year complete in itself; each transaction complete.

Mr. BULKLEY. Well, now, the stockholders have to carry whatever risk there is in the business; do you think that is attractive as an original investment? Of course, I understand that after the bank has made money for a good many years, and has built up a large surplus, and if it should be proven a complete success, an 8 per cent non-taxable security would be selling away above par.

Mr. MYRICK. It would be selling up in the Middle and Eastern States, under such conditions as those of the last three years, prior to this last year—an abnormally low market—it would be selling for at least \$200.

Mr. BULKLEY. Well, it would be somewhere around there. But at the outset, with the success not demonstrated, embarking in a plan that nobody had ever tried before, with all of the risks to be carried and no hope of profit beyond a possible 8 per cent noncumulative dividend, do you think people would pay par for that stock?

Mr. MYRICK. That will vary in different parts of the country. And I doubt the wisdom of encumbering your law with too many restrictions right on that point. It may be necessary in Oklahoma to make a rate of 5 or 6 per cent as an initial charge.

Mr. BULKLEY. With a possible dividend, then, running up to 12 per cent?

Mr. MYRICK. Yes; that may be too much.

Senator HOLLIS. Would you leave that rate to be charged with the Federal reserve board, or would you specify—you could not very well specify it in the act, unless you were going to have it uniform all over the country?

Mr. MYRICK. Well, it seems to me that is an admirable suggestion, that it be left to the Federal reserve board, just like a good many of those other things that you can not foretell, the circumstances varying so very widely.

Mr. BULKLEY. Your idea would be to make the interest large enough so that it would attract the investment of capital?

Mr. MYRICK. Yes, sir. But you do not need to make it very high; being nontaxable and being so safe you would be surprised to see how attractive it would be.

Mr. BULKLEY. Well, nontaxable means that it is about $1\frac{1}{2}$ per cent better in the hands of an honest man. There is not that much difference in the hands of a man who would conceal his taxable property.

Mr. MYRICK. Well, this would all be a matter of public record.

Mr. BULKLEY. But even so—

Mr. MYRICK (interposing). Well, take $1\frac{1}{2}$ per cent; that is one-quarter of 6 per cent?

Mr. BULKLEY. Yes; that is considerable, but it is not any more than $1\frac{1}{2}$ per cent. What I mean is that there is no magic in saying that a thing is tax free. You know just about how much benefit that is to the owner of that stock?

Mr. MYRICK. Yes; it is just about $1\frac{1}{2}$ per cent. But the market for these shares of the land banks and its bonds, of course, will depend on the money market. But there will be, for some years, relatively as much difference between, we will say, the New York and Illinois land banks—their bonds will sell normally at about the same price, the same rate of interest. Alabama and Arizona might have to have a considerably higher rate of interest.

Mr. Woods. Well, do you think the interest would continue as much if you have the State banks back of them?

Mr. MYRICK. I think that the effect of the whole Federal reserve system is going to gradually equalize rates of interest throughout the United States—not to make them absolutely alike, but you will not see in the next 10 years the wide divergence in rates that there has been during the past 10 years.

A great many of the features of this bill are fundamental to apply to the system that I speak of. But I feel very strongly that the principle—you have got one principle divided into two parts; well, it should be one measure.

I have a table here showing that this 1 per cent from the national banks in the State of Maine, for instance, would give about \$140,000 to put into the land bank. I think quite likely the Legislature of the State of Maine would vote to invest \$250,000 or \$500,000 in the capital stock of a State land bank under this Federal act. I think a great many estates and trustees in Maine would do the same thing.

Mr. BULKLEY. Mr. Myrick, you have read in the record of our hearings some discussion that we have had about limiting the purposes for which money may be loaned through this system that we

are proposing to establish, and limiting the amount that may be loaned to any one individual. What have you to say on that subject?

Mr. MYRICK. Why, that conditions throughout the United States vary so widely that it would be very difficult to do anything more than specify a percentage as you do in the case of a national bank, which may loan not to exceed 10 per cent—is it not 10 per cent?—to any one person.

Senator HOLLIS. Yes. You have in Massachusetts a restriction upon the amount of money that may be deposited in a savings bank; I believe it is \$1,000?

Mr. MYRICK. Yes.

Senator HOLLIS. And after it has increased to \$1,500—

Mr. MYRICK (interposing). \$1,600.

Senator HOLLIS. \$1,600, that it shall not draw interest. Do you think there is any value in that? We have no such restriction in New Hampshire.

Mr. MYRICK. The reason for that is that the savings banks are so popular that people of comfortable means, without that restriction, would load the savings banks with more money than they could take care of.

Senator HOLLIS. Why? The bigger the institution, if it is honestly run, the more economically it can be run; and in our State we welcome large deposits. We have \$10,000 or \$15,000 on one book in our State.

Mr. MYRICK. New Hampshire has not got as much money as Massachusetts. Conditions are somewhat different there.

Senator HOLLIS. I do not see the harm in having more deposits, because the field for investment is practically unlimited.

Mr. MYRICK. I think you will find a great many bankers that will not assent to that point of view. There are times and seasons and years when it is an extremely difficult matter to get sound and safe investments at anything like a reasonable rate of interest. There gets to be such a plethora of money; and the purpose of that restriction, in a rich State, is to encourage the savings banks to take in the deposits of the small people—educate the small people to thrift.

Mr. BULKLEY. We have in Cleveland some of the best savings banks in the country; and they agree to that principle, that what they want is a large number of depositors, rather than large deposits from single individuals.

Mr. MYRICK. Yes, sir; gentlemen, we have just begun to realize the power of small savings by great numbers of people. You take a little rural township of 500 or 1,000 people; they have no banks; they may be 10 miles from a bank; you start a little national co-operative bank in that community, and you will be surprised to see how the money will pile up there in the course of 5 or 10 years.

Now, this question has been coming before you all the time of Federal aid—direct loans to the farmer. There comes a time every year when there is a great demand for money. The crop-moving season—we will say. Our little national banks in all those little towns are entitled to a Federal deposit of from three to six months just as much as any bank in New York City or Chicago.

Senator HOLLIS. They are if they can furnish the class of security the law requires.

Mr. MYRICK. Certainly.

Senator HOLLIS. That has been the only limitation in the last year.

Mr. MYRICK. Well, the Secretary of the Treasury can deposit \$5,000 in a little bank in a small community that can deliver the goods just as well as the Treasury can deposit \$50,000 in a bigger bank.

Senator HOLLIS. And he would have been glad to do so within the last year if he had had the chance and the small bank could furnish the security.

Mr. MYRICK. Yes, sir; and, then, with your Federal reserve discount privilege, you have hooked up—gentlemen, by this method you have hooked up—this individual farmer who has a few shares in this little local national bank. He is in a position to tap the entire resources of the regional bank of the Federal reserve system. And the law specifies it so—the Federal reserve act. That provision of the law regarding 180 days for farmer's paper, and paper representing produce, etc., was very much criticized in certain commercial circles by certain Wall Street interests.

But those very people—now, if you noticed the report of the New York clearing house, about 10 days ago, a special committee's report on what shall constitute prime paper under this new law, you would have seen that their suggestion was a splendid interpretation of the spirit of the Federal reserve act, and was a better interpretation and more favorable to the producing agricultural interests of the country than was a similar report coming at about the same time from Chicago. Now, that shows the way public sentiment in the banking circles of the country is changing.

Mr. BULKLEY. When you speak of "hooking up" the farmer to the rediscount privileges of the Federal reserve system, you are referring only to short-time loans, are you not?

Mr. MYRICK. Oh, certainly; absolutely.

Mr. BULKLEY. What do you say to the Federal aid to these land-mortgage banks?

Mr. MYRICK. I do not think it is necessary.

Mr. BULKLEY. Do you think private capital will invest to an adequate extent?

Mr. MYRICK. I think so. I think the States may well take some of the stock in them.

Mr. BULKLEY. Well, we can invite the States to take stock in them, but we can not control whether they shall do so or not?

Mr. MYRICK. No, sir; but you can make it an object to them.

Mr. BULKLEY. How would you make it an object to them?

Mr. MYRICK. Well, you might say—I do not think it is necessary, gentlemen—but, suppose you and I are proposing to go into something. You are a little doubtful, while I have lots of confidence in this thing. Now, I will say to you, "I will put in \$1,000 if you will put in \$1,000." Well, that carries conviction, and we put the money up, and there is \$2,000. Well, if you want any Federal aid at all you must say to the States, "We will put up as much as the State will, within certain limits; we will invest in those shares to that amount."

Mr. BULKLEY. Invest in shares of the—

Mr. MYRICK (interposing). Capital stock of the land bank. Or you can say, "We will buy so many of the bonds." Something has been said—whether it has been said here or not I do not know—about whether the State shall guarantee these bonds. I do not think it is

necessary; but let me tell you what the State of Massachusetts has done—and it is a rank imposition, and we are going to have a great fight in the legislature on it one of these days:

The city of Boston and 10 other communities in that vicinity constitute the metropolitan district; there is the metropolitan water district and the metropolitan sewer, and three or four other districts. Those districts have uttered bonds to the amount of nearly \$75,000,000, secured by the obligations of the cities within the district. But those bonds are all guaranteed—principal and interest—by the State; Massachusetts has loaned its credit, in other words, for the purpose of mobilizing these bonds to the tune of \$75,000,000 to the richest part of the State. We are reading the riot act down there and saying if they can guarantee \$75,000,000 worth of bonds for the richest cities in the State, then let them guarantee \$25,000,000 or \$50,000,000 of farm bonds. And we have put it up to them to answer that argument.

Mr. Moss. Do you not think, Mr. Myrick, that that very spirit is one of the weaknesses of our State guaranties, namely, that if they guarantee the bonds of one part of the community they will be called upon to guarantee the bonds of some other part?

Mr. MYRICK. I do not approve of that.

Mr. Moss. I was pointing to one of the weaknesses of the system itself.

Mr. MYRICK. Yes; that is one of the weaknesses, and it is not necessary. That was just mentioned, Mr. Moss, as a fine illustration of what you are saying, because the State did not do that for those farmers, while they did it for the cities, and the farmers became dissatisfied. And if you do it for the farmers, the workmen in the State will say why not do it for them? And pretty soon you will be in a position like Mr. Gladstone told me about once. I saw him about the time his first home-rule bill looked as if it was going to pass. I said, "Is it going to be a success?" and he said, "Mr. Myrick, I am a little doubtful of it. I have heard that the peasants in county Cork refused to plow or plant anything this spring, because they say that Dublin is going to support them all; home rule is going to support them all; they will not have to work any more."

Mr. BULKLEY. Mr. Myrick, whether it is or whether it is not necessary for the Government to render any financial aid in order to make the institutions go is, after all, purely a matter of speculation and opinion, is it not?

Mr. MYRICK. Yes, sir.

Mr. BULKLEY. You do not know of any experience that would demonstrate it one way or the other, do you?

Mr. MYRICK. No, sir. The experience abroad on this subject, in foreign countries, in my judgment, is not worth considering; it has no relation to this problem here.

Mr. BULKLEY. Even if it were worth considering, it does not demonstrate that very clearly, does it?

Mr. MYRICK. No, sir.

Mr. HAYES. Well, it has been demonstrated that great institutions of this kind have been created in Europe without any Government aid at all.

Mr. MYRICK. Yes, sir.

Mr. HAYES. Well, that, so far, is a light, is it not?

Mr. MYRICK. And great institutions in this country have been formed without Government aid.

Mr. HAYES. But not of this kind.

Mr. MYRICK. No, sir; but—

Mr. BADOW (interposing). I would like to contradict that.

Mr. BULKLEY. Which system do you refer to, Mr. Hayes?

Mr. HAYES. For instance, the *Landschaften* system or the *Credit Foncier*.

Mr. BADOW. They have got a good many distinct—

Mr. HAYES (interposing). That is not much. It would have gone just as well without it.

Mr. MYRICK. You have had some discussion here as to the limitation in this bill of the purposes for which the money may be borrowed, and it is a fair question whether this language may not be strained against the farmer. You remember the language in the bill—

That such loans may be made for any of the following purposes:

(a) To complete the purchase of the agricultural lands mortgaged; (b) to improve and to equip such lands for agricultural purposes; and (c) to pay and discharge debts secured by mortgages or deeds of trust on said lands.

Now, "to improve and equip such lands for agricultural purposes." Of course, Mr. Moss, I think that the comptroller or the subcommittee in charge of these banks would know that that meant live stock, and a number of things. But other officials might not so interpret it.

I notice that that is covered in this way in a pending bill in the Massachusetts Legislature regarding land banks:

Such loans shall be made to members only, shall in no case exceed in amount two-thirds of the value of the property pledged as security, and shall be applied to the following purposes only:

(a) Clearing, draining, or otherwise reclaiming and permanently improving agricultural lands; (b) the production of facilities for irrigation; (c) the planting and early growing of orchards; (d) the erection of silos, cold-storage plants, greenhouses, and permanent farm buildings; (e) the erection of buildings for permanent occupation and management; (f) the discharge of existing farm mortgages; (g) such improvements of a permanent nature as in the opinion of these directors tend to develop agricultural resources and to increase the value of the security.

I think probably you would want to redraft that language there to make it somewhat broader.

Mr. SELDOMRIDGE. I want to ask you something about the small bank, the cooperative bank.

Mr. BULKLEY. Let me first ask Mr. Myrick to suggest what change he would propose on that question of the purpose for which the money is to be used. I think that is very interesting.

Mr. MYRICK. Mr. Chairman, if I were given two or three stenographers and asked to submit a rough draft of a bill covering all of these things I could do it more readily than I could just one part.

Mr. Moss. Just a word, Mr. Myrick, about the language in the bill in regard to the purpose for which the money is to be used. I need not say that I am not in sympathy with you on that matter; but is it not the fact that a general statement is broader than a particular statement?

Mr. MYRICK. Yes.

Mr. Moss. And therefore when you commence to break this up into particular statements you have to follow it with a general statement at the end of it, or else you would lose out as to a great many pur-

poses; and I do not see what you have gained by making a number of particular statements when of necessity you must follow it with a general statement, because a general statement is always broader than particular statements.

Mr. MYRICK. It would take only a few words here to make this so broad that even a man that does not know hawk from a handsaw could see what it meant.

Mr. MOSS. Yes; but you will recognize that you can easily make it so broad that it will lose its restrictive features altogether?

Mr. MYRICK. Yes.

Mr. SELDOMRIDGE. Mr. Myrick, I want to ask you something about the small banks that you said should receive deposits.

Mr. MYRICK. Yes, sir.

Mr. SELDOMRIDGE. Those deposits would be time deposits, would they, or would they be subject to demand?

Mr. MYRICK. Just like a national bank.

Mr. SELDOMRIDGE. What reserve would there be against them?

Mr. MYRICK. The same as a national bank.

Mr. SELDOMRIDGE. What reserve would there be in a small bank with \$1,000 capital?

Mr. MYRICK. I would have that, I think, just about the same as the national banks. They have got to increase their capital.

Mr. SELDOMRIDGE. Well, would you put any limit upon the number of deposits they would receive?

Mr. MYRICK. No, sir; not as long as they had the reserve. Give the small fellow relatively the same opportunity that you do the big fellow. You have run your national banks for the big people. Now let the little people have a whack at it.

Senator HOLLIS. In effect that would be to lower the minimum capital of a national bank?

Mr. MYRICK. That is all.

Mr. WOODS. Well, as I understood you a while ago, you would not give the small bank, the cooperative bank, with \$1,000 capital, the same privileges as the present national bank has?

Mr. MYRICK. No, sir. My thought has been to make it an inducement to them to put up at least \$5,000 as soon as possible. When they get it to \$5,000, they can come in in the Federal reserve system, for instance, and that is a precious thing, and then they will grow.

Mr. HAYES. Not under the present law; they could not come under the Federal reserve system with \$5,000 capital?

Mr. MYRICK. No; I say amend your law.

Senator HOLLIS. Well, if we should provide in this bill that they could do that, that would amend the law to that extent.

Mr. MYRICK. That is what I mean.

Mr. HAYES. Certainly.

Senator HOLLIS. When we get this bill through we will claim that it has got as much sanctity about it as any bill that was ever passed.

[Laughter.]

Mr. MYRICK. This measure, gentlemen, I say in all seriousness—and not as a matter of pride of opinion; sinking all my own personal views and speaking freely—if through the cooperation of all the interest affected and the joint wisdom of your committee and of Congress, you are able to come out with one statute providing for short-time and long-time credits for the producing masses of this

country, it will vie fairly in importance with the Federal reserve act; and in 20 years, if not less time, it may prove to be of vastly more importance.

Mr. BULKLEY. Have you covered the ground that you wanted to cover, Mr. Myrick?

Mr. MYRICK. Well, any further details are covered in this book here [indicating], and some criticism that I made of this bill in this brief, which I do not need to repeat, perhaps, except this, that I want to emphasize very strongly the importance of limiting the initial commission or charge that may be exacted of the borrower.

This new law on loans passed by the State of Wisconsin provides that the borrower shall pay a commission of 2 per cent. You know the practice in this country, and particularly in some States of the West, amounts to a terrible imposition on the borrower.

For instance, 7 per cent and 4 means that he shall pay interest at 7 per cent for seven years and that he shall pay a commission or bonus or charge of 4 per cent in advance each year for seven years, amounting to a bonus or commission or charge or steal of 28 per cent, and he puts on a certain mortgage to raise the wind.

Mr. HAYES. Is that in Wisconsin, you say?

Mr. MYRICK. No, sir; that happened in the State of Kansas.

Mr. HAYES. Oh, yes.

Mr. MYRICK. The State of Wisconsin limits the total charge to 2 per cent under this system of State loans of their school funds.

This matter of the Federal fiduciary agent, or representative of the Government, to check up the mortgages and collateral on the bond is a splendid thing. It takes the place of a trust company in the ordinary bond issue.

There are just one or two points more that I want to speak of. You have heard more or less about the way these local banks abroad do other business than banking. We will not do it that way; our local banks stick to banking. If the farmers in that vicinity want to start a creamery and the creamery corporation wants to borrow \$1,000 from the bank, that is all right, but it stands on its own bottom.

I think that is all.

Mr. BULKLEY. We thank you very much, Mr. Myrick, for your statement.

STATEMENT OF LEONARD G. ROBINSON, GENERAL MANAGER OF THE JEWISH AGRICULTURAL INDUSTRIAL AID SOCIETY, OF NEW YORK CITY.

Senator HOLLIS. Will you give your name, residence, and occupation?

Mr. ROBINSON. My name is Leonard G. Robinson, I am a lawyer by profession, a social worker by accident, and a farm-credits student by compulsion.

I am general manager of the Jewish Agricultural Industrial Aid Society, of New York. This society, as some of you gentlemen may know, has been engaged in the farm-mortgage business for the past 24 years. It also has the distinction of having introduced into the United States a system of cooperative agricultural credit by estab-

lishing a number of credit unions, which are the first and so far the only credit unions among the farmers on American soil.

For the sake of clarity I think I will divide my remarks into three parts.

First, the work in which our society is engaged; second, our experience, in so far as it is applicable to the country at large; and third, suggestions based upon our experience with reference to pending legislation.

Our society is one of the subsidiaries of the Baron Hirsch Foundation, which was organized in 1890 with a view to looking after the Jewish immigrants who came to the United States as a result of the reign of lawlessness that prevailed in eastern Europe in the eighties.

Among the very first activities of the Baron Hirsch Foundation was the loaning of money to those who wanted to become farmers for the purchase of farms, and so on. It carried on this work for 10 years. Finally so many other activities demanded attention that it was decided to intrust this work to an organization especially designed to look after its agricultural interests. This resulted in the organization of the Jewish Agricultural Industrial Aid Society in 1900.

You will therefore see that counting the work done by our parent organization we have been engaged in the mortgage-loan business for close to 24 years.

During the 14 years that our society has been in charge of this work we have made about 3,000 loans in 32 States and in Canada amounting to about \$2,000,000.

Senator HOLLIS. Were those both personal credits and land credits?

Mr. ROBINSON. No; solely land credits.

Senator HOLLIS. And that is what you are going to talk about, is it—land credit?

Mr. ROBINSON. Yes. I think it is best to keep the two distinct. If we do not we will be very likely to get into all kinds of trouble.

Mr. BULKLEY. Do you mean that you do not believe in combining the two functions into the same institution?

Mr. ROBINSON. No; I do not think that can be done unless it is done as we have done it. But even with us the two kinds of credit are kept separate and distinct; we have segregated them, as you might call it.

Our operations, as you can see, while not very pretentious in the point of figures, cover a much larger territory than that of all the European land-credit banks taken together. Our loans are made on a purely business basis, and they are repayable in moderate annual installments somewhat similar to the amortization idea that obtains abroad.

But here is where you will probably find our methods somewhat unusual and perhaps startling. We do not make loans on first mortgage; our loans are mainly on second mortgage, occasionally on third mortgage, rarely fourth mortgage, and what-not mortgage.

Our refusal to take first mortgages and our seemingly illogical preference for second, third, and fourth mortgages needs explanation. Our funds, it must be remembered, are limited; and if we are to make first-mortgage loans up to, say, 75 per cent and sometimes, although rarely, above the farm value, you can readily see that, with an income of something like a quarter of a million dollars a year,

our loans would average probably around \$3,000, and we could not help more than about 100 farmers.

As it is, by compelling our farmers to exhaust their more or less marketable credit by obtaining first mortgages in a local bank or from a private investor, even if they have to pay a higher rate, we hold down our average loan to something less than \$600, and in this way we help over 400 families a year. That accounts for our fondness for second and third mortgages.

This also puts us in close touch with the rural credit situation as it obtains throughout the United States. We are very often obliged to raise these first mortgages for our farmers from some local concerns. We are very often compelled to refund these mortgages—replace them by others. Occasionally we find it necessary to dicker with mortgagees, bankers, lawyers, and private investors. We must employ strategy, make concessions, and give and take.

We say to the mortgagee who demands his money, "Will you accept \$500 on account and permit your mortgage to remain another year, or two years?" and very often we get that concession.

In this way we are in close touch with hundreds of mortgagees, banks, and lawyers engaged in the mortgage business. Thus we have gained a fair knowledge of the terms of 25,000 or 30,000 mortgagees and are in possession of authentic information that could not be obtained from a mere survey that puts the average mortgagee or banker on his guard.

Besides we have applications for advice and assistance from farmers in practically every State in the Union. We have our own staff of expert investigators, and investigate not only the particular application, but the entire situation exactly as it exists in that locality. So I think we are pretty well posted on the rural-credit situation of nearly every part of the United States.

Now, what is this situation? So far as my own personal experience is concerned, I find that the situation differs very markedly in various parts of the country. In a general way you can divide the country into four parts, say, the East, where conditions are fairly tolerable; the Middle West, perhaps a little less so; the Northwest, where it is pretty bad; and the South, where it could not be any worse.

Each division has its own peculiar problems. You will find, for instance, that not only do conditions differ between States, but they differ between different localities within the State.

I have known, for instance, places where you could get a first mortgage with tolerable ease in one place and 25 miles away you could not get one for love or money. There are really no two places in the country that you could put on the same level.

To account for this is perfectly simple. It is simply a question of supply and demand. We have always been wondering as to what ailed our farm credits. In my student days I studied economics under a teacher whom all of you doubtless know, Prof. Carver. I remembered that one of the fundamental laws of economics was the law of supply and demand.

Now, to apply this law to farm credits. In one place—take Connecticut, Massachusetts, or whatever place you may choose—there may live a retired farmer probably worth several hundred thousand dollars. He was probably born and raised there. What is he going to do with his money? If he invested in Government bonds, he

would probably get something like 3 per cent interest or less. Knowing the situation in that locality he loans his money on farm mortgages and nets 5 or 6 per cent. And in this way you will find that the farmers in that particular section of the country are able to obtain mortgages with comparative ease and on fair terms.

Or, instead of a private investor, that neighborhood may have a thriving little industrial community, where the men save their money. As a result there is a savings bank or a trust company practically doing the work that the private investor does in the other place. This is provided the little town or village has no other demands upon it. In places where business is rather brisk or where real estate is booming in the town itself the advantage of having a private investor or savings bank there is nullified by these other demands. The farmer is a little bit out of the way, and why should a man who has money to invest go out of his way 10 miles in order to make a loan to the farmer when he can invest his money right next door to him and among his own friends?

In other words, that farmer, when he has to compete for credit with the business man or the promoter or real estate speculator, has a very poor show. In this way, having local credit conditions favorable does very little good to the farmer. I have known of instances in New York, New Jersey, and other States where a farmer can not get a loan on gilt-edge mortgage on any terms, although the credit conditions there could be no better.

In other commodities, including credit, for instance, what governs prices is the world market. The price of your bread here in Washington does not depend upon the wheat raised in the District of Columbia. Chicago or Liverpool fixes the price for that wheat for your bread. It is the same way with credit—business or commercial credit. The interest rate in Wall Street or Vienna or Berlin or Paris is practically the same. It is regulated by the world's market—the world's supply and demand. On the other hand, our poor farmer's credit supply is regulated by purely local conditions, conditions more or less accidental.

It is evident, therefore, that the trouble with our agricultural-credit situation is the lack of the necessary mechanism by which this law of supply and demand can be regulated the same way as the law of supply and demand is regulated in New York or any other financial center.

A great deal of loose talk has been indulged in on the subject of the country banker. I have dealt with hundreds of country banks and I have found them, on the whole, a fairly decent human lot. Of course they want their pound of flesh, as some one has said. So does the grocer and the butcher. You would not find a grocer, for instance, going out of his way and selling his groceries 5 miles away at a lower price when he can dispose of the same stuff right next door to him at a better price. The banker is not worse than the lawyer. I would like to see any lawyer take a poor case, with no prospect of a good fee and a lot of hard work thrown in, rather than a good case, with a good-sized fee attached to it. And it is the same way with everybody else.

Now, the bankers are doing precisely the same thing, and I can not see why they should be censured for not extending credit to

farmers, where they find it more convenient or more profitable to loan it to others.

Of course most country bankers know very little about their own business. But that is another story.

I will just give an illustration: Some years ago, when I took charge of our office—it was in 1907—we had about \$150,000 in loans outstanding in the Northwest, on Government homesteads. The only security we had was the notes of the farmers, chattel mortgages, and the moral obligation and written agreement of the borrowers that they would give us a real estate mortgage as soon as they obtained patent from the Government. Of course, this agreement on the part of the farmer to give a mortgage after he gets a patent is nonenforceable.

Our loans in that country around North Dakota, South Dakota, Montana, and Wyoming began to accumulate and it gave me no little concern. I sent a number of letters to our correspondents, bankers and lawyers, asking them to suggest a way of protecting our interests out there. They said: "Impossible; it can not be done."

Finally, I did get a little encouragement from one of our lawyers. He is now the Treasurer of the United States—former Gov. Burke, of North Dakota. I remembered the legal rule that if a man gave a mortgage on a piece of property he did not own, the mortgage spontaneously attached to the property as soon as he acquired title to it. I asked Gov. Burke about taking mortgages from our farmers before they got their patents and he thought it could be done.

I wrote to the General Land Office here, asking for a ruling on that point. I waited several weeks. I was getting very much discouraged and ready to run down to Washington and see what could be done, but I finally got the ruling I wanted to the effect that we could take real estate mortgages on unpatented homesteads without prejudicially affecting the interests or forfeiting the rights of the settler.

We set to work at once instructing our correspondents, our bankers, and lawyers to convert all of our unsecured loans into mortgages. They all replied substantially as follows: "You are crazy; you can not do it; it is against the law." We were actually obliged to send them copies of the ruling from the General Land Office before they would be convinced.

Now, some of those bankers had been in the business in that country for 20 years or more. Some of those lawyers were judges of some of the highest courts of their respective States, and they did not know this simple fact, which had such important bearing on their own business, until we told them of it. Since we started the ball rolling they are all taking mortgages on unpatented homesteads. If you want real authentic information about farm credits, the country banker is the last man to go to for it. As for the poor farmer, of course, he does not know where it hurts him the most. Perhaps if you asked him what he wanted most he would probably ask you for a little more seed, or something of that sort.

As far as his credit troubles are concerned, he looks upon them as a visitation from Heaven, to be taken with due Christian resignation and humility, just as he does droughts and frosts and bugs.

Of course, the poor farmer is not an economist. But most of the economists are not farmers, so honors are about even.

We therefore see that rural-credit conditions are not alike throughout the country. Generally speaking, however, the farmer can not get the long-term credit that he needs. When he gets a mortgage it is not the kind he wants; it is the hand-to-mouth kind that he must renew every once in a while. He also pays, as a rule, an exorbitant price for what he does get.

There is a rather falacious notion entertained by those advocating a new system of farm credits. They claim that it will help eliminate the tenancy evil and that it will also assist in the "back-to-the-land" movement.

Now, if we stop to think just for one moment we will see how absurd it is. The question is, do we want to finance the solvent farmer or the insolvent farmer? The same solution for both is impossible. Take the tenant on a farm worth about \$5,000, we will say. Supposing he can get a mortgage from a land bank equal to 50 per cent of its value, where is he to get the other \$2,500? It is the same trouble with the "back-to-the-land" idea. A man without money wants to buy, say, a \$3,000 farm. He can get a \$1,500 mortgage from the land bank, but he must have \$1,500 more to complete the purchase of the farm, and in addition at least \$1,000 to equip it. How will a new land bank help him?

So you see that we can not put the solvent and the insolvent in the same category.

Mr. BULKLEY. It has been suggested, Mr. Robinson, that among tenants now many of them have very little hope of ever being able to own their own land, whereas if we establish some such system as this they would be encouraged to save enough money to pay a part of the purchase price and borrow the balance.

Mr. ROBINSON. Well, as far as that is concerned, I will tell you something of my own experience: A man who has money—say any man who has \$1,500 or \$2,000—can, if he wants to, buy a farm, and if he knows how to buy the farm he can get it on his own terms. What I mean is that he can make the vendor, if the vendor is anxious to sell—and many of them are—he can make him take a purchase money mortgage almost on his own terms. We have had a great deal of experience in this line. In many cases we obtained purchase-money mortgages running for 20 years and more. I call to mind one particular instance in Connecticut where we induced a man who was anxious to sell to take a first mortgage of \$3,000, I think it was, repayable in annual installments of \$50, thus making it a 60-year mortgage. Can you beat that?

Mr. BULKLEY. That is a rather exceptional case, is it not?

Mr. ROBINSON. Yes; it is a rather exceptional case, but I can not really see how men without money can acquire a farm under a land-credit system such as is proposed in the various bills pending in Congress.

Mr. BULKLEY. Of course, that is obviously true. The question is, whether such a system would not be an encouragement to them to save up money enough—or at least a large number of them—of course there are a number of men that would not be encouraged even by that.

Mr. ROBINSON. Well, I can not see how such a system, based on a 50 per cent equity, will expedite either the "back-to-the-land" movement or make a farm owner of the tenant.

Mr. BULKLEY. What per cent do you think you would have to loan in order to be of some real help?

Mr. ROBINSON. Some countries in Europe, Russia for instance, loan as much as nine-tenths of the value of the land. In other countries, such as Sweden, they sometimes loan a tenant the full value of the farm. But of course you can not do that on a business basis. For this purpose some other agency must be devised, and that agency must be either philanthropic, just as ours is, or governmental, just as obtains in many countries of Europe—or, in a measure, cooperative, which is perhaps the more difficult. Probably the best system would be a combination of the three; a combination of the altruistic—

Mr. BULKLEY (interposing). And the governmental and the cooperative? That is the only way you can help the farmer—the landless man? Have you thought out any such system in detail?

Mr. ROBINSON. I have given this subject a great deal of thought, although I haven't put it down in writing. I have some very positive ideas on the subject, which are at the service of this committee.

Much has also been said about adopting the *Landschaften* system. To my mind, that system is absolutely impracticable for the United States.

In the first place, the *Landschaften* prevail only in countries where the feudal idea is very strong. It is based upon the feudal system, where a number of noble landowners—whose traditions are alike, whose history is alike—combine for the purpose of financing one another. You could never get so strong individualists as the American farmers are to be responsible for one another's debts without limit as to liability. Of course, we have it in our municipal affairs, where every man binds himself to the full value of his property to pay the municipal debts, and so on. We have it also in water-users' associations out West. But that is only for a common purpose, and not for an individual end.

Senator HOLLIS. For a public purpose?

Mr. ROBINSON. For a public purpose; yes; but not for an individual purpose. And the very fact that even in Germany, where the system has been in operation over 100 years, the corporate land banks are doing five times the amount of business that the *Landschaften* banks do is sufficient of itself, I think, to disprove the general adaptability of the *Landschaften*.

Senator HOLLIS. Which banks do you refer to that were doing five times the business of the *Landschaften* banks?

Mr. ROBINSON. The corporate banks.

Senator HOLLIS. You mean the joint-stock banks?

Mr. ROBINSON. Yes; the joint-stock banks. And the *Landschaft* found very little favor outside of Germany. They have it in Sweden and Hungary, but not to any very great extent. So I think we can dismiss them as not worthy of serious consideration.

Mr. PLATT. Mr. Robinson, in Sweden and those countries that you speak of, where they lend the tenants as high as 90 per cent of the value of the land, that is in the case of tenants who have lived on the same land for a great many years, perhaps, with their ancestors for generations?

Mr. ROBINSON. Yes, sir. They have been on the same soil from time immemorial.

Mr. PLATT. You would hardly advocate that for our tenants, who flit from farm to farm whenever they feel like it, would you?

Mr. ROBINSON. Of course, we are confronted with a great many more difficulties than they are over there. We can not bodily establish any European system here. We can import the system, if you choose to do that. We can import such things as the "supervisory committee," and we can import the fiduciary agent, and so on, but we can not import their spirit. We must reckon with the American spirit, American genius, in any system devised for any part of the United States. Does that answer your question?

Mr. PLATT. Yes.

Mr. ROBINSON. A great deal has also been said about our troubles in 1893, as an argument against any land-credit legislation. Now, any student of the subject knows that the conditions at that time were just right for the collapse that took place, and that Europe was by no means exempt.

The chief reason for the failure of our land banks at that time was downright crookedness. The commissioner of foreign corporations of Massachusetts, in his report in 1894, made the statement that the cause of all the trouble was that these land banks had utilized their credit as land-credit institutions for private purposes and for speculation, and that those that confined themselves to farm loans have survived the shock.

We have to-day several institutions that pulled through and live to tell the tale. One of them is paying 53 per cent a year in dividends—the Vermont Loan & Trust Co., of Grand Forks, N. Dak. The British-American Co. also makes farm loans in the Northwest, and I think they earned last year 22 per cent on their capital. The Scottish-American Co. has been paying 12 per cent. The Pearson-Taft Co.—Heaven knows what they pay; they will not tell.

Mr. BADOW. It is 7½ per cent.

Mr. ROBINSON. Do they pay that?

Mr. BADOW. Yes.

Mr. ROBINSON. I have been trying to get some information from them, and they would not let me have it. I guess they suspected me.

Mr. BADOW. It is 7½ per cent.

Mr. ROBINSON. Another company in New York, the United States Mortgage & Trust Co., which is doing a good banking business, is lending money on mortgages in 40 cities in the United States, and it is a very thriving institution.

Mr. PLATT. None of these are debenture companies, however?

Mr. ROBINSON. Yes.

Mr. PLATT. They issue debentures?

Mr. ROBINSON. Practically all of them.

Mr. BADOW. The Vermont Co. does not.

Mr. ROBINSON. Yes; the Vermont Co. had \$250,000 in debentures outstanding in 1912, I believe.

Mr. BADOW. The commissioner of banking of the State of Vermont in 1912, on the 15th of December, reported to me that there was no company organized under any Vermont charter that was issuing any debentures.

Mr. ROBINSON. I have a list showing that they did issue those debentures.

Senator HOLLIS. Well, this Vermont Co., perhaps has a charter in West Virginia?

Mr. ROBINSON. No; it is organized under the laws of Vermont.

Mr. BADOW. How about the Deming Co., of Oswego, Kans.? They have been in business since 1882.

Mr. ROBINSON. Well, those who did a straightforwad business have lived to tell the tale.

Mr. BADOW. May I interrupt to make a statement? I would not put it that way, that the cause of the panic of 1913 was downright crookedness, because that was proven in only one or two cases. There were certain conditions that all worked together and caused the panic of 1893, among which was this: That they had three bad crops in succession; and that condition would cause a panic at any time. If we should have three bad crops in succession, there are certain parts of this country where the farmers are going to leave. I have seen them move from one State into another after they had had one crop failure, and I think that condition would arise again. And then loans had been made at 60 per cent, and they were made on an inflated value, and when the land came back to its actual productive value—and that is the only value that ought to be considered, even when it comes down to appraising afterwards—the mortgage amounted to a bill of sale, and then something on top of that, it was no more a mortgage. That was how the trouble started in 1893.

Mr. PLATT. Did they not issue debentures on their poor mortgages, and sell the good mortgages directly?

Mr. BADOW. I do not think they made any good mortgages, as a matter of fact at that time. Of course, the crop failures—

Mr. PLATT (interposing). Well, only a few operated in one State, and they could not have had crop failures all over the country.

Mr. BADOW. But the real trouble started in Kansas, and, of course, Kansas has suffered for it ever since, although there is no reason for holding that State up as a bad example now; but that happened to be the State that was hit the hardest.

Mr. ROBINSON. The failure of crops was only one of the reasons for that panic. There were a great many cumulative reasons. The general conditions of the country were ripe for a panic. Not only did our inflated-mortgage companies suffer, but many banks and three-fourths of our railroad companies went into the hands of receivers. The panic was general all over the country.

Coming back to this Vermont Loan & Trust Co., it has a paid-in capital of \$60,000. Loans outstanding, \$2,000,000; debentures, \$187,000. That was their report of 1911.

As to the interest rates in those years, I have a little list which might interest you. They were compiled by Mr. Ralph Ingalls, of New York.

There were 6,770 mortgages, amounting to over \$1,500,000, on which interest was 20 per cent.

There were 211 mortgages on which the interest was 30 per cent; there were 579 mortgages on which the interest was 40 per cent; 273 mortgages on which the interest was 60 per cent; 23 mortgages on which the interest was 80 per cent; 22 mortgages on which the interest was 120 per cent; and 2 mortgages, amounting to \$700, bore the interest rate of 180 per cent. Of course, if you make a mort-

gage loan with the interest rate of 180 per cent, it does not take very long before the mortgage will be valueless.

Mr. HAYES. The man, you mean, do you not? [Laughter.]

Mr. ROBINSON. Yes; everything and everybody connected with it.

Now, about the pending legislation. I notice that you gentlemen have not asked me many questions; it would help me if you did.

Mr. BULKLEY. I would like to ask you about your own organization—about the source of your funds and the amount you have loaned out.

Mr. ROBINSON. Our funds, as I have stated, I believe, are derived from the Baron Hirsch Foundation. It was created in 1890. It is a New York corporation. We get part of our money from that corporation and the other part we get from the Jewish Colonialization Association of Paris, France, the residuary legatee of the late Baron de Hirsch.

Mr. BULKLEY. Are these endowment funds?

Mr. ROBINSON. Yes; they are endowment funds.

Mr. HAYES. How much?

Mr. ROBINSON. The Baron de Hirsch Foundation is worth something like \$2,400,000.

Mr. HAYES. I mean, how much comes to you?

Mr. ROBINSON. We get about \$150,000 a year from the two sources, and we loan out something like a quarter of a million dollars a year. To show you that, even with the granting of second and third mortgage loans, we manage to exist, I will tell you that we collected last year—1913—a total of \$125,000 from our farmers, of which \$95,000 was on the principal and \$30,000 was for interest at the rate of 4 per cent per annum.

Mr. BULKLEY. You do not invest the principal sum of the endowment in mortgages, do you?

Mr. ROBINSON. We have no control over that.

Mr. BULKLEY. You simply get the income?

Mr. ROBINSON. We simply get a portion of the income.

Mr. BULKLEY. You simply get a portion of the income; that is true in both cases, the Hirsch fund and this fund from Paris, is it?

Mr. ROBINSON. Yes; and that Paris fund is probably worth something like \$20,000,000 or \$30,000,000.

Mr. HAYES. What do you do with this \$150,000; do you loan it out?

Mr. ROBINSON. We keep on loaning it out. Last year we loaned out \$244,000.

Mr. HAYES. And every year you get the \$150,000 from the funds in addition?

Mr. ROBINSON. We keep turning it over. Our regular income is only \$150,000. We loan out a quarter of a million dollars a year in addition to our disbursements for the various educational work that we do among the farmers.

Mr. BADOW. Do you sell those mortgages?

Mr. ROBINSON. Nobody would buy them.

Mr. BADOW. You keep them yourselves, do you?

Mr. ROBINSON. Would you buy those mortgages?

Mr. BADOW. You could issue bonds against them.

Mr. ROBINSON. Would you buy such bonds?

Mr. BADOW. I personally would not, but I could get somebody else to buy them.

Mr. BULKLEY. Does your mortgage business result in a loss?

Mr. ROBINSON. Our losses to date, for the 14 years we have been in existence, amount to 2.45 per cent—less than one year's interest.

Mr. BULKLEY. Well, on that kind of a record could you not sell debentures?

Mr. ROBINSON. Well, that is not our object. We can only do as much work as our funds will permit. Of course debentures would mean obligations which we, as administrators of trust funds, could not very well incur.

Mr. BULKLEY. Well, it would mean additional funds to carry on your work, would it not?

Mr. ROBINSON. Yes; I understand that; but we do not think we ought to do that.

Mr. SELDOMRIDGE. How does the number of loans granted compare with the number applied for?

Mr. ROBINSON. We had last year applications of various kinds in the neighborhood of 1,500, and we granted over 400 loans.

Mr. SELDOMRIDGE. And, of course, the loans are granted to people of Jewish descent exclusively?

Mr. ROBINSON. Exclusively; yes.

Mr. SELDOMRIDGE. Do you have any requirements as to the amount of land an applicant must own or have title to?

Mr. ROBINSON. No; that is not material at all. Each case is considered upon its own merits. Every application is investigated by one of our expert investigators.

Mr. SELDOMRIDGE. And you loan to farmers exclusively?

Mr. ROBINSON. We loan to farmers exclusively.

Mr. SELDOMRIDGE. And do you make any selection as to the section of country?

Mr. ROBINSON. As I have said, we have made loans in 32 States in the Union; we are absolutely impartial as to territory.

Mr. SELDOMRIDGE. Are these loans largely made to immigrants—that is, people who have recently come to America—or to people who have been citizens or residents for some time?

Mr. ROBINSON. We make no distinction as to that. The majority of them are people who have been here some time and have accumulated some money.

Mr. SELDOMRIDGE. And you loan to them at 4 per cent?

Mr. ROBINSON. We loan to them at 4 per cent.

Mr. SELDOMRIDGE. And without any reference to the interest they are paying on their first mortgages. Suppose, for instance, a man had to pay 10, 12, or 15 per cent interest on his first mortgage?

Mr. ROBINSON. Regardless of the interest on his first mortgage.

Mr. SELDOMRIDGE. Do you take something from them each year for amortization?

Mr. ROBINSON. Yes; we require a nominal sum, depending very largely upon the man's other obligations. If these other obligations—if his annual overhead charges—are comparatively small, we require a payment to us; if they are large, we do not require so much.

Mr. SELDOMRIDGE. What is the largest amount that you loan to one man; do you have any limit?

Mr. ROBINSON. We have loaned as much as \$3,000 to one man; but our average loans are not quite \$600.

Mr. HAYES. Now, according to your statement, Mr. Robinson, and if your losses are not more than you say, your company or association would be a good business proposition, would it not?

Mr. ROBINSON. Except that we spend some of our money for educational—

Mr. HAYES (interposing). Yes; but I mean, eliminating that, your loan business would be a good business proposition, would it not?

Mr. ROBINSON. Well, if you are satisfied with a moderate return it would. Of course, you could not get a return of more than 4 per cent.

Mr. HAYES. Because that is all the interest you charge?

Mr. ROBINSON. That is all we charge; yes.

Mr. BULKLEY. If you would eliminate your educational work and do a strictly mortgage business, does your experience show that you would make 4 per cent on the investment?

Mr. ROBINSON. Of course, there are the running expenses to be considered.

Mr. HAYES. One-half of 1 per cent would cover those.

Mr. ROBINSON. It probably would. If we eliminated the educational work and the philanthropic work, we could make money even at 4 per cent, but that depends on what you call making money.

Mr. HAYES. Why, therefore, do you say that a thing of this kind could not be a success unless the Government got behind it, and it had the other cooperative features that you mention?

Mr. ROBINSON. Because no business man would care to go into it.

Mr. HAYES. I am not so sure about that.

Mr. ROBINSON. If you can get business men—

Mr. HAYES (interposing). To tell you the honest truth, I am thinking about going into it myself if the plan is adopted.

Mr. SELDOMRIDGE. But not on the second and third mortgage proposition.

Mr. HAYES. No; not on second and third mortgages.

Mr. ROBINSON. Well, that is what I am driving at. As far as first mortgages are concerned, that is an entirely different proposition. I was confining my remarks to second and third mortgages.

Mr. HAYES. But I am recalling to your mind your statement that this scheme could not be a success, because it must have two other elements in it; and I am asking you to state if, in case you eliminated your educational work and your philanthropic work, your association would be a good business proposition, and you say it would not. Now, I do not see how you reconcile that with the statement as to how much interest you make on the investment.

Mr. ROBINSON. I think we misunderstand each other. I thought we were talking about putting the insolvent man upon the farm; am I not right in that?

Mr. BULKLEY. That is what I thought you were discussing.

Mr. HAYES. You are speaking of the man who has no money?

Mr. ROBINSON. Yes; the man who has no money; that is what I am driving at; the man who has enough to pay down 50 per cent of the purchase price on his farm must be dealt with in a purely business way. If I did not make myself clear on that—

Mr. BULKLEY (interposing). The greater part of your borrowers are men whom you would term insolvent, are they not?

Mr. ROBINSON. The great majority of them are; yes.

Mr. BULKLEY. In passing upon an application for a loan, you consider rather the needs and the character of the applicant than the character of the security, do you not?

Mr. ROBINSON. Yes; and the prospect of his making a success of the venture.

Mr. BULKLEY. That is to say, he must have the health, for example?

Mr. ROBINSON. He must have the health; he must have the make-up. Of course, we are human and we are not infallible; but at the same time we have been in the business long enough to be able to size a man up fairly well and determine whether he is going to "make good."

Mr. PLATT. You do not require previous farm experience, do you?

Mr. ROBINSON. If we did we could not do very much, because our people generally are not farmers.

Mr. PLATT. Yes; that is correct.

Mr. BULKLEY. Among your borrowers, do they appreciate your work in putting them on their feet, and feel that it is more than an ordinary obligation to be repaid?

Mr. ROBINSON. I would say yes; they appreciate what we do in helping them. At the same time, they are human, and I suppose they are more ready, perhaps, to meet the obligations they contract on a business basis than their obligations to us, for the reason that they feel a certain proprietary interest in our money. It is a fund established especially for their benefit; and for that reason they may often pay almost everybody else before they pay us.

Mr. SELDOMRIDGE. Another thing: Are you obliged in some cases to foreclose and take possession of the property?

Mr. ROBINSON. We have foreclosed only where the farm was abandoned. We have started foreclosure proceedings in other instances, but never carried them through; they have always settled up—

Mr. SELDOMRIDGE (interposing). In order to protect your mortgage do you foreclose, or just simply charge it up to loss if the holder does not meet his obligation?

Mr. ROBINSON. We do everything possible to protect our interests, and each case, of course, is judged purely upon its own merits. If we find that it will serve our interests best to let the thing alone and give the man another chance and see if he can rehabilitate his fortunes, we do so every time.

Mr. SELDOMRIDGE. Suppose a man has met his obligation to you, and the man who holds the first mortgage comes in and demands his pound of flesh, what do you do then?

Mr. ROBINSON. Well, in that case, as I have tried to bring out, we make an effort to raise another mortgage for him; and in this way we have come face to face with the real land-credit situation in the United States, by trying to raise mortgage loans from other sources for our clients; and, as I have stated, we have been more or less in touch with something like 25,000 or 30,000 mortgages in this way.

Mr. BULKLEY. Do you attribute your low percentage of losses in any measure to the gratitude on the part of the borrowers, their friendly feelings, sense of brotherhood, or anything of that kind?

Mr. ROBINSON. No; I do not think so. If a man makes good and it is to his interest to remain on the farm, there will not be a loss. The only possible losses we have are when the man pulls—

Mr. HAYES (interposing). Gets discouraged.

Mr. ROBINSON. Yes; gets discouraged and pulls up stakes and goes away.

Mr. SELDOMRIDGE. You have never considered the matter of organizing associations for the purpose of short-term credit, have you, aside from the land loans?

Mr. ROBINSON. Yes; I think I mentioned the fact rather briefly. Yes; we have considered that. We were the first to introduce the co-operative-credit idea among farmers in the United States. We have organized 18 credit unions—a name which Mr. Myrick objects to, but which I like very much. Eight of them are in New York, 5 in New Jersey, 4 in Connecticut, and 1 in Massachusetts. The last was organized only recently and is the first farmers' credit union under the Massachusetts law. The first one was organized in 1911. These organizations had been in operation on September 30, 1913, for a period of about 13 months. They have a membership of about 600, and a total capitalization of about \$10,000. They made something like 1,500 loans among themselves, amounting to perhaps \$80,000. Their total expenses—and I would like to direct particular attention to this—amounted in 13 months to \$796.23.

Mr. HAYES. Of all of them?

Mr. ROBINSON. Yes; all of them; they do not pay their officials. The only one who gets paid is the secretary, and his pay is only nominal. During the 13 months they have accumulated a reserve fund of \$1,317.93, making something like 13½ per cent on their capitalization.

Mr. HAYES. Let me ask you a question along the line of what I was asking you a few moments ago, before we get too far away from it: The very fact that you have taken farmers who you say are insolvent, who have no money, and in lending them money have had losses of less than 2 per cent—

Mr. ROBINSON (interposing). Less than 3 per cent.

Mr. HAYES (continuing). Less than 3 per cent; do you not think that that emphasizes the proposition that I put to you a while ago, that that is a good business proposition?

Mr. ROBINSON. To make first-mortgage loans; is that your idea?

Mr. HAYES. No; even the way you have done it, it is a business proposition. I would not advocate it as a rule to follow; but I mean to say that, in spite of the handicap you have worked under, you have made it a business proposition.

Mr. PLATT. He has not counted expenses in; he is simply counting the losses in that 2.45 per cent.

Mr. HAYES. He says the expenses will probably be covered by one-half of 1 per cent.

Mr. ROBINSON. If we eliminate our philanthropic and educational features, of course the expenses would be very little, perhaps not more than 1 per cent. But, of course, I would not recommend these loans to a business man as a business proposition.

Mr. HAYES. No; but it is very interesting to me that, even on the basis on which you have been doing business, you have made it (of course at a low rate of interest) a business proposition. There is no

loss, but, say, $3\frac{1}{2}$ per cent a year, even loaning at 4 per cent; am I correct?

Mr. ROBINSON. It could be done.

Mr. HAYES. Yet there has been no governmental aid, and no cooperation at all?

Mr. ROBINSON. But it is altruistic.

Mr. HAYES. Yes; but I was eliminating that, and making it stand by itself, and it would be all right.

Mr. PLATT. These credit unions are not among farmers, are they; they are mostly in towns?

Mr. ROBINSON. Exclusively so.

Mr. HAYES. Exclusively what?

Mr. ROBINSON. Exclusively among farmers; we are not interested in town people.

Mr. PLATT. These lists that you have read from are of farm unions?

Mr. ROBINSON. Yes; farm unions—18 of them. And I would like to call your attention to one thing, the losses of these credit unions during the 13 months they have been in operation. They report no losses at all, except a loss of \$20, and that loss was caused by the failure of a national bank, the First National Bank of Norwich, Conn., their depository. [Laughter.]

So much for the credit unions.

Now, if you gentlemen would like to have my opinion on the pending legislation—and I have some very positive opinions on the subject—I shall be very glad to give it.

Mr. BULKLEY. We shall be very glad to hear you.

Mr. ROBINSON. As I understand it, there are three bills pending, two of them providing for Government loans, and one of them, the American commission's bill, providing for a system of small banks, "independent competitive banks," as the commission's report calls them, with a minimum capitalization of \$10,000, and any group of 10 men possessing \$10,000 can start a land bank.

I have given the matter of land credit a great deal of thought; I think that this bill possesses three very vulnerable points.

Mr. BULKLEY. You are speaking now of the Fletcher-Moss bill, the commission bill, are you?

Mr. ROBINSON. Yes; the Fletcher-Moss bill, the commission bill. I have jotted down a few points which I will try to bring out.

The first objection is that legislation on these lines will be ineffectual. I do not believe the law will accomplish what it is designed to accomplish. One very important point, it seems, has been overlooked, and that is the bringing of the investor and the farmer together. Until you can do that and establish a system that will command the confidence of the little man with \$10 in the savings bank or with \$5 in his stocking or with \$25 or \$50 in his building and loan association, I do not see how you will ever be able to bring the desired relief to the farmer.

Mr. HAYES. Why should this bill not do it?

Mr. ROBINSON. In the first place, can you sell the debentures of a little bank with a capitalization of \$10,000? Will they sell outside of the immediate vicinity of the issuing bank? Will you, who live in Washington, or I, who live in New York, invest in the National Land Bank of Skaneateles, N. Y.—about which we know absolutely nothing?

Mr. HAYES. Of course not.

Mr. ROBINSON. Now, that is the crucial point. Unless you devise a system that will command the confidence of the investing public you can legislate from now until the last trumpet call and our farmers will only find that they can not get enough credit to pay for their halos.

Mr. HAYES. Well, our banks in our county have \$12,000,000 in their savings banks, and they can not accept more than \$3,000 from any one man.

Mr. ROBINSON. Yes.

Mr. HAYES. Now, they are getting 4 per cent on that. If they knew that a bank had started at San Jose, Cal., and knew the people at the head of it, and knew that the Government was examining it, and that a Government official certified to their securities and was keeping track of them, what is to prevent those people from investing in that sort of securities—say at 4½ per cent interest?

Mr. ROBINSON. The governmental examination of these banks—what will it consist of?

Mr. HAYES. Well, there is a Government officer who has charge of all the securities.

Mr. BULKLEY. However that may be. Mr. Robinson, that could be arranged in the bill. Assuming that there was a good Government supervision, how would it work?

Mr. HAYES. Yes; suppose that we have got it so that there is perfect safety?

Mr. ROBINSON. I mean this—that the Government supervision proposed in the bill now is not very much; the fiduciary agent is only to see that there are a certain number of mortgages for the debentures that are outstanding.

Mr. BULKLEY. You are right about the Government supervision as the bill is drawn; it does not amount to much. But suppose we extend that and have Government appraisers?

Mr. ROBINSON. Government appraisers might help it very much.

Mr. BULKLEY. Do you think, then, the bonds would have a market?

Mr. ROBINSON. I do not think they would.

Mr. SELDOMRIDGE. Suppose there was some central association in the State, through which these bonds would be issued?

Mr. ROBINSON. I am coming to that.

Mr. HAYES. Before you go any farther I would like to say that the fiduciary agent, according to this bill, has something more to do than to see that the mortgages underly the debentures. They are in his keeping; he keeps the record of them.

Mr. ROBINSON. Well, the books and records would not run away; nobody wants them.

Mr. HAYES. But the securities are in his hands.

Mr. ROBINSON. Nobody wants the securities.

Mr. HAYES. Well, they can not be hypothecated over again; there can not be any crooked work done.

Mr. ROBINSON. As far as that is concerned, you have very little downright crookedness of that kind. It is the dishonest appraisal rather than the destruction or the doing away with the securities that would cause the trouble.

Mr. HAYES. Of course there is the danger there.

Mr. BULKLEY. According to the bill the fiduciary agent has not any responsibility as to the value of the mortgage underlying the bonds.

Mr. ROBINSON. Furthermore, it will take several years before such a system could be extended to all parts of the country.

Mr. HAYES. Would it not take several years for any system to get under way?

Mr. ROBINSON. Not quite as long as this. I will come to that.

Then the returns from a small bank are not sufficiently attractive, and many parts of the country will probably never have a land bank. Suppose here is a \$10,000 bank. They can issue debentures up to \$150,000. They are permitted to charge a premium of 1 per cent, which is \$1,500 a year. They can accept deposits of 25 per cent of their capitalization.

Mr. HAYES. Fifty per cent.

Mr. ROBINSON. All right; there is \$5,000 more on which they will have to pay interest.

Mr. HAYES. Four per cent in my country.

Mr. ROBINSON. Yes. Now, probably the total income that these banks can have is probably, on a \$10,000 bank, \$2,500 a year. Can you tell me how such banks can multiply very rapidly? Where is the profit?

Mr. HAYES. Personally I do not think the \$10,000 bank will do much business. I think the business will be done by large banks ultimately.

Mr. ROBINSON. There is another point. I think I have stated that the banks were too small to inspire confidence. In addition, their very number will create confusion and distrust. The Federal fiduciary agent is, of course, simply a figurehead. All he does is to put his name to the debenture and see that there are certain papers in the strong box; that is about the extent of his supervision.

Mr. BADOW. That amounts really to a Government guaranty. The fiduciary agent is actually the representative of the commissioner of farm-land banks.

Mr. ROBINSON. Does that guarantee them?

Mr. BADOW. It does not; but when it comes down to a legal question, although I am not a lawyer—

Mr. HAYES (interposing). There is no guarantee.

Mr. BULKLEY. No; he is not required to guarantee them.

Mr. BADOW. I understand he countersigns the bonds.

Mr. BULKLEY. He countersigns the bonds, but that means only that there is a mortgage behind them; it does not mean that the mortgage is good; it simply means there is security there; it does not mean that the security is good.

Mr. ROBINSON. I admit that some of these little banks will be able to sell their debentures; but with the competition for funds among these small banks the debentures will require a high rate of interest to make them attractive, and that means a high rate to be paid by the farmer for his loan and leaves him where he is to-day. The banks will also endeavor to make their loans for as short a term as possible in order to get as much profit as possible from renewals.

Now, what I have said covers only one of my objections that the bill will be ineffectual.

The second objection is that there are real elements of danger in a bill of this sort. The capital is so low that it is practically an invitation to irresponsible persons to go into the business. There will be a deluge of small banks of indigestible debentures, and that is sure to cause trouble. The necessary limitation of a bank's operations as to territory will increase risk in case of floods, crop failures, or other purely local happenings, and small losses will prove disastrous. It won't take much for one of these small banks to be wiped out. Let us say there is a little bank on the Mississippi and one of its little floods occurs. The farmers are wiped out and can not meet their obligations and the loss of one year's interest on its debentures will practically wipe the bank's entire capital.

Mr. BADOW. Pardon me, but as it is now, I do not think that the farmer who lives so near the Mississippi River that he is liable to be flooded can get any loan on his land at all. Something ought to be done for that man. I know our company would not loan on a piece of land that had any overflow, at the time I was connected with it. There is no chance for that man to get a loan at all, because his cattle will be drowned, as well as his land being overflowed, and so he could not get money on a chattel loan either. Something ought to be done for him.

Mr. ROBINSON. I will come to that, if you will permit me. I just want to cover the objections to the bill.

There is also danger of land speculation and fraud. What is there to prevent a number of land sharks, who own about 10,000 acres of swamp land somewhere, from forming a land bank and saying to a prospective purchaser of 40 acres, "Here is a national land bank ready to loan you \$2,000 upon that piece of land; it surely must be worth \$4,000. That bank is supervised by the Government"? In that way they can inflate land values without limit. What is there to prevent such inflation or to prevent the system from being used simply as a stalking horse for land sharks to sell their worthless land at inflated prices? I think this is really a grave source of danger.

Much emphasis is laid upon this Federal fiduciary agent. His one function, as I understand it, is to see that the debentures do not exceed the mortgages. He knows nothing of the intrinsic value of the underlying mortgages, and yet his name on the debenture will endow it, in the public mind, with a sense of safety which the security does not possess. Furthermore, default by one bank will undermine confidence in general, and the slightest shock is sure to create panic and distrust.

My third objection is that such a system is cumbersome and absolutely unnecessary. Why not make use of as much of the existing machinery as possible? There is no need of creating new banks. Multiplicity and duplication of banks is highly undesirable. The existing banks, of which we have 25,000—State and national, trust companies, savings banks, and so on—can do all that any of these little land banks can do, and much better. Those located in rural districts know land values in their vicinity; they have business dealings with the farmer in one way or another; they understand the farmer and know his needs; and most of them are experienced in the handling of mortgage loans. Why can not they do the lending?

All the new mechanism needed is to enable these lending banks or institutions to unload or "rediscount" their mortgages, just as they will soon be able to rediscount their commercial and short-term farm paper.

Mr. HAYES. Well, you evidently do not put much emphasis on the proposition that these banks which it is proposed to organize will run on long time with an amortization feature which the present banks do not give.

Mr. ROBINSON. But what is there to prevent—why should not any local bank in a rural community be willing, if it could make a profit by making 20 or 30 year amortization loans to a farmer, to make such loans when it knows that it can immediately turn this mortgage over to some one else and get cash for it, or its equivalent?

Mr. WOODS. The bank would be willing to do that for not to exceed one-quarter of 1 per cent. Nearly all the banks would.

Mr. ROBINSON. I am quite sure they would. A number of banks actually do our work for us for next to nothing. Now, if they can derive a profit without in any way interfering with their other operations, there is no reason why they should not do so. On the contrary, it will help their other operations, because they will have the good will of the farmers, thus making depositors and good customers of them. Incidentally, it will help the growth of the community, which, of course, will redound to their own benefit. Why, then, should not a bank do it?

The existing banks will be very glad to loan to the farmers on long-term amortization, under certain rules laid down by the central institution and under proper supervision. They can make the farmer a 20 or 30 year loan—I think 25 years is quite sufficient for this country—and take that mortgage to the central institution and get cash or its equivalent for it in debentures, whichever they prefer. They can also act as agents for the sale of debentures.

Mr. HAYES. I take it, then, that you would advocate the organization of one central institution and utilize the small ones as agents?

Mr. ROBINSON. Yes; either one or a limited number of central institutions.

Mr. HAYES. I mean one in each of the States.

Mr. ROBINSON. Well, if we have 12 Federal reserve banks, we can have 12 land banks, if you choose; that is a matter of detail.

Mr. HAYES. Yes; I understand your thought.

Mr. ROBINSON. One central issuing bank, or at most a limited number, is all that is needed. Such bank or banks should have a large capitalization and close Government supervision, in order to inspire confidence. I think a majority, or at least a certain number, of the board of directors of this central institution, should be appointed by the President, by and with the consent of the Senate. It will thus be able to market its debentures at a low figure and draw upon the whole civilized world for its funds. It may even not have to sell its debentures in the market, but can readily exchange them for mortgages held by insurance companies, philanthropic foundations, and other large institutions, as well as for those taken by its correspondent banks, thus preventing a deluge of undigestible debentures on the market, with the resulting financial strain.

Such bank can begin operations and extend them to every part of the country with little loss of time. It does not have to create a

large, cumbersome machinery out of nothing. The machinery is already here and waiting to be utilized.

The relief brought to our farming interests will be immediate and general. The competitive and independent system which the bill aims to bring about will be neither competitive nor independent. The only possible competition will be for funds, and their independence will be most conspicuously shown against the farmer.

The claim that it is based on American models loses force in the face of the new banking and currency law. It is strange that the system of independent, competitive banks, discarded as inadequate for our commercial and industrial needs and thrown into the scrap heap, should be recommended for adoption for our agriculture.

Mr. BULKLEY. We are very much obliged to you, Mr. Robinson, for your statement, which we have found very interesting.

Mr. HAYES. Yes; very much so.

(Thereupon, at 5.40 o'clock p. m., the subcommittee adjourned until to-morrow, Friday, March 6, 1914, at 10.30 o'clock a. m.)

FRIDAY, MARCH 6, 1914.

HOUSE OF REPRESENTATIVES,
Washington, D. C.

The subcommittee assembled in joint session at 10.30 a. m., Hon. Robert J. Bulkley presiding.

Present also Senator Hollis, Representatives Stone, Seldomridge, Moss, Platt, Woods, and Ragsdale.

STATEMENT OF HON. HARVIE JORDAN, MEMBER OF THE UNITED STATES COMMISSION ON RURAL CREDITS.

Mr. BULKLEY. State your name and occupation.

Mr. JORDAN. My name is Harvie Jordan. My principal business is that of a cotton farmer.

Mr. WOODS. Are you a member of the Southern Commercial Congress?

Mr. JORDAN. Yes, sir; I am a director of it.

Mr. Chairman and gentlemen of the committee, I want to thank you for this opportunity of presenting my views on the subject of rural credits. My discussion of the matter will necessarily be brief, because of my full and complete indorsement of the report and suggested bill for the creation of national farm-land banks, presented to your committee by the United States Commission on Rural Credits, of which I have the honor to be a member.

In discussing any phase of rural credits I shall do so entirely from the standpoint of a farmer and with no purpose save that of endeavoring to aid in the general uplift and betterment of American agriculture. I have been engaged in farming in the State of Georgia all my life. I believe that a well-defined system of farm finance in the United States should first begin with land as the basis of security.

This should supersede any plan which may hereafter be proposed for short time personal cooperative credit banks among farmers, and must necessarily precede any system for the organization of cooperative marketing societies among farmers. The land-mortgage bank first laid the foundation for the emancipation of European farmers from the usurer, and it must be the basis upon which American farmers can secure their freedom and rehabilitate American agriculture. Any impartial student of farm economics in this country must reach that conclusion. My indorsement of the suggested national farm-land bank bill submitted by the United States commission is based upon the following reasons:

First. Such bank will be under the control and supervision of the National Government, which assures confidence to the borrowers

and protection to the investors. It gives uniformity in operation and provides a system of banking, which will be profitable to the stockholders, and at the same time enable borrowers to secure loans at the lowest rates of interest and upon the most satisfactory and liberal terms of repayment of the obligation. It liquifies our landed asset which is the best security in the Nation and enables land to serve three distinct and valuable purposes, namely, a contented homestead for the owner, the true source of capitalizing the business of agriculture, and for the production of crops upon the most economic basis. These are the three fundamental principles which underlie a peaceful, happy, and progressive rural life.

Second. The establishment of such banks as proposed under the terms of the suggested bill will tend to rapidly enforce uniformity in our State laws regarding land titles and homestead exemptions.

Third. It will reduce the present high interest rates paid by American farmers who own land, because the system provides gilt-edge security in the form of bonds, issued against land mortgages, while relieving the capital of the banks, the mortgages, and the bonds from taxation.

Fourth. Such banks will be popular because the volume of business to be transacted will be practically unlimited and good profits well assured.

Fifth. Because the bill provides for the establishment of small \$10,000 cooperative farm-land banks by farmers, thus encouraging the cooperative features in finance among farmers and thereby the gradual elimination of the expensive middleman, who is a burden both upon the producer and the consumer.

At the present time farmers in the South are paying from 8 to 20 per cent discount on short-time personal loans and from 40 to 60 per cent on supplies bought on credit. I contend that no business can prosper under these conditions, and increasing tenantry and a growing distaste for farm life is the natural result.

These farm-land banks, as suggested here, are restricted both in the amount of business which they can do and the amount of loans which can be made to a borrower, and their transactions will be carefully supervised by a Federal examiner and their business is under the joint supervision of a Federal officer.

As far as possible the bill provides reasonable restrictions for the use of money borrowed, in order to prevent the misuse of a system which is intended solely to aid farmers in the development of their farming operations.

Men who are annually producing 10 billions of dollars of wealth and who would be compelled under this bill to put up as security \$2 of good securities for each dollar borrowed can be depended upon to make proper use of the funds they secure from a farm-land bank, as practically every farmer who owns land has already had more or less experience in borrowing money from banks to operate their business.

The method of amortization as applied to long-term loans on farm lands has my unqualified approval, and the right and necessity of gradually liquidating these long-term loans will be of decided advantage to a borrower.

The observations of the members of the United States commission in European countries confirm the fact that land-mortgage banks

were absolutely safe institutions, that the bonds issued were popular with investors, and that the system had established agriculture upon a sound and profitable basis.

I favor the restrictions as set out in the suggested bill with reference to deposits and the use of the farm-land bank capital for engaging in commercial banking. I favor the deposit of postal savings and other trust savings funds, State and national, in such banks under the conditions as prescribed in the bill.

Now, gentlemen, those are my views in regard to the bill. Of course I would be glad to answer any questions that you may ask me concerning it.

Senator HOLLIS. How do you feel, Mr. Jordan, about any direct loans by the Government to farmers?

Mr. JORDAN. I do not favor the lending of money direct to landowners by either our State or Federal Government. American farmers who own the lands possess the highest type of gilt-edged security in this country, and the only thing needed to convert these lands into a liquid asset most attractive to investors is to provide the right kind of governmental machinery for handling the security. The direct financing of American landowners by the Federal Government would open the doors to a system of paternalism which is obnoxious to American manhood, and our free institutions. Direct Government aid should never be encouraged or resorted to except in those cases where the individuals seeking such aid are unable by environment or condition to help themselves.

Senator HOLLIS. Can you think of any suggestions that might help the committee along the line of indirect help through banks?

Mr. JORDAN. Through the banks?

Senator HOLLIS. Yes.

Mr. JORDAN. Is your question with regard to the land-mortgage banks?

Senator HOLLIS. Yes; anything to help the system to get on its feet, until it is well established.

Mr. JORDAN. I think the fact that you would put into operation a system of national farm-land banks under the supervision of the Government will give to the system all the aid necessary to make these banks popular.

Mr. BULKLEY. Do you believe it will be desirable to coordinate these banks into State units, as has been suggested by some of our witnesses?

Mr. JORDAN. I do not believe that restriction of that kind should be placed upon the system. It would be natural to suppose that a multiplicity of those banks would not be organized in any one State, because the subscribers to the capital stock of the banks would be limited to the amount of business to be done and if too many banks were created, as a matter of course, the business of each bank would be extremely limited.

Mr. SELDOMBRIDGE. Suppose we should provide for the establishment of one large mortgage bank in one particular State with the power given to that institution to establish branches in different sections of the State; would not an institution of that kind command more confidence than a number of institutions without any coordination?

Mr. JORDAN. I think perhaps in the beginning it would, but I think even the right to establish branch banks should be limited to a certain number of counties.

Mr. BULKLEY. Do you not think a larger unit could sell bonds more economically than so many small units?

Mr. JORDAN. I do, unquestionably.

Mr. BULKLEY. That is to say, there would be less expense and also a better market for the bonds, would there not?

Mr. JORDAN. Yes; undoubtedly.

Mr. BULKLEY. Then what is your suggestion? Would you suggest that it would be desirable to make it permissive for these banks to enter into State institutions, but not compulsory?

Mr. JORDAN. Our bill provides that not only shall these land banks be organized as separate and distinct institutions, but that other State institutions may come into the system.

Mr. BULKLEY. Yes; but it does not coordinate with them in any way because it does not provide for a larger unit to issue bonds. Now, you say you think a larger unit may issue bonds more economically, and I was trying to get your idea as to whether it would be desirable to make that compulsory for the banks to enter into the larger unit or merely permissive?

Mr. JORDAN. I think that if we had one central bank in each State which would have the right to issue these bonds and market them it could be more economically done and would perhaps attract more investors than a large number of these banks limited in capital seeking the same market.

Mr. BULKLEY. Do you think that these land-mortgage bonds will compete, for instance, with New York City bonds, which are also tax exempt and sell on a basis of less than $4\frac{1}{2}$ per cent?

Mr. JORDAN. My belief is that they would sell more readily.

Mr. BULKLEY. Do you think they would bring a lower rate of interest than the New York City bonds?

Mr. JORDAN. I believe that they would, because the security offered is better and their method of repayment is more attractive. The general sentiment among the people of this country is that land is the safest investment in which money can be put.

Mr. BULKLEY. Can you justify that by experience? Did you find the bonds abroad selling on a basis of competition with municipal bonds?

Mr. JORDAN. In Europe they do. They sell in competition with the best commercial bonds.

Mr. BULKLEY. Do you not think there is some distinction between the conditions there and here? Do you not think that something depends upon these securities being well seasoned?

Mr. JORDAN. Well, perhaps so, but the fact is nevertheless true that investors in the land bonds in Europe regard them as safe as Government bonds.

Mr. BULKLEY. Yes; but land bonds in Europe are not in any sense a new thing as these land bonds we are proposing here would be. Do you think you can start right off at full speed?

Mr. JORDAN. I believe you would. You see, Mr. Chairman, land in the United States now has a stable value. A quarter of a century

ago, with the millions and millions of public lands thrown open to the public, that was not so, but that gave land more or less circulative value. But those large Government possessions have been home-steaded and we have reached a point in our agricultural development in this country where there are no more of these large domains to be thrown open to public settlement, and consequently the lands in the United States now are becoming as stable as any other well-established security.

Mr. BULKLEY. Do you think they are as stable as lands in France or Germany?

Mr. JORDAN. They are as stable; yes, sir.

Mr. WEAVER. Do you mean all over the country? Are you familiar with the conditions in a new country, for instance a country like Indian Territory and New Mexico and the southwestern country?

Mr. JORDAN. I am not familiar with those sections.

Mr. WEAVER. I think your position would probably be changed if you knew the conditions in that section of the country as well I do.

Mr. JORDAN. I am not as familiar as you are.

Senator HOLLIS. The plan is to issue dollar for dollar of bonds against the mortgages; that means that the only chinking in between the bonds and the liability to the mortgagor is the capital and surplus, if any, and reserve, possibly, of these banks. Do you think that if the business is done with reasonable care and intelligence there will not be any loss to the banks through mortgages that are not good? Do you think it is possible to contemplate that?

Mr. JORDAN. It will largely depend upon the appraisalment of the land offered for the security.

Senator HOLLIS. Do you think the appraisalment is likely to be done under the terms of this bill so that there will not be more or less bad mortgages get through?

Mr. JORDAN. I do, for this reason; because the bank which issues the bond has, in addition to the mortgage security, all of its capital and surplus.

Senator HOLLIS. Yes; I assume that. But that, of course, would only be enough to take care of one-fifteenth of the outstanding bonds under this bill, unless they accumulated a surplus; and my question is, judging from your experience, and what you learned in Europe, should you expect that all these mortgages should turn out to be worth 100 cents on the dollar?

Mr. JORDAN. I would. Now, if you only lend 50 per cent of the appraised market value of any improved lands, it appears to me that it is very much safer than the present rule of our commercial banks in lending 60 per cent of the face value of commercial paper.

Senator HOLLIS. I do not quite get what you mean by that, Col. Jordan. They loan the full value.

Mr. JORDAN. No, sir; as a rule, they do not; they only lend 60 per cent of the face value of the notes that are sent up for rediscount.

Senator HOLLIS. Oh, I see what you mean. You mean rediscount?

Mr. JORDAN. Yes.

Senator HOLLIS. That is not what is contemplated under the Federal reserve act. They are supposed to come along at their face value.

Mr. JORDAN. Then, clearly security placed upon land at 50 per cent of its value is safer than loans made upon a note with double security behind it at 100 cents on the dollar.

Senator HOLLIS. I think that is apparent.

Mr. BULKLEY. Are you not losing sight of the distinction that the mortgage note is supposed to be worth its face value, but it is supposed to have double security behind it, while a commercial note is supposed to be worth its face value, but might have one hundred times its face value?

Senator HOLLIS. I think the people generally think that a note that is secured by a land mortgage at 50 per cent of the fair appraised value would be a safer proposition than a commercial loan. Frequently a man has good commercial rating when he is hollow and goes to pieces with a shock. The land is still there. The only danger would be that it has been appraised too high.

Mr. BULKLEY. The land is more apparent than in the case of commercial paper.

Mr. JORDAN. This is true; the bankers in the South will tell you that they never lose any money on loans made to farmers, and their books will show it, as a general rule.

Senator HOLLIS. You mean mortgage loans of both kinds?

Mr. JORDAN. Mortgage loans. That is personal property and also land.

Senator HOLLIS. I asked you because I know you had studied it in a practical way and had been to Europe. I wondered if it was the belief of the commission that all of these loans would be good if the appraisal was sound.

Mr. JORDAN. I think a great deal depends upon the appraisal.

Senator HOLLIS. Yes; it must.

Mr. PLATT. You said that farm land was just as staple and valuable in this country as in Germany.

Mr. JORDAN. No; I did not say that.

Mr. PLATT. What did you say?

Mr. JORDAN. I said they were becoming stable.

Mr. PLATT. I believe the gentleman representing the grange who appeared here the other day told us that the farm he owned increased in value 125 per cent, although it was not as productive now as it was when he first bought it. How do you explain such conditions as that?

Mr. JORDAN. Well, that is true, in a general way, all over the country; the values of farm lands are increasing every year.

Mr. PLATT. Without regard to the productivity of the land? Would you not say that the value would have been at least possibly largely speculative?

Mr. JORDAN. No, sir; not any more so than the increase of value in real estate in the cities and towns.

Mr. PLATT. When you say that you give the whole thing away, because the value of the real estate in the cities and towns is very often very largely speculative.

Mr. JORDAN. Not the normal increase.

Mr. PLATT. If lands will increase in value, as they have in a great many parts of the country, more than 100 per cent, without any regard to the increased productivity, is it going to be always safe to loan 50 per cent on that land?

MR. JORDAN. I think if it continues to increase it will be very safe.

MR. PLATT. In other words, the higher you can get the land up the safer it will be to loan 50 per cent on it?

MR. JORDAN. The value of lands in this country is far behind the value in other great agricultural countries.

MR. VAN CORTLANDT. Will you permit me to make a statement?

MR. BULKLEY. Yes.

MR. VAN CORTLANDT. It seems to me that the question is whether this is the time to form these banks; whether through the increase of population and wealth of this country land values are sufficiently stable. Undoubtedly 30 or 40 years ago I do not think you could have founded these banks, because land was very unstable, owing to small population and small wealth. Now we are approximating conditions in Europe, which means the greatest stability of land. You can not use land for banking and credit if the fluctuations in value are too violent, because if you were to loan a reasonable amount on it it might decrease in value and you would lose, and the loan would not be good. But it seems to me now that, at least in a great many States, we have reached the point where land would not fluctuate too violently, so that a loan based on a reasonable appraisal of the value of the land would be quite safe.

MR. SELDOMRIDGE. Do you not think general appraisal of the land, such as would be provided for in the operation of this system, would have a tendency to stability of value of farm lands?

MR. VAN CORTLANDT. I think this system of banks would tend to stability of land values, and in that way would help that very thing. That is necessary for the banks. The two things would work in with each other. If you can make it easier to borrow, easier to mortgage land, that will tend to stabilize it, and it will bring in large amounts of money that does not come in now.

MR. SELDOMRIDGE. Are you sufficiently familiar with the value of farm lands that you would yourself state as a general proposition that you think farm land is too high in this country or too low?

MR. VAN CORTLANDT. That would depend upon the yield that you can get out of it, so that question would depend very largely on the locality.

MR. SELDOMRIDGE. There has been a general advance on all products of the farm to an amazing degree.

MR. VAN CORTLANDT. This brings up the point that I have seen in the testimony, that this may be bad because it would tend to bring about speculation in land, and tend to raise the price of land; but I do not attach any great importance to that, if through this system you can raise twice as much on the land so that on a price of \$500 an acre you can get 6 per cent or 8 or 10 per cent interest on \$200 an acre. It seems to me that a country is great according to its resources. Countries have to compete with other countries. If we can increase values in this country, giving us greater wealth and greater credit, as long as it is a sound value—and it is sound if the price which you pay will yield you a reasonable income—that then you can not say that there is any objection to land selling at \$500 an acre, or even more. For instance, I was in Oldenberg, in the northern part of Germany, and I figured out there from what they got from their

land, that that land would undoubtedly be worth about \$800 an acre. It seems to me that if I had told those people up there that it was a bad thing for their land to be worth \$800 an acre, that it would be much better to be worth \$200 an acre, they would have thought we Americans were a queer people.

Mr. PLATT. Then you base your appraisal of land upon the yield. I was wondering whether it was based on the productivity of the land.

Mr. VAN CORTLANDT. That is the sound way to base an appraisal of land, under reasonable conditions.

Mr. PLATT. Without regard to its selling value at all?

Mr. VAN CORTLANDT. The farming land; yes—of course, the selling value—of course, farm land within 10 miles of a city has a speculative value, and is influenced by conditions that are special, but naturally the proper way to appraise farming lands is what it will return under ordinary good cultivation in an ordinary year.

Mr. BULKLEY. Col. Jordan, have you prepared some more remarks?

Mr. JORDAN. I would like to say, the gentleman said that real estate values in cities are entirely speculative. I want to say that it is not at all difficult to procure loans at 50 per cent of the market value of real estate from our large insurance companies and savings banks and institutions of that kind, whereas, it is not carried on so extensively in regard to our farm lands. So it appears that the lenders of money are not worried about the speculative values of city real estate.

Mr. PLATT. Here in the city of Washington only a few months ago the Comptroller of the Currency went to work and marked down the values of certain real estate, and pretty nearly ruined a trust company which had to be gobbled up by another in order to keep itself on earth.

Mr. JORDAN. I suppose that was due to appraisalment.

Mr. PLATT. The appraisalment was all right, when it was made, apparently. I have got some town lots now that I would like to trade off for a few mules.

Mr. BULKLEY. Mr. Platt, are we not getting into a matter upon which there might be some difference of opinion which is rather afield from our subject matter?

Mr. PLATT. Possibly so.

Mr. JORDAN. Mr. Chairman, the question of short-time personal credit banks is a matter which our commission now has under investigation, and we hope to be able to draft some suggestions along that line.

Mr. BULKLEY. Can you tell us whether you are in favor of having the same institution handle both long and short term credits?

Mr. JORDAN. I can not find any institution. Mr. Chairman, where that business has ever been done. That would be entirely speculative.

Mr. WOODS. Col. Jordan, is not that done by State banks?

Mr. JORDAN. No, sir; I think not—that is, not under my observation and experience.

Mr. WOODS. All through the Mississippi Valley it is done entirely by State banks, and I think largely all through the West.

Mr. JORDAN. I do not know of any bank doing a short-time commercial business and taking short-time deposits which could afford to go into the business of making long-term loans.

Mr. WOODS. They do that entirely with a certain extent of their money in the Mississippi Valley and all through the West.

Mr. JORDAN. Perhaps so. I think that right, to a certain extent, is being given by the new currency law to national banks. I am not prepared to state positively just what would be best in regard to that matter. Undoubtedly there is absolute necessity for some system by which all cooperative farm banks can be organized for the handling of short-term personal credit. If something of that kind is not done undoubtedly this country will continue to increase in tenantry, which is a bad thing for agriculture. My idea is, that if you develop a system of small cooperative national banks with a couple of thousand dollars each, to be organized in communities of farmers for the purpose of handling short-term personal paper, that these small institutions may be in some way connected with the State farm-land bank and the national farm-land bank, located in that State, so far as it relates to the handling of loans in that particular community. But it appears to me it would be much better to connect those small banks, in the handling of their short-term paper, with the regional bank, because the regional bank is engaged in that particular line of business and not the farm-land bank, except to a limited extent. There is a very great demand in this country for those small cooperative farmers' banks. It is almost impossible for a tenant to ever become other than a tenant under our present system of finance. In the South, particularly, and more particularly in the old States, the tenant is supplied by the supply merchant at an enormous rate of interest, and it presents no hope that he can ever accumulate enough money out of his yearly earnings to purchase a farm and pay for it. As a general rule, if he breaks even at the end of the year it is the best that he can do. For that reason we find that the prize boys and girls on the farm are drifting to the towns and cities, and it is due almost entirely to the absence of some system of finance which will enable the farmer to operate his farm upon a profitable basis. I believe in that regard that there is room for Federal aid in the establishment of homesteads for people who are now operating as tenants.

Mr. BULKLEY. What would be your suggestion for carrying that out?

Mr. JORDAN. As I stated a few moments ago, it is a matter which we are now considering, and we have not arrived at any definite or positive conclusion, and for that reason I would prefer not to enter into any detailed discussion of it at this time. But undoubtedly I think that a system of that kind should be put into operation. In fact, it is a necessity. I regard it of greater necessity than the organization of farm-land banks, but I believe that the farm-land bank must come first.

Mr. BULKLEY. You do not mean that you propose to have them both taken care of in the same legislation?

Mr. JORDAN. Not if it could be operated upon a practical basis.

Mr. BULKLEY. You are not prepared to say whether or not it could be?

Mr. JORDAN. No; because I know of no system which has been operated successfully along that line, except to a very limited extent.

Mr. HAYES. Perhaps the gentleman does not understand. He refers, I take it, to two systems, but provided for in the same bill.

Mr. BULKLEY. Yes. I do not mean necessarily that the two functions should be performed by the same institution, but that the two systems might be taken care of under the same act.

Mr. JORDAN. Under the same general law.

Mr. BULKLEY. Yes.

Mr. JORDAN. Well, I think that might be done under the same general law.

Senator HOLLIS. The trouble is, Col. Jordan, that you do not know whether, from the information that you have, they can operate under the same system here until they know more about it? Is that really it?

Mr. JORDAN. I could not act intelligently on that matter until I knew what would be the purview of the small cooperative bank. If it is to be done upon the unlimited liability idea, I believe it is absolutely impossible in the South. I do not know how it might be in the Middle West.

Mr. WEAVER. Can you give us any idea when your commission will have its suggestions and report ready in regard to the credit, which it is studying now?

Mr. JORDAN. No, sir; I can not. Of course, we want to prepare it at the earliest possible date.

Mr. RAGSDALE. What is your idea there about recommending that the loans be limited to a particular State?

Mr. JORDAN. I think that is wise.

Mr. RAGSDALE. Why?

Mr. JORDAN. Because of the different laws in the different States.

Mr. RAGSDALE. But the people who are loaning the most money in this country, it seems to me, from what I know, on lands are not confining it to any one State, and the land loans that are made to-day are made by people who loan them in different States. Is that not true?

Mr. JORDAN. That may be true where the institution is loaning the money itself.

Mr. RAGSDALE. But is not this system loaning its money itself?

Mr. JORDAN. Here you are authorizing the institution to issue bonds predicated upon mortgages secured to be floated in a general market, and a bond issued by that institution should be of a general character.

Mr. RAGSDALE. But, now, do you not think, for instance, the consuming public, you might say, of these bonds will be located to a large extent in the large cities? Do you not believe that they would be more apt to purchase those bonds if they were purchased through their local bankers or people that they know, rather than through a bank in the South on southern properties?

Mr. JORDAN. Perhaps these farm-land banks will have agencies for the purpose of distributing those bonds in various investment centers.

Mr. RAGSDALE. But do you think that it would be wise to say that a municipality should sell its bonds only through banks in its State—

that they only should handle them? Has it not been shown that in the greater number of instances the municipal bonds have been purchased by banks in other States? Do you not think that the farmer in the sale of his bonds is entitled to the same competition and the same market that the municipalities are?

Mr. JORDAN. I do not think that this bill provides that shall not be done. On the contrary, I think that this bill provides that those banks can have distributing agencies.

Mr. RAGSDALE. On page 3 of this report (II. Doc. No. 679), it says:

In consequence the commission has concluded that while competitive banking should be encouraged, yet the loans of each bank should be limited to one State.

Mr. JORDAN. That is the loan. That only refers to the mortgage and has nothing whatever to do with the bond.

Mr. RAGSDALE. When you come right down to it, what is the essential difference between a bond and a mortgage?

Mr. JORDAN. It was stated in section 44—

That any national farm-land bank may, with the consent of the commissioner of farm-land banks, maintain, either within the State within which it is operating or elsewhere, sales agents or agencies for the sale of its national land-bank bonds or for trading in the same.

Mr. RAGSDALE. I realize that, that after having acquired it it may avail itself of the right of competition to sell it, but why should not the farmer be entitled to the same competition when he sells his bonds?

Mr. JORDAN. All of those bonds offered for sale are bonds which have been issued on security put up by the farmer.

Mr. RAGSDALE. That is true. Why should not outside bankers come in and buy that originally instead of going through a local bank to do it, if they want to do it?

Mr. JORDAN. I say that they could do it. Anybody could buy those bonds.

Mr. RAGSDALE. But you recommend that there should be no loans made by a bank other than in its own State.

Mr. JORDAN. That is confining its business in regard to loans within its own State. That was done because of the difference in State laws.

Mr. RAGSDALE. But is it not a very easy matter, and do you not know that the big lending institutions in America have a legal department that familiarizes itself with the laws of all the States? If they are going to consume these bonds and then sell them through the North, they would have to know the lending laws of each State, and, if they did that, why should not they come and compete with the local bankers in the purchase of those bonds?

Mr. JORDAN. I do not think that it would be wise to have these farm-land banks operating all over the United States.

Mr. RAGSDALE. Is it not a fact that where the greatest amount of these farm-land loans will be made will be in communities where there is no money?

Mr. JORDAN. That covers a pretty good section of the Nation.

Mr. RAGSDALE. Yes, sir. Well, why is it that we should shut the money centers out of coming in there and competing in the purchase of those bonds?

Mr. JORDAN. They are not shut out.

Mr. PLATT. Anybody can buy the bonds.

Mr. RAGSDALE. They can buy the bonds, but the lending banks can not lend down there.

Mr. MOSS. The interest on the mortgage is fixed by the interest on the bonds—that is, the bank can not lend on the mortgage at a rate 1 per cent, at least, higher than what it sells its own bonds. Therefore, having fixed a free competitive market for the bonds anywhere in the United States, fixing at the same time the free competitive rate upon the mortgages, in the proposed case, the interest upon the bonds limits the interest upon the mortgages.

Mr. RAGSDALE. Granted that is true, where is the wisdom of saying that a bank in New York, having thoroughly satisfied itself as to the value of the property and the conditions surrounding the loan—what is the wisdom of saying that that money center shall not loan money down in my district?

Mr. SELDOMRIDGE. There is no reason at all, but it can issue no bonds at all against it.

Mr. RAGSDALE. But the recommendation on page 3 is that each bank shall be confined to its own State in making loans.

Mr. SELDOMRIDGE. That is the bond-issuing bank. In other words, the bank of Georgia shall not be allowed to issue bonds or mortgages in South Carolina. That each State bank should be back of its bonds of its own particular State.

Mr. RAGSDALE (reading):

The land-bank bonds issued by such bank on mortgages or deeds of trust on lands in a single State, where the general provisions regarding conveyancing, registration, foreclosure, taxation, exemption, etc., are the same, would form an ideal kind of investment at home and abroad.

It would make very little difference, if I were running an institution in New York, whether the investigation I should have to make should be subject to the laws of Arizona or New Mexico or Texas, or the laws in Massachusetts. It is something that would be governed by legal interpretation, and a legal mind could pass upon the laws of one State as well as another.

Mr. MOSS. There is absolutely nothing in this bill to prohibit a bank in New York or in Chicago or in any other money center from loaning money in any State in the Union, just as they are doing to-day. The only proposition is it will simply make another agency, and this particular agency is confined in its loans to its own State. Outside persons can go up against the land bank if it cares to do any loaning.

Mr. RAGSDALE. Land banks in South Carolina, as I understand it, would be the only banks that could issue bonds in South Carolina under this recommendation.

Mr. JORDAN. That is true.

Mr. RAGSDALE. And the same thing would apply to Georgia and to other States?

Mr. JORDAN. Yes.

Mr. RAGSDALE. Where is the wisdom of that? If the security upon which it is issued is finally the land, and if the land bank in South Carolina had gone as far as it should go in making its loans or it well could go, if for any other reason its powers for making

loans should become impaired under this bill, no relief could be given by land banks in any other State, even if they wished to do so.

Mr. MOSS. It can invest its money in other land banks.

Mr. RAGSDALE. That is true; but would that not fall as an additional hardship upon some other person? The man that gets that money finally is going to pay for it.

Mr. MOSS. I can only answer that of course we merely made that suggestion to the committee and put it in here, and of course that is subject to discussion as to whether it is wise or unwise.

Mr. RAGSDALE. That is what we are debating.

Mr. MOSS. All conveyances of land titles and all property in land is held under State law. Now, those laws applicable to liens upon land in any way differ in the different States.

Mr. RAGSDALE. That is true of municipalities also.

Mr. MOSS. That being true, it seemed to the commission that the State was a natural unit under which all of the land in that State would be controlled under a common law, therefore that the bonds that are issued by any banks—not the mortgages, but the bonds—should be based upon securities held under the same law. Now, that is just a suggestion on the part of the commission, and having as a State fixed that the interest upon the mortgage is controlled by the bond, and giving the bond the widest possible competition, you have brought in competition on the mortgage. That is as far as the commission goes, and it just submits that for what it is worth.

Mr. RAGSDALE. I understand that this commission has made its recommendation after investigation, and I am trying to find out just why it made this recommendation. In other words, I differ with this recommendation.

Mr. MOSS. It made it precisely as I said, namely, that it is the law of the State that gives title and permits the conveyancing and permits the pledging of real estate as security, and it is very well known that in 48 States there are 48 systems in the matter, and it seemed to the commission that as large as our States are in themselves, in area being equal to European countries, it would be no hardship to make a State the natural unit, and it was most advantageous to do so. I think I may state that is the conclusion upon which the report was made. There is no other reason.

Mr. BULKLEY. Is that your view, Col. Jordan?

Mr. JORDAN. Yes, sir.

Mr. COULTER. I think there is one other very good reason, which is just a reason of natural economic law entirely aside from any technical legal restriction and limitation. Your institution loans money to farmers in 48 States. We will say you start an institution and lend money in 48 different States, and you have 48 types of mortgages and deeds of trust and vendors' liens, and then you issue a bunch of bonds upon this miscellaneous potpourri of instruments, and then let us say that you start selling these bonds. The investor is going to say "What is back of these bonds?" And you say "Oh, there is a piece of land up on a rocky mountain side in Colorado, there is a piece of good farm land down here in Illinois, there is some everglade land down in Florida, and there is a nice piece of cotton land down in South Carolina." and you go on through the series. He says, "Now, what if this institution gets up against it in hard

times and I want to get rid of my bonds?" You say, "Well, there are all these farm lands back of it." He says, "Do I go out there and try to foreclose under 48 different State laws, and go through all that process?"

Your bonds will sell, I venture to say, much better if they are based upon instruments of any one individual State. If the investor buys bonds in Minnesota he knows the Minnesota laws. If he buys bonds under the laws of South Carolina he knows the South Carolina laws. He knows that all mortgages back of that particular set of bonds are of one type. I believe that that is true.

Mr. BULKLEY. I suggest that Dr. Coulter has had a hearing before the committee and we would like to hear him again, and while we would like to have these discussions free and we would like to have those sitting on the side to contribute from time to time, yet I should regret getting into a long argument with Dr. Coulter at this time.

Mr. COULTER. I do not think it is necessary, but I think this is a point of importance.

Mr. RAGSDALE. After this much has gone into the record I should like to have my views go into the record.

Mr. BULKLEY. Do you not think that others have a right to present their views?

Mr. RAGSDALE. Col. Jordan has a right to express his views, but if evidence is produced here to support his theory I think the whole views ought to be brought out.

Mr. Reporter, you need not take this down.

(Informal discussion followed.)

Mr. BULKLEY. Have you anything further, Col. Jordan?

Mr. JORDAN. I have expressed myself about as fully as I care to in regard to the bill which we suggested, and as I stated further, I appreciate the absolute necessity of some system of Federal aid in the organization of small short-time personal-credit banks; still I would not like to discuss that phase of the business fully at this time, because our commission is undertaking to prepare some suggestions for your committee along that line. So I prefer to confine myself almost entirely to the discussion of these farm-land mortgage banks.

Unless there are some additional questions that the committee would like to ask me, I have nothing more to say, sir.

Mr. WOODS. Are you a member of the Southern Commercial Congress?

Mr. JORDAN. Yes, sir; I am a director of it.

Mr. WOODS. That is the American commission that you are speaking of as having this matter of short-time credit under consideration?

Mr. JORDAN. No, sir; the United States commission. I am also a member of the American commission.

STATEMENT OF GERARD M. J. BADOW, CHICAGO, ILL.

Mr. BULKLEY. Will you give your name and occupation to the stenographer?

Mr. BADOW. Gerard M. J. Badow, Chicago, Ill.; formerly vice president of the American Investment Co., of Oklahoma City, with offices at Chicago, Ill.; now a special contributor to the Chicago Evening Post, Rand McNally Bankers' Monthly, and the Investment

News, which Frank M. Huston, financial editor of the Chicago Evening Post, and Auguste C. Babize began publishing January 5, 1914. I am perhaps best known as a statistician and writer on land-credit subjects, articles of mine having, for instance, been asked for by a French bank, and having caused the archive and bureau of international land-credit statistics of Germany to authorize me to act as its correspondent for the United States. In addition to that, I act as counsellor of publicity to mortgage-loan institutions. If you permit, I will go a little further. I came to the United States in 1901 from Germany. After having taught school a little while here I made a connection with a certain financial paper which sent me out West to interview and see farm-loan men and get their views as to farm-loan conditions, etc., and incidentally get their money for advertising. I did both, with a certain degree of success, and whenever I had my man's money I usually sat down for an hour or two to discuss rural conditions in that locality. When I got back to my hotel I got my little card index out and put down everything I had heard. In that way I acquired a knowledge of local conditions in some 20 States, intrinsically local conditions, so that, for instance, in Oklahoma I had at one time facts and figures in regard to 75 per cent of the counties of the State.

Some four years ago, after just having received my check for an advertising contract, I was offered, by an Oklahoma law concern, a proposition to sell their farm loans in the East, and after some time I finally concluded to do that. This was the American Investment Co., mentioned before, one of the best concerns in the Southwest. They made me vice president of the concern, and I spent some time on the farms there and looked over the territory, got familiar with their methods of making loans, and finally went out to Chicago, opened an office, and began to sell farm loans. During the summer time I went to the New England States, called on every savings bank in the States of Vermont and New Hampshire, and some in New York, Massachusetts, Connecticut, and Rhode Island.

In spite of my success and the eagerness with which our mortgages were bought, I could not help but notice the handicaps under which a careful investor places his money in that class of security. The time it takes for him to acquire that knowledge of the standing and methods of the very best loan concerns, to enable him to place his confidence wisely. The difficulty of distributing his farm-loan investment funds, geographically, so as to scatter them over several States without having to deal with a half dozen or more concerns and employ perhaps as many lawyers and title experts.

I also noticed the difficulty of supplying investors with loans, of certain denominations, certain rates of interest demanded, which were always higher than we could offer on the class of securities we handled. In addition to that I lost several sales because I could not supply enough loans of our standard to take care of large investments, or investments that were to cover several States.

In a general way I maintain, and I am absolutely positive that the whole trouble with land credit conditions to-day—and that means the dearth of money, the rate of interest, and so on—is nothing but the consequence of an insufficiency of market for the security which the farmer offers and the reason for this insufficiency of market is not

only the form in which farm loans are usually offered, not only the variety of laws governing the business, but also the variety of other securities, with which the American market is clogged, quite in contrast to the European market, which is comparatively free from municipal and railroad and also some classes of public-utility securities.

Now, after I had been connected with that loan concern for some time, these facts became sort of oppressing to me, so much so that I eventually resigned my position and went to work with the idea of organizing a model land-credit bank in Chicago.

This bank, the Central Farm Mortgage Bond & Trust Co., was to have a paid-in capital of \$1,000,000 and a surplus of \$250,000. It was to follow existing lines of operations in the loan business, was to make use of existing banks and loan concerns as correspondents, and intended operating in as many States as its capital permitted, selling loans acquired in their original form or depositing them in trust to form the basis of central land-credit bonds, issued to net 5 per cent.

No loan concern or bank having less than 10 years' experience or less than \$50,000 actual resources was to be dealt with for the time being. All loans were to be made on a uniform application blank such as I had prepared by combining the best features of some 150 application blanks, collected from the most successful loan concerns, life insurance companies, and banks. This application blank, by the way, after its completion, was passed upon by the foremost authorities in the business and pronounced the most complete and practical blank ever devised.

Our correspondents were required to subscribe to an agreement by which any security found upon reinspection by our bank to be different in fact from statements made to us was to be cashed back at face, accrued interest, plus a penalty. Reoccurrence of such misstatement, or even unintentional error, would have meant an immediate severance of our relations with such correspondent. We provided for this contingency, although we would never have expected to use this provision. The concerns we had in view have agreed to do this of their own free will for years, but during their activity, covering periods of from 20 to 45 years, have never been called upon to redeem a loan for such reasons.

If for any reason whatsoever foreclosure proceedings became necessary, our correspondent was to take back the loan in question.

For reasons which I do not care to put into the record this bank of mine failed to materialize, although we worked day and night, spent considerable money, and had reached a point where the necessary capital seemed to be fully in sight. The principle upon which my plan was based was correct; in fact some of the leading loan concerns, insurance companies, and bankers proclaimed my plan as the most feasible and practical ever proposed. This adventure, however, cost me all I had and some more, and it was hard for me to realize that a certain wall was too strong and high for me to break through or climb over.

This is as much as I think I ought to say by way of introduction about myself and my experience.

Mr. Chairman and gentlemen of the Senate and House committees, before I now address myself to the subject before you,

permit me to thank you for the opportunity of testifying as to what I know of rural credit. I deeply appreciate the honor you do me in listening to me, but at the same time I think it but right to declare to you that I have no personal or financial advantages to gain from one form or another of a bill that may ultimately be passed. I have, I am sorry to say, nothing but an academic interest in the subject, which, if I had heeded the advice of my very practical, good wife—who, by the way, was born and brought up under the rather fixed principles of French economy—I should have dismissed it from my mind long ago, as it has not added a penny to my income for several years past.

However, I felt I had certain knowledge to which the Congress of the United States is entitled, and, although born and educated in Germany, I am now a good American and am happy to be here to-day, particularly after having noted the apparent seriousness of purpose with which you gentlemen apply yourselves to the subject.

Land-credit reform became a necessity of the future on the day when the United States Government donated the first 160 acres of land to the immigrant willing to settle thereon and make it his homestead. The average immigrant that comes to this country never had more than 20 acres of land. I might even say less than that. My father, as a preacher, had, as a part of his salary, the use of about 36 acres of land, the income from which, computed at a certain figure, made up for part of his salary. Of this 36 acres of land we rented 20. We cultivated 16, and on this 16 acres of land father supported a family of six children, kept alive three servant girls and a hired man, who acted as coachman. That means, in all, really 12 people, not to forget two meals a day supplied to every man, woman, and child who helped in the work, particularly at harvest time. That was all done with food derived from 16 acres of land. Now, in addition to that, we sold rye, oats, potatoes, etc. We butchered for ourselves about five hogs during the year, one or two steers, a calf or two, and so forth, and, excepting for certain occasions when army officers of high rank, like the Crown Prince of Germany or the Prince of Coburg-Gotha, took quarters with us during the army maneuvers, I might say we never bought a piece of meat of the town butcher.

The immigrant from Germany, Sweden, Norway, and France is used to this kind of agriculture, but why should he do it? He is working 160 acres of land, and the size of his property makes him in a year two superficial; he gets away from doing things the way they do over there. Instead of cultivating the land he begins farming it, and the result is that, in the first place, instead of raising 40 bushels of wheat per acre upon old land he raises only an average of 17 bushels on virgin land. And another consequence is that, instead of creating the economic unit of a little village—a street with houses on both sides and land laying around it—he is forced to live alone, sometimes as far as 2 or more miles away from his neighbor, and we get the isolated farmer instead of the community-loving agriculturalists.

It may seem as if that had nothing to do with the matter, but it has.

I do not intend to say very much in regard to cooperative endeavors in this country nor treat extensively cooperative or short-

time credit proposals, because there are others that are able to talk more intelligently on this subject, but I want to say this: That co-operation, to my mind, has certain prerequisites, the nonexistence of which precludes its successful existence, and one of which is the most desirable influence of the community life. I do not mean just a street and houses on both sides, but everything that goes along with it—the personal knowledge of each other's character, the opportunity of studying each other's good and bad qualities, and therefore the establishment of a pretty correct basis of personal or character credit. That is almost impossible, to my mind, under the American mode of segregated farm life.

Another point that enters into this question of cooperation would be—well, I hate to mention it, because it might start a long discussion—anyway, the most successful cooperative societies that I have ever seen in Europe are those which are formed or run by people belonging to the same church. In Italy the societies organized and run by the Roman church are unquestionably the most successful.

Now, Mr. Robinson told us yesterday about the success of the Jewish organization of which he is general manager, and in this connection let me say that I have run across some Semitic farming communities in North Dakota and that I was impressed with the spirit of cooperation existing. They were people of the same race, creed, tastes—people that knew each other when they were still subjects of the Czar—that know exactly what and what not to expect from each other—people that are willing to take the necessary risks if for no other but quasi-altruistic reasons to better each other's condition. Similar conditions exist wherever a homogeneous people has settled.

I met a farmer out in North Dakota at one time. "Ed," I said, "you are Swedish; over yonder you have a farmer that comes all the way from Russia; and across the road there lives a fellow that is Irish. You have some Germans, Danes, Italians, and Slovaks within 5 miles of you. In other words, you have here in this particular locality nearly a dozen nationalities represented. Would it be possible for you people to form a society from which you could borrow money, even in small amounts, through which you could buy supplies, sell your crops, and through which, in case of necessity, you would be willing to vouch for the other fellow's debts?" Just what Ed said I am not going to tell you, because he used rather emphatic language, but the substance of it was that he would not think of such a thing.

Senator HOLLIS. Bearing on that point, the labor unions have found it practically impossible to carry out their form of cooperation in their eastern mill cities, where there is a great diversity of race and language, and that is what has given an opening for the I. W. W., which is along the same line.

Mr. BADOW. Yes; quite so, Senator. I have made similar statements before, and some people told me that I did not know what I was talking about. Maybe I didn't. I do not claim to be an expert on anything pertaining to cooperative credit. As I mentioned before, my father—who I am happy to say is still alive—was a pastor and as such enjoyed the confidence of his flocks, and he had as many as three churches to preach in on one Sunday. During vacations I would go around with him or some other pastor and preach Raiffeisen to the peasants. It was usually on Sunday afternoons, and we would go down to the Wirtshaus, which was the only place where we could

get them easily together, and we commenced to explain the proposition of cooperation to them.

I always noticed that when we told our people of the advantages of keeping money in town, buying together, selling to the best bidder, etc., we made a great impression. They liked that idea immensely. But when we sort of mentioned that the society should stand behind its weakest members and even make good for an indebtedness that, for instance, August Lehman might not be able to liquidate when it was due, their faces changed. They know August to be a good farmer, but they also knew that he sometimes spent more money than he ought to on the more spiritual means of physical sustenance; in other words, they knew him to become just a trifle intoxicated sometimes. They perhaps know that, in spite of his ability to make a good living and in spite of his popularity, which would easily enable him to become a member of the society, he might yet forget himself to the extent of getting himself into trouble or not paying his debts when he ought. They liked well enough to have a Raiffeisen verein, but, as Mr. Potash used to say, "that vas something else again." [Laughter.] To use a little plain Chicago slang, they got "cold feet," and I did not blame them in one way. In order to create genuine cooperation, in order to give it solidarity, mutual and joint liability seems to my mind to be essential.

Mr. WEAVER. Would not the remedy for that be not to let August have the money?

Mr. BADOW. In practice August would never become a member, you know. At the same time it is a pretty ticklish job for you or anybody else to tell August, "Now, you may drink so many glasses of whatever it is and I shall still consider you sober, but if you drink more I consider you a drunkard and you can not get any credit." There is a line to be drawn that is a little bit too psychological for the average farmer to establish.

Senator HOLLIS. They would not want to insure Gustave against taking too much?

Mr. BADOW. Hardly. Now, you remember when Mr. Roosevelt appointed a committee to inquire into the causes of the prevailing cost of high living [laughter]—really I meant to say the high cost of living—it appeared as if the result of this investigation tended to prove that it cost the farmer too much to produce what he produces; that the money used in farming was too dear. With an admirable alacrity the cause of it all was found in the man that procured land-credit loans—the loan banker and broker. Knowing conditions as I did then, I did not believe this implicitly, but began in my traveling through some 20 States to gather statistics as to loan rates and productive capacity of farmers in the various localities. I came to the conclusion and maintain to-day that the cost of farming is high principally because of the miserable results the average farmer gets from a soil which surpasses that of Europe by far, no matter how much or how cheap money he might be given. Let me exemplify this statement. The last census gave the gross productive value of an acre of Illinois farm land as \$20.063. Deducting \$3.22, which is given as the average cost of production per acre (having no information to the contrary I assume that \$3.22 represents cost of labor and does not include possible interest charges on money borrowed), we obtain a net productive value of \$16.84 per acre of land

producing 17 bushels of wheat. Such land would call, under present conditions, for a loan of \$45 per acre, which would be safe and conservative. The interest charge for such loan would, at a $5\frac{1}{2}$ per cent gross rate, be \$2.47, which represents 12.32 per cent of the gross and 14.70 per cent of the net productive value of the land. If our Illinois farmer was an agriculturist in the German sense of the word instead of a farmer in the American sense of the word he would produce at least 40 bushels of wheat per acre. Minnesota and Wisconsin, by the way, did this last year. In that case a $5\frac{1}{2}$ per cent gross rate for farm-loan funds would represent only a little more than $5\frac{1}{2}$ per cent of the net productive value of his land.

I met a gentleman from Europe some three months ago, who was on the way to the Dry-Farming Congress, in Tulsa, Okla. Being rather familiar with Oklahoma, I had quite a little talk with him and told him where to go while in Oklahoma, whom to see, and referred him to some people. I suggested to him that, if he had time, he should make a round of a few States; get off the cars and look over the farms a little bit. When he came back he had done so. He had been traveling around about five weeks, which, of course, is not very much. At the same time, familiar as he was with the methods of farming, he gained quite a little knowledge as to how they are doing it here. I asked him what rate of interest the American farmer would pay in Europe if he worked his land as he does here, and the gentleman told me that if he could get any money at all he would pay at least 10 per cent. I, personally, believe that is so.

Now, while I am about it, let me say just a few words in regard to farm indebtedness.

To begin with—no matter what we believe to be the farm indebtedness of the country—let us remember that it is all the result of more or less correct guessing. Remarkable as it is, our Government is not in a position to furnish figures not subject to debate.

On page 33 of the preliminary report on "Land and Agricultural Credit in Europe," our ambassador to France asserted that the American farmer was adding to the wealth of the Nation on a borrowed capital of \$6,400,000,000, on which he paid \$510,000,000 of annual interest. The inference to be drawn was that our cost of living was higher by just that last-named sum.

For a day or so I did like the rest of the country, sat back in astonishment and believed every word of it. However, when I found no figures in the census report proving the statement, I began figuring on my own accord, and arrived at the following: In the first place, instead of $8\frac{1}{2}$ per cent, I found that gross rate on farm-mortgage loans in 25 farming States, including the high-rate States, where as much as 2 per cent a year is charged as commission, to be 7.4625 per cent, and in this connection let me say that I assumed that an average of $1\frac{1}{2}$ per cent commission was obtainable in every one of these States, including those where one is lucky to get $2\frac{1}{2}$ per cent of the face for a five-year loan; in other words, one-half per cent a year.

As to the total debt, I found that by using existing figures as to the mortgage indebtedness of farms operated by owners, by calculating tenant-worked farms to be mortgaged to the same extent as the aforementioned class (which exceeds the case in fact) and by assuming the total value of machinery and cattle on farms to be pledged for one-half of their value, I obtained the following totals:

Mortgage debt.

(a) On farms operated by owners (as per census)-----	\$1, 726, 172, 851
(b) On farms operated by tenants-----	828, 593, 388
(c) On farms operated by managers-----	204, 023, 940
	<hr/>
Total land-mortgage debt-----	2, 758, 790, 179
	<hr/>
On which I claim interest is paid amounting to-----	203, 874, 471, 717
	<hr/>
Adding to this land-mortgage debt a sum equal to 50 per cent of the value of all machinery on farms, namely-----	632, 574, 391
Likewise 50 per cent of the value of all cattle, etc-----	2, 462, 586, 805
	<hr/>
Grand total-----	5, 853, 951, 375

But not \$6,400,000,000.

I do say this, and I wish to repeat, that in calculating the gross rate of interest, I took into consideration only 25 States, including particularly those which I consider as having a general market for mortgage loans on their farm lands. The rest of them have to rely on local capital to market their mortgages. But most of these 25 States have gained the confidence of investors, in other States, and can sell them on the general market. According to figures that I have been able to get from these different States—and I have reason to think that they are correct—the average rate is not $8\frac{1}{2}$ per cent, but is 7.625 per cent. I just want to put that in as a statement.

Mr. C. W. THOMSON. That is mortgage loans?

Mr. BADOW. Farm-mortgage loans.

Mr. PLATT. That leaves out the States where you say they have not gained the confidence of the investors?

Mr. BADOW. It does not include Arizona as one, and does not include Utah, because I have never seen a loan from the State of Utah in the market anywhere. It does include New Mexico, because I have seen New Mexico loans sold in the East. It is what you might call the insurance field.

Mr. PLATT. That includes the cotton belt?

Mr. BADOW. Oh, yes; the cotton belt is part of what I call the insurance field.

Mr. BULKLEY. Can you furnish a list of the States that you have included in that estimate?

Mr. BADOW. I can not do it right now, but I will be able to send it to you when I get back to Chicago.

Mr. BULKLEY. Yes; I think we ought to have that in connection with your figures.

Mr. BADOW. I am getting off the subject, perhaps, a little, but last year for the first time I compiled a complete statement as to the investment of life insurance companies in farm mortgages and other securities. I had attempted this work before, but only last year I succeeded in obtaining practically complete data on the subject. If it is of interest to you I will give you these figures for the record.

The figures herewith given concern 172 life companies and show:

Total insurance in force-----	\$19, 245, 307, 100
Total assets admitted-----	4, 370, 575, 503
Bond investments-----	1, 858, 744, 723
Stock investments-----	97, 640, 724
City-mortgage loans-----	908, 729, 838
Farm-mortgage loans-----	572, 113, 033

We find, therefore, \$1,956,385,447 of bonds and stocks and \$1,480,842,871 of real estate loans in their possession. In a month or so I shall be able to show figures as of January 1, 1914, and I think this difference will disappear; if not almost, but pretty nearly so.

Generally speaking, therefore, bond holdings increased by 4.56 per cent; stock investments decreased by 7.31 per cent; city loans increased 8.53 per cent; and farm loans increased by 12.33 per cent. So if you choose to call bonds and stocks listed securities and real estate mortgages unlisted securities, you might say that the listed securities increased 3.98 per cent and the unlisted securities—we had better call them real estate securities—increased 10 per cent.

The reason for this increased investment in farm loans is perhaps not so much in altruistic motives as it is the earning capacity of the various securities held.

The companies that carried farm loans and no stocks in 1912 averaged 5.57 per cent of interest on the mean invested assets. The companies that carried farm loans and stock averaged 5.08, and the companies that carried no farm loans, just bonds and stocks, averaged 4.75 per cent.

I presume it will be time to get near our subject here and that is H. R. 12585. In order to give you my views on credit in general I would first like to read very quickly, if it is permitted, a little article here that I wrote some time ago for the *Rand McNally Bankers' Monthly*, free of charge, if you please, on "Organized rural credit." If the chairman permits it I will read it to you, because it will answer some general questions—which I anticipate it might also serve to cause some—but I will leave it to you if you want to have it.

Mr. BULKLEY. I think if you consider it germane to the subject you had better read it.

Mr. BADOW. I think so; yes.

Here is what I say:

ORGANIZED RURAL CREDIT.

[By Gerard M. J. Badow, correspondent from the United States to the archive and bureau of international land-credit statistics of Germany.]

No industry, no matter how well financed at the time of its incipency, can carry on its work and progress without using at one time or other credit. The larger the particular business grows the more freely it will make use of borrowed funds.

The fundamental industry of any country is that which supplies the actual necessities of life, and that means agriculture without any question.

No matter what the state of cultivation of a country the cultivator will and must borrow. Neither the condition of the country nor the nature of land tenures nor the relative position of agriculture can affect that fact. If the country is undeveloped, the early settler hindered by defective methods and uncertain climatic conditions must borrow to overcome the handicaps as soon as possible; if the country is well cultivated, populous, the farmer finds himself forced to do intensive farming, for which his own capital is seldom sufficient.

But it must be remembered that in agriculture credit, particularly when the borrower is proprietor, represents almost entirely, not only an actual business transaction, but a product real or potential; an advance to provide for the growth of crop, an advance upon a crop already existing or growing, or an advance upon the land and stock of the farmer, which has a more or less fixed market value. Land credit is, therefore, not only a safe transaction for the lender, for the world must eat, but it is safe in its essence for the borrower, since it is merely the anticipation of a crop or a series of crops, actual or potential, or it is a temporary and partial mobilization of capital possessed by the farmer in his land, stock, etc.

FARMERS MUST BORROW.

In spite of that fact agricultural credit is generally not as easily obtained, and oftentimes not under as favorable terms as commercial credit. It is true that the farmer of Iowa, Illinois, and favored sections of other States is able to obtain credit on terms as favorable as his urban brother, but this rule does not hold true in the majority of States, particularly in sections of the far West and the South.

But since credit is essential to agriculture, it is equally essential that credit be cheap, and before all, safe. Not merely cheap and facile credit, not merely money lent on easy terms without regard to the use made of the money, but credit facilities, safeguarded and uniform, are the fundamental necessities of the present time. But such credit should not be credit of the individual agriculturist, for individual credit means individual and often ignorant ideas of the use of credit; credit in association guided and influenced as to its use by the older and more experienced member of such association; credit which not only helps over embarrassment, but develops the character of the borrower and of the Nation that seems to-day to be the restorative, educative, and even disciplinary remedy of rural credit ills.

RECOGNIZES THRIFT AS BASIS OF ALL CREDIT.

Credit which takes care of the lender as well as the borrower should be promoted. Thrift and prudent conservation, not charity or State subsidies, are and should in this country be and remain the basis of rural credit. Such credit must be cheap and facile, in so far as it must ever be on hand, but it must be a credit, which may only be so obtainable, that the act of obtaining it will educate, guide, and even discipline the borrower, and it should be granted only to those that have learned to think, plan, and save. The method of providing such credit should teach the much-needed lesson of self and mutual help.

While studying rural credit conditions and proposing schemes for their betterment, present-day reformers should always bear in mind that it is not the introduction of cheap capital merely or of banking credit, but of some system, which will ultimately and readily develop essential national qualities which are needed in this country of a thousand nationalities.

A credit system, where the ignorant may be taught business principles, the reckless learn heedfulness, thrift, and prudence, the idle and intemperate return to industry and sobriety, where the prudent, sober, the skillful, the well-to-do unite with the poorer and weaker member in an association of mutual help and self-development, not merely rural banks seems to be the demand of the present day.

COUNSELS STIMULATION OF THRIFT.

Since all capital is derived from savings, and all credit should be based on thrift and prudence, stimulation of thrift and prudence becomes a necessary antecedent to the grant of credit. It is emphatically not the mere outpouring of cheap capital that the farmer of this country needs, not the mere grant of cheap and facile credit—as long as many farmers are totally unprepared for such boon—rather a promotion of facilities as well as tendency for saving, encouragement of his individual bank deposits, inculcation of the true objects, uses, and limits of credit, or in other words, the development of the essential national virtues of thrift, foresight, business sense, and self-help through institutions organized for that purpose.

While the necessity for cheapening and organizing credit is fully recognized to-day, it must never be forgotten that it was not the mere change in the credit machinery that made the radical changes in the condition of the European farmer possible. The farmer's awakening to his moral responsibilities was, and is to-day one of the prime objects of that great cooperative system of rural banking founded by Raiffeisen.

The principal factor which made cooperative systems successful in Europe was by no means the superiority of any law over those of any other country, but rather the proximity of borrower and lender and the homogeneity of the people, extending even to a uniformity of religious beliefs in a given section.

Proximity of borrower and lender is undoubtedly the principal condition under which credit becomes possible and available; without proximity credit

becomes practically impossible for the small people. For proximity involves knowledge, mutual confidence, ease and cheapness of inspection of securities offered. Because of distance some of our Western States find it most difficult to gain the confidence of the Eastern investor to the extent of diverting some of his funds into their farm securities.

WHERE UNITED STATES DIFFERS FROM EUROPE.

Another fact worthy of consideration, particularly by those proposing reforms for the farmers' benefit on the cooperative plan, is the lack of a homogeneous people which confronts the legislator of this country. America has truly been called the great melting pot of nations, but sight must not be lost of the equally true fact that no finished alloy has as yet been obtained; that we are still melting, so to speak.

This becomes particularly evident in any of our more recently settled States of the West. The picture of the President of the United States may be found in many a farmer's home, but just as often may be seen the picture of some foreign sovereign along side of that of our Chief Executive.

And even if the ties of the old country are not as strong as that any more, a distinct difference will be found in the point of view of the farmer of Anglo-Saxon parentage and him of Norman, Celtic, or Latin origin.

Again, the political unit of European countries is the village, from twenty to several hundred houses built along one or more streets, lying as much as possible within the center of a certain acreage of land. Everybody knows everybody else, knew father and perhaps grandfather, the success and failure of every inhabitant, his desirable and less desirable qualities—in short, a large family, where everybody knows his neighbors.

The American system of farming on large areas has as yet not produced anything like a village of the type prevailing in Europe. The county seat, generally speaking, forms the only point of more general contact between the cultivators of a given area.

Proximity, the fundamental condition of credit, therefore, does not as yet exist to any extent, not even among borrowers, still less among borrowers and lenders, in spite of telephone and steam roads.

In attempting, therefore, to organize rural credit in America, the main requisite seems to be a thorough knowledge of agricultural conditions of the country, not from printed facts and data so much as particularly from actual living in the country, knowing from own experience the facts attending the request or grant of a loan on mortgage or other security.

A second requisite one might think desirable in the man proposing legislation along these lines would be a thorough knowledge of conditions preceding the establishment of rural-credit organizations in Germany and other countries and a practical knowledge of the manner in which such organization has been put into operation and continues to be operated.

And if such man could be found he should be wise enough to recognize that none of the European systems can possibly be used in their original form to apply to American conditions.

BEYOND HUMAN POWER TO CONCEIVE SET SCHEME.

But as a matter of fact it is beyond the power of any brain, however fertile, of any man, however well informed, to conceive in advance any set system or method of rural-credit banking, least of all in a country of so vastly differing conditions, climatic and others, as the United States.

It is true, our country has the great advantage of not having to overcome governmental obstinacy and antagonism, such as Raiffeisen as well as Schultze-Delitzsch had to encounter during the early days of their struggles. On the contrary, Federal favor seems to be assured toward and scheme tending to change conditions for the better.

But it is worthy of consideration that the great popular movements in thrift, self and mutual help, emanated from individuals, not from authority as usually understood. Schultze-Delitzsch labored, and the German popular urban banks came into being. Raiffeisen toiled through weary years, and thousands call him to-day Father Raiffeisen. Luzzati and Wollenborg, of Italy, have equal claims as pioneers. Savings banks and building loan societies of the United States are the outcome of individual efforts, the law exercising but regulating authority and powers of supervision.

The success of these undertakings arose only from long-continued, practical efforts of individuals, adapting a principle to conditions, not carrying out a set premeditated scheme, and so it will be in this country. Men who, while well informed as to the details of every system yet tried, can work among and with the people, will some day work out the one system of all others, which will meet the requirements of the American farmer, because such men, while embodying into their plans all the good of European systems, will be able to evolve a farmers' system of cooperative credit rather than a system by fiat of law.

WHEN GOVERNMENTS SHOULD STEP IN.

The moment would then come for the Government to act by removing any obstacle which might stand in the way of facile and safe credit for the farmer and small landowner, whether they be the obstacles of ignorance, improvidence, or fiscal, legal, or executive obstacles; to impose all necessary restrictions upon recklessness, fraud, speculation, incapacity, or negligence; to lay down the principles which should guide rural credit by means of special laws.

Such has been the course of development of organized rural credit in every European country; such would be the logical course of development in this country.

This touches a number of points in which you may possibly differ with me, so if there is any question I would rather answer it now and come to the land-credit question in particular.

Mr. BULKLEY. I think you may proceed, Mr. Badow.

Mr. PLATT. You do not necessarily mean to imply that because the system in Europe was organized cheaply by individual effort that individual effort is necessary, or do you think that individual effort could succeed in any substantial way?

Mr. BADOW. To be entirely frank with you and without wanting to appear antagonistic to any plan you might finally work out and put into execution, a cooperative system of short-time credit or marketing must, to my mind, come from the man that is going to make use of it—from the farmer himself. But there is, of course, to be considered that the American farmer is so very self-centered, that he very often does not give a continental what the other fellow does, just so long as he gets along, that he would perhaps very strenuously object to having any kind of supervision exercised by his neighbor: that he hates to be considered no better than his neighbor and wants to get ahead of him. Therefore, I think that the first step in that direction, perhaps, might be taken by the Government in the form of advice, urging establishment of cooperative societies, because I do not think that in the next 50 years the farmer will of himself feel the necessity of societies as they exist in Europe. There is no question in my mind that the advent of closer cooperation of our food producers is most desirable; our dealers have it to a more desirable degree. We consumers would welcome cooperation as a wonderful thing to have, and I think that Congress is considerably ahead of the times, and shows a very fine—well, I will call it “economical,” foresight, although I presume that there are other sights discernible—in bringing this matter before the farmer, although the farmer has as yet really not come to you and brought it before you. I have not heard of farmers talking as to the necessity of starting cooperative societies by themselves. I have not heard that. I have heard them express their opinion as to what they would do in case the Government organized some for them. You know, generally speaking, we often very much prefer being invited to dinner than inviting others to come to our home, for the simple, selfish reason

that it causes our wives more work than if they had only to dress and go to the invitor's house. The farmer is perfectly willing to let you do the work for him; he is used to it. When you can prove the thing to be successful, he will reckon he might come in, too.

Mr. PLATT. Would you not think that such institutions as the local grangers of the Northern and Eastern States would be sufficiently close to each other to form a cooperative bank?

Mr. BADOW. Yes; I have great respect for the grangers in many ways. I think they are successful in a certain way. But I think you will find that these grangers exist in local cities which are generally inhabited by people of—well, the same stock, I might say.

Mr. PLATT. I think that is true to a great degree.

Mr. BADOW. I am not familiar enough to say in what States they are particularly successful, but you have them in the East, and they are people of the same type. I presume, for instance, in Vermont it would not take any time at all. If they only tried, the Vermonters might, for instance, organize—well, call it some kind of a cooperative cattle society, the cattle to belong to the community according to shares held. Vermont has got thousands of acres of beautiful pasture there that should be covered with pretty black-and-white Holsteins or other cows—very many more than one sees there now. You can not cultivate that land very well, because there would be danger of a team falling off backward if it tried to take a plow up there. Vermont cows might be able to develop the ability of climbing about as well as those of Switzerland, not to forget goats. Vermont would become even more of a dairy State than it is now. The farmers of Vermont, I think, are well enough knitted together to form such a society.

Mr. WOODS. In referring to the cooperative societies, as you have done several times, do you refer to the unlimited liability of the individual or the limited liability?

Mr. BADOW. Well, I do not refer to any particular kind. Whether you finally decide upon limited or unlimited liability among cooperative societies remains unimportant. It does not matter very much in this country, I think. A limited liability, like the double liability of banks, would be just as safe as an unlimited liability, because a man that would become a member of such a society could never possibly be in as abject a condition of living as those poor devils among whom Father Raiffeisen lived, where the question of two or three potatoes more in the house was a vital question. That is what really started the Raiffeisen—the actual want of necessities—and at that time everybody was perfectly willing to do anything to get out from under the yoke of such pitiful poverty. You know that you will agree to hard terms when you are in dire need. After they had lived under that promise for some time—and the practice had been proven successful—others made the same promise, although they may not have been as hard, because they saw how fine it worked.

Now, let me approach the subject of land-mortgage credit legislation, as proposed under the Fletcher-Moss bill. At the time that the first so-called Fletcher bill, S. 2909, was introduced I went to the trouble of writing to a great number of people that I knew, asking their opinion about it, although I did not expect to appear here. After I just got through with it out came the new bill, so I did not have the time to start all over again. I thought once

was enough, you know. I have, therefore, just made a few notes as I read it over and over, and, as a matter of fact, I really must say that I read it five times before I ever understood this bill. I presume that is nothing but a proof of my own density.

Mr. BULKLEY. Which bill are you referring to now?

Mr. BADOW. I am referring to the Fletcher-Moss bill; I do not know its Senate number. I have a copy only of H. R. 12585. I presume it is another number in the Senate.

Let me preface my remarks by saying something aside: I do not see why in the world we should have a farm-land bank bill instead of a simple land-credit bill. By that I mean this: I do not see why this august body here in Washington is so particularly anxious about the farmer and his needs in regard to long-time or any other kind of credit, when the actual facts and statistics prove that the small wage earner in a town perfectly honest and hard working has the hardest time possible to acquire a home, and who is far worse off than the farmer's hired man trying to become a landowner. I am referring to actual statistics that the United States Government has compiled.

The statistics showed that in 1912 real estate owners in urban communities paid in 33 cases out of 100 more for purchase money, and in only 10 cases less for purchase money than farmers of the same community. Likewise they paid in 21 cases more for short-term loans and in only 11 cases less than the farm loans. I do not think that the farmer is getting his money at a higher rate than the city dweller, and I absolutely believe that it is far easier for a sober, industrious farm hand who knows his business, who gets up when he is supposed to get up, and does not sit on the haystack with a pipe or cigarette in his mouth, to acquire a farm than for the most industrious wage earner in a big city like Chicago or any other town to acquire a home. Why, therefore, the farmer has been singled out as the object of particular care and benevolent consideration by Congress, I do not see.

Mr. WEAVER. You are not talking now about people that borrow money on a commercial basis in the cities?

Mr. BADOW. I am speaking of land credits now.

Mr. WEAVER. You are comparing one class of working people with another class.

Mr. BADOW. Yes.

Mr. WEAVER. As I understand, you were talking about the wage earners in the cities, as compared with the wage earners on the farm, and their basis of credit?

Mr. BADOW. Their ability of obtaining money by a mortgage transaction. I claim that it is easier for a farmer, and he gets better rates. I maintained that for years, and the statistics compiled, I think, by Mr. Holmes, of the United States Department of Agriculture, prove my contention.

Mr. WEAVER. You would not claim that the farmers get money as cheaply as the men that are engaged in the different avenues of commerce: for instance, the merchants?

Mr. BADOW. The farmer of equal caliber; yes. I think that the farmer gets his money as easily and as cheap as the commercial man; you will find 8 per cent country is 8 per cent country for everybody. Bankers have, commercially speaking, no preference,

for 8 per cent looks alike to them no matter who pays it, as long as they really get it. If they have a preference it will usually be in favor of the former, excepting national banks, who had to convey a farm loan, so that the examiner did not find it until now they can take them out and carry them on the books.

Mr. WEAVER. Are you speaking of the United States generally?

Mr. BADOW. Yes, I do. If I was a farmer in Iowa to-day, and I wanted to borrow \$5,000 or \$10,000, and if I was willing to pay, say, 5½ straight, and one-half of 1 per cent commission, I know that I could get that loan just as quickly as I signed the papers and got my abstract of title. There is no question about that, because the Iowa farmer's credit is fully established.

Mr. WEAVER. It is not the farmer's credit. It is the land credit.

Mr. BADOW. I think it is as much the farmer's credit as that of the land. I maintain that the kind of farming done in a locality, the type of farmers, has something to do with rates. Of course, proximity to money centers is one of the deciding factors in rates to-day.

Mr. BULKLEY. The hour for adjournment has arrived now, and we will stand adjourned until 2.30 this afternoon.

(Whereupon, at 1 o'clock p. m., the subcommittee adjourned until 2.30 o'clock p. m.)

AFTER RECESS.

The subcommittee reassembled at 2 o'clock p. m.

Mr. BULKLEY. You may proceed, Mr. Badow.

STATEMENT OF MR. GERARD M. J. BADOW—Continued.

Mr. BADOW. If you will permit me, Mr. Chairman, I will, as shortly as I possibly can, touch upon the strong and weak points as I see them in the bill which is known under the name of the Fletcher-Moss bill.

The strongest point of the bill, in my opinion, lies in section 34, whereby farm-land bank bonds are made legal investments for postal deposits, for trust funds, and estates under the supervision of the Federal courts. This provision will elevate the statute of land-mortgage securities where they will rank next to Government bonds. This is, of course, a position which I personally think well secured farm-mortgage bonds are entitled to, because, after all, food-producing mother earth is of more importance, in the economic scheme of life, than Government itself. As a matter of fact, there would be no people to be governed unless it had land to obtain food.

But if by legislating for the farmer you standardize his security, why should you not do likewise for the owner of real estate in our towns? He also has land as his security for a loan. A well-made real-estate loan is a safe investment, no matter if that real estate lies in the city or on the farm. If you decide to exercise supervision over the concerns issuing farm-mortgage bonds, by all means do not pass by those concerns pursuing a city-loan business. Our large cities and millions of investors would be more than grateful to you.

Another strong point lies in section 18, whereby land banks organized are exempt from Federal, State, and local taxation as they concern their capital, surplus, and profits derived therefrom. Now,

it has been a question in my mind if that is constitutional. I know this particular provision is simply copied from the Federal reserve act, I think section 7. However the Federal reserve act provision includes only reserve banks, not all member banks, and therefore does not impair the tax revenue of States, inasmuch as the capital of a reserve bank is composed of about 6 per cent of the already taxed capital of member banks. The capital and surplus of farm-land banks as here proposed can not be regarded in the same light, and the question arises what will townships maintaining a local bank—what will States say to this provision?

You are taking a considerable item out of their tax revenue. It is true the owners of stock in said bank, if honest, will pay Federal income and personal property tax on their holdings; but so do the honest possessors of stock in any corporation, and corporations nevertheless pay their corporation tax. Supposing you had to consider the question of taking over our telegraph and telephone lines, and before that happens perhaps run our railroads? If you exempt one class of capital from taxation you will justly be asked to exempt others, and before the States know it they will have nothing to tax but real estate. If that should ever happen, we would, of course, have the most disastrous slump in real estate values, as everybody would want to sell their land. This is, however, a consideration for lawyers, and I am not a lawyer.

Let me now come to the weak points in this bill. Among the objections which must be raised, in all fairness to the originator of the bill, as well as those that are to benefit by the same, there is one which is perhaps the least thought of. I mentioned it before. Why a land-credit reform bill—and the country needs that more than a rural-credit reform bill—should concern itself exclusively with the farmer, when statistics of the United States Government show as great a need for credit facilities as town-lot owners, is not clear.

Had the clamor of the farmer been so overwhelming as to necessitate speedy relief it could be better understood; but this has not been the case. Instead of the farmers of the country beseeching us to help, the country is calling to the farmers to improve their methods of farming.

The question might also be raised why Federal supervision of land-mortgage bond issues should be exercised only in regard to farm-land bank bonds instead of being extended to city mortgage bonds as well. Our large cities would no doubt benefit greatly thereby.

Of this I have spoken before, and I positively affirm that lands of the latter class are in dire need of a regulating supervision.

Senator HOLLIS. Tell us of some of the ills that they are subject to.

Mr. BADOW. Well, you take cities like Chicago and New York, and even here, Washington, or any of the larger cities. Bond issues appear in the market based on values which are, to say the least, not the actual and productive values of the properties mortgaged. Oftentimes they are not even first mortgage, but only leasehold bonds, and represent a margin of security which the investor in farm loans would not consider a minute. Still farm land is the basis of a possible city's method of appraisalment. The National Life of Vermont, when making a city loan, follows the policy of loaning 50 per cent of a brick building, demanding a repayment of 5 per cent a year of the original loan, and, as they term it, bury the lot, forget all about it,

pay no attention to its value. That, according to my idea, is the most conservative manner of making a city loan. But I do not know of any other concern following any such policy.

Senator HOLLIS. What I was getting at was this, whether there are any special rake-offs from the city borrower on real estate in the way of commissions or other extortions that did not apply to farm borrowers.

Mr. BADOW. Any special rake-offs?

Senator HOLLIS. Yes.

Mr. BADOW. No; I would not say that. I will say that I think the city borrower has to pay about the same kind of commissions, or rake-offs, as you call them, as the farm-land borrowers. I am quite sure.

Now I come to the weakest point in your bill here. It is the provision permitting a \$10,000 concern to issue bonds against its mortgages. That I think would lead to a chaotic condition of the market. I do not want to howl calamity now, but from what I know of the land-mortgage business itself, bonds of such concerns could not be sold. I would not buy them under any consideration and would strongly advise against their purchase. The only concerns that are to-day able to sell their mortgages or bonds, farm or city, wherever they decide to sell them, are those which are able to point investors to an unblemished record of many years and a strong moral and financial standing. I do not think you could possibly make a \$10,000 concern strong enough to command confidence beyond the limits of its own county in less than 10 years' time, unless the Government agrees to guarantee any bond issued by the same at par at any time. That would be more than any European Government has ever done.

Another weak point lies in the manner in which this bill treats existing loan concerns. The loan men of the West have done this country a greater service than anyone will ever recognize. Men like Robert Deming, of Oswego, Kans., stood by the side of the farmers as well as investors. He went around to every uncle, cousin, brother, and sister and borrowed the interest money rather than foreclose the borrower or disappoint the lenders of the East. That is history; and men of such unusual degree of integrity do not deserve to be told "it is liable to be healthier for you to come under this law but leave what you acquired outside. Operate in one State only, or, at any rate, issue bonds only on mortgages in your own State; in other words, cut your business in one-half, one-fifth, year in, 16 to 1." Forego the result of from 20 to 50 years of labor.

There is the Pearsons-Taft Land Credit Co., of Chicago—we are all proud of their record—in business since 1848; not a dollar lost to investors; issuing farm-land mortgage bonds according to the European system for 20 years. The name of this concern is a household word. They have something over \$4,000,000 of bonds outstanding; have loaned close to a hundred million dollars in all. This concern is doing a successful business in 16 States. The law does not permit the establishment of branch banks. How, then, is a concern like this going to continue to do its business if it wants to come under the law? It simply can't come under the law, no matter how much it might like to.

Senator HOLLIS. Have you an idea that any considerable number of the present farm-loan banking houses—if you call them that—would come in under this law? I supposed that this was meant to cover a field that they did not cover.

Mr. BADOW. Well, it covers the field of land mortgages, and it is bound to concern every man that is in that line of business.

There are, of course, not many concerns doing what I might call an interstate business. I could mention the Pearsons-Taft Land Credit Co., of Chicago, the dean of land-mortgage banks in America; the Deming Investment Co., of Oswego, Kans.; the American Investment Co., of Oklahoma; the Peters Trust Co., of Omaha; E. J. Lander & Co., of Grand Forks; and perhaps half a dozen more if I had my files here. Most loan concerns operate in a number of counties only. A number of Kansas concerns make loans in Kansas and Oklahoma, and commercial banks like the Merchants' Loan and Trust Co. and the People's Trust and Savings Bank, of Chicago, operate farm-loan departments in conjunction with their banking business, which purchase loans in more than one State.

I hardly think that there are more than 30 of such concerns, but those I have mentioned are, in my opinion, the best managed, financially strongest, and morally most reliable concerns we have.

I omit intentionally a number of foreign, particularly English, concerns, because of the fact that their bonds are not sold in this country, at least not as far as I know.

Mr. WEAVER. Do you not think that the corporations and other private capitalists engaged in loaning money now on land and who are doing a profitable business would oppose a system which would result in reducing the rate of interest, and the creation of a new system that would interfere with their business? Do you not think that naturally, simply on a business and selfish basis, they would oppose this proposition for creating this new system?

Mr. BADOW. No. It is immaterial to private capital engaged in the loan business for gain what rate they are permitted to charge. If the establishment of this system will make the investor buy low-rate bonds, farmers will receive low-rate money from the broker. Loan concerns would make 3 per cent loans to the farmer if they knew where to get 2 per cent money.

Now, the Pierson-Staff Land Credit Co., I think, operates on a basis of much less than 1 per cent basis.

Mr. BULKLEY. How long have they been doing that?

Mr. BADOW. Since 1848.

Mr. BULKLEY. Have they been operating at that small margin all the time?

Mr. BADOW. That is what they are doing to-day, but I do not think they have been able to do it all the time; no, sir.

Mr. BULKLEY. How long have they been operating below 1 per cent?

Mr. BADOW. You would have to get that information from them; I could not tell you.

Senator HOLLIS. Is that concern partly philanthropic?

Mr. BADOW. Absolutely not.

Senator HOLLIS. It is plain business?

Mr. BADOW. Quite so. I think that a 1 per cent basis, an annual difference of 1 per cent between the rate demanded by the investor and the rate paid by the borrower, is fully sufficient for a concern that is in operation for, say, 10 years; but I do think that a \$10,000 concern could pay one decent salary under this bill for some years to come.

Under the bill as you have it, considering the various percentages of investments permissible—I do not want to give this as being absolutely correct, but I figured out that the total amount that could be earned by a \$10,000 concern in a year would be about \$2,662.50.

Mr. BULKLEY. You are speaking now of a \$10,000 bank?

Mr. BADOW. Yes; a \$10,000 bank with a \$5,000 surplus, with \$7,500 of deposits and with \$5,000 of postal savings deposits, having a total of funds available for farm loans of \$26,995. They would then be able to earn \$3,299.25 a year, according to this law.

If such bank may sell its mortgages in their original form is not indicated in the bill: the chances are they could not market them, anyway. They may, however, insure bonds against mortgages not to exceed fifteen times their capital and accumulated surplus; that would in the case of a bank with \$10,000 capital and \$5,000 surplus mean outstanding bonds of \$225,000, 1 per cent on which would be \$2,225. Adding to this an average income of $3\frac{1}{2}$ per cent on deposits carried and funds invested according to the law in Government or State bonds, I calculate an additional income of \$437.50 as being derived from \$12,500 of such other funds, a high rate at that, and my total income would be \$2,662.50. The loans carried would have cost about \$150 to make, supposing that they were 20 in number or all in close proximity to the bank, and there would be other expenses, so that less than \$2,000 would remain for salaries, dividends, surplus accumulation, etc.

Mr. BADOW. I have not.

Now, Mr. Chairman and gentlemen of the committee, if you were to ask me which principal changes should be made in the Fletcher-Moss bill, I would begin by changing its name and call it by a short title, "Land-credit bank bill," a mortgage-bank act, and I would by all means put the making of city mortgage as well as farm mortgage loans under its sphere of application. My reasons for that I mentioned before.

I would make it easier for existing loan concerns to comply with this law by permitting them to operate in such localities as they, upon examination, can show to be thoroughly familiar with, no matter in how many States they may be located. That would simply mean such territory in regard to which they have reliable records and data covering at least five years. This would not affect very many concerns, anyhow, so it would not make much difference. But it would enable those concerns to come in under the law.

You have a great many provisions in that bill, but I could not find a single one that lays down the method of making a loan. I personally think that a uniform method of making loans should be established by law, as it is established in European countries. The method of making loans is so very varied that some definite basis should be laid down first, and whatever local conditions or accidental money-market conditions demand in the way of changes could be

supplied afterwards by the supervising authority from time to time. Such local provisions could find place in the by-laws or could be promulgated through regulations from Washington.

But the bill should contain, to begin with, something as to the security which is acceptable. The value accepted as the basis for a loan should not exceed the forced-sale price in a normal market arrived at by testimony of residents and property owners of at least 10 years' standing and corroborated by records of forced land sales for a period of at least five years past by more than 25 per cent; or, putting it in another way, the interest which a farmer pays on his debt should not be more than one-third the gross income from his farm. If a man has a gross income of \$300 from his farm he should not get a loan on which the interest would be more than \$100 a year. Property that does not yield a lasting revenue should not be considered at all.

Improved property should be loaned on at the rate of 50 per cent of value arrived at as above. In the city loan the cost value of a new building should be taken as basis, and a clause for a mandatory reduction of the debt by 5 per cent every year should be put into the agreement. In downtown sections of cities 50 per cent of the value of the lot should be left out of consideration in arriving at loan values.

Unimproved real estate should be loaned on at the rate of 33 $\frac{1}{3}$ per cent only.

This to apply to loans of five years or less: Whenever the loan runs more than five years an additional 2 per cent of the total value of the security might be loaned for every year such loan is to run above five years, but in no case should the margin of security exceed 60 per cent. So-called leaseholds should not be accepted as security for bond issues enjoying the privileges of this act.

Loans of more than five years must be reduced annually by about 7 per cent. That is, the amortization or prepayment must be mandatory in a loan that is made to run more than five years. The average farmer, if he gets a 60 per cent loan under certain conditions, I think it will take him about 15 years to pay that loan back with the earnings and without going and borrowing the money to pay off that loan.

Of course, if you extend this act to city loans, theaters and churches should never be loaned on by banks.

Loans to joint owners, unless the mortgage is placed on the total property with the consent of all owners, should not be made. Some of these provisions exist in European laws, and I consider them most essential to the successful operation of these banks. They should not be left to the discretion of whoever is going to administer this law—the commissioner or a board.

In regard to amortization payment—I do not want to go into the amortization question at all. That has been thrashed out, and everybody knows what amortization is. But partial loans or amortization loans should be repaid only in such manner as to shorten the time of the life of the loan without disturbing the amount of the annual prepayment specified when amortization annuities were agreed upon. This will save a lot of bookkeeping. I do not know if that is going into too much detail or not. But that is a point that I think should not be left to by-laws.

Mr. PLATT. I think it is a good suggestion.

Mr. BADOW. I thought I might tire you with these things, because it might be going too much into detail. But I want to tell you that my personal opinion is this: There is not a man in the United States to-day that knows farm-loan conditions in every State of the Union sufficiently to be able to lay down, in an executive capacity, rules according to which that loan business should be carried on without creating either too much red tape or leaving out something essential. You have the opportunity here of hearing men from every State in the Union, and two or three from a State, perhaps, if you care to, and you are very much better able and, as I stated during recess, better fitted to evolve the fundamental regulations according to which that law should be put into execution than a commissioner, whoever he is, worth to the country only \$6,000 a year. I do not know of a man who will be able to do that work that would not be worth at least \$25,000 a year. Any man that is able to carry this law into effect according to the bill as it is here is worth \$50,000 a year. That is what I think.

Another thing: This law should establish the rule that a borrower must not pay interest on his loan with borrowed money. He must earn that money, and if he has not got it, he should come and say so; but he must earn that money; he must not borrow the money to pay interest.

Mr. WEAVER. How are you going to tell whether the man earns the money or not? Suppose he does not earn it; then are you going to foreclose on him because he can go and borrow the money from somebody, and not let him do that?

Mr. BADOW. Well, no; I would not foreclose, but I would scare him by telling him that it is against the law to do so; besides, I would put this into the application blank as a condition under which the loan is made. I think it would have the desired effect.

Mr. BULKLEY. What is the purpose of that restriction?

Mr. BADOW. To prevent borrowers from pretending they are doing well, and they are really hard up, and simply happen to have a friend that loaned him the money to pay his interest.

Mr. BULKLEY. In what way is that dangerous to the holders of the mortgage?

Mr. BADOW. Well, the holder of the mortgage is led to believe that all is well, although it is not so. That practice is liable to cause trouble later on, if it should happen that the friend calls for his money when the second interest is due and the farmer may have to borrow again, and so on.

Mr. BULKLEY. Well, I take it for granted that it is not particularly desirable to borrow money with which to pay interest; but when a man has not got it I do not see any reason why he should not borrow it.

Mr. BADOW. He should not have to do it. If a man has a crop failure, this bill should be as lenient as are the provisions of the credit foncier, which in case of crop failures, floods, or other disasters gives borrowers a reasonable time of from 30 to 60 days to pay up. I think we are big enough to provide similar provisions. If a man is honest and industrious any loan concern will give him a chance.

To give an illustration, in North Dakota one day, in summer of, I think, 1910, between 11 a. m. and 2 p. m., I have known of some-

thing like 5,000 acres of wheat burned up, and some of the people had nothing in the world but that.

Senator HOLLIS. What do you mean by "burned up"? You do not mean killed by insects, do you?

Mr. BADOW. No; burned by the heat.

Senator HOLLIS. Not physically burned?

Mr. BADOW. No; just destroyed by the heat within three hours—thousands of acres. There is a calamity which, if we were still bending our heads down to the ground when praying, I suppose we would probably call a visitation from Heaven.

Senator HOLLIS. We have thought that extreme heat comes from the other place, you know. [Laughter.]

Mr. BADOW. So I have been told also, but this one came from above. In this connection let me urge upon you a provision, making diversified farming in some way mandatory upon borrowers. It would be a particular blessing to the South, even if the one nigger, one mule, one-bale tradition has begun to change.

The cost of every appraisal, title investigation, or inspection, or any other service necessary for passing on a loan should be paid by the borrower whether the loan is made or not. For the appraisement of a loan a fixed scale of prices should be adopted, and I think that should be adopted in the law, instead of making it a subject for regulation by the by-laws, because the cost would be about the same in all sections of the country.

Mr. BULKLEY. You say those expenses ought to be borne by the applicant whether the loan is made or not?

Mr. BADOW. Yes; whether the loan is made or not.

It is the rule in France and other countries and it is only fair and should be the rule here. I have spent as much as a day on one farm, where the loan amounted to less than \$2,500, and I inspected that farm, went over every acre, got muddy, had to drink a cup of bad coffee, contracted colds and other varieties of discomfort, and when I got back to the office, had recommended that the loan be made, and we had gotten the papers ready, we received a letter saying that "Tom Riding Horse," or whatever his name was, did not want the loan, as somebody else would give him more money, and all my work, time, and money was spent for nothing.

Mr. BULKLEY. Now, suppose that you—

Mr. BADOW (interposing). That is an expense, by the way, loan men count on in fixed charges and which the other fellow pays.

Mr. BULKLEY. Suppose that you recommended that the loan be not made?

Mr. BADOW. Yes.

Mr. BULKLEY. Then do you think that the applicant should pay the expense?

Mr. BADOW. Yes; just the same. That is not my fault that the security is not good for the amount demanded. If that man is not willing to accept the amount I can conscientiously lend it is his fault. You know there is not a piece of productive land on which a loan of some kind could not be made. But if the man is not willing to accept the loan which I am willing to make, then he would be giving me all that trouble for nothing. If I appraise the land to be good for a loan of \$1,800, he ought to be satisfied and not insist upon \$2,000. He should know that the loan man's profit lies in having his money

out day and night—the more the merrier. But borrowers have seldom that much reasoning power, they must have \$2,000; they even offer more commission for stretching a point or two, and if I can not honestly see my way to recommending such a loan, I think that he ought to pay the expenses. He would have to do it in almost every other country in the world.

Mr. PLATT. Do you think that the expenses of inspecting lands on which loans might not be made, or would not be made, would be quite a considerable item?

Mr. BADOW. Yes; it would be a considerable item. I think that you will find that the majority of loan concerns reject—well, I am safe in saying 50 per cent of the loans that are offered to them; 10 per cent of such rejections are made after inspection.

Mr. PLATT. And you think that would be likely to be about the proportion with these farm-land banks?

Mr. BADOW. It may and it may not be the same, because I presume that the prospective borrower from this community farm-land bank would never have the courage to come and ask the people who know him and his land for a \$2,000 loan when he knows that the biggest amount he could properly get on that land would be \$1,000. He would not do with them what he often tries to do under the present system.

Do not think for a minute, gentlemen, that the loan men are running the farmer. That is not the case. On the contrary, I am personally convinced by experience that it is the farmer, particularly in the better sections, that runs the loan banker. I have seen it happen in Iowa, and know it to be true in other States, that instead of accepting what the bank is willing to give, the farmer tells the banker the rate he is willing to pay.

Mr. PLATT. That is to say, there is enough competition for farm loans now, in the best sections of the country, so that if a farmer can not get his loan on the terms he desires in one place he can do so in another.

Mr. BADOW. Oh, yes.

Mr. PLATT. That is the condition, is it?

Mr. BADOW. Yes; undoubtedly.

Now, if a loan is to be made the proceeds of which are partially to be used to repay a former indebtedness the credit foncier retains the amount necessary to liquidate that former debt and completes payment, instead of giving the money to the borrower. I think this is a good provision and we should adopt it.

Mr. PLATT. That is the sort of regulation that the commissioner of farm-land banks, or the commissioners if there are more than one, should make, is it not?

Mr. BADOW. Well, I feel that these are fundamental rules good for all times, and they should be contained in the bill.

Mr. PLATT. It is very well to bring the matter out now, but it is a question whether we ought to put that into the bill.

Mr. BADOW. Why not? It would eliminate a great deal of experimenting.

Now, Mr. Chairman and gentlemen of the committee, let me give you, just as quickly as I can, my idea of rural credit reform.

As I take it, you have before you here a threefold problem. The first one is the providing of cheaper, more facile land credit, to what Mr. Robinson yesterday called "solvent" owners—I will simply say to property owners, and I mean by that both farm and city owners.

The second would be the providing of funds whereby a poor, honest, hard-working man, farm or city worker, can procure a piece of property for his use and support on conditions which have to vary, of course, very materially from those which apply to an established farmer seeking loan funds.

Third, you have before you the problem of—I do not say organizing a cooperative system, because I do not think you have that—but you do have the problem of doing your very level best to get the farmers to the point where they will organize among themselves a cooperative system. Now, those are the three problems. I think that all of them could best be solved by a board, which I will call a "Federal land-credit board." Whether that land-credit board should be a part of the Federal Reserve Board or an independent body is a something on which I am not quite clear. I am not quite prepared to state that. I think it can be combined with the Federal Reserve Board; I am almost sure it can.

Instead of having one commissioner, such as this bill provides, I would have this board. Now, if it was an independent land credit board, then I would have on that board a representative from the different sections of the country, divided, just as the United States Government does in getting up its statistics, into groups somewhat as follows: One from the South Atlantic States, one from the North Atlantic States, from the Central, Southern, Middle Western, North-western, Southwestern, and Far Western States; that would give eight members of the board—one from each section of the country.

In addition to these members I would have the Secretary of Agriculture and the Secretary of the Treasury sit on the board besides the governor, appointed by the President. The Secretary of Agriculture and the Secretary of the Treasury being members of the Cabinet, the President would practically have the appointment of three members of the board; the other members would be elected by the one national land credit bank of each State belonging to the geographical region mentioned.

One national land credit bank to be created by all banks, trust companies, and loan concerns within the State which have complied with the Federal land credit act.

The capital of such State institution should be not less than 75 cents per inhabitant, and the surplus 25 cents per inhabitant. I mean by that, that if you have a State like Arizona, for instance, you should not demand a \$5,000,000 or any other million dollar capital, because it could, perhaps, not be obtained, and that State would never be able to have such bank on a fixed minimum amount of capital provision. On the other hand, in the city of Chicago, I presume, it would not take 60 days before we would have a \$25,000,000 concern, provided a practical law was passed. As I mentioned this morning, I had an institution like this in view, and if it had not been for the apparent uncertainty as to action by Congress on this particular subject we would have gone ahead and we would have had a big concern in Chicago to-day—but it was thought better to wait until Congress had acted and had laid down the law.

We intended to come before Congress and ask you for a Federal charter later on.

The national land-credit bank of each State which I propose makes loans in the State wherever it wants to. The local bank makes its loans in its own particular territory; but such territory may be entered by the State bank, for the simple reason that a \$10,000 local bank could not make a \$10,000 loan, which a State bank could make, the local bank acting as agent for the State bank. The local bank would take care of the small borrower, and the larger borrower would be taken care of by the State bank. The national land-credit bank of each State is the only bank to issue bonds on land mortgages of that State. Bonds thus issued would be available as acceptable security for funds of the Federal Government only upon deposit by the State institution with the federal land-credit board as trustee of \$11,000 worth of mortgages for every \$10,000 of bonds they are to secure. A like deposit to be made for bonds to be offered in extra State markets.

The federal land-credit board, ex officio, would be trustee for mortgages of the State banks that form the basis for certain bond become a national land-credit bank.

As to the local national land-credit bank, any loan concern, any State bank or trust company wishing to come under this system, having a capital of \$10,000 and a surplus of \$2,500, may do so and become a national land-credit bank.

As it would probably be just as desirable to have the federal land-credit board form a part of the Federal Reserve Board, the smaller banks could thus become members of the Federal reserve system and enjoy the privileges of the same, which through the present minimum capitalization of \$25,000 is withheld from banks with a smaller capital. I understand that there are many banks to-day willing to increase their capital to \$25,000 but for the fact that their territory could not support such capitalization. Mortgages made by a local bank to be used for securing the bond issues of the State bank are to be discounted by the State institution at a premium of, say, one-half of 1 per cent, or under what we call the "split indorsement." I presume you are familiar with the split indorsement?

Mr. WEAVER. Well, it will be better not to make too many violent presumptions.

Mr. BADOW. Well, a split indorsement would be this:

Take an ordinary note of 6 per cent made by John Smith to himself. Before he indorses it on the bank by signing his name, something like this is stamped upon the reverse of the note:

"Pay to the order of the Wisconsin National Land Credit Bank eleven-twelfths of the interest and all of the principal of this note as collected, and one-twelfth of the interest to the Watertown National Land Credit Bank as collected.

“(Signed) JOHN SMITH.”

By this method the local bank is sure of one-half of 1 per cent a year, and the bank of the State, by this indorsement, obtains a like amount—the one for making the loan, the other for carrying it.

Among the various handicaps which exist in the interstate loan business is the uncertainty of time necessary to perfect a title. I am not a lawyer and can not discuss the subject to any extent, but I would

like to make a suggestion here and leave it to you to decide its worth.

It is in regard to making the title registration of real estate securing loans more uniform. I think that as soon as a loan has been accepted by the national land-credit bank of a State, the pertinent facts of that title should be entered in the title register of the bank, and from then on nothing but a plain certificate issued by that State institution would be necessary to enable the owner of that particular piece of property to borrow money again from such bank.

MR. WEAVER. That is a sort of modification of the Torrens land system?

MR. BADOW. Yes. Although I have not looked at it that way as yet, I think it will have the effect of inducing States to introduce the Torrens system.

MR. WEAVER. We had a vote on that in my State. Oklahoma, and it was carried by quite a large majority of the voters.

MR. BADOW. Yes; I heard about it.

MR. WEAVER. But not sufficient, under our constitution, to make it law.

MR. BADOW. I see.

MR. WEAVER. Let me make an explanation about Oklahoma. The constitution of Oklahoma can be amended by a majority vote.

MR. BADOW. Yes.

MR. WEAVER. But it must be a majority of all the persons who vote at that particular election; and when this Torrens land system amendment was offered in our State a number of other questions were presented, and a great many voters did not vote at all on that question, and for that reason it did not get a majority of all the votes that were polled at the election and did not become a part of the organic law.

MR. BADOW. Well, after such titles have once been entered in this Federal land bank title register the owner of this particular piece of land from then on can borrow at any time from either the local or the State bank without having to pay any attorney's fees to get that title searched, and all that sort of thing. It will simply bring it to that point.

MR. PLATT. Would it not do to accept, in a similar way, the titles of any land on which mortgages had previously been placed by State banks or mutual savings banks?

MR. BADOW. I did not quite understand that.

MR. PLATT. Of building and loan associations. On any lands on which loans have already been made by mutual savings banks or State banks, could those titles be presumed to be good and be registered with the State farm land bank without any further preliminary? If the bank has already accepted a loan on the land, presumably it has gone into the question of title as fully as can be done.

MR. BADOW. No; I would not consider this acceptable, and I will tell you why: No matter how excellent the men that are running another bank, loan association, or whatever it may be, the land credit bank, being responsible for its loans, must have made its own investigation. I mean the bank can not go after the officials of another concern and say, "Well, how about it; you told us the title was good?" They must absolutely rely on their own judgment. For that reason I think they might just as well make a thorough inspection once more, so far as the title is concerned, and whatever

they found then to be the actual facts they can keep on record from that time on.

MR. PLATT. Well, this amortization principle—suppose these farmers take one of these long-time loans; it will be a long time before you get the title straightened out in that case. If a man takes a loan from you for 20 or 30 years, he would not want to make another loan for a long time.

MR. BADOW. Well, hardly, as a matter of fact he couldn't without a release from the first loan. As to amortization loans, they will become of real importance only in connection with what I call "part 2" of the problem, which I would like to see taken care of by this law, the problem of the "insolvent" but very desirable young man that wants to acquire land—

MR. WEAVER (interposing). You do not mean "insolvent"?

MR. BADOW. I mean he has not money enough to buy his home.

MR. WEAVER. Well, what we call an insolvent man is one that is practically bankrupt.

MR. BADOW. Yes; but I am using the expression "insolvent" in the sense in which Mr. Robinson used it yesterday, meaning a man without capital. That will be the kind of man that will use the amortization plan.

MR. PLATT. Well, he has to have 50 per cent of the value of his land, anyway, to pay down in cash. You can not call him "insolvent."

MR. BADOW. Yes. As the bill stands now that is true. But under what I call part 2 of the problem before you, he would not need 50 per cent.

Of course, I know that you can get hundreds of families that will come across from Russia or Poland with enough money to buy a farm of 40 acres by paying half of it down and giving a mortgage for the balance. But Russia is far away. Those poor fellows in the steel mills south of Chicago are nearer to my thought. They knew nothing but farming when they came, and yet they are working in the steel mills and losing their fingers and having an eye put out or a leg cut off in trying to make a living when they could live nicely on the farm. The little money they had is now gone from many of them. Give them a chance to get a piece of land, and say, "Well, the price is so much; you pay me so much down"—make it one-third; make it one-fifth; I do not care with how much you trust them; they will make good. They will pay that debt off just as soon as they possibly can, and I do not think a single one of them would take 20 years to do it.

MR. WEAVER. Those Chicago people that you were speaking about are working in the steel mills and are mostly foreigners, are they not, who have immigrated to this country?

MR. BADOW. Yes.

MR. WEAVER. Of what nationality are they?

MR. BADOW. They are mostly Russians, Poles, Slovaks, and Finns, although you will find Irish, Swedes, and Germans sometimes.

MR. WEAVER. What are they doing here?

MR. BADOW. Unskilled labor. Each one has just one particular operation to perform, such as opening a furnace door, cooling bars, catching a piece of red-hot metal, etc.

MR. WEAVER. They belonged to the farming population of Russia and other countries before they came here?

Mr. BADOW. Yes: most of them; just as fine farmers as the German farmers were who came over here a long time ago and had money enough to keep alive until the homestead land produced. The Russian farmer is perhaps slower and clumsy, but he is of the same material as the very best Swede, Norwegian, or German. I know it. I have met those Musliks in the Dakotas. They are goods farmers; and you do not need to give them 160 acres; 40 acres is all they need. They will perhaps never become captains of industry, but they are fine farmers, and will raise vegetables and fruit in addition to wheat and other staples. They will make a good living anyway.

Mr. WEAVER. This bill is not designed for the benefit of the captains of industry, anyhow, is it?

Mr. BADOW. No.

Mr. PLATT. Some way would have to be found to give those men a margin. Of course, that could be done by another local association, which would grubstake them and give them 50 per cent of the price of the land.

Mr. BADOW. Who is going to grubstake a man who goes to a farming section and whom nobody knows? I mean that it will take him years to establish himself, and even when he will not be able to get anything from a local loan association under the present conditions, as he owns no property, he could not get a loan to-day to buy a piece of land worth \$20 an acre, with only one-fourth of the price in his jeans. I do not think that he could get such a loan under present conditions.

Mr. PLATT. Do you not think it would be possible for him to get that loan, just as in the case Mr. Robinson spoke of, through his own countrymen; that is, through a lot of them going ahead and organizing a local credit union?

Mr. BADOW. Yes; perhaps so.

I have in mind the work done by the Union Pacific and other railroads in Canada, with assistance, and I think more than encouragement by the Dominion Government.

The last time I was in Winnepeg the immigration commissioner was getting ready to go East and supervise the arrival of some 75,000 farmers from various European countries; they were to receive land at a certain price, cows, teams, implements, seeds, and everything else needed to get them started. In return the immigrant had to pay a very small amount year by year. If Canada can do it why can not we do that. We would not have to go to Europe to get our men; they are already here.

As to the third problem, as I see it before you, I think it consists more of a consistent advocacy of cooperative societies before any law is passed. Europe first had its societies before it set about to regulate their conduct by law. Why we should want to start the other way I do not know; neither do I know if the time is ripe for it: if the farmer has realized the need of cooperation. The Government having surely extensive information on the subject is unquestionably in a position to know how ready the farmer is for cooperation. But no matter how ready he is, let him evolve a system first, aid him in doing it, but postpone legislation on the subject until such legislation would really be the consensus of opinion of those concerned.

Now, Mr. Chairman and gentlemen of the Senate and House committees, I think I have given you substantially my humble views on the whole subject. I am very sorry Senator Hollis had to leave so early, as I would have liked him to hear the last part of my dissertation.

Since the chairman has to leave also, I am sorry to say you will probably not have time to ask me any questions, and I therefore thank you for all the many courtesies you have shown me, reiterating again that I am deeply indebted to you, Mr. Chairman, for having called me here. I enjoyed every minute of my stay.

That is all I have to say, Mr. Chairman.

Mr. BULKLEY. Mr. Badow, we thank you very much for your attendance and the information that you have given the committee.

(Thereupon, at 4.10 o'clock p. m., the subcommittees adjourned until Tuesday, March 10, 1914, at 10.30 o'clock a. m.)

TUESDAY, MARCH 10, 1914.

HOUSE OF REPRESENTATIVES,
Washington, D. C.

The subcommittees assembled in joint session at 10.30 o'clock a. m., Hon. Robert J. Bulkley presiding.

Present: Representatives Seldomridge, Stone, Moss, Platt, and Woods.

Mr. BULKLEY. Mr. Cunningham, we will hear you now.

STATEMENT OF JOHN CUNNINGHAM, FARMER, GRANVILLE, OHIO.

Mr. BULKLEY. Please state for the record your occupation and connection with this subject.

Mr. CUNNINGHAM. My name is John Cunningham; I reside at Granville, Ohio; am a farmer, and at present a member of the Ohio Senate. My connection with the subject has been in the nature of commissioner representing Ohio in studying the European cooperation in agricultural finance with the American commission last summer, and in compiling and making a report to the governor of Ohio.

Now, Mr. Chairman and gentlemen, notice to come down here was rather unexpected, and my preparation to make an address before you has been rather limited. Anyway, I feel that you have had a very large amount of testimony given to you on the subject of rural credits, and that there is no need for me to go into any detail with reference to analyzing it. I take it that what is most important before the committee is a discussion of the proposed bills that are up for your consideration. Is that right, Mr. Chairman?

Mr. BULKLEY. Yes, sir.

Mr. CUNNINGHAM. The matter of amortization and the manner of loaning, and such things as that I will not attempt to go into in detail. It has not been my privilege to have a copy of all the proposed bills that are before you, but there are two bills which I have been studying more or less closely, one proposed by Senator Fletcher and Mr. Moss, and one proposed by Mr. Bathrick of Ohio.

Now, I will attempt to make my remarks as a farmer and on the subject that deals directly with a farmer, without bias or prejudice, not being guided by any selfish interests. I am not connected with any financial institution, and I am not a financier in that sense of the word at all. My thought on the subject is what will be for the betterment of agriculture, what will better the condition of the agricultural people of the whole United States.

I realize, in the first instance, to compare the subject of rural credits legislation with that that is in effect in Europe, we have many conditions to meet in this country that are not pertinent in Europe. In the first instance, the scope which our Government covers is so

much larger in area, and the conditions so much more varied than any particular country Europe has to deal with that it makes a much larger subject for us to handle. For instance, Germany, the home of cooperative credit, is a country with an area much less than that of the State of Texas. We have possibly 25 or 30 times—I do not exactly know the comparative area at this time and have not thought on that point—but we have possibly 25 or 30 times, or maybe even more, area to cover, than the Germans, so that in scope of legislation proposed there is a much larger area and much more diversified conditions to cover. While the principle applied to German agricultural credit may be embodied or followed to a great extent by the legislation, either by the Nation or by the States, when we come to divide those parts off to be worked out to meet the conditions of the various sections of the country we may have to make some changes in details. There are conditions in the various States that make it particularly hard, I believe, to adequately frame national legislation so that they will harmonize, but I think in the bill proposed by Mr. Moss and Senator Fletcher that these conditions have been admirably taken care of—that is, speaking as to principle. There may be some minor points that can be changed to materially help the bill, but I think the bill, as drafted, combines all the primary essential and best features that make for the success of the different systems in Europe, and that they have to a very large extent been so arranged that it makes it possible for their easy application in this country. It is also made possible for the various States to supplement this bill with legislation that will put an agricultural credit, farm credit, system into operation with the least friction or expense.

I am well aware, as a farmer and a member of farmer organizations, that the Fletcher-Moss bill has some opposition; but I think, and say so as a farmer and a member of these farmer organizations, that a great deal of this opposition comes from a feeling of being slighted in some manner or other, and some from not having made a close study of the agricultural credit systems.

Now, if I may be permitted to explain myself with reference to this point, I mean there that the Bathrick bill has been indorsed by certain farmer organizations, and the reasons given for the indorsement are at variance with the principles laid down by those same organization that indorse the Bathrick bill. For instance, certain organizations declare for an equal opportunity for the agricultural class in connection with their business organizations. They declare against any special privilege for any paternalism, but they turn, on the other hand, and come back and ask for a bill that is paternalism in itself, and the main part of the bill really, to my mind, is of a paternalistic nature.

MR. BULKLEY. Which organization are you referring to now?

MR. CUNNINGHAM. I refer primarily to the National Grange. I am a granger myself, but I hold no official position outside of the county organization, but at the same time I am very familiar with grange work.

MR. BULKLEY. Do you mean in that respect the legislative committee of the grange has failed to fairly represent the sentiment of the grange?

Mr. CUNNINGHAM. I can not say that I will answer that in that way. I will say that I think the legislative committee of the National Grange has not attempted to find out the exact position of the grange, but have attempted to lead the indorsement of the grange to their way of thinking.

Mr. BULKLEY. Is it your judgment that the membership of the grange generally does not agree with that?

Mr. CUNNINGHAM. It is my judgment that the membership of the grange primarily has not entered into this subject to such an extent that they are in position to pass judgment in the manner that is desired by the committee; that the action, primarily, of the granges has been taken on certain statements sent out by the executive committee of the National Grange, and that they have not entirely covered the subject in an unbiased manner.

Now, then, the only condition of the Bathrick bill which I take exception to, and which substantiates my proposition of being both paternalistic and biased, is the fact that the provision of the Bathrick bill providing that the Government may loan money to farmers at $4\frac{1}{2}$ per cent if the money is borrowed at $3\frac{1}{2}$ per cent on bonds, and giving one-half per cent of that 1 per cent profit to organizations for handling loans. One criticism that the grange, if I shall speak plainly, makes of the Fletcher-Moss bill is that it throws such a large profit into the hands of private organizations. This one-half per cent that it is proposed to give to farmers organizations for handling these loans amounts possibly to as large a profit as in the other case, without their having anything at stake and practically no responsibility, and, I think, fundamentally, that provision itself would queer the bill.

Another thing which I believe farm credit legislation should avoid is a matter of encouraging speculation. Farm credit legislation, as I take it, is primarily to help the small farmer or the tenant and the small landowner, and not necessarily to help the large landowner, for, in most instances, they are able to take care of themselves; but it is to reduce the tenant class and to encourage the ownership of homes, not large estates, but homes.

Mr. WOODS. Mr. Cunningham, will it bother you to answer a question there?

Mr. CUNNINGHAM. No, sir.

Mr. WOODS. Do you know of any farmer in Ohio who works his own farm and has it improved and lives upon it who can not at this time borrow at least 50 per cent of the actual value of his farm at a reasonable rate of interest?

Mr. CUNNINGHAM. I might answer that question in this way, that probably there are very few instances where a farmer could not borrow 50 per cent on his farm; but that 50 per cent would be, in their judgment, reliable security. That 50 per cent should be the only encumbrance on that farm; and if that were so, he could borrow.

Mr. WOODS. The commission bill provides that he can secure 50 per cent from these banks; that is, 50 per cent of the actual value of the property, providing the money is to be used in the way provided for in the bill.

Mr. CUNNINGHAM. One great feature, which I should have spoken of before, of the land-credit proposition, and the principal one, to my mind, is the feature of the amortization plan of repayment of the loan.

It is not so much in enabling a man who has adequate security to get a loan, for he can get one in that case either from individuals or, in some instances, from our State and private banks and from building and loan associations, but many things add to the cost of the loan, and the manner of repayment in most instances, handicaps the farmer either from living as he should in his station or in making such improvements as he should to conserve and get the best results from his farm. Therein it has a bearing on the people and the welfare of the people of the country as a whole in that particular.

Mr. WOODS. Are not the loan companies anxious to renew these loans to farmers at a very small rate of interest?

Mr. CUNNINGHAM. They are anxious to get money at a fair investment. In Ohio the average interest rate on farm property by building and loan and other associations ranges from 6 to 8 per cent.

Mr. WOODS. Take the straight loan; what rate is that?

Mr. CUNNINGHAM. Usually 6 per cent—the straight loan.

I believe I was discussing the proposition in connection with the Bathrick bill features having a tendency to stimulate circulation in farm values.

The fact is that there is something, if I am correctly informed, over \$3,000,000,000 of loans on farm property in the United States. If the Bathrick bill should become a law that \$3,000,000,000 would demand recognition under this provision to be refunded, and, secondly, the Government itself would have to start out with over \$3,000,000,000 issue of bonds to meet that particular issue. In the next instance, without any limitations it would increase circulation in farm lands, and this speculation with the development of the country, to my mind, is unwise and would be very detrimental.

Mr. WOODS. What is the reason, if you have any, for thinking it would increase speculation?

Mr. CUNNINGHAM. Because it makes possible the borrowing of money very easy at a low rate of interest, and at the present time it is becoming recognized that loans on farm property are probably the safest investment possible for capital to make, and that is becoming more popular and more desired all the while. It would have a tendency to create a speculative market, because money would be easily available.

Mr. WOODS. Do you think farmers are going to borrow just for the sake of borrowing?

Mr. CUNNINGHAM. What is that?

Mr. WOODS. I say, do you think the farmers are going to borrow just for the sake of borrowing?

Mr. CUNNINGHAM. I think not only farmers, but other financial interests, if they see an opportunity for profitable investment, will take it. A farmer or other business man would take an opportunity, if it presented itself, to make a speculative investment.

Another point that comes to mind in connection with that is, if the Government should have a large amount of money—bonded indebtedness—invested in farm securities, and any distress should overtake this country, such as devastation from war or other uncontrollable circumstances, that the Government would not be able to call in those loans to redeem its indebtedness. It could not force the people to take up arms, and possibly leave their farms and meet

the obligation to the Government at the same time, and so in that instance I believe it would be a serious handicap to the welfare of the Nation as a whole.

On the other hand, land banks in Europe have not been affected at any time, or not seriously affected, by wars which have occurred during their existence, and while Government bonds have depreciated, land-mortgage bonds have nearly kept the equality of values, so that with those points as my chief objections to the Bathrick bill as not being compatible with the sentiment desired by farmers and land owners of the State and Nation, I think the rest of my time will be devoted to the agricultural credit bill, as presented by Mr. Moss and Senator Fletcher.

Mr. BULKLEY. In connection with the relative standing of land mortgages and Government bonds, would not your statement of European experience tend to show that it would be easier to make collections on land mortgages than it would to raise money to support a war by selling new bonds?

Mr. CUNNINGHAM. I think it would. I think that history will bear me out in the statement that whenever a war scare or the war is actually on, interest rates go up and the actual raising of money becomes more difficult for the Government.

Mr. BULKLEY. So that if the Government owned a vast amount of mortgages on farms, although they might have some difficulty in collecting on them, it still might be easier than to sell new bonds?

Mr. CUNNINGHAM. You mean it still might be easier to collect on those bonds?

Mr. BULKLEY. Collect on the mortgages. It would be easier to collect on the mortgages than it would be to provide a war fund by the use of new Government securities?

Mr. CUNNINGHAM. I do not presume that they could provide a war fund by issuing bonds on farm mortgages.

Mr. BULKLEY. I was assuming the condition that they had already borrowed the money and loaned out on farm mortgages, and I was trying to compare the possibility of collecting on those mortgages with the alternative of issuing new bonds.

Mr. CUNNINGHAM. I think I can answer your question by saying that if you have from \$3,000,000,000 to \$5,000,000,000 of bonds issued on farm mortgages, that that in itself would be taken into consideration by investors when the Government attempted to issue bonds for war purposes or anything of that sort. Secondly, you will make it much harder for the Government to raise additional money, and I believe that, of course, the land itself, as long as proper precautions are taken, would be available for raising money, either by bonds or otherwise, up to the full amount of the limitation, but do not believe under that that your question would be pertinent, that they could raise money for war purposes on land bonds.

Mr. BULKLEY. No; I did not ask that. I assume that we had been borrowing under the Bathrick bill, and that we had borrowed money and issued the bonds in times of peace.

Mr. CUNNINGHAM. Oh, I see.

Mr. BULKLEY. And that we had invested that money in mortgages; then the question was whether we could not simply cash in on those mortgages as they became due by amortization payments, and would

it not be easier to get money that way than it would by the issue of new bonds in war time?

Mr. CUNNINGHAM. I hardly know how to answer that question, because I take it that the Government could not force payment any faster than it became due on the bonds.

Mr. BULKLEY. Oh, no; it certainly could not.

Mr. CUNNINGHAM. Consequently, I do not see how they could raise money any easier on these bonds than by collecting what was due.

Mr. BULKLEY. On the mortgages, you mean?

Mr. CUNNINGHAM. On the mortgages. I see your point now. You asked the question of taking the mortgages and raising the money on the mortgages instead of issuing bonds for other additional purposes.

Mr. BULKLEY. Yes. You raised the question of what would happen in case we had to meet the expenditures of a war. Of course I realize that that is difficult, however you look at it, but I was trying to get at whether it would not be, in fact, easier by having these land mortgages than it would be by simply issuing a new issue of bonds on the credit of the Government, which would have to be put on the market during war times.

Mr. CUNNINGHAM. In other words, you would use these mortgages for additional security. Is that the idea?

Mr. BULKLEY. That might be done, or, if you have a vast enough amount of them, the amortization payments amount to something.

Mr. CUNNINGHAM. Yes.

Mr. BULKLEY. Simply by stopping the making of new loans and cashing in your amortization payments you would have considerable money.

Mr. CUNNINGHAM. I do not believe that any such plan as that would be practicable to couple up in connection with any land-mortgage or land-fund proposition; that the land-mortgage facilities or money issued on land mortgages or land bonds based upon land-mortgages, should not be complicated with any other conditions. I think it should be clear and apart in itself and removed from anything speculative in that nature.

Now, I have some minor criticism to offer in a few places in the bill itself. I presume that is the bill in the report, that it is the same as the printed bill. I have not had a copy of the printed bill itself.

Mr. BULKLEY. Yes; it is the same.

Mr. CUNNINGHAM. In section 16, under part A, specific powers; under B, what is designated "first," "such loans are made for not more than 35 years."

I think that, while not a very vital point at all, 25 or 30 years would be long enough. I do not think that amortization periods ought to be carried over further than the possibility of one generation.

Then in the third, under A, the designation of the purpose for which the loans can be made, to my mind, is rather limited. In other words, it says to complete the purchase of agricultural land mortgaged. Now, it might happen that a man owning a small farm—a small farm considered as having an area of 75 acres or under—would want to purchase an additional amount, maybe 50 or 75 acres that might adjoin him. If I see it right, he would be barred from the use of these facilities. In other words, that he could not use an added

amount there to purchase new land. It says, "to complete the purchase of agricultural land mortgaged," and that he could only use a mortgage to the extent of what would be available on his original area.

Mr. BULKLEY. The other way round, he could use whatever he could get on the piece that he was buying.

Mr. CUNNINGHAM. But he could not use his other land as security.

Mr. BULKLEY. Not under this system; but he could mortgage it elsewhere.

Mr. CUNNINGHAM. I think it would be better for him if he could use it in this system.

Mr. BULKLEY. How far would you go with that? Would you open it wide and let them use any proceeds or any mortgages generally for the purchase of land without limit?

Mr. CUNNINGHAM. I think that a borrower, in the first instance—I believe that comes in another part, under another feature, in specific limitations—can only borrow, or the bank can only loan to any individual, 20 per cent of the capitalization.

Mr. BULKLEY. Yes; but the capitalization is unlimited.

Mr. CUNNINGHAM. I know it is not limited, but in that case it makes the minimum \$2,000.

Mr. BULKLEY. That is the maximum loan of the minimum bank.

Mr. CUNNINGHAM. Well, that is right, too. I think that they could make a larger percentage of loan on the capitalization, so as to take care of the smaller banks, but with a maximum loan limit to any individual.

Mr. BULKLEY. That is a matter that we have had suggested a good deal. What do you think ought to be the limit to any one individual?

Mr. CUNNINGHAM. That is, of course, another very debatable question, but I think for the welfare of the farming public generally and to carry out the purposes of this bill, which are to help the small landowner in the attempt to acquire a home, a limit not to exceed \$15,000 ought to be ample enough. But, on the other hand, the small capitalization is one of the vital necessities for bringing these facilities to the average farmer. In many communities where they need these facilities it would be impossible for them to subscribe larger capital in order to avail themselves of the opportunity, so I think the minimum capital is somewhere near proper.

But in that case the bank of \$10,000 capitalization, under this bill, can issue bonds to \$150,000. Now, if a bank of that size is organized, it will be organized in a small community and its operations will be of a limited nature. In such a bank, then, it might be difficult for them to handle \$150,000 of bond issues, unless the maximum loan for them was raised. In other words, I think an institution of that description could safely handle loans to an individual of \$5,000 under the provisions of the bill itself which safeguards the issuing of bonds and the making of loans.

Mr. BULKLEY. About that limit that any one individual might borrow, do you think \$15,000 a correct maximum? Do you think that ought to be the limit? Do you think it ought to be so high as that? That is higher than most of the witnesses put it?

Mr. CUNNINGHAM. I think so in view of the upward tendency of land values, especially in the Central and Eastern States—I am not familiar with the Western States—but in the Central and Eastern

States they are practically free from any speculative values, and, considering the fact that the minimum amount of acres which a man can most profitably handle is somewhere from 100 to 125 acres. I believe that, under these conditions, much less than \$12,000 to \$15,000, especially if the maximum amount that an individual can borrow remains at 50 per cent, will not be very far out of the way.

For instance, a man buying an 150-acre farm valued at from \$100 to \$200, which is the price of the best farm land, would need \$10,000 to take care of him under that plan. Of course, larger farms than that, up to 300 to 350 acres, under proper management, can be more economically handled than the small farm. Our tenants and others remain more on the larger farm, ranging from 200 to 300 acres of land. These, especially with us, are the rule and will remain so for some time to come. I find in my work and investigations that there are very few young men who are able to take up these opportunities, because they can not raise sufficient money to buy a farm of that kind, and there are few people selling farms who are willing to divide them as yet. So I think under the bill the maximum can be safely made \$15,000, raising the minimum to the individual in the minimum bank to 50 per cent, or raising the minimum to 50 per cent and limiting the maximum amount to be loaned to any individual.

Another point, while it might not be so pertinent to this bill as the raising of the maximum percentage to be loaned to any individual, the bill limits it to 50 per cent and I think that it could be safely operated at 66 $\frac{2}{3}$ per cent, and I think it would carry out the purpose desired by the bill to raise the minimum to that amount. I recognize, on the other hand, that the States, in supplementing this bill by whatever legislation may be necessary, would have the opportunity to make their maximum 66 $\frac{2}{3}$ per cent. But at the same time, if it was carried as in this bill, it would make State legislation more uniform all over the country and it would make it more nearly conform with the national legislation, and for my part I would rather see that part raised.

Section 18. I have a criticism to offer with reference to the taxation. I agree that mortgages should be exempted from taxation. That is, mortgages in connection with this land mortgage bill, but I do not think that the profits of these institutions should be exempted from the income tax. I think that it is foreign to the purposes of our governmental institutions to grant a special privilege of that nature to any corporation, and I think that the profits and capital stock of organizations to carry out these provisions should be subject to the income tax. But to properly carry out the other provisions and to bring the greatest benefit to the organizations, I think that the mortgages and bonds should be exempted from taxation.

Mr. SELDOMRIDGE. Will you let me ask you a question there?

Mr. CUNNINGHAM. Certainly.

Mr. SELDOMRIDGE. If you do not make this exemption, as you propose, do you not think it would tend to increase the interest rate on these mortgages?

Mr. CUNNINGHAM. You mean if we do not exempt them from the income tax on the profits of the institution?

Mr. SELDOMRIDGE. Yes.

MR. CUNNINGHAM. It would increase the rates on the other.

MR. SELDOMRIDGE. Yes.

MR. CUNNINGHAM. I do not think so for the reason that these institutions and their surplus and profits over the 1 per cent which they are permitted to charge in addition to the interest rate on bonds. Consequently they could not make up the income tax on the additional charge to the mortgage.

MR. SELDOMRIDGE. You mean they should pay the income tax out of their 1 per cent?

MR. CUNNINGHAM. They should pay their income tax out of their profits.

MR. BULKLEY. What do you say about the income tax on the bonds?

MR. CUNNINGHAM. That is a question really I had not thought out. But the income tax on the bonds, I would say, without detailed thought on the subject, would be added to the interest rate, that is, that investors would take that into consideration when buying them, in comparison with the rate the bonds carried.

MR. BULKLEY. I think you are clearly right that there is a distinction between the bonds and the stocks.

MR. CUNNINGHAM. Now, gentlemen, that is practically all I had to discuss on the subject. As I said, I had short notice and was busy at the time and could not meet you last week when I was invited to. I have had very little time since to go into any detailed consideration of these matters, and from the fact that I know you have not only a vast amount of material available for your own study, but possibly some very elaborate talks and discussions of the various features of making land mortgages and on the amortization features and other forms of agricultural credit, I do not care to go into that phase of the subject. I have confined myself more particularly to these bills, and I want to emphasize that the very important part in framing land-mortgage credit is the amortization feature and putting it to the people without any paternalism in it more than is justified to the people as a whole. As farmers, while we are not asking special privileges, we are only asking equal opportunities with other lines of business. Stop for a moment and consider the fact that our great commercial interests, which are not equalled anywhere in the world, have been built up by the system of credit which we have, which has been friendly to commercial interests. On the other hand, we have never had legislation that has been particularly friendly to agricultural credit. We know that our national banks and our State banks can not meet the agricultural conditions demanded of them. This bill, to my mind, very nearly meets the needs of the agricultural interests, and after studying the systems in vogue in Europe I think it is the best bill that I have seen anywhere in this country. I hope that in rendering your decision and recommendation to Congress you will closely consider this Fletcher bill.

I thank you.

MR. BULKLEY. We are very much obliged to you, Mr. Cunningham.

Now, Mr. Jones, if you are ready, we will go ahead.

**STATEMENT OF GORDON JONES, PRESIDENT UNITED STATES
NATIONAL BANK, DENVER, COLO.**

Mr. BULKLEY. Mr. Jones, will you just state your banking connection and your connection with this subject of farm banks?

Mr. JONES. I am president of the United States National Bank, of Denver. I am a member of the American commission and a vice chairman of the committee on finance of that commission. I have been in the banking and farm loan business for 27 or 28 years in the States of Missouri and Colorado. I began banking in a small \$10,000 county bank in 1887. I was bank examiner of the State of Missouri for two terms, from 1894 to 1898.

Mr. WOODS. Is that State bank examiner?

Mr. JONES. State bank examiner. My contact with the farmers and farmers' needs has been very close and intimate. I am now a stockholder and director in a number of country banks. I aim to meet with the directors of those banks several times each year. After leaving the service as bank examiner of Missouri in 1898 I became president of a live-stock bank at St. Joseph, Mo., which did an almost exclusive business with farmers and stockmen, and held that position for a number of years, resigning to locate in Colorado.

I would like, Mr. Chairman, to mention to start with, if I may be pardoned for further personal reference, that I believe I am the first banker who suggested, in considering the revision of our banking laws, the idea of regional banks. I appeared before the Banking Committee, at its request, when it held hearings in Denver, and during the hearings Vice Chairman Vreeland mentioned the need of some great "reservoir" for mobilizing the credits of the banks. This will have direct bearing upon what I shall present later.

Mr. Chairman, I represent the minority of the American commission in presenting to you some additional arguments that probably have not already been presented regarding the report of the minority of that commission. I had considerable to do with the drafting of the minority report. Mr. Von Engelken, a practical farmer, who appeared before you a few days ago, went pretty fully into detail in explaining our ideas regarding land-mortgage banks, and I noticed several times he made reference to the work he and I had done in drafting the report, but waived several questions that were asked him by stating that Mr. Gordon Jones probably would be better prepared to answer. I judge that was why you requested me to appear before you. I am not here voluntarily, though I am glad of the opportunity of being heard. Your letter and two telegrams following finally induced me to leave my business at a very inconvenient time. If I can say anything that will assist you, I will be glad to do so. I am at your service as long as you want me. I have come 2,000 miles in order to render what service I can to this cause.

I was appointed on the American commission by a former governor, as Mr. Seldomridge knows, Gov. E. M. Ammons, of Colorado, who asked me if I would act on the commission, paying my own expense, as there was no provision for meeting such expense by the State, in order to see if something could be devised for assisting in financing the farmers, particularly in my own section. Before I get into the merits of the minority report, I would like to clear up a

matter or two that I noticed have been brought out in the records, Mr. Chairman, and gentlemen, and ask personal privilege to do so.

I did not receive any copies of the hearings until I reached Washington yesterday morning. I spent the whole of yesterday and a good part of last night reading over these hearings to bring myself down to date. Had I had time to have gone over them before, I could have made my testimony before you a little more consecutive and possibly more interesting. But the point I have in mind at the moment in desiring to clear the record, or at least to clear my own record in the records, is answering a statement made in Part 2, page 75, by Congressman Moss. Mr. Moss states:

I am going to call to your attention resolutions which have been passed in two States by farmers' congresses and call your attention to the important features of such resolutions.

Here is a resolution passed in Colorado. I will read it complete, as I desire to have it in the record:

Whereas we recognize the great importance and necessity of cooperative effort among our farmers; and

Whereas we recognize the vast difference in conditions, environment, and temperament of the European farmers (among whom cooperation has proven so successful) and the American farmers; and

Whereas we believe that cooperation can be more generally employed by the American farmers in much of their endeavors to their own advantage and to the advantage of the consumer as well: Therefore be it

Resolved, That we heartily indorse all legitimate and conservative means toward cooperative effort in the rudimentary branches of their endeavors, cautioning them at the same time against the risks that would be involved in assuming mutual liability for credit purposes: Therefore be it further

Resolved, That the Colorado Farmers' Congress hereby heartily indorses the views and recommendations expressed in the minority report of the American commission and urges caution in cooperative credit undertaken by the farmers which has as its foundation the mutual liability feature.

Congressman Moss adds:

I might call your attention to the fact that at the time that resolution was adopted the United States commission report was not public, and so far as I know the minority report of the American commission was not public. It was absolutely not available. There is no question that the farmers of Colorado or anybody else could have known anything about the views of the minority members of the commission, and yet here is a resolution bravely adopted by the State indorsing the views of the minority on a proposition that had at that time no publicity and which was not yet promulgated, and certainly was known probably to only one man in the State of Colorado at that time.

Mr. Chairman, the minority report was prepared in Washington five days following the meeting of the American commission held early in December. That report was completed in my office in Denver by making certain changes that had been agreed upon, after we had spent all the time in Washington we felt we could. That report was immediately forwarded to Senator Fletcher, with request that it be made public along with the report of the majority, which we understood would be within a few days. I had promised to address the Colorado farmers on this subject for some weeks previous. The date I was to be with them was January 26. I presumed that long before that time the report of both the majority and minority would be published. It was so understood before we left Washington and by subsequent correspondence. I was told that it would go to print in a few days. I prepared my talk on the assumption that it was printed. I wired and wrote frequently to both Senator Fletcher and Dr. Coulter to know

why I had not received my copies of the printed documents. I later learned that the majority and not the minority desired to make some changes in its report before they were published, and that inasmuch as the minority report had quoted from the majority, it might affect those quotations. I received numerous inquiries from a good many sections of the country asking why the minority report, completed weeks before, had not been made public.

The United States commission report had been made public and there was a growing feeling among certain members of the American commission that the minority report, which took some issue with the bill proposed by the United States commission, had been held off awaiting the publication of the United States commission report until it had gotten the attention of the President, and possibly the administration indorsement. I refuted that idea to those who wrote me about it, but I wired Dr. Coulter, to whom I had learned Senator Fletcher had turned over the minority report, and urged him to make it public, if it had not already been made public, for the good of the work we were all trying to do and to prevent any feeling that both sides or all sides were not getting a fair and just hearing. Dr. Coulter, now present, will bear me out and if I have made any misstatements I will ask that he correct me. So, after we had urged for two months that our report be made public, we received a revised copy of the majority report, which had changed some of the wording that we had quoted. Dr. Coulter wired he would "hold up" the minority report until we had corrected the quotations. So, during all this time I had prepared what I had to say before the Colorado farmers' congress on the assumption that my address would be delivered weeks after the publication. I am sure had I been able to have made the explanation to Mr. Moss he would not have seen fit to criticize me in having presented a report that had not been made public, but should have been, and which I presumed and had every reason to believe had been made public long before I brought the matter to the attention of the farmers of my own State. I merely mention the incident to clear the record, and I regret the necessity of doing so.

Mr. Moss. I would like to say that there was never any idea on my part to impugn the personal motives of Mr. Gordon Jones. I had the pleasure of associating with him in Europe, and know him to be a very close student, and, as I said, is a very competent man, and the only question I was speaking about was the question of the value of an indorsement by farmers' organizations in the State of Colorado of a minority report, and mentioning the extent of the publicity at that time, and if Mr. Jones or anyone felt that I meant at any time to reflect upon him I wish to enter here a vigorous denial of that proposition, and wish to say here that I know of no man that was with us that is more competent to discuss this subject, and that is the whole reason why I am here to-day, to avail myself of the opportunity of hearing what he has to say, because I know it will be a very interesting and a very able discussion of the subject.

Mr. JONES. Thank you, Mr. Moss, for your assurance, but the way the record reads it looks like you were impugning my motives. I was the only man who had a copy of the minority report at that time and I was the only one who could have presented the matter to the Colorado farmers, and I was the one man in Colorado to whom you made reference.

I sent four copies of the resolution passed by the Colorado Farmers' Congress to Washington—one to Senator Fletcher, chairman of the United States and American commissions, one to Dr. Coulter, one to each of our own Senators—and certainly by this act showed I was acting in good faith. I would have been glad to have furnished a copy of the resolution to Mr. Moss. Undoubtedly he did use one of the copies I sent to Washington, of which he became possessed. I sent the copies to Washington for the express purpose of showing the minority was suggesting something that the farmers, in my own State at least, did not oppose.

I am glad, indeed, that you mentioned, Mr. Moss, our association in the European countries during our investigations, for I assisted you, I think, very materially in getting in connection with a number of strong banking institutions and mercantile agencies over there that gave you some very valuable information, and thus assisted in gathering your evidence.

Mr. MOSS. I am very frank and glad to make that acknowledgment.

Mr. COULTER. Mr. Chairman, I would like to have the record clear there.

Mr. BULKLEY. This time belongs to Mr. Jones, and I would rather he would not be interrupted, unless he wants to be himself.

Mr. JONES. Just one moment, Dr. Coulter. I find a statement from you here that I think clears the record in itself.

Mr. Chairman, I am taking your time because the record here, I think, needs some explanation.

Mr. STONE. The fact is, Mr. Jones, that at the time these farmers adopted this resolution they were not familiar with the report upon which they were passing their resolution. Is that not so?

Mr. JONES. They were familiar with the minority report, Mr. Stone. They were quite familiar with the entire report. They had the entire report before them, which I had been told would be made public a month before that, and which should have been.

Mr. MOSS. I do not want to crowd the record, and I do not want the chairman to permit it, but for the purpose of making the record clear, I think that the United States commission's report was only a tentative report, and it was in the hands of the president in a confidential way, and whatever copies were sent out to the American commission were made confidential and with entire reservation on our part to change at any time before it became public. I feel that that ought to be made clear.

Mr. JONES. Our minority report does not criticise the United States commission report, but does the majority report of the American commission, which, as a member, I had a perfect right to analyze, criticise, and comment upon. Dr. Coulter, I think, assisted to clear the record very nicely in part 4, page 37, especially in so far as the resolution passed by the Nebraska farmers, to which Mr. Moss also referred and in which I had little or no part, although I did appear before the Nebraska farmers and presented to them my personal views even before the minority report or majority report had been prepared and before I knew there was a United States commission report. I was on my way to Washington, called for the purpose of considering these reports. I had stopped off in Omaha and addressed the Nebraska farmers at their request made weeks before. That resolution is as

follows. I will not take your time to read the Nebraska farmers' resolution, but I would be glad to have it put into the record at this point just as it was read by Mr. Moss to you before.

RURAL CREDITS.

We note the recommendations of the President of the United States that Congress speedily pass such legislation as shall provide an adequate system of credit for the farmer, to be commensurate with his resources and operate for the reduction of interest rates to a level with those given to other enterprises.

While this congress commends the patriotic recommendation of the President, we believe that the farmers of the country are not yet sufficiently informed on the subject nor sufficiently represented at Washington to bring to the attention of Congress the information and influence which are being exerted by the powerful banking interests toward similar ends.

We believe that the subject of rural credits has its proper foundation in the local community and that it is a legitimate subject of State rather than of Federal legislation, until it has been developed satisfactory in its preliminary stages.

We therefore express our conviction that Federal legislation upon this subject at this time is untimely and may possibly operate to defeat the ends it is designed to serve, and we call upon our representatives in the Senate and House of Representatives to proceed with due caution and decline to act upon such measures as are or may be proposed until they shall have been submitted to representative farmers' organizations for their approval or rejection.

I did not know of this resolution for several weeks later, and when I learned that there had been a resolution adopted in Nebraska, I wrote to the president of the Nebraska Farmers' Congress and requested a copy of the resolution. I received his letter in reply, from which I quote as follows:

I inclose copy of resolution passed by the Nebraska Farmers' Congress.

This letter is dated February 11, 1914, at Elgin, Nebr. It is signed by Mr. George Coupland, who was president of the Nebraska Farmers' Congress. He adds, after some personal felicitations:

I am certain you are right in your views. I have enjoyed personally getting in touch with your views and I commend heartily your efforts.

I mention these facts and ask the privilege of getting these views of the farmers of my own and a neighboring State in the record that it may be understood that while I am a banker, though I am a farmer to the extent of owning several farms, I am not considered at home as antagonistic to the farming interests. My reputation is exactly the opposite, and my friends often greet me with, "How is the farmers' banker friend this morning?" I hope to assist the farmer in getting broad legislation that will enable him to come into his own.

Now, Dr. Coulter, do you wish to inject anything?

MR. COULTER. Just a word. The majority report contained a number of really immaterial grammatical errors and places where Dr. Butterfield thought the expression could be improved. He left here immediately for Florida and carried with him the copy which was to go to the printer, not knowing that the minority report was going to make specific quotations, or overlooking it if he did know that they were making specific quotations. The committee had the major-report in proof before it, so that they know any change that was made in any "a," "if," or "or." The whole thing was delayed in getting back and forth. Then, when I got the report back to send to the printer, I found that a number of the very quotations which

the minority committee had made were corrected, and there was a difference in the expression but not in the meaning at all. That made it necessary, it seemed to me, to send it forward to Mr. Jones or Mr. Von Engelken, Colorado and Florida, to have the quotations corrected, so that it would not look like a mess. That was the only reason, of course, for holding up that report. It was not for the purpose of getting to anybody's ear or anything of the sort.

I think that explanation might be worth while to make. Both copies are available, if you want them. They were all laying around. There were 50 or 60 copies of proof of the majority report with the corrections on it, and I also have a copy of the minority report before and after correcting those quotations.

Mr. BULKLEY. Does anything material depend upon whether it was changed or not?

Mr. JONES. Not at all.

Mr. BULKLEY. Does it seem to you that there is anything in that which would make any difference here, whether it was changed or not?

Mr. JONES. No, sir. I am merely making the point to explain that the changes that were made were not those of the minority, and the accusation by Mr. Moss that there were radical changes that had to be made before the minority consented to the publication of its own report is not supported by the fact, and in that I am sustained by the statement just made by Dr. Coulter.

Mr. BULKLEY. It seems to me that we as legislators and public agents are entitled to the last best guess of the commission, and if they want to make any changes I do not see where there could be any objection.

Mr. JONES. That is the point I wanted to clear up, Mr. Chairman. That is, the changes that were made were made by a committee after the adoption of the majority report, and those changes necessitated like changes in the quotations by the minority, and those changes caused the delay in publication, during which time I as a member made a talk before the farmers of my home State, and they saw fit to indorse my views as expressed through the minority report.

Mr. SELDOMRIDGE. We wanted also to know the further fact that the farmers who adopted certain resolutions, before referred to, did predicate their action on the knowledge which was given to them of only one of these reports. In other words, the minority report was presented to them in more or less detail, but the majority report was not available for their consideration. Is that the actual condition of facts?

Mr. JONES. Mr. Seldomridge, have you read the minority report?

Mr. SELDOMRIDGE. Yes, sir.

Mr. JONES. As you know, then, the minority report quotes very fully from the majority report, and gives them credit for their position, and then takes issue with that position, so this report in its details, just as we have it here, with those minor changes made in the majority report, was what was approved by the farmers in Colorado.

Mr. SELDOMRIDGE. As a member of the committee, I would simply like to know what value we should place upon resolutions adopted by farmers' congresses based upon knowledge concerning which they had only one side for consideration.

Mr. JONES. These resolutions were voluntary on their part. As you know, our Colorado farmers are an intelligent class, and undoubtedly believed they had sufficient knowledge of the subject to act intelligently. As Dr. Coulter has testified, it was Sir Horace Plunkett, whom you doubtless all know, who was more responsible for the Nebraska resolutions than I possibly could have been; for he took the position before the Nebraska Farmers' Congress that the time was not yet opportune for the farmers to endeavor to obtain legislation to assist them in obtaining short-term cooperative credits. Dr. Coulter further testified, in speaking of my own position and attitude regarding a land-mortgage plan before you, in the following words:

Mr. Gordon Jones, of Colorado, is enthusiastically in favor of it, but he has certain recommendations to make concerning long-time credits, adopting, as he does, practically all of the suggestions of the United States commission, except that he would like to have a central bank for each State tacked to it to issue the bonds, and I think he is justified in that position in his State.

Mr. WOODS. Mr. Jones, have you a copy of Mr. Plunkett's speech in Nebraska?

Mr. JONES. No; I have not. But I could get it.

Mr. WOODS. I would like to have it.

Mr. JONES. It was an off-hand talk taken down, I presume, by their stenographer. If you would like to have me do so I shall endeavor to get a copy of it for you.

Mr. WOODS. I would like to have a copy.

Mr. JONES. I only remember one expression. I had to leave to catch my train, and I had only about five or six minutes to hear Sir Horace. He immediately followed me. The expression he used was something like this: "In the most of what Mr. Jones says I am in hearty accord, but I do believe the farmers of this country can cooperate for mutual credit, but that the time is not ripe now; that it will take time to educate them to reach that point."

Coming to the discussion of the long-term credit plans proposed, Dr. Coulter wrote me that he considered the difference between the minority plan of the American commission and the plan of the United States commission so insignificant that he thought probably the minority could well withdraw its report. I immediately replied that if such appeared to him to be the case, I was sure that after a thorough analysis of the two different plans he would discover in their operations and workings there would be a vast difference. I mentioned a moment ago, Mr. Chairman, the position taken by me at the time of the hearings regarding the currency law, in which I advocated regional banks for the specific purpose of bringing to your attention my consistent views on financial organizations and operations. For here again do I advocate the mobilization of credit of a given area. Senator Vreeland asked me this question during the Denver hearing at that time: "Do you not think, Mr. Jones, it would be better to have one big reservoir for mobilizing credits, so that in case of need in issuing currency, that from that reservoir to any section of the country relief and assistance could be sent out in time of need?" My reply was to this effect: "We of the West, Mr. Vreeland, fully understand and appreciate the meaning of the word 'reservoir.' We know safety in any reservoir system is greater where there is a chain of reservoirs. We know from actual experience that although you may legislate so that each man legally has the same right of supply from a

reservoir, yet in the actual operation the man nearest to the headgate has the advantage."

That was my argument against a central-bank plan. "What would you offer instead?" was asked. I replied, "I would prefer a chain of reservoirs. That is, I would urge that instead of providing one big central 'reservoir' that the country be divided into districts, so that each district could have its own 'reservoir.'" In that, you will see, was advanced the identical idea that is suggested at this time in the establishment of land mortgage banks under our minority plan. Now, the Fletcher-Moss bill has built up a vast number of little units. Every community which can raise \$10,000 can have its own little land mortgage bank. We should ask ourselves, "Would it be wise to subdivide the country into such a large number of units without some plan of mobilization?" After years of experience it has been found necessary to mobilize the credits of our unit commercial banks to provide strength to the system. Should we not profit by that experience? Why establish a lot of units without the ability to give the best service? The minority report of the American commission, therefore, Mr. Chairman, while accepting of the unit bank idea, would federate those units and not leave them to struggle alone. We would provide State centrals serving in somewhat similar capacity as the regional reserve banks are to do toward the commercial banks.

Now Mr. Moss brought out during Mr. von Engelken's testimony, and well brought out, two or three points on which the minority gave considerable thought. He spoke of there being no additional capital in our proposed centralized bank. On that point I noticed Mr. Platt interposed by reading from the minority report, as follows:

It might be found advisable to even provide the central with a larger capitalization than the aggregate amount to be taken by the different locals. In that case provision could be made for selling founders' shares similar to the plan working most excellently in Hungary. Such shares could be made preferred, if deemed advisable, or could be placed upon an equality with the shares owned by the locals. This might be found necessary in order that the country bankers and farmers might have desirable financial assistance and strong connections in the recognized financial center in their State in assisting to establish a market for the securities.

"Would there be any objection," Mr. Platt asked, "in the case of an organization of central banks to handle these mortgages, to having outside capital coming in?"

Mr. von Engelken did not answer the question, I judge, presuming the quotation made sufficient reply. I should like to elaborate upon that later.

Mr. Chairman, my business connection naturally puts me in very close contact with the investor. I think I know his mind, and I think I know with what reluctance he is going to look upon the security of the farmer. I know the farmer has to pay a higher rate of interest, notwithstanding his superior security, just because, in the minds of many, he is not considered a good business man.

Mr. J. J. Hill is credited with having made the statement that whenever the farmer gets to doing business on a business basis he will not have so much trouble in financing himself.

Mr. von Engelken, a practical farmer himself, brought the farmer more to task for his ways of doing business than I would dare do. You will doubtless recall how in these hearings he indicted his fellow farmers for their loose business methods. Thus does this Florida

farmer vindicate the railroad magnate's opinion of him, as a class. But, returning to the possible need for additional capital in the State organization or central bank, which is but a federation of the State units. It will be necessary to assure the investor, above all things, that the securities behind these land mortgage bonds are absolutely good. Your enactment must cover every possible weak point.

An assurance from outside capital, as well as from the unit banks that indorse the securities that are hypothecated to protect the bonds, will have a decided influence upon obtaining a low interest rate and in making a market.

This outside capital should be furnished, as suggested in the minority report, by well-known financiers located in the commercial center of operation. Undoubtedly this cooperation between city and country—

Mr. PLATT (interposing). Mr. Jones, would it interrupt you if I asked you a question now?

Mr. JONES. No; I am glad to answer questions. It will assist in making my position clearer, I am sure.

Mr. PLATT. That was my question that you referred to and Mr. von Engelken did not answer. I noticed it at the time; I did not care to interrupt him further then. What would be the objection, or would you have any objection to the founding of these central banks first and let them set in motion the machinery for founding the locals?

Mr. JONES. No; but I think that would be done almost simultaneously anyway. Dr. Coulter asked me that question when this suggestion was first made to him and Dr. Butterfield. It was his belief that before any of these little banks could be organized it would be necessary to organize a centralized bank.

The founders' shares could be paid in and the federation built around that. Two or three banks could then federate. You might not consider it necessary to prohibit any bank from operating outside of a federation, though I believe it best to compel them to federate. It is our argument that they can not with safety be allowed to operate as small units.

Now, the statement has been made here by both Mr. Moss and Dr. Coulter that competition is what you want. And I will say to you that no bank outside of the federation could compete with the banks of the federation. I am firm in my opinion that federated banks would reach a broader and a better market, from my own experience in my own State. Located as I am in the financial center of the State, I realize that if the farmers undertake to organize little rural banks, scattered throughout the State, with \$10,000 capital here and \$15,000 capital there, they can not come into Denver and sell their securities upon any basis that would be of any benefit to the borrower. I doubt if they could be sold at all. They would not be known in the cities; they would not be known to the investors.

But bring the securities of a federation of banks throughout the entire State, 10, 25, 50, or 100, or whatever the number may be; let it be known that they are federated and a proportion from each is behind a land-mortgage bond issue and in Denver is the centralized federation; and especially if in addition to the capital furnished by the banks throughout the country, an additional founders' capital has been put up by some of our well-known business men, such as each

one of you can name in your own home town; that such men have taken this founders' capital in order to assist the enterprise, and give it additional capital and to recheck the securities sent in, there is no question but what a home market within and without the State can be built up for the bonds issued against the diversified mortgages.

I do not believe, in my own case, that we would have to go outside of our own State for years to come to find a good market for such safeguarded securities. We have possibly \$20,000,000 of savings and time deposits in the banks of our own city. Considerable of this is invested outside of the State.

All through Europe we found, in the cities where they had accumulated savings, that the savings went back into the agricultural communities. How do we invest such savings outside the State? We invest them largely in bonds that go to build up other sections of the country. We have some of such funds invested in our own State, but the proportion is not as it should be. Our banks in the far West are hard put to it to always find profitable employment for their funds. It may surprise you to know that.

Mr. PLATT. That is a surprising statement to me. I knew that that is true of the bankers of the East.

Mr. JONES. Commercial banks?

Mr. PLATT. Yes, commercial banks and savings banks particularly. But I did not suppose it was true of the banks in Denver, for instance, which are growing on eastern capital—at least the communities are growing on eastern capital all the time, one way or another.

Mr. JONES. If you are interested in that, I may say that the banks of Denver have on an average from 40 to 50 per cent reserve all the time. That means that they carry from \$40 to \$50 in cash and sight exchange against every \$100 in deposits.

In addition to that, I will venture to say that at least 20 per cent of their entire loans are loaned outside of Colorado, invested in eastern commercial paper.

Mr. PLATT. Do you mean that they have a cash reserve of 50 per cent and also an additional reserve of bonds which are regarded as liquid assets or call loans or something of that sort?

Mr. JONES. Yes; bonds, call loans, and commercial paper.

Mr. PLATT. Is that regarded as necessary to good banking?

Mr. JONES. No, sir; it is a condition that we have.

Mr. PLATT. It seems to me that it must be due to, perhaps, lack of confidence.

Mr. SELDOMBRIDGE. To verify what Mr. Jones has said, I will say that there is a lack of commercial opportunity out there for the investment of banking funds. We have not got the market for commercial paper that is available in the East. You take the situation in my town of Colorado Springs, and the banks there have paper of John Wanamaker, and the H. B. Clallin Co., and Swift & Co., and Armour & Co. That class of paper is sold out there to banks. They are put to it to find available investments for their funds.

Mr. PLATT. That class of paper is purchased by banks largely because the want paper which will be paid when due, is it not?

Mr. SELDOMBRIDGE. They want to put their surplus into earning channels.

Mr. JONES. If they did not invest, as Mr. Seldomridge says, they would possibly have 60 per cent reserve?

Mr. PLATT. Well, it is hardly possible, it seems to me that, with the rapid development of the West, there could not be perfectly safe investments for money at home—

Mr. SELDOMRIDGE (interposing). Well, development in the West is along agricultural and mineral lines, which are not recognized as altogether safe channels for banking investment.

Mr. PLATT. That is it, then.

Mr. SELDOMRIDGE. You would not want to loan a man \$10,000 or \$15,000 to go out and develop a gold mine, would you?

Mr. PLATT. That is it; you do not recognize your local industries as sufficiently safe to finance at home; you want some assistance from down East?

Mr. SELDOMRIDGE. We are not asking people from down East to finance mines, or anything of that kind.

Mr. JONES. You have brought out a point, Mr. Platt, that I want to emphasize in order to explain my keen interest in getting through some bill that will assist the agricultural industry.

Our cities of the West have outgrown the agricultural sections. We do not have support enough from outside the cities to justify larger industrial or commercial undertakings. Because of this lack of a larger rural population our urban enterprises do not require all the capital the banks have available for them. We have got to have a consuming population, as well as a producing one, and the surrounding country and towns furnish both. My views thus expressed will explain why I went abroad as an American commissioner. It was in order to see if we could not devise some system for safely lending money to the agricultural interests in order to more largely populate the rural sections. We have thousands of acres of land that await development—the best soil under heaven and the surest water—irrigation—but our commercial banks can not loan on them; yet at the same time we have more funds than we know how to loan, or can loan under existing laws in our own State.

I made a similar statement that was questioned—I do not mean that my veracity was questioned, but that it was regarded with wonder—before the Banking and Currency Committee of the Senate when appearing before them on the new currency act. That statement led to my being asked how we came out during the panic of 1907, with the idea, I presume, of showing that our funds were locked up in New York and we could not get it. I said, “No, on the contrary, we needed funds in New York at that time.” “Why, was not that a rather unique condition?” I was asked. “I do not know what the condition was in other sections of the country,” I replied, “but Denver banks needed funds in New York to settle exchange accounts.” Then I was asked as to our own bank, how we came out in the panic of 1907, and what was our own experience. In reply I said: “We started in the panic of 1907 with about 42 per cent reserve against all deposits and in the statement following the panic we had about 58 per cent reserve.”

I was requested to furnish copies of these statements for the records. So I went to the comptroller's office and got the statements of our bank made before and after the panic and filed them with that committee.

Now, that merely illustrates the point that Mr. Seldomridge brings out; for our condition was the condition of the other Denver banks;

we held commercial paper of makers outside of our territory, such paper as Mr. Seldomridge mentioned; and at its maturity we did not renew; that led to an accumulation of funds as it came due and it more than took care of any demands upon us.

Mr. PLATT. I think that was probably true of nearly all the country banks in the United States; that same statement, I think, was made by Mr. Frame in the hearings before the Banking and Currency Committee.

Senator HOLLIS. Yes; we had to "check up" New York's percentage for good behavior quite a good deal after the hearings. Senator O'Gorman attended to that subject.

Mr. SELDOMRIDGE. The first relief that the Chicago banks had in the panic of 1907 was from the shipment of gold from Colorado Springs, taken out of the Portland mills. They were supplied quite regularly from that source; there was more gold out there than the banks needed, and they relieved the stringency in the Chicago banks.

Mr. JONES. We shipped upon telegraphic request from our bank to Topeka, Kans., within a few miles of Kansas City, the cash to meet the pay roll of the Atchison, Topeka & Santa Fe Railway, because they found difficulty to get cash enough to pay their employees, and they did not want to pay their employees in cashier's checks. We shipped to many other places about the same time where there were pressing needs.

Senator HOLLIS. Mr. Jones, of course you want to make as much money as you can for your stockholders, and at the same time be safe. You have a reserve of about 50 per cent of your deposits; and you would be glad to buy more of this Wanamaker and H. B. Claffin Co. paper if it were available. Why do you you not invest in it more?

Mr. JONES. We buy from \$5,000 to \$10,000 of each desirable name that is offered. I saw the statement made by some one in the records of your hearings, and which some one seemed to question that the present rate on desirable commercial paper was 4 per cent. I just bought some such paper before I left home at 4 per cent.

Senator HOLLIS. Well, would your bank like to buy, for instance, these bonds if you were assured that they were safe and liquid?

Mr. JONES. You are asking now about what I am leading up to.

Senator HOLLIS. That is what I want to find out about.

Mr. JONES. That is what I am leading up to; to show you that there are considerable available funds all over this country that you possibly had no idea existed that are waiting for some such liquid investment of this kind.

Now, I personally visited the Deutsche Bank, the large joint-stock bank of Germany, to find out if they were buying land-mortgage bonds, and I found that they were. A few days before I called this big bank had bought \$100,000 of land-mortgage bonds from one private joint-stock bond-issuing land-mortgage bank. I asked, "How do you look upon them?" The officer replied: "They are absolutely good. There is no question about them."

Senator HOLLIS. Well, how liquid were they?

Mr. JONES. Liquidity has two definitions, as understood by the banker.

Senator HOLLIS. Yes.

Mr. JONES. One, the loan whose maker has the ability to retire the note out of his own active assets without going out of business or injury to his own business. The other is an investment that always has a ready market. This investment itself may not be liquid, but the effect, so far as the investing bank is concerned, is the same.

Senator HOLLIS. The bonds did not have that sort of liquidity—the first mentioned—because they probably were not due at that particular time.

Mr. JONES. No; they came within the second definition; the liquidity of the investment on account of it being marketable.

Senator HOLLIS. That is what I was inquiring about.

Mr. JONES. Take, for example, the financial statement of almost any commercial or savings bank and analyze it. You will find a large amount of bonds held as investments. Why? As a secondary reserve. A bank may need to realize upon its securities even before the maturity of some of its liquid paper—that which is liquid in itself. It is then the wisdom of holding a fair amount of readily marketable bonds as a secondary reserve is shown. Now, you are going to find a great big market for your land-mortgage bonds, properly protected, with commercial banks.

Now, let me suggest a caution: Should we have a failure or two in land-mortgage banks, the whole system is likely to go into disrepute. We must build up around the system something that makes doubly sure the security. If a land-mortgage bank out in an unknown town in New Mexico should fail, the newspapers all over the country would herald in big headlines "Land-mortgage bank fails."

This would affect the market on all such bonds. It would immediately raise suspicion regarding the land-mortgage bank system. That is a thing that you must safeguard as securely as possible.

Now, I am speaking from the standpoint of a banker and what I would want to invest in myself. If I knew there were a lot of these bonds issued by the Farmers' National Land Mortgage Bank of Brownville, N. C., \$10,000 capital, or by the National Farm Land Mortgage Bank of Smithville, Kans., with \$15,000 capital, what would I know about them? Would I invest the funds of my bank in them? Will trust funds be invested by any man who is responsible to account to some widow or orphan or to some court? I doubt it. But if you can build around those bonds some double-checking system, something that will throw about them greater protection than there is under the Fletcher-Moss plan, I believe you will reach such markets.

Mr. SELDOMRIDGE. Just what protection would you have?

Mr. JONES. That brings up the minority recommendation.

Mr. SELDOMRIDGE. Well, what is that?

Mr. JONES. Now, I would like to take this minority report and comment upon it as I go along, for this is probably the last "say" that the minority will have.

Mr. WOODS. Mr. Jones, before you go on I would like to ask this question: You spoke of these small banks taking stock in the central bank. Would you suggest that they use a part of their par-value capital, or pay in a surplus, say, of 20 or 25 per cent for that purpose?

Mr. JONES. I think you can safely follow the plan of the Federal reserve bank system, where the member banks are required to invest part of their capital and surplus in the regional banks. That becomes a permanent investment, and by building up a federation each bank

would put part of its capital into a centralized institution, which alone should have the bond-issuing power.

And may I mention here that another argument for this federation, organizing from the outside toward the center, is to keep the control of the land-mortgage banks back in the country. Under this Fletcher-Moss bill, gentlemen, I do not believe that we will have any small banks, or if so, that they could long survive. There is no maximum limitation, mind you, as to capital. It would result, therefore, in the establishment of a number of large banks.

And where would be the control of those large banks? Still in the hands of the money lender; still in the hands of the man who wants to get the highest rate of interest possible out of the farmer; in the cities reaching out into the agricultural sections through their agencies.

But accept the proposed plan of the minority—which might be considered an amendment to the report of the United States commission—in this respect and we keep the control right back in the country. The unit banks, all federated, would therefore control the central institution and would control its policy. It can not be taken in the interest of the unit banks, in turn owned by the farmers.

I would limit the amount of founders' shares in proportion to capitalization, so that the amount could not get where the control could get away from the unit banks, or members, as they might be termed. Should you accept of the founders' share plan along with the member banks, we would reach, as I said a moment ago, a broader market, and the law of supply and demand would operate to furnish a cheaper rate of interest. I will mention this later.

Mr. Moss. Let me ask you a question there, Mr. Jones. These founders' shares, when you sell them, would they have the power to issue bonds upon the founders' shares?

Mr. JONES. Yes.

Mr. Moss. So your idea would still be that the capital of the bank would still control the total issue of the bonds; that is, 15 to 1?

Mr. JONES. That the capital and surplus of the central should control the issue of bonds. If you will note, the minority report has left blank the maximum amount of bonds the central should be allowed to issue in proportion to its own capitalization. Dr. Coulter suggested that we put it at 15 times; but that is a matter for careful consideration and mathematical calculation. I will bring that question up later. I would like to read from the minority report:

It is proposed that the farmers cooperate with the stockholders of banks in rural communities.

We propose that they cooperate with stockholders in rural banks (which banks will be found generally owned by the farmers themselves), in the organization in their respective localities of small unit land-mortgage associations, capitalized in proportion to the needs of their respective communities—minimum capital, \$10,000.

Each association to be organized upon the share capital plan, cooperative (as to sharing profits with borrowers without the mutual liability feature) or noncooperative with double liability of shareholders), as might be desired.

It is to become affiliated with and have close interrelationship with the rural bank which may be owned by some of the same shareholders, in that it may have its office with the affiliated bank and be officered, managed, and directed by some of the same men, to which could be added other desirable farmer directors, if such rural banks are not already dominated by that interest. The objects sought by this affiliation are—

Now, please follow me closely on these three points which bring out the need of this affiliation—

1. To utilize the facilities already in existence; to obtain the accumulated information regarding the intimate financial standing of the farmers in the community,

with the knowledge of their ability to pay, which knowledge has been gathered by years of personal contact and experience with them by the local banks; to have the advantage of banking quarters, with little or no overhead expenses, excepting such nominal clerk hire as might be necessary as part of the duty of some clerk in the bank.

2. To cooperate with the existing banking facilities in a manner that would lead the bank to foster and develop the growth of the land-mortgage association. This would work in many cases in finding a market for bonds issued by the "central," later referred to, for every bank gathers a line of deposits upon which it pays interest and upon which there is little profit. It is believed that if such banks could divert a portion of these deposits to a more permanent use in a manner so that it would share in the benefits at the same time they would gladly do so. The influence of organized banks in recommending such securities would be very great.

It must be recognized that banks operate mainly upon deposits and are either restricted or prohibited by law from loaning their funds upon real-estate security because of its nonliquidity and length of maturity. It is believed that our country banks have for so long operated under these restrictions that they will welcome a system that will furnish the needed facilities to their respective farming communities, and will gladly cooperate to bring this about.

3. To place each country bank, whose shareholders join in the organization of such a local land-mortgage association, behind its own "local"—

Now, here is a decided point which will be of advantage: If you can get the stockholders of our country banks financially interested in these land-mortgage banks, you are going to get them behind the mortgage loans in this way—

Should misfortune overtake any of its borrowers the bank would be interested in furnishing sufficient funds to make interest and amortization payments. Or should the borrower feel the need of using his profits from a season's operations in other directions, such as additional needed improvements, or for stocking his farm, breaking new land, or for any other provident purpose, he would have an established institution sufficiently interested in him and of sufficient strength to advance him the necessary amount to permit of this.

Now, let me dwell on that point. It has been brought out in your hearings that it was found necessary in European countries for land-mortgage banks to become affiliated with commercial banks. I notice particularly that Mr. Hill, in his effort to induce you to amend the Fletcher-Moss bill so that farm-land banks might receive deposits, brings out some argument against his own idea by citing the fact that some banks in foreign countries have found it necessary to affiliate with commercial banks.

He refers to the *Landschaft*—a land-mortgage bond-issuing society. The *Landschaft* receives no deposits, but after operating for a great many years and trying to find a ready market so that when the borrower gave his mortgage he could get the money immediately on his bond, found it expedient and necessary to establish its own independent bank and not encounter the danger of mixing the two classes of business.

The president of the *Landschaft* at Halle made this statement to me at a luncheon in his private rooms over the bank. As has already been brought out in your hearings, the bank occupies the first floor and the *Landschaft* the second. It is an interesting story, that of the organization and operation of the *Landschaft* and its child, the bank. The *Landschaft* began without any capital, but merely by charging a nominal membership fee of borrowers. Originally all the borrowers or members mortgaged to it their lands. This gave each borrower a line of credit and they were furnished the *Landschaft's* own bonds up to the amount of their mortgages when they needed funds. Occasionally if a man would pay off his debt he would allow the mortgage to stand until he needed help again, and

when he called again was given what bonds he needed. He had to find his own market for the bonds.

After operating a long time the Landschaft accumulated a large "reserve fund." We would call it "surplus" in this country; they refer to their surplus as a reserve fund. They felt the need of having an affiliation with a commercial bank; a bank that had ready funds with which it could take up these bonds from their borrowers. So they organized their own commercial bank. The Landschaft itself owns the bank; there are no stockholders. Hence I spoke of the bank as its child.

I asked the president, "Who owns this building?"—a splendid building, centrally located in a progressive and apparently wealthy city in the best agricultural section of Germany. He replied, "Why, the Landschaft owns the building."

I asked him, "How did it make the money with which to buy the building?" He said, "On the profits between the interest the borrowers pay and what our bonds draw." I said, "You own a bank, and this building, and have started without any capital at all?" (You see the traits of an inquisitive American.) He seemed amused and replied, "Yes." "Well, you say the Landschaft owns the bank and the Landschaft owns the building?" "Yes; and we built this building and capitalized the bank out of the profits of the Landschaft." "Well, who owns the Landschaft, and consequently the profits and consequently the building and bank?" He laughed and said, "That is a question that we are wondering ourselves."

I said, "What provision have you regarding the distribution of your profits?" "None; they remain with us." "Well," I asked, becoming exceedingly interested, "who furnished these profits of the Landschaft which has thus become its capital?" "Our borrowers." "Who are your borrowers?" "The men who are borrowing to-day; the men who borrowed last year; the men who borrowed a generation ago, or a hundred years ago; men whose loans exist to-day, men whose loans were paid off years ago, men living and men long dead." "Have you any lawyers in this country?" I asked. He said, "Yes; why?" "Well," said I, "they are not American lawyers, or somebody would be trying to prove that their forefathers had an interest in this building to-day, and consequently they, their rightful heirs, are joint owners of the building and bank." He said, "You know that thing is just beginning to be thought about."

Senator HOLLIS. That is not a new problem in New England, where we have our mutual savings banks, and where the depositors are the only persons who have an interest in the profits, and where they are building up a surplus.

I may have had \$5,000 in that savings bank for five years. That money is invested, and they have earned more than the interest which they paid to me. I withdraw my \$5,000, and the surplus earnings of that deposit stay there for some indefinite person's benefit, and it has never yet been figured out just when that must stop or just who has a right to it or how far the banks have a right to build up a surplus.

Mr. JONES. I mentioned that incident in order to bring out this point, that American methods and American customs must be adhered to, or we are liable to open up something here of a cooperative nature that is going to get us into a lot of trouble, unless it is very clearly defined by law. Our present American idea is the joint stock

association. It can be made cooperative if desired. In the last analysis all such associations are cooperative to a greater or lesser extent.

Now, you see we have incorporated in the minority report this idea of affiliating the rural land-mortgage banks with present existing successful country banks already owned and managed by farmers. If they do not find such a bank in a community, it is easy enough to organize without that bank, and if they feel that the farmer is not properly taken care of or would not be safeguarded there is no reason why they should not organize independently and in time might organize their own bank too.

Mr. PLATT. That idea is not entirely foreign to the report of the majority of the United States commission, is it? I understand that they have the idea that banks would organize; savings banks, perhaps small country banks, would organize these farm-land banks in connection with their own business.

Mr. JONES. I have not heard them express themselves on that. I think it would be the natural result.

Mr. COULTER. We discussed that somewhat.

Mr. JONES. But they stop there with their isolated organizations. It is going to be absolutely necessary for such banks to federate. The bill restricts the earnings so that it is inconceivable that there will be any considerable number of small land-mortgage banks undertake to organize without such affiliation or federation is permitted. Therefore the very objects sought, to put these banks within the reach of the rural communities, will be defeated. What can such a bank do? A \$10,000 bank can have \$150,000 of bonds outstanding at any one time, and they run for 35 years. It can only receive 1 per cent for all expenses and profits. The bank will operate some time before it reaches its limit. It will have overhead expenses to start with. If this bill is taken just as it stands, the Fletcher-Moss bill, with all due respect to those who prepared it and advocate it, I believe we will be made the laughing stock throughout Europe. I never heard of small capitalized land-mortgage banks anywhere floating bonds for a long term of years.

One of the great advantages of the federation is holding down the expenses. Mr. Moss brought out a point as to why federation would not increase the expense of operation.

Mr. Moss (interposing). Mr. Chairman, I do not want to interrupt Mr. Jones; but I would feel that in discussing the bill the provisions of the bill ought to be discussed rather than my discussion of it; but of course I have not any objection to his discussing my discussion of the matter. But the question I was discussing, Mr. Jones, was the question of appraisement, namely, that if the central bank would make a central appraisement, that would increase the expenses of the administration. That was the point, as to whether or not the local bank was to have the exclusive right to appraise, or whether the local bank should appraise and then the central bank should reappraise, and if so, the question that I was bringing out was the question of appraisement with respect to its cost.

Mr. JONES. I am mentioning these unanswered points, and it is rather complimentary, Mr. Chairman, to Mr. Moss than otherwise, to show that he has propounded such important questions that can but

assist in valuable enlightenment, if answer is undertaken. It was my desire to make reply to his objection.

Mr. MOSS. I would be glad to have you answer it.

Mr. JONES. As the hour has arrived for adjournment, I will answer that later.

(Thereupon, at 1 o'clock p. m., the subcommittee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

The subcommittee reassembled at the expiration of the recess.

Mr. BULKLEY. Gentlemen, we will come to order now and hear Mr. Jones.

STATEMENT OF GORDON JONES—Continued.

Mr. JONES. In part 9, page 4, it may be wrongly quoted, but there is a statement made that is erroneous—referring to the national-bank law. You may have under consideration the advisability of limiting the amount of stock that might be held by any one shareholder. From the records, I read:

Mr. OUSLEY. I notice that the bill provides that no stockholder shall own more than 10 per cent of the shares of the capital at any time, and I would like to inquire why that limitation is put in the bill.

Senator HOLLIS. Mr. Moss can answer that question.

Mr. OUSLEY. Yes; I should like to know why the limitation of 10 per cent was put in the bill.

Mr. MOSS. That limitation is the same as that contained in the national banking act. The limitations in this bill on individual stock ownership and the making of loans to individuals are precisely the same as in the national banking act.

Mr. OUSLEY. But this provides that no stockholder shall own more than 10 per cent of the stock.

Mr. MOSS. You will find that same provision in the national banking act.

I think there was a misunderstanding between Mr. Moss and Col. Ousley, but the evidence before you now is to the effect that the national-bank act prohibits any stockholder from owning more than 10 per cent of the stock of a national bank. There is no such limitation, as doubtless the committee knows, regarding stock ownership of a national bank. I myself own more than 10 per cent in several national banks. There are many national banks largely owned in their entirety by some one individual. So that if you are trying to follow the national-bank act as relates to stock ownership, permit me to correct the evidence as now shown in your records.

The limit of stock ownership to which Col. Ousley referred had reference to proposed cooperative banks. If any group of men wanted to organize a cooperative bank they were not to issue more than 10 per cent to any one stockholder. What Mr. Moss probably had in mind was the 10 per cent limitation on the amount that national banks can loan to any one borrower. That of course is too small for loans secured by mortgage, and even in that the Fletcher-Moss bill makes the limit 20 per cent. The minority recommends 25 per cent of surplus as the limit.

In part 2 at page 21, Mr. Bulkley asked Mr. John S. Hill a question which he did not answer. We witnesses sometimes become very enthused over our cause, and we do not always closely follow the

line of inquiry. Mr. Bulkeley was endeavoring to ascertain whether savings banks in Italy were permitted to invest in long-term land-mortgage loans, and he asked the question twice, and Mr. Hill did not answer it either time. It is, according to my recollection, that the loans throughout most of the European countries made by savings banks using savings deposits for the purpose, are subject to call; or, at best, short notice of call, and that such loans are not made for a definite time.

Senator HOLLIS. That is like the New England system of savings banks. They are all made on demand.

Mr. JONES. Possibly, yes. Now, Mr. Hill was arguing from the viewpoint of a banker who has a lot of savings deposits and wants to convert his bank into a land-mortgage bank and at the same time wants to keep his savings deposits. We were repeatedly cautioned in Europe, about trying to combine the two. One of the reasons for the growth of the long-term land-mortgage system of loaning in Europe was because the savings banks were thus loaning subject to call, which they had to do to operate safely, and the borrowers were not satisfied. There must come a time when they would be called upon to pay their loan on account of shrinkage of deposits, and at a time it would not suit them to pay. That brought about the development of the land-mortgage system, independent of the banks that operated upon deposits.

Senator HOLLIS. As a matter of practice in New England even in 1893, when the savings banks got in such a bad way, I do not know that they tried to collect any of these demand mortgages. I have never known of one to be foreclosed.

Mr. PLATT. They were foreclosed in New York. I do not pretend to know as much about the subject as Senator Hollis does, but when you speak of deposits being demand deposits I suppose you mean——

Senator HOLLIS (interposing). I am not talking about deposits myself. I say the mortgage loans or notes were all made on demand.

Mr. PLATT. Is that so?

Senator HOLLIS. Oh, yes; all the notes in my section are made payable on demand. But they are never called, so far as I know.

Mr. PLATT. That is not true in my section. The mortgages run for two or three years, but they keep right on, in fact, without even any renewals. They just simply keep right on paying the interest. Nobody ever renews them. I would not say nobody does, but it is not the ordinary practice.

Senator HOLLIS. That is considered as giving the banks an advantageous position to do as they please, otherwise they would not have it all their way, and, of course, that is what the borrower wants to avoid, and I do not blame him.

Mr. JONES. Now, to permit the organization of land-mortgage banks and at the same time allow them to receive savings deposits to any appreciable extent and make 35-year loans is contrary to my idea of conservatism and safety. This criticism would not attain in case savings banks or commercial banks desired to invest a portion of their deposits in the bonds of a federation of regular land-mortgage banks that in themselves do not operate upon deposits. I remember particularly in one case, the president of a land-mortgage bank in Europe answered this question that I put to him, "Do you receive deposits?" by saying "Yes, but to a very limited extent; we do

not make a specialty of it." "Why do you not make a specialty of receiving deposits; would it not assist in meeting your overhead charges?" "Yes; but we do not believe the two systems should go together; it is too dangerous." While the minority suggest receiving savings deposits to the extent of 50 per cent of the capital and surplus, I personally doubt the wisdom of that even, and my arguments have been along the line of total prohibition.

Mr. PLATT. Building and loan associations get away from that. They receive deposits and loan them on long time.

Senator HOLLIS. But they do not contract to pay those deposits until the shares mature. And the shares mature at the same time that the loans do, so that they are paid automatically. That is the principle of the building and loan associations in my State.

Mr. PLATT. That is true, of course.

Mr. JONES. If you are a member of a building and loan association you will bear me out in this. Their savings deposits are subject to withdrawal only when there are funds on hand. Our banking laws make the banks insolvent if they do not pay when called upon to do so.

Mr. PLATT. In the savings banks if a man withdraws he loses his interest. In our State you can withdraw only after notifying the bank, giving them 60 days notice, I believe. They have that legal right.

Mr. JONES. Mr. Platt asked a question several days ago during these hearings that I do not find directly answered, which probably might be of interest. It was in regard to the high rate of interest prevailing while we were in Europe. Mr. Platt's question was to Mr. Moss and is as follows:

Mr. PLATT. The case you spoke about in Austria was a special case where the commercial banks paid a higher rate of interest and the Government borrowed at more than 6 per cent interest. That was due to the Balkan war and to the shortness of money in the commercial centers, and also to the desire of the Austrian Government to get some money from outside sources without disturbing local conditions, was it not?

Mr. Moss's reply failed to answer the question. The facts are, and Mr. Moss would doubtless have answered had he replied, that it was due to the Balkan war.

Mr. Moss. I did not answer the question, because I did not consider, from the point I was presenting, that it made any difference. The point I wanted to get before the committee was that local conditions could make a lower rate of interest than that which prevailed, but I did not want to go into that question because it did not seem, from the line I was making, that it was of any consequence. It was with no intention to evade the question at all.

Mr. PLATT. It seems to me that the illustration was not altogether a fair one, because it did not show general conditions. It showed an extraordinary state of affairs.

Mr. Moss. Since the question has been brought up, I should like to say that while the interest rates were higher in Europe, and probably due to the war—I do not care to dispute that, but will let Mr. Jones's answer stand—it is a fact that the loans made through the local farm organizations were almost invariably lower than those of the commercial rates. I will make that statement.

Mr. JONES. That was a peculiar condition. Local rates of the larger institutions were considerably advanced, but this was not

generally done by the smaller institutions. We found merchants under the cooperative system, that would have no financial standing at any regular commercial bank, and were scarcely entitled to credit from a banking standpoint, were borrowing money at from 1 to 1½ per cent less than the strongest merchants in the same community were borrowing from the larger banks.

Senator HOLLIS. How do you account for that?

Mr. JONES. It is because the smaller merchants who had no access to the larger commercial banks, had combined among themselves in a cooperative system, under the Schulze-Delitzsch plan. They do business with themselves; they receive deposits and they only make the rate of interest to themselves just enough more than which they pay on deposits to cover operating expenses. They are not profit-making institutions.

Mr. PLATT. Well, if the increase in the general rate of interest outside should be permanent instead of merely temporary they would probably have to change their method somehow, would they not? Would they not have to respond somehow?

Mr. JONES. I should think it would so result, because they would soon have to raise the rate paid for deposits to hold them and that would automatically raise the loaning rate.

Mr. PLATT. Of course as a temporary thing they could go right on in their own way.

Mr. JONES. Yes. They did not need to raise the rate to meet temporary conditions; but large commercial banks had to protect their reserves, while the cooperative banks keep little or no reserves. The Government had to protect its gold reserve, and therefore raised the Government bank rate of discount. You will find that same sort of methods adopted in our country after we get the Federal reserve banks operating. I believe under trying conditions the country banks will be loaning at cheaper rates of interest than the Federal reserve banks—that is, during unusual times when those banks are endeavoring to protect their gold reserves.

Mr. PLATT. That has happened a great many times already. For instance, during the panic of 1897, when gold in New York was up 2 or 3 per cent, I had a loan running right along at 5 per cent, and nobody asked me for any more collateral.

Mr. JONES. Those are purely local conditions.

Mr. PLATT. They were local conditions, and I said conditions did not last long enough to make it necessary to make any changes.

Mr. JONES. Mr. Seldomridge asked Mr. von Engelken a question regarding the advisability of permitting the land-mortgage banks to do a short-term loaning business as well as loaning on long time. By short-term loaning is meant personal loans for temporary needs. I believe the commissioners were all united, so far as I have ascertained, the United States commissioners and the American commissioners, both the majority and the minority, in their opposition to the establishment of any form of financial institution in this country that combined both the short-term personal credit and long-term mortgage loan features. I think Senator Fletcher at one time advocated this and introduced a bill covering both plans, but subsequently withdrew it.

Mr. WOODS. Mr. Jones, do not the national banks under this new Federal reserve act have both privileges?

Mr. JONES. Dr. Coulter defined short term as being under five years, I notice, in one of his remarks.

Mr. WOODS. But that does not necessarily follow that it is short term—five years.

Mr. JONES. No. I take issue as to that being a short-term loan. Yet for the purpose of defining mortgage loans he refers to a five-year loan as a short-term loan, and to a 35-year loan as a long-term loan. Answering your question direct, yes; there is a provision in the Federal reserve act permitting a limited amount, proportionate to a national bank's capital, or its time deposits, to be invested in farm loans, not exceeding five years' duration. There is a very serious question in my mind as to the wisdom of that provision. That was inserted, as I have heard said, because it was thought necessary to assist the farmer. Undoubtedly had we had a land-mortgage banking system it would not have been done.

Senator HOLLIS. Of course the trust companies do that indiscriminately, and our savings banks do it indiscriminately.

Mr. JONES. When I speak of short term I mean loans of, say, six months and under.

Senator HOLLIS. You understand, of course, the ordinary trust company will make a loan from 10 days to 10 years, as it chooses; that is, there are no restrictions, except the good sense of the bankers.

Mr. JONES. Yes, sir. The fact of the inability of commercial banks to take those kind of loans has been the real reason of the growth of the trust companies.

Senator HOLLIS. Yes.

Mr. JONES. I really regret to see any legislation permitting the national banks or commercial banks to invade that field. I think it would be advisable to keep them strictly in the commercial field. Deposits in commercial banks fluctuate violently. If they have long-time loans, what are they going to do? They must have early maturing paper that automatically takes care of the shrinkage without forcing their borrowers.

A very vital point was brought out by Senator Hollis that I would like to dwell upon a moment. In part 8, page 34, a signer of the minority report, Mr. von Engelken, a farmer, made this statement:

I have not the faith in the farmer, as a banker, that is evidenced by the gentlemen who wrote this majority report.

Senator Hollis asks:

I can not see where it is necessary to have it a bank and keep open during banking hours—

Referring to the land-mortgage banks—

Take \$150,000 out in loans; there would be 150 averaging \$1,000, or 75 averaging \$2,000, spreading over a period of 35 or 40 years; there would only be about one mortgage lasting 40 years; there would only be about one mortgage handled in a month. I can not see the need for having a regular banking room open during regular banking hours.

Gentlemen, that is getting right at the crux of the minority report. We ask for the affiliation of land-mortgage banks with our present existing country banks in order to save that overhead charge and in consequence be able to make the cheapest possible rate. If they receive deposits, even with the 50 per cent of the capital and surplus limit, our State laws would require that they shall be ready during any banking hour to pay those deposits when called upon. That

will require keeping open during banking hours every day in the week, holidays and Sundays excepted, to be ready to meet the demands of checking depositors, whereas in strictly a land-mortgage bank, as Senator Hollis, I believe, further mentions, it might be conducted in the back room of a grocery store, where some one man could receive applications for loans and accept payments on existing loans.

Mr. PLATT. How could the State laws compel a national institution to keep open and cash checks at any time that is organized under national law?

Mr. JONES. If not, the national law would require the same thing, unless provision is made whereby the bank need not pay the depositor when called upon to do so during banking hours or need have the doors open at its convenience.

Mr. PLATT. I think that could be arranged; yes. Perhaps something would have to be done to show that he distinctly understands that he could not get his money at any time; that the bank is not open at all times. But that is true in the banks now; they are not opened until 10 o'clock in the morning and close at 3 o'clock in the afternoon.

Mr. JONES. They are open every day during banking hours.

Mr. PLATT. Banking hours might be 1 hour a week just as well as 10 hours a day.

Mr. JONES. I am not clear as to whether the law requires specific banking hours. But usage does.

Mr. PLATT. There is a bank in New York, called a day-and-night bank, which is open all the time.

Mr. SELDOMRIDGE. It never closes?

Mr. PLATT. No, sir.

Mr. JONES. I think it is well to consider, if you are going to let the banks receive any kind or amount of deposits, as to what hours they should keep open.

Mr. PLATT. That is true.

Mr. JONES. Reading further from the minority report, a paragraph which I would like to comment upon briefly:

It is clear that no small local unit institution could have sufficient financial strength to place its securities in the market so as to command the best rates of interest, if, indeed, it could find any market at all for its securities. It is, therefore, proposed to federate a considerable number of such locals in a given State by organizing a central body in some commercial center of their State. This is to be done somewhat similar to the plan of federating the short-term credit societies throughout Europe, in that these locals are to own and control the central, and not the central to own and control the locals. In the latter case the control and management would be taken out of the hands of the farming communities and put into the hands of the city financiers; whereas in the plan proposed the rural communities would retain control, so as to insure against exploitation at the hands of outside interest.

Mr. Breitung, in his testimony, dwells upon the necessity of organizing sufficiently strong so as to reach the market. Here are his words, quoted from the records:

The only thing I would like to say is that you have them—

Land-mortgage banks—

large enough, so when we go over there—

Meaning to Europe to place bonds—

they will think it is worth while and will consider it. We want to get real consideration.

That is carrying out the same thought. No consideration will be paid to bonds offered by such small units as proposed. Therefore I am confident in my mind that the law would be a dead letter, so far as rendering any relief to our agricultural interests if these little banks should be permitted to organize without federating. There is no prohibition for a large bank of a million dollars capital being organized in some center. That will be the result under the Fletcher-Moss bill. They will organize large banks which will reach out with their tentacles into the rural districts, as I before mentioned. To pass upon each loan as offered from a distance would involve tremendous expense. This leads me up to Mr. Moss's question just before noon adjournment. That is one of the difficulties we are up against now, and why the farmer does not get a cheaper rate. He sends in an application for a loan of \$1 000. The lender must send his own inspector out into the field; he has got to pay railroad fare, hotel fare, livery hire, and spend from one to several days' time. I am assuming there would be no small banks under the Fletcher-Moss bill, and I feel confident in that assumption.

The minority thoroughly considered how to reach the appraisalment in the safest and cheapest way. Even if the double checking were to make an additional cost, this precaution would sell the bond at a lower rate and redound to the benefit of the borrowers. We have taken the small unit banks, allowing them to make the loans originally upon the appraisalment as provided in the bill, by local men who know the conditions and are familiar with the local environments and can pass upon the desirability of the man as a borrower. If this land-mortgage bank is affiliated with the local county bank, they have his record pretty thoroughly already. Undoubtedly in many, many instances, however, the appraisalment made in this way will be biased. We have provided a method of rechecking the appraisalments which we think absolutely necessary. This can be done when a number of loans are completed and ready to be used as a basis of bond issue, thus reducing the cost incident to appraisalment. To quote from the minority report:

The central should have its own inspector and appraiser to check the examination and appraisalment made by the different locals of the securities sent in by them, as well as audit the locals from time to time. If upon his visit and report any loan that had been sent in by a local should be found not up to standard or had been misrepresented, that local to be required to either take up the loan, reduce the amount forthwith, or put up some additional collateral for the purpose of margining the loan to the required amount, which additional collateral would be deposited with the securities behind that series of bonds until the loan itself shall have been reduced to proper proportions by the borrower. The local having an established country bank behind it will be amply able to make the necessary arrangements to do either of these required things.

Naturally every farmer wants his land to be worth as much as possible. He knows that if John Smith's land, across the road, is appraised at \$100 per acre it is going to more nearly maintain his idea of his value at \$100. I have had some very intimate experience along that line, being interested, as I mentioned this morning, in other certain sections of our State. For several years I took issue with a local board of directors regarding the land valuations used as a basis of extending credit. In my recurrent visits I tried to impress upon them that they were oversanguine regarding their values and held too exalted an opinion of their lands. Finally I said: "Gentlemen,

I think I had better stop coming here, or you will think I am a knocker on your section or a pessimist, but I can not see that you have any permanency in these values." This was possibly five years ago. Fortunately during the time of plenty that bank accumulated a handsome surplus and undivided profits account. Listen to the story down to date: Out of a \$50,000 accumulated surplus it has taken \$25,000 to charge down on loans made upon those supposed values, based strictly on local ideas and honest best judgment.

Senator HOLLIS. And what percentage? What percentage was loaned on that valuation?

Mr. JONES. The loans were about \$250,000, so the percentage of loss was about 10 per cent.

Senator HOLLIS. What percentage of the valuation was loaned on a particular piece of land?

Mr. SELDOMRIDGE. Fifty, forty, or sixty per cent?

Mr. JONES. These were not loans directly on the lands; these were loans based on local valuation of a farmer's property. In many cases supposed equities did not exist.

Senator HOLLIS. I see; based on his property.

Mr. JONES. Yes. I reluctantly mention this personal experience, but believe it valuable to prove our contention as to the necessity of an outside and independent appraisalment. Mr. Van Enyleken brings you a similar story as to wiping out equities in Florida. These conditions can be shown, repeated over and over again, in other States. At one time I was interested in a bank, gentlemen, where there were three straight years' crop failures. I had to personally put up money and pay off the deposits and took over the assets myself of that bank, for I realized the condition of the borrowers, and because of my identity with it I felt a moral obligation to protect its depositors. Now, there was a local condition that very nearly bankrupted that entire community. Had they a land-mortgage bank there independently floating bonds, you can see what would have been the result. But if it belonged to a federation it could have been safely carried through by the combined strength, or were it to go into the hands of a receiver the bondholders would be none the wiser, as its securities would be protected by the federation. But where would such a unit bank be under the Fletcher-Moss bill? This same thought is carried out in our laws that prohibit fire insurance companies from putting too many risks in one place, and prohibit life insurance, fidelity, or casualty companies from taking too large single risks. That is the same underlying principle.

The minority would even restrict the amount of mortgage loans behind any series of bonds from any one given locality, besides limiting the amount to be loaned any one borrower. I will here quote from our minority report on this point:

The central alone should have power to issue bonds or debentures, these to be secured by the collective mortgage loans made on the amortization principle on productive farm property received through and having the indorsements of the different locals. When the central receives loans aggregating a given amount, say, one-half of its own capital stock, it would be empowered to issue a "series" of bonds or debentures against such mortgage loans. The loans from any such local securing any one series of bonds issued by the central should not exceed a reasonable proportion of the whole. Thus, by this plan will be built up an aggregate of diversified, well-secured, and indorsed mortgage securities, not dependent upon the conditions of any single locality, against which the bonds would be issued and which should find a ready market and command the cheapest possible rate of interest.

It might be desirable not to have over 10 per cent of the total loans behind any bond issue from any one county.

Senator HOLLIS. Mr. Jones, there are only 10 counties in my State.

Mr. JONES. Well, you can organize in 10 counties.

Senator HOLLIS. I think we would come a little nearer the ideal by having a percentage of the number of counties in a State. In Delaware there are only three counties, by the way.

Mr. JONES. It might be found necessary to extend the line beyond the States where there are such conditions as that.

Senator HOLLIS. You might intersperse a few Colorado counties in Delaware. They would be adequate.

Mr. WOODS. Mr. Jones, I understand your plan is that the central organization should issue the bonds?

Mr. JONES. Yes; alone.

Mr. WOODS. What would be the privileges and duties of these local organizations?

Mr. JONES. The local organization, it is proposed, shall put into the federated central just as the national banks have to put into the Federal reserve banks, a portion of their respective capitals and surpluses. Our proposal is that it shall be 25 per cent. This would leave 75 per cent of the combined capital and surplus of each unit bank unemployed and with which to make loans. They would make mortgage loans on the amortization plan, closing them at once or as soon as title is examined and inspection made, and would not have to wait for a big bank in the city to send out to appraise the land. When they accumulate a number of finished loans (they could hold them as long as desired for the benefit of the accruing interest) they are to guarantee them and forward them to the central, against which the central alone has the privilege of issuing bonds.

Mr. WOODS. What is the objection to permitting the present State bank to send 25 or 30 per cent of their capital and surplus through the Federal reserve bank?

Mr. JONES. We thrashed that over for a solid day.

Mr. WOODS. What was the objection?

Mr. JONES. You can not expect State banks, when the State laws prohibit such investments by them. You might permit the national banks to do it.

Mr. WOODS. Of course, they would be nationalized if they did that.

Mr. JONES. We are up against the same thing now in admitting State banks as members of the Federal reserve banks. I do not think many State laws will permit them to invest in the capital stock of another corporation. We might, when we get through with this, take that up, if you would like to, and I will give you the argument among ourselves. We had that under consideration very seriously as an alternative proposition, and thought of incorporating it in our report at one time as an alternative proposition.

Mr. WOODS. I thought maybe you had some specific objection to it, and I would like to hear it.

Mr. JONES. Yes; I have. I believe the proposed plan better.

Mr. PLATT. There is one question I would like to ask you as a banker. Why is it that the Scotch banking system can not be done here in localities? Apparently the Scotch banking system has done away with any demand for the rural credit plan in the sense of a demand. I understand a man takes a mortgage to the bank, and

the bank gives the man credit up to the limit of his mortgage, then he borrows on that when he pleases and does not begin to pay interest until he has borrowed something, but then he pays interest on what he has borrowed, and when he makes deposits they automatically pay off his loan, so that his debt is constantly fluctuating about. It seems to me that has some advantages over any system which has ever been proposed here. Why has it not been done or tried here?

Mr. JONES. You put the real estate security, then, in a bank. I do not believe the present banks are large enough to meet this additional demand even if desired.

Mr. PLATT. There is nothing to prevent State banks from doing that, is there, now? In fact, I have been told that some State banks do that; that they give a man a line of credit on a mortgage, but I do not know how they carry out the Scotch plan, but I do not suppose deposits automatically pay off the debt.

Mr. JONES. I do not think there is any prohibition.

Mr. PLATT. What disadvantages are there, if any, that prevent it from being adopted?

Mr. JONES. I have not had occasion to look into that.

Mr. PLATT. It would require some extra bookkeeping, I should think, perhaps, but that does not seem to me to present any serious objection.

Mr. JONES. Do you mean to permit the borrower just to draw on his account in excess of what he may have on deposit, and leave the mortgage as security?

Mr. PLATT. As I understand it he leaves the mortgage. The borrower has property appraised at \$2,000, and he puts a mortgage in the bank for \$2,000, and he may not draw more than \$400 or \$500, and he draws a check, and that check goes into the bank and immediately becomes a note, and he owes so much money, for which this mortgage is security, and when he makes a deposit that automatically pays off some of it.

Mr. JONES. I noticed that was mentioned in some previous hearing. I did not notice any conclusion had been reached.

Mr. PLATT. It is a strange thing in a big country like this, where most everything has been tried, that that scheme has not been tried here, and if it has not been tried here, why it has not? That is what I do not understand.

Mr. JONES. I do not think the banks would very strongly favor that. You want me to answer from a banker's standpoint, do you not?

Mr. PLATT. Yes; I want to know at what disadvantage you would be. Would it be simply increasing the bookkeeping charges, or what disadvantage would it be from a banker's standpoint?

Mr. JONES. The way I look upon that, it would be merely permitting our customers to overdraw their accounts, leaving collateral. It would be an overdraft secured.

Mr. PLATT. That is practically what it would be.

Mr. JONES. The banks do not like overdrafts, and the Comptroller of the Currency is constantly criticizing the banks that permit overdrafts, even though they are secured.

Mr. PLATT. That is a legal objection, and not a banker's objection.

Mr. JONES. Some State legislatures, I think, particularly have enacted laws making the cashier personally liable in paying overdrafts. That is, where the customer has not money on deposit, and he pays a check when such customer has not sufficient funds on deposit with which to meet the check, he is personally liable, he and his bondsman.

Mr. PLATT. I know in my own State it works the same way to a certain extent. If I take a bond to the bank, worth a little over par, a \$1,000 bond worth \$1,200, and borrow \$1,000 on it, whenever I want to pay I can pay. It is to my advantage as a borrower, and I can pay whatever I want to, and I can increase my loan, not quite so easily and automatically as the Scotch system, but it is practically the same thing. It is not considered an overdraft.

Mr. WOODS. I believe they keep a different set of books in Scotland and in England, and it is called a book credit. It is kept separate from the regular banking business.

Mr. JONES. I can only give you my opinion from a banker's standpoint.

Mr. PLATT. That is what I want to get at. We can see the legal conditions and machinery of the thing, and whether it would conflict with our laws, perhaps.

Mr. JONES. You are speaking of changing the customs of commercial banking. Commercial banks have built up their lines of credit based upon deposits. A man does business with the bank, carrying a satisfactory balance, and that bank will loan him in proportion to his balance what it is worth to it. You propose that a borrower shall be a borrower only and keep no deposit.

Mr. PLATT. I am not fully familiar with the Scotch system enough to know what that is.

Mr. JONES. I have answered from a banker's standpoint. He wants deposits to do business on.

Mr. PLATT. Somebody, of course, must at the same time make deposits, otherwise the bank would not have the money to loan.

Mr. JONES. Yes, sir. A large number never borrow at all. That furnishes the balance we need for the man who needs to borrow. The bank is a vehicle between the depositor and the borrower. Let me bring in here the exact language of the minority report:

The central should have sufficient capital to give it strength and standing in the money markets, subscribed and paid for by the different locals in proportion to their respective capitals. This follows the precedent established in our own country, also in the new Federal reserve act (currency bill) just passed, which act requires our existing national banks to provide the capital of the Federal regional banks—pay for same out of their own capital.

While the system created by the enactment of the currency law will undoubtedly make it easier for the farmers, who could safely be loaned under any system, to obtain short-time credit, it will place him at a still greater disadvantage for the long-term mortgage loans, for the very clear reason that our existing banks will undertake to restrict their loans to the class that is eligible for rediscount under the new system, and real estate mortgage loans are not eligible.

Therefore the greater reason why our existing country banks will feel the need of cooperating for this purpose.

There has been a great deal of argument, that because of the Federal reserve banks being established, lending strength to the different national banks of the country, that the national banks—all commercial banks—can be more liberal and loan more money to the farmer. That will be true of the kind of loans that the Federal reserve banks

will accept from the member banks. You will already find that bankers are beginning to hedge about, instead of taking advantage of this new provision permitting them to loan on farm lands; that few of them are even considering it. They find now that they have assets they can not use with the new system. They are trying to eliminate the kind of assets that the Federal reserve banks will not accept. You can see it is reasonable. They will loan to the farmer for making his crop if he has a good maturing crop with which to repay, or they will loan to the farmer for the purchase of live stock or other active purposes, such as will be accepted by the Federal reserve banks, but I do not believe that the farmer is going to find much relief for his real-estate mortgage needs under this new system through the commercial bank. But I do believe he could find relief through properly organized land-mortgaged banks.

A banker always wants several strings to his bow. He will want loans that are quickly convertible through the Federal reserve bank; at the same time he would like some safe investments for secondary reserve purposes, such as sound bonds and other marketable securities. Thus he would have two strings to his bow, two chances to realize upon in case of necessity. Build up a system that will provide a recognized land-mortgage bond with a ready market and you will find they will soon be looked upon with favor by the commercial banks for secondary reserve purposes. I believe this can be accomplished through a federation, as proposed.

Senator HOLLIS. You have not yet indicated how big you will have these federated districts. I am afraid you are going to overlook that.

Mr. JONES. I thought I mentioned this morning that it might be deemed advisable to have them coterminous with State lines. I believe you had not come in, Senator Hollis. That is suggested because the State laws are uniform. In the case of a small State it might be advisable to combine several States in order to get the advantage of an organization of that kind.

Senator HOLLIS. You would not want to have them coterminous with the Federal reserve districts?

Mr. JONES. I see no reason for doing it.

Mr. PLATT. If you combined several States, then you would run up against the different State laws, which would affect the value of the bonds somewhat.

Mr. SELDOMRIDGE. Is not there a certain characteristic in the quality of soil or character of land that applies to each State? People get their idea of land located in a certain State from the production of that State.

Senator HOLLIS. Moreover, in a small district, whether it is State or otherwise, you are more likely to have a crop failure all over than you are in a larger district. Of course, it is an open secret that the Federal reserve districts were fixed as to number as a compromise between people who thought there ought to be a great many and those who favored one central bank. It was a sort of compromise, and there is no reason why we should be governed by that except there will be some very fine advantages in every district that we could avail ourselves of, and some officials that are already being paid salaries that we could hook onto.

Mr. JONES. I have thought of that in this way, Senator Hollis, if the machinery to be established under the Federal reserve act could be made available, we might have the service of their combined boards in assisting in passing upon the securities ultimately, but the salaries of the directors and officials of the Federal regional banks are to be borne by the member banks; so, should you undertake to dovetail in there another organization, you will have to arrange some way in which it can bear its part of the expense.

Senator HOLLIS. It could be left to the Federal Reserve Board, and let them put a fair per cent on these other banks. In that way you get more work at the same salary and spread the assessment over a wider field. I am wondering, Mr. Jones, if the national banks have not rather an instinctive aversion to hooking this onto the system. I am wondering if you do not feel that.

Mr. JONES. I feel that it is so separate and independent a plan of extending credit that it is going to be very difficult to get the same man to handle one that would be qualified to handle the other. If a man gets his education along the line of commercial loaning and liquid commodities as a basis of loaning, it might be difficult for him to get into another rut at the same time.

Mr. PLATT. Section 43 of the Fletcher-Moss bill provides:

That no national farm-land bank shall be authorized to operate branches, but each said institution may, with the approval of the commissioner of farm-land banks, employ and maintain loan agencies throughout the State in which it is operated.

Does not that mean to touch the same thing that you have been advocating, with a large bank organized in the State, and it has its loan agencies, which will approximate the same thing as small local institutions?

Mr. JONES. No, sir; not at all.

Mr. PLATT. What do you think the result of that will be?

Mr. JONES. You would still have the unit bank, each bank with its own bonds.

Mr. PLATT. You said that under this bill as it stands, if we should enact it, there would probably be very few small banks organized, but a number of large ones with large capital. If \$1,000,000 banks were organized, they would naturally have loan agencies, would they not, in various parts of the State?

Mr. JONES. They might do like they do in Europe. I do not think they have loan agencies, but affiliate with large commercial banks, such as I described this morning. They go to these commercial banks and sell their bonds. When they put out an issue, the commercial banks take them and immediately find a market for them among their savings depositors or advertise them. I do not think, answering your question, that the selling agencies, with due respect to those who have conceived the plan, will work out anyway near as satisfactorily as the federation into a central.

Now, I will give you another reason.

Under the federated plan we would have a rechecking of the securities of each local. I noticed Mr. von Engelken brought out a point that we had not dwelt upon very much in the preparation of our report and it struck me as being a splendid idea. He criticizes the fiduciary agent plan. In little banks that probably would have trouble in paying overhead charges. What kind of a man can you

get to serve? Will he be present when you want him to certify to a loan? Is he always available for making a \$500 loan with a nominal fee to him? Will it pay to have that man there? Furthermore, he is a man that is influenced by local environment and local conditions, and he is interested himself in the community. Why not have one fiduciary agent at the central? He would be a man worth while. Now, when loans are sent to the central from each section, \$5,000 from county A, \$10,000 from county B, \$10,000 from county C, etc., under our proposed plan, notice is served that the central wants to issue a series of bonds secured by these collective securities. Then your fiduciary agent comes in, checks over the local appraisements and the independent reappraisements, and in all respects sees that proper precaution has been used, and that the titles are passed, etc., before the bonds can be marketed.

I will say, gentlemen, that I want to emphasize the fact that it is necessary to be exceedingly cautious in enacting a measure of this kind. Someone asked the question of a former witness why there was a great disaster some years ago with farm mortgage associations in this country. I followed right in the trend of that disaster as bank examiner, and I can give some reasons why some of them went down. One of the reasons that caused trouble was they were doing business on deposits—though not all of them were.

Mr. BULKLEY. Upon demand deposits?

Mr. JONES. Yes; both time and demand. Another reason was, as very clearly stated in the record, that conditions were not as stable then as they are now.

Senator HOLLIS. You are referring to 1893?

Mr. JONES. Yes. I was appointed bank examiner in 1894.

Mr. BULKLEY. Do you have special reference to the land values when you say conditions were not as stable?

Mr. JONES. Yes.

Senator HOLLIS. In what State, Mr. Jones?

Mr. JONES. In Missouri. We were going to close several of them before they closed themselves. They came under the inspection, because they received deposits. When they saw we were going to close them they made arrangements for a sufficient amount of money and paid off their deposits, so got our from under our jurisdiction. The law was not enacted to protect the bond or debenture holder, only the depositor.

Mr. PLATT. They received deposits as private bankers?

Mr. JONES. They were incorporated. At that time there had been no State regulation. I was one of the first examiners in Missouri. Before that we had no bank inspection at all.

Senator HOLLIS. Mr. Jones, have you not overlooked the fact that crop failures were responsible for foreclosures in certain parts of the West?

Mr. JONES. Yes; a great many loans on uncertain producing lands. When I was quite a young man in a small country bank in Missouri, I remember raising a subscription to send corn to a certain section of Nebraska that is now in the corn belt. They had not cultivated there sufficiently to bring about the necessary rainfall, and it was very uncertain. If you cultivate the soil a certain length of time you gradually begin to get more rain.

Senator HOLLIS. That is very interesting. I suppose it was because you were cultivating the soil that the water stayed on it, and it did not assist the rainfall. I did not suppose you really got more water. Is that well determined?

Mr. JONES. Both. That is true, is it not, Mr. Seldomridge?

Mr. SELDOMRIDGE. Yes, sir.

Senator HOLLIS. It is well determined that it does rain more where you cultivate?

Mr. JONES. Yes; cultivation brings more precipitation.

Senator HOLLIS. I have been misinformed on that. I was told that the rainfall was not any more, but on account of cultivation the water was held in the soil and was not allowed to run off.

Mr. JONES. There has been a big change within the last few years in the rainfall in certain sections of the West that have been put under cultivation.

I want to emphasize a point that I do not see has been brought out, of the great value of supervising the borrower under the system proposed by the minority. This was brought to my mind by a letter which I have before me, written by Mr. Lou D. Sweet, vice president of the Colorado Farmers' Congress, who is looked upon as an expert. A certain man in the Agricultural Department told me that Mr. Sweet was now considered an authority when it comes to handling farm land, and particularly the growing of potatoes. He is a successful and scientific farmer. Mr. Sweet is very much interested in this measure. He was largely responsible for the passing of the resolution by the Colorado farmers which was referred to this morning and has twice been put in these records. Mr. Sweet wrote me this when he heard I was coming down here:

Relative to our recent talk on the subject of farm loans proposed to be made to farmers through rural banks, supervised by our Government, and through other channels, there is one very essential point which it seems to me has been somewhat overlooked, and that is the necessity for providing some means by which the methods and practices of the farmers to whom loans are made may be controlled or supervised, to the end that the fertility of the land may be fully maintained and the volume and quality of its crops be kept up or improved, and the value of the land be consequently maintained or increased.

To accomplish this result it is necessary that the farmer follow the best approved practices of farm management, including a rotation of crops, which will not impoverish his soil; that he feed his hay and roughage to live stock on the place, as far as practicable, using the manure so as to get all of the manure back on the land; and that he use only good feed, without which best results can not be obtained.

Before such farms loans can be safely made, some arrangement must be made by which the farmer agrees to carry out such good and practical agricultural methods and practices, subject to the approval of a competent agriculturalist representing the bank or loaning agency. Unless this is done and the value and fertility of the land is fully maintained, a careless farmer, by haphazard measures and bad practices, may easily, within a few years, largely exhaust the fertility of the land and seriously impair its value as security.

Gentlemen, we believe in our federation of banks we cover that danger as far as possible. We have in the centralized institution a separate and independent examiner who is to keep in personal touch with the different sections and see that the fertility of the soil is kept up through and with the aid of the local bank itself. A farmer will hesitate to tell his neighbor that he must improve his methods because he is running down his place. If the local bank officers or

directors hesitate to do so, or should the farmer disregard the suggestions, a strong demand from the central would undoubtedly accomplish the desired result before it is too late.

Mr. PLATT. Do you think that could be done except through a cooperative institution? Would it be practical to dictate to farmers what they should do with their money unless there is cooperation?

Mr. JONES. Answering you, Mr. Woodruff, of Joliet, tells me that he has in his mortgage a provision that the fertility of the soil must be maintained, and he says the laws uphold him in it. He can call in a loan and foreclose if it is not satisfactorily kept up. It is a very difficult matter for a country bank to foreclose a neighbor because he does not do what they want him to do. Certain local conditions will prevent that bank from using those measures the directors know ought to be used. But with the power behind a federation based upon the report that the locals make, the Central could and would say, "We know this ought and must be done." The power behind the order can force it to be done. Such is not only essential in order to maintain the value of the security but necessary to preserve the fertility of the soil, which is an important thing to any State. No man has a moral right to take out of the soil more than he puts back.

Mr. SELDOMRIDGE. In that respect it would be necessary to inform itself as to the intelligence and habit and industry of the farmer, would it not?

Mr. JONES. Yes, sir.

Mr. SELDOMRIDGE. Which would naturally tend to weed out the inefficient and indolent?

Mr. JONES. Undoubtedly.

Mr. SELDOMRIDGE. It would be a sort of survival of the agriculturally fittest, would it not?

Mr. JONES. I think so.

Mr. PLATT. Under the cooperative plan that would work probably automatically, but whether without cooperation, in a joint-stock bank, it would be possible, it is not so certain, possibly the federated central would be necessary, because the local man would hate to point out those reasons to his neighbor, when he would be willing to call attention to the examiner of the district bank to come down and look after him.

Mr. JONES. Are you seriously considering any cooperative methods of land-mortgage banks?

Mr. PLATT. It is provided for in the bill.

Mr. JONES. Only cooperation as affecting profits.

Mr. PLATT. Of course, I am not speaking of—

Mr. JONES (interposing). There would be no difference between the cooperative and non-cooperative banks as far as forcing securities to be kept up is concerned, because in each case the money is invested by the stockholder in the two plans proposed by the United States commission. I am right, am I not, Dr. Coulter?

Mr. COULTER. Yes.

Mr. PLATT. It seems to me there is a little difference in the two. The cooperation is all in the profit, but the borrowers would have more incentive to watch each other in the cooperative plan than under the joint-stock plan, because part of the profits come to the borrowers. Is not that right?

Mr. JONES. In that I think you are right; yes, sir.

Mr. PLATT. I do not know that it would amount to a great deal, but it seems to me that if two farmers were living side by side, and one knew that the other one was drinking his money up, and not spending it on his farm, he would have some inducements to report it to the bank.

Mr. JONES. Yes; that is true and an argument in favor of cooperative banks is that each borrower has a great many people to watch him, and to watch the security, because each man would stand his part of the loss or stand his part of the profits, as the case may be, and in the case of incompetent farming or drinking up a farm, as you say, they would report it.

Mr. ADY. May I ask a question, Mr. Chairman?

Mr. BULKLEY. Yes; if Mr. Jones does not object.

Mr. JONES. Certainly not.

Mr. ADY. I would like to ask if you consider it advisable to have the local banks guarantee all the mortgages behind the bonds, under the plan as suggested—all the mortgages that they issued?

Mr. JONES. Yes, sir; we propose that the small unit banks shall not issue bonds against their loans, but shall guarantee every loan and send them to the central, and shall collect the interest and amortization amounts and remit without charge.

Senator HOLLIS. That is, like we have provided for rediscount under the Federal reserve, and that would have to be done by the member banks. It is the same idea.

Mr. JONES. Yes. We have taken the Federal reserve act; we have taken the Landshaft system in Germany; we have taken from the federation of the short-term credit societies throughout Europe. We have taken the best parts of these different systems and applied them to American customs and usages.

Mr. WOODS. Of course, if they guaranteed those loans they could not do a commercial bank business.

Mr. JONES. No, sir. Receiving deposits will weaken them. I would not buy a land-mortgage bond of an institution that was receiving deposits. I do not believe the two systems are going to work together at all, as I before stated, any more than I believe short-term credit and long-term credit will work together.

Mr. ADY. Would you limit deposits in the local banks?

Mr. JONES. In order to fall in line with the United States commission report and not antagonize them in that, we have suggested that they be allowed to receive savings deposits up to 50 per cent of the amount of capital and surplus, but as stated before I would rather eliminate that.

Mr. ADY. As to the local farmers' banks?

Mr. JONES. Yes, sir; I would rather eliminate that entirely. Allow me to again read from the minority report:

The local should not be permitted to issue bonds running for a long time, for several reasons.

Its capital would be small and its market necessarily restricted. European investigation revealed no small associations or societies doing this class of business.

Mr. MOSS. Would you permit me to ask you a question, Mr. Jones, with the consent of the committee, of course?

Mr. JONES. Yes, sir.

Mr. MOSS. Are you familiar with the conditions in Hungary?

Mr. JONES. Somewhat.

Mr. MOSS. Now, there are 1,850 banks in Hungary that have the right to and are issuing land mortgage bonds, and they are independent banks and joint-stock banks. Would you say that your statement would be borne out in view of the statement I have just made?

Mr. JONES. I surmise that the smallest bank that you will find in that country would probably be larger than some of our proposed State central banks would be.

Mr. MOSS. Well, I just called your attention to the fact that there are 1,850 mortgage banks in the Kingdom of Hungary issuing bonds.

Mr. JONES. Do you know the smallest capital of any of them?

Mr. MOSS. No, I cannot answer that. I just called your attention to that. Hungary is comparatively a small country and comparatively thinly populated as compared with some of the other countries.

Mr. JONES. I think we can safely assume that it is impossible for those banks to do business on the fractional per cent that they are doing business on unless they have a large volume of business—far larger than any proposed \$10,000 unit banks under the Fletcher-Moss bill could have.

Mr. SELDOMRIDGE. Mr. Jones, I have to leave here in a very few moments, and I would like to ask a question as to the agencies of help in the way of aid by the Government to establish the land-mortgage banks, or locals, as you call them.

Mr. JONES. I think the bill before you provides some most excellent help.

Mr. SELDOMRIDGE. That is the deposit of postal savings?

Mr. JONES. Yes, sir; the deposit of postal savings, and particularly providing that trust funds may be invested in the bonds. I do not recall whether it says court funds or not.

Mr. COULTER. United States courts?

Mr. JONES. United States courts. Yes, court funds and funds of insurance companies, funds that are available for certain other purposes. I think the bill has provided a fair market, and a way by which the bonds will be given some stability and standing.

Mr. SELDOMRIDGE. You think that the Government help, as provided for in the bill, together with the indorsement of the local bank, coupled with the approval of the central organization as you have it here, will establish the value of the bonds issued to the satisfaction of the investing public?

Mr. JONES. I think there is no doubt of it. I believe it should be further provided that these bonds may be accepted by the Secretary of the Treasury as security for Government deposits in Government depositories. Of course, my remarks are based upon the assumption that the bonds will be better protected than provided for in the Fletcher-Moss bill.

Mr. SELDOMRIDGE. Let me ask you another question, if I may. Do you anticipate that the passage of this legislation will operate to lower interest rates?

Mr. JONES. Undoubtedly.

Mr. SELDOMRIDGE. To what extent?

Mr. JONES. In some sections—

Mr. SELDOMRIDGE (interposing). Well, would there be a general lowering or equalization of interest rates?

Mr. JONES. There would be more of an equalization.

Mr. SELDOMRIDGE. To what extent?

Mr. JONES. That is problematical; conjectural.

Mr. SELDOMRIDGE. What is the average rate of interest now paid in our State of Colorado on farm loans?

Mr. JONES. I can not state the average; I should say from 7 to 10 per cent is charged on real estate loans.

Mr. SELDOMRIDGE. Under the operation of this law, as you have outlined, do you anticipate that there would be a lowering of the interest there?

Mr. JONES. Indeed I do.

Mr. SELDOMRIDGE. To what extent?

Mr. JONES. Well, I think that will have to come down gradually. We have got to market the bonds with a wise provision in this bill, permitting the calling in of bonds at any time so that if we find that interest rates are lowering, we can call in an issue bearing a high rate and refund as it were with a new issue bearing a lower rate.

I was talking with a country banker, referring to your question, who is very successful, and I know he is charging pretty high rates of interest—nearly everything is 10 per cent. He is making all kinds of money in proportion to his capital. I said to him, "Are you not ashamed of yourself keeping up interest rates?" He said, "You know, I have been thinking that we bankers ought to reduce interest rates. We have not been looking far enough ahead. If we would look far enough ahead and realize that as our farmers commence to accumulate and get ahead, that they would make more desirable borrowers and better depositors, and we would be bettering our own condition, I think, more in the long run, than if we continue to charge a higher rate of interest."

Mr. SELDOMRIDGE. Do you not think that your high rate of interest is largely caused by the fact that the bank must meet the varying expenses of making loans, and they equalize the interest rate, and in order to guard himself against loss he has to collect a high rate of interest to provide for that possible loss?

Mr. JONES. In a measure, I do. One thing that keeps up the total cost of real-estate money is the necessity of renewing the loan every three to five years with attendant costs.

Mr. SELDOMRIDGE. We have something in this bill about the Torrens land system, some provision here as to clearing up the details, haven't we? That is, it is a fact it is very largely a matter of expense, or the removal of it. I do not know what the provision is, but it has been referred to by several witnesses.

Mr. JONES. You will find that the bankers are getting to realize that they must reduce interest rates, especially in certain sections. I have talked with them in a great many States.

Mr. SELDOMRIDGE. Is there anything in the bill that would provide for lowering the rate on a mortgage when once issued? For instance, suppose under this system a man should take out a loan on a 30-year mortgage at 8 per cent, and it happened that there should be a general lowering of interest rates, is there anything in the bill that would enable that man to take advantage of the difference?

Mr. JONES. He has the right to retire his loan at any time. If the rates of interest went down, that automatically would take care of itself.

Mr. SELDOMRIDGE. You think it would?

Mr. JONES. Under the Fletcher-Moss bill the banks can not charge higher rate than 1 per cent more than for which it is floating its own bonds; therefore, if they are floating bonds to-day on a 6 per cent basis and they had floated several years ago on a 7 per cent basis, that borrower will come in and make a claim through his unit bank that he wants to refund his loan. It is just the same to the bank whether it gets a 6 per cent rate or a 10 per cent rate, because his profits are going to be exactly the same, as he is allowed only 1 per cent margin.

Mr. PLATT. You have got to come to the bank with the money in order to retire the loan. There is no provision by which he can insist upon having the rate on his loan lowered, but he could pay off the loan and reborrow.

Mr. JONES. I would rather the authors of the bill would answer your direct questions regarding the workings of their own measure.

Mr. PLATT. I made that statement for the record as to what is in the bill. I think I am right in it. That is in the bill, of course, is it not, Mr. Moss?

Mr. JONES. You have undoubtedly grasped the point. The minority is not positive that there should be additional capital in the way of a founders' capital. Personally, I strongly favor it. As you note, we said that it might be found advisable. I am inclined to think it would be an exceedingly valuable thing to have. And our argument along that line is this:

It might be found advisable to even provide the central with a larger capitalization than the aggregate amount to be taken by the different locals. In that case provision could be made for selling founders' shares, similar to the plan working most excellently in Hungary—

By founders shares we merely mean the amount supplied by public-spirited citizens who desire to encourage or "father" the organization. We do not use the term in its recognized technical sense among financiers.

Such shares could be made preferred, if deemed advisable, or could be placed upon an equality with the shares owned by the locals. This might be found necessary in order that the country bankers and farmers might have desirable financial assistance and strong connections in the recognized financial center of their State in assisting to establish a market for the securities. The names of the financiers in such local commercial center would be more widely known, added to the names of those local persons elected from the farmers from their respective communities, upon the board of the directors of the central, would undoubtedly assist materially in finding a favorable rate of interest.

I think that is well worthy of careful consideration.

Now, by building up a federation as proposed by the minority we would have the following security behind the bonds. I will read from the minority report:

First. The signer of the original loan.

Second. The combined judgment of the local banker and his farmer associates as to the desirability of the signer as a borrower and as to the value of his security.

Third. The land itself, upon which not exceeding 50 per cent of its value would be loaned.

Fourth. The indorsement of the local and the moral obligation of the bank with which such local is affiliated.

Fifth. The double liability of the holders of the capital of the locals, protecting all loans indorsed to the central by the locals.

Sixth. The judgment of the officials and executive committee of the central and its rechecking of the securities as hereinafter provided.

Seventh. The added assurance of the Government representative in its approval of the issue.

Eighth. The capital of the central.

I have no doubt whatever, gentlemen of the committee, from my knowledge of promoters, but what there would be a great many small unit banks organized under the Fletcher-Moss bill for the express purpose of floating a lot of bonds and then getting out from under. We had that thing to contend with under our irrigation laws, that provide that districts may organize in our State. Mr. Seldomridge will verify what I say. There has been much wild-cattling. The promoter organized districts and floated bonds, and the innocent bondholders are writing to us to know what about those districts as some of them are not able to pay interest on their bonds. In some cases the bondholders will own the districts.

Practically the same thing has occurred in Louisiana under its drainage district law, so I am informed. I hold if you do not throw all safeguards around the land-mortgage plan, we will experience wildcattling such as never has been known in this country before.

Mr. SELDOMRIDGE. I suggest, Mr. Chairman, that Mr. Jones be given an opportunity, if he desires, to file with the committee any brief or further extension of his testimony, and that it may be inserted in the record, if anything should occur to him in this hearing.

Mr. BULKLEY. Without objection that will be done.

Mr. JONES. There is one matter I would like to bring up, and it will not take me more than two or three minutes.

Dr. Coulter brings out a strong point in part 4, page 52, in talking on the building and loan association plan. He spoke about the necessity for outside funds and referred to his conversation with a building and loan man. He says:

I said that the difficulty there was merely that there was not a system of interchange between the cities by issuing bonds and letting them be sold in outside districts—of getting money in or getting it out.

Then in another place or two there has been reference made to the interdependence between the city and the country. They are very dependent upon one another, the city more dependent upon the country than the country upon the city. I have often used the illustration that you may destroy the city, but the country surrounding will rebuild that city; but you destroy the country and the city can not rebuild the country, and of itself could not long survive. Thus, our keen interest for the agricultural interests. There is cooperation in the truest sense needed between the cities and the rural communities. Our federation brings them into close relationship, especially by the addition of the founders' shares, to be placed in the city.

Senator HOLLIS. What do you think of the suggestion that if we have the founders' shares that they shall not have a vote?

Mr. JONES. We do not suggest that. I would not suggest that in this case, because if you want the founders' shares I would give them the right to be represented. I doubt if you would find many city investors who would be willing to take stock otherwise. We would be met with this sort of argument: "If these country bankers and farmers are going to come in here and handle things without

my having even a voice, I do not want any stock." I would restrict the issue, so that the control could not be corralled.

Mr. MOSS. Would you have any objection to this suggestion, Mr. Jones, that instead of saying that every bank shall have a right to issue 15 times the bonds, the amount of its capital, that it shall not issue more than that, and the discretion shall rest with the commissioner of land banks, so that in certain undeveloped sections of the country the commissioner of land banks may say that a bank shall not issue the full 15 times its capital? Would not that be a greater protection to its issue? In other words, under that suggestion it would be possible in some States to issue 15 times the capital and in the others only 12 or 10. I say would you have any objection to that in the federated banks?

Mr. JONES. It would be looked upon by proposed organizers that merely by a ruling of the commissioner of land banks they might be restricted in the volume of business allowed. That would retard the development and even retard the organization of land mortgage banks. A ruling might be made overnight restricting them, after a bank had been organized, in the belief that they could do a certain volume of business on which they had figured out that they could afford to organize. So a ruling might be made after they had organized cutting down the volume of business they would be allowed to do and which they felt necessary to justify their organization.

Mr. ADY. Mr. Jones, in case you should limit the deposits that might be made in the local bank so that the farmer could not deposit in his own bank, where would he deposit?

Mr. JONES. It is my opinion that the country banks are sufficient to take care of his deposit.

Mr. ADY. That is, he could deposit them in the existing banks, from which they would be used to purchase bonds, using the farmers' money to purchase bonds with.

Mr. JONES. The farmer can withdraw his deposit and purchase bonds himself if he desires. By close affiliation with the existing country banks we would put behind these bonds an element of strength that is not realized upon the surface. To illustrate: A farmer has a mortgage upon his land for only 50 per cent of its value, the country bank considers him a pretty fair temporary risk for credit. He has a crop failure, even after the country bank has made him a loan; it is necessary to pay the amortization amount and the interest. The farmer comes to the country bank and explains his predicament. That bank is already "in," and adds to what the farmer already owes it enough to remit and take care of his amortization and interest. Possibly the country bank taking a second mortgage upon that property to protect itself, and then we have the country bank behind the loan of the land-mortgage bank. It is almost invariably the case that when a farmer fails a local bank is found carrying his note with or without a second mortgage. Therefore we are going to get, in every such case where there is a country bank involved, that element of additional protection to every mortgage loan that has been floated from that community into the federation.

Mr. PLATT. Suppose you should remove the restriction against branch banks; what would be your objection to that centralized

authority organizing first, perhaps, and then organize the other banks—would that work?

Mr. JONES. Would you get that seriously entertained at the present time?

Mr. PLATT. I am not talking about the political side of it; I mean as a practical matter.

Mr. JONES. Yes; that would work.

Mr. PLATT. The Federal reserve system allows branch Federal reserve banks.

Mr. JONES. That is exactly the opposite to the plan we propose. It is practically the opposite of the Canadian system of branch banking, you know, where the parent controls the branches.

Mr. PLATT. What is the trouble with adopting that proposition?

Mr. JONES. It is not our idea. We also propose that these federated banks shall have the election of an independent auditor, who audits the central, and then the central directors appoint their independent auditors, who go out and audit each one of the units. Thus we provide a double checking—one against the other.

Now, your idea is a central bank. I fear the possibility of wildcatting in that. I can not conceive, throughout a State, a lot of banks organizing along the line of our federated plan and getting into a business expressly for wildcatting. But I can conceive of a single bank doing it.

Mr. PLATT. Would the State bank, covering the whole State, lend itself to organizing banks for the purpose of wildcatting?

Mr. JONES. I would not say that there is any danger of that; no, sir.

Mr. PLATT. That would be the local only.

Mr. JONES. Yes; my real fear is in the organization of the unit bank not properly safeguarded.

Mr. ADY. I fail to understand how the farmer will be benefited by putting money into the private banks, while the private banks might invest in bonds, instead of depositing it in his own bank and buying his own bonds.

Mr. JONES. He can personally buy a bond whenever he gets ready, the same as can the banks. He can accumulate funds in any bank, and when he gets \$100 there is nothing to hinder him from buying a bond.

Mr. SELDOMRIDGE. He can check it out of the country bank and buy a bond with it.

Mr. ADY. Yes, but the bankers do the business of buying the bonds, and buying the bonds with the money deposited by the farmer. If it is deposited in the farmer's bank the farmer would have the benefit of it instead of having it in the private bank.

Mr. JONES. The profit that would accrue to him from the amount of his deposit would be so slight as to be practically nil—he had better buy a bond.

Mr. PLATT. Mr. Jones, would you think that a central bank would be a State central necessarily, or would you allow more than one central bank in a State? Allow a number of banks, of centrals?

Mr. JONES. I am glad you brought that out. It is not our idea that there would be a single system of federated banks. I doubt not but what there would be several in each State. You form a number of banks and federate or induce a number of banks to join your

federation. You don't care for two in the same town or maybe not two in the same county. Don't you see it would be just as natural for several systems to build up as it has been for different systems of federated credit societies to organize all over Europe? Then we would get real competition and in consequence a satisfactory interest rate.

Mr. PLATT. Would you fix the number of central banks that would be allowed to federate?

Mr. JONES. No, sir.

Mr. MOSS. Then your idea is to provide for voluntary federation?

Mr. JONES. So far as I am personally concerned; yes. I will say now that I do not believe you will ever have your little banks running for legitimate purposes without federating, because they can not possibly compete with the federation.

Mr. MOSS. That brings the difference down clearly, then, between the two bills.

Mr. JONES. Certainly.

Mr. MOSS. Would you permit me to point out to you just what is the difference between the two bills here? Probably we had better let it go.

Mr. JONES. No; please continue.

Mr. MOSS. You want me to do it?

Mr. JONES. I will be glad to have you do so.

Mr. MOSS. The real difference is this: There are just two differences between the two bills. One is the way that this federation will be brought about. Under the commission bill you could have a large central bank and they could locate their sales agencies. But take your proposition, you would first locate the smaller banks, and then federate them into the central. That is the first difference between the two. The next difference between the two bills is that you would have one uniform type of local banks, whereas the commission recognizes the fact that they can have either the joint-stock banks or cooperative. Those are the two main differences.

Mr. JONES. Let me correct you there, Mr. MOSS. We suggest right at the outset that they may be either cooperative or noncooperative as to profits. As you saw in European countries, there were cooperative and noncooperative short-term credit societies in the same federation.

Mr. MOSS. Very well, I will take it back and leave just one difference. That is a thing that as far as I am concerned I do not contend for. There is not much difference between the two types. They are both voluntary federations. I recognize the fact in all the studies that I have made, that there is an honest difference of opinion on this question, and if the question were a question of voluntary association, I would say myself, speaking now not as a member of the commission but as a student, I would not contend for a moment against the limitation of that bill to that extent. I so said to Mr. Platt some days ago, that that would have been entirely agreeable, so far as I am concerned, and I would have suggested it at the right time to the committee myself.

Mr. PLATT. I can confirm what you said.

Mr. JONES. How do you feel, Dr. Coulter?

Dr. COULTER. I suggested to Mr. Platt that he ask that question so as to bring it out.

Mr. Moss. I do want to go into the record as saying that I never saw the minority report at any time until it was presented here on the table, whereas the majority report was printed in a confidential way to the Members that were preparing upon this proposition, so that they were preparing, of course, criticisms of the print bill, whereas the United States Commission had no opportunity or chance whatever to profit by their own criticisms of that. I want that to go into the record in Mr. Jones's presence.

(Additional testimony of Mr. Gordon Jones follows the testimony of Mr. T. S. Southgate at page 682.)

The minority report of the American commission advocated by Mr. Jones throughout his testimony is part 2, S. Doc. No. 261.

Whereupon the committee adjourned until 10.30 o'clock a. m., Wednesday, March 11, 1914.

WEDNESDAY, MARCH 11, 1914.

HOUSE OF REPRESENTATIVES,
Washington, D. C.

The subcommittee assembled in joint session at 10.30 o'clock a. m., Hon. Robert J. Bulkley presiding.

Present: Senator Hollis and Representatives Stone, Seldomridge, Woods, and Platt.

STATEMENT OF THOMAS S. SOUTHGATE, OF NORFOLK, VA.

Mr. BULKLEY. Will you please state your name and occupation and your connection with this subject which we have under discussion?

Mr. SOUTHGATE. Thomas S. Southgate, merchant. Do you wish my banking connection?

Mr. BULKLEY. Yes, sir; if you please.

Mr. SOUTHGATE. I am one of the members of the American commission for the study of this subject in foreign countries; chairman of the executive committee of the Fidelity Corporation of Industrial Banks; member of the executive committee of the National Bank of Commerce of Norfolk, Va.; director of the Virginia National Bank of Norfolk; and member of the board of directors of the Industrial Finance Corporation of New York.

Mr. BULKLEY. Mr. Southgate, you went abroad with the American commission, did you?

Mr. SOUTHGATE. I am also owner and operator of three farms aggregating 1,000 acres.

Senator HOLLIS. I would like to have you say where those farms are situated.

Mr. SOUTHGATE. Two on the Elizabeth River in Virginia and one in North Carolina.

Mr. BULKLEY. Did you go abroad with the commission?

Mr. SOUTHGATE. I did.

Mr. BULKLEY. Now, if you will, proceed in your own way.

Mr. SOUTHGATE. Mr. Chairman, I have been for five years intimately connected with the rural life in my State in philanthropic and Christian work, carrying me two days of each week for five years in every hamlet and section of Virginia. I judge it was in view of this close association that I was appointed on this commission by the governor. I went to Europe with the commission and found a great deal of interesting information on this vital subject, because of the tremendous extent to which it had been developed there. I participated in many of the meetings of the commission since its return, and helped to formulate its report with the hope that good results might be had as the result of that work. Of course it is not neces-

sary that I should discuss with you gentlemen the relation of the Federal commission with the American commission. You are already thoroughly familiar with that. In offering several criticisms to the bill as finally brought out, I do so with a full realization and appreciation of the fact that it is very difficult to construct legislation along this line. I regard this document before you as a very able paper, and it is only to refer to several matters in the bill that I am here to-day. Indeed, I would not take it upon myself, except by the request of Senator Fletcher, in view of my close interest in the work of the commission.

The first and most specific point that I have to bring before you in asking that proper final legislation be provided for land-mortgage banks is in regard to the capitalization of banks on so low a basis as \$10,000. I am fully aware of the reason why it is desirable to have small units, in order to enable counties and sections to be able to surround themselves with the facilities readily of their own making, of a small creation; and yet, gentlemen, a very brief 15 or 20 years' experience in financial matters leads me to say that this whole system hangs upon one thing, and that is the liquidity of these securities and their digestion after they are issued. They will not be liquid unless they are backed and indorsed and stood for by some form of Government sanction through the issuance of national charters, supervision, and perhaps O. K. after they are issued. They will never become liquid until they are readily available for fiduciary funds, and available for the digestion of these securities representing, as perhaps they will, a portion of \$40,000,000,000 of farm value that is deposited to offer as security for bonds to be issued. I submit, sirs, as a practical matter, when I regard the degree of care with which a city bond is censured by the purchaser of it, and the million questions that are asked, and the legislation that they require before they will touch them, that to say that bonds emanating from institutions of \$10,000 capital, which can not furnish a sufficient amount to pay an overhead charge sufficient to intelligently and properly manage an institution for a period of 50 years' continuity, perhaps, as provided in this bill. I will say this is all wrong. I go further and say I think the minds of the men are confused to some extent by the injection, the constant injection in Europe, of the personal credit societies, which are as different a proposition as one side of the pole is from the other. It seems to me that the only point of similarity is that they start both with the farmer, but their relations with the commercial world and to those who are to handle the securities are absolutely widely divergent and apart.

It is entirely natural that it should be in the minds of the men who constructed the bill that these small units are possible, because we all had the opportunity of seeing the wonderful work done through the existence of personal credit societies, raised by 10, 20, or 30 men pledging their individual support to any measure on which they wished to raise money, and the matter resolved itself into a borrowing of money. Two men, 4 men, 6 men, 10 men, or 20 men can borrow money; but not 5 men nor 10 men can attempt to create securities and get the great insurance companies to invest the funds or widows and orphans in them. It is an absolute impossibility,

and I submit, sirs, that the Congress of the United States should not under any circumstances give their sanction to any system of currency or any financial system that started off with the absolute handicap in the beginning and was of a nature that it could not do the things that it purported to do, physically, tangibly, in a practical way.

I have said that I regarded the bill as an able one, and I do. It has some original and unique features that are very commendable. It is not, however, exactly the idea that I have held. Following carefully the action of your great and honorable committee in the matter of the new currency bill that you have given to the country, creating your Federal reserve board and your regional banks, I had hoped that this subject was so great that it would commend itself to you along those lines, for, while I am not an advocate of Federal aid, per se, and with dollars and cents: but mark my prediction here to-day, these bonds will never be sold in the markets of the world unless they are censored or O. K.'d or passed in some form by the Government of the United States.

You are never going to market them otherwise, for they start out in life handicapped as a result of coming from the farmer, who does not do things in as businesslike and clean-cut or drastic a way as the man trained to a life calling for a knowledge of finance and things pertaining thereto. It is going to take something more to market these bonds in our country than it does in Europe, where they are better than Government bonds, strange to say. We found that to be true in certain foreign countries. I had hoped that this thing would be put on a proper scale worthy of the subject that it represents, and that there might be a Federal board along the line as provided and adopted in the Federal reserve act, consisting of the Secretary of Agriculture, the fiduciary agent referred to—which is an excellent suggestion—the Secretary of the Treasury, the Comptroller of the Currency, making a board of five, and that 12 or 14 sections might be designated as regional sections, we call them, or you might call them by some other name—it is only an idea that I am following—and those banks, four or five, perhaps, in each State, as the State's needs require—that the capital be not less than \$50,000 as a minimum and preferably \$100,000 and over—might clear through and report to and affiliate with the regional bank of its peculiar section. That is not a complicated piece of machinery. It does not need all the wonderful ramifications of a currency system at all, because it is following along one specific line, and then every issue of every bond that is expected to be bought by these fiduciary agents all over the world should emanate or clear through and bear the O. K. of the Federal reserve board, and it should be, if necessary, guaranteed by that board by following your system of an assessment of 10 per cent upon the capital of these affiliated banks, giving a capital of \$3,000,000 or \$4,000,000 or \$5,000,000 to an institution here in Washington to be used as a fund to guarantee the bonds, that assessment to be made against the affiliated land-mortgage banks simply to act as a reserve fund in the hands of this Federal board in Washington—a simple board inexpensively handled by officials of the Government, because agriculture is different from commercial business. It is different from anything else,

and it is worthy of the support of the Government as no other subject is.

But, gentlemen, whether that thought or system is worthy of your consideration or not, do not, for heaven's sake, let any system go before the world that is unworthy of the great subject it represents simply because you may have in mind a desire to put it within the reach of all the people and yet kill it by the overestimation of what those little institutions can possibly do in the eyes of the farmers.

Senator HOLLIS. Mr. Southgate, I think you have a little mistaken impression there. These two subcommittees conducting this hearing are not committed to any particular bill. There are certain bills which have been introduced that we are considering, and we have invited you, as we have other witnesses, to get your personal point of view, and we want you to help us all you can.

Mr. SOUTHGATE. I know that, sir.

Senator HOLLIS. I would like to direct your attention to a specific line of testimony which we have had which is that some central board, either the Federal reserve board or a similar one, is to supervise the entire system and see that the bonds are carefully and properly issued, so that they will have a standing; that the local banks are to have part of their capital in some sort of central institution so that the central institution will have a financial interest in them and in the loans that they make, and will pass upon the loans before they are made the basis for bonds. We have had some very intelligent discussions along that line, and we want all the suggestions you can give that will help us to perfect such a system, if we conclude to adopt it.

Mr. SOUTHGATE. I am delighted that you have told me this. To show you how little I know and, perhaps, how unprepared is my testimony here to-day, I never heard of that suggestion before: and it strengthens my thought in the matter tremendously to know that others had thought it out also. I have never exchanged a word with anyone along that line, and I would never have had constructive intelligence enough to have known it had it not been brought down to me through the system you have worked out in the Federal reserve act and which I had not thought of before.

Senator HOLLIS. If you will, continue to make us any suggestions that you think are wise or will help us to perfect such a system as that. The entire field is open, Mr. Southgate. That is the point.

Mr. SOUTHGATE. I think I realize that, sir. I know that this is only submitted to you as their report as a basis for some bill. As I stated in the beginning, it is an ably drawn paper for the most part. I want to see this thing done, Senator Hollis, so that it will succeed—so that it will do the very things that we all have in mind or desire to be done—but I do not believe we ought to be misguided by a desire to minimize the thing or undignify it, and thereby destroy the very efficacy of that which you have in mind to do. I think they should be dignified institutions in every case.

I had worked out a system for our own State, starting with one institution—a parent institution of the State—with a capital of not less than \$500,000, with its loan-agency features ramifying throughout the State, which would be a land-mortgage bank for the interest

of the State and thus find its own avenue for the sale of its securities; and knowing that the Fletcher-Moss bill was being prepared to be introduced in Congress, had no doubt it would provide for some central reserve feature that would take care of these State securities. I have been studying this question from the time that I got this testimony in my mind, from the time I came back from Europe, yet up to the present moment I have not had any occasion to change my mind in the matter of the size of these banks.

Mr. JONES. May I ask a question?

Mr. BULKLEY. If it is agreeable to Mr. Southgate.

Mr. SOUTHGATE. It is entirely so. I will be glad to have anybody make any suggestion at any time, and to ask me any question, and I will answer it if I can.

Mr. JONES. I regret that Mr. Southgate was not here yesterday or he would have heard when I undertook to explain fully what the minority is recommending. I would like to say for your enlightenment, Mr. Southgate was invited to join the minority without seeing the minority's position, but he withdrew from the majority.

Mr. SOUTHGATE. I was never there. I was never with the majority, but I was certainly strengthened in my view——

Mr. JONES (interposing). You left before they voted, and there never was a majority that voted at all. While we dignify it by calling it a majority, there was never a majority that voted upon it. There were only 29 out of 68 voted. Had the minority been able to come before that commission, as the majority was, with its report there would have been a different decision, undoubtedly.

Mr. Southgate took the position, in correspondence with me regarding our positions, that he had just taken and explained here. I am confident he has not seen through what the minority's report is recommending, for it is identically what he is bringing out now, as I think you gentlemen here will bear me out. I only wish I could have had an opportunity to have gone over this with Mr. Southgate, and he would have fallen in line with the minority, I am confident.

Mr. SOUTHGATE. I am only giving these suggestions from the standpoint of my own personal experience as a business man and bank officer. There seems to be an idea abroad that anybody that is a bank officer, perhaps, is opposed to anything of this nature that might have in it a little element of competition of existing banks. I do not think that. This is a new subject and is as broad as the universe, and I do not think it will have any effect upon existing institutions in any sense; and if it did, if it is right it ought to obtain.

The next point I feel I might speak of in connection, in just a passing way, reading the bill, I think a great deal of care should be given—I will put it in another way. The system can only be established through the issuance of national charters and under national supervision of some form, because you would never, as the bill very clearly states, reconcile the various provisions found in the laws of the different States, divergent in every respect all over the land. Therefore it must be a national charter.

This bill further provides that these banks, to the extent, at least, of 50 per cent of their resources, can do a commercial banking business, and I do not think they should do so. I do not believe it is

right that they should. I do not believe there are adequate provisions in the bill that would take care of a general banking business under any such possibility as one-half of 1 per cent or of 1 per cent for expenses of handling and organization.

Senator HOLLIS. Mr. Southgate, you have had experience in Norfolk, Va., in banking. How far away are the customers living who do a deposit business with you and check with you?

Mr. SOUTHGATE. Certainly not more than within a radius of 200 miles; that is, except in rare instances.

Senator HOLLIS. What I am getting at is this: Farmers will want to know what has been done for them in the way of making deposits and checking more easy, and I happen to know that a great many men deposit and check at a distance, and I would like to know if it is customary in your vicinity to have farmers as far away as 15 or 20 miles to do business with your bank.

Mr. SOUTHGATE. Not more than that, because there is a local State bank everywhere in every county and a half dozen in some.

Senator HOLLIS. Do you believe that the country, as far as deposits and checking is concerned, is already taken care of?

Mr. SOUTHGATE. Absolutely.

Senator HOLLIS. That is what I wanted to bring out.

Mr. SOUTHGATE. I do not believe it is necessary to provide further simple commercial facilities. The moment you do that and compete with the State banks and national banks, with their expenses of transacting business, and considering their taxes which are simply enormous, you create a discrimination that ought not to be done, even for agriculture, because that is un-American.

Senator HOLLIS. Kindly tell us right here how the national banks in Virginia are taxed. What is the method?

Mr. SOUTHGATE. They are taxed upon the market value of their stock, and that is determined by local sales bonafidely made within a period of three months prior to the assessment for taxation.

Senator HOLLIS. That is so clear to you that you do not give us quite as much information as we ought to have. Your local assessors find out what the selling value of your bank stock is and assess you on that market value, do they?

Mr. SOUTHGATE. Yes, sir.

Senator HOLLIS. So that you are paying very high taxes?

Mr. PLATT. Is that personal property?

Mr. SOUTHGATE. Yes; it is on personal-property rate.

Mr. PLATT. The banks do not pay it.

Mr. SOUTHGATE. The banks pay it under the present plan of taxation in our State, and the rate is \$1.15.

Mr. PLATT. That is, it is a fixed rate in the State?

Mr. SOUTHGATE. No. That is the State and city added together. It makes \$1.15 that it costs the banks.

Mr. PLATT. Is that fixed?

Mr. SOUTHGATE. Yes; it is fixed.

Mr. PLATT. I mean the local assessors do not assess you locally?

Mr. SOUTHGATE. They only fix the value to be assessed. They do not fix the degree of tax—the units of tax. That is fixed by the State, 35 for the State and 85 for the city, making \$1.15 on the market value of the stock.

Mr. PLATT. The bank is not taxed on its personal property?

Mr. SOUTHGATE. The shareholder does not pay the tax, but it is paid by the institution itself.

Senator HOLLIS. Are they not taxed on the real estate in addition, the bank building?

Mr. SOUTHGATE. No.

Mr. PLATT. As local real estate?

Senator HOLLIS. As local real estate.

Mr. SOUTHGATE. They are in some cases. I do not think they are in our State. It seems to me that there is a provision for the exemption of that, unless it be an office building. If it is a bank building it is deducted from the gross amount to be taxed, but when it bears revenue it is different.

Senator HOLLIS. It would be double taxation clearly if it were taxed in the market value of the stock and then taxed as real estate, so they deduct whatever the assessment is on the real estate from the entire value of the assets of the bank.

Mr. SOUTHGATE. Yes, sir.

Senator HOLLIS. Now, go on, please. I wanted to bring that out by somebody.

Mr. SOUTHGATE. Now, Mr. Chairman, I hope the committee will have wisdom enough to draw out of the various witnesses that they will have before them some plan for limiting the expenses of the operation of these banks which does not appear in this bill.

I do not see how any set of men can say that an institution in which there are a thousand different ramifying conditions as exist in the United States shall be operated on a sound basis for one-half per cent or 1 per cent. It is very hard to determine this in advance by an inflexible law. We all, of course, want to do everything we can in order to keep down the interest charge to the borrower and to be sure that he does not pay anything more than he can possibly help. That is the whole object of the bill. Yet how can Congress say to the various States of the Union, and to the men who are going to put up their individual money to run an enterprise and to elect their own officers and conduct their own business under general law, that it shall be done for one-half per cent or 1 per cent? If there is a bank with \$500 doing a large business it can do business for less than an overhead charge of 1 per cent. If you start in these \$10,000 banks they could not do it. It is physically impossible unless some of the people do like they did in the old time in Europe, go up and give their services for nothing; that is, to say the least of it, very un-American.

Those are three points I wanted to bring out before you. As I said at the beginning, I am not here at my own volition; if you had not summoned me I would never have been here. Yet I was glad to have the opportunity to register in the most vigorous form a protest to legislation organizing these land-mortgage banks with adequate capital stock.

Again, I would not presume to take up the time of the committee in regard to our experiences in Europe and what we have found there, although I am familiar with it. I was much interested in the land mortgage and personal credit systems obtaining there. Personal credits is an exceedingly attractive subject. It is a won-

derfully attractive system and it has interested me tremendously, but I should hate to see it in any way confounded with this subject. If this bill does not do anything more than make possible these institutions and get in the mind of the American public the real significance of the amortization system and what it means to make a man provide for the payment of his money when you loan it to him, it will have accomplished an untold amount of good.

By way of parenthesis, and just for a moment, look at this great industrial urban system which we have just launched in this country with \$7,000,000 capital. It induces a man to save, because when a man borrows \$200 he signs a covenant that he will pay it back in a specific way.

Senator HOLLIS. What do you refer to?

Mr. SOUTHGATE. I refer to the industrial banks which have just been financed and established in New York for the purposes of establishing industrial urban banks all over the United States.

Senator HOLLIS. That is organized under a New York State charter?

Mr. SOUTHGATE. No; it is a Virginia charter loaning money in units of \$50.

Senator HOLLIS. Is that the institution that Mr. Morris is connected with?

Mr. BULKLEY. Is that the Morris plan?

Mr. SOUTHGATE. Yes; that is the Morris plan. Mr. Morris will be here to-morrow.

Mr. PLATT. In connection with the statement you made that these banks should not be allowed to take deposits, would you say that they should not be allowed to take, for instance, deposits from the Government postal savings bank funds?

Mr. SOUTHGATE. You mean in order to have a liquid fund with which they could turn new securities prior to the sale of the debentures of the old? What would they need it for? To loan out currently to earn money for their overhead expenses?

Mr. PLATT. It seems to me it might be well for the farmers doing business with these banks to be allowed to put some of their savings in these banks and have your provision that the banks might be available for postal funds. If they are not to be allowed to receive any deposits that, of course, will have to be changed or cut out.

Mr. SOUTHGATE. My idea of that is not that the postal savings should be deposited with these land-mortgage banks, but that these deposits remain with national banks as at present, but make it possible for national banks to buy land-bank mortgage bonds to deposit with the Treasury as security for postal savings.

If you help to make liquid this form of security by giving the right to all these national banks in the country to use these securities as provided for for different collateral purposes, say the postal savings as one, you create a great avenue at the outset for the use of these bonds, just like you create a demand for Government 2 and 3 percents to-day, to secure circulation under the old system.

Senator HOLLIS. That was the suggestion made yesterday by Mr. Jones. I believe.

Mr. JONES. Mr. Southgate is absolutely with the minority and does not know it.

Senator HOLLIS. Mr. Southgate, when you speak of a bank you naturally think of an institution with plate glass and onyx columns and mahogany counters, etc., which is kept open three or four hours a day, and where people come in, deposit their money and cash their checks. You have had a little more experience than we have, and you know about the operation of a bank. Do you think it is feasible to have these land-mortgage banks more like our building and loan associations in the North and East, run inexpensively, very simply, and really run for the purpose of permitting farmers to associate themselves together to get better credit, and not run as a bank in the ordinary acceptation of the term, but run economically and open perhaps one or two evenings in the week, in some unpretentious office, where they have a safe but do not pretend to keep much or any money, but where they do receive applications for loans, pass on them intelligently, as one neighbor will on another neighbor's collateral, and make loans up to the amount of the capital, and then have some central authority to investigate the loans and issue bonds on those loans as collateral? Now, have you in mind that a system of that sort would be successful in this country?

Mr. SOUTHGATE. That is a very far-reaching question. It ramifies in two different directions. It sounds exactly like the old Raiffeisen system in the early days, which obtained in Italy and Germany, but which is obsolete now and is superseded by something which is better. Secondly, there is no such thing will ever exist, in my humble opinion, in America as an association of farmers getting together to borrow money in an accumulative form on land mortgages. That will distinctly be for dynamic money, for personal credit reasons. Such an idea as you advance would enable the farmer to have a cooperative creamery, a cooperative tobacco warehouse, or cooperative cotton storage for the public utility, which is paid for by them at a schedule of rates very low, yet sufficient to amortize the loan that caused it to come to pass, and thus they use and own their public utilities. In that respect farmers may coalesce and stand for personal credit in those societies to which I have referred. But in an association of men mortgaging their land for a common fund, I do not believe it will ever exist in this country.

Senator HOLLIS. I do not mean that.

Mr. SOUTHGATE. You said that the association could come together to make mortgage loans.

Senator HOLLIS. I was trying to get away from the ordinary bank idea. Of course some one, either the farmers or those interested, would have to form an institution to do this business, and you would have to call it a bank; but as a bank suggests to me the machinery I have described, I wanted to get away from that. I suppose the plan would include capital stock, responsibility of the individual double the amount of the capital stock, but not a responsibility of one farmer for another farmer's loan by any means. I do not mean that. What I was trying to do was to see if we could not do this work and get away from the idea of a bank, which is almost necessarily the idea of a commercial bank, because you do not need all this machinery if you are going to issue 75 or 100 loans in 20 or 30 years; it is not necessary to keep the bank open during regular banking hours in order to do that.

Mr. SOUTHGATE. Seventy-five or one hundred loans? Not more than that?

Senator HOLLIS. The local association, be it a bank or what not, can only issue \$150,000 in loans on \$10,000 capital, which is the scheme of this bill. It would only issue 75 or 100 loans, and you do not have to have a big bank to take care of those loans.

Mr. SOUTHGATE. You would have to have an employee who would supervise it and handle it, and who would look after it and take care of it in the system you speak of.

Senator HOLLIS. That would have to be done by some organization which will be called a bank, just as it is done in large estates of millions of dollars that are handled by three trustees. They do not need to have banking rooms. They have an officer with clerks and a secretary, and they are responsible. Directors are no more than trustees of the bank's funds, and they are charged with responsibility concerning them. I am making this suggestion because it has been made by various witnesses in the past two weeks.

Mr. SOUTHGATE. It is exactly to get away from that unstable situation, as it relates to money—that most difficult of all commodities in the world to handle and handle successfully—money. It is to get away from that that I have advocated this Federal board plan. In the first instance, suppose you had three or four or five affiliated banks in every State; that is, an average of that many. It would only be about 250, when we have now 8,000 national banks, to say nothing of the tremendous number of State banks. Suppose you had five in each State, Senator Hollis, you would not need a localized \$10,000 organization to make the facilities of your sectional bank ready for the use of the farmers; but in a radius of 50 or 75 or 100 miles, with a bank attached, you would have your loan agencies, which are suggested by this bill, to go out and censor loans, to pass upon the validity of the tax assessments, in connection with it, its assessed value, etc., to see that the loan is conservatively made and brought into this institution, and have only just five institutions through the State. These land-mortgage banks would have the benefit of the lowest rate of interest consistent with existing financial conditions, and would make a market for the sale of these bonds, as they do now in Europe, but which they did not use to do when they used to make mortgages and market them the best way they could; but that is all obsolete now.

My experience has been that the man seeks the institution pretty rapidly, and you do not have to provide too many facilities to make a man borrow, and it does not have to be too handy, and you do not have to have all these little institutions to make it a success.

Senator HOLLIS. Is it your plan to have the central institutions one in a State, or one in a large district, or five in the State and then do the business through branches?

Mr. SOUTHGATE. No. I outlined it in the beginning. Following, as I explained, slightly, your new currency system, to have this Federal board in Washington to consist of these five men, and have an assessment against the affiliated banks for a small amount of their capital to make this central guaranty fund and justify the Government in guaranteeing these bonds without its touching the Government's funds to do it, and then, as I said, if you wanted your

regional banks, say 12 in number, in the various agricultural sections, all right, but if not, let these five banks in each State affiliate with the Federal board direct, and cut out the regional banks in order to prevent any red tape or any more ramifying system, and make it as plain and simple as possible. Perhaps it would be a good idea to let those affiliated banks, only 240 in number, if there were five in each State, affiliate with the central reserve board and pass up every mortgage to that board that it might be issued through that board, and have the approval or stamp of the Government on it, which would give it standing everywhere. If you had these five banks in each State you certainly would not need the little institutions such as you suggest. That idea, Senator, is an absolutely practical idea when it comes to personal credit short-time loans, but not for the hypothecation of that which the farmer has for years worked to obtain. "I will never put a mortgage on it," says the average farmer, "for the benefit of anything or anybody else except my own purposes." They are entirely two different things.

Senator HOLLIS. There will be a reluctance to discard the local knowledge and the local help which you may get out of some sort of small local institutions. It may be wise to do it—I am not certain as to that. But you will find that a great many of the members of this committee feel we ought to get all that local supervision and help that it is possible to get.

Mr. SOUTHGATE. It might be that you can get a plan whereby that local committee could pass upon the validity of the loan value of the land, and all that, and pass it up without being an institution with capital stock to manage, which could not be done except on a business basis. That would possibly be a feasible plan.

Mr. PLATT. You do not think it would be possible to have a co-operative bank?

Mr. SOUTHGATE. Not in mortgages.

Mr. PLATT. You said the farmers never would combine. In New York State there are the building and loan associations which are, as a matter of fact, cooperative associations among the farmers. I understand there are a number of them in such small towns that there is practically no town loaning and no town people in the associations.

Mr. SOUTHGATE. Do a dozen farmers mortgage their lands for a common fund? That is, cooperation in the matter of land mortgages.

Mr. PLATT. The building and loan associations do not.

Mr. SOUTHGATE. That is cooperation in the sharing of profits, but not in the matter of mortgaging the lands. They will not mortgage their lands except for their own individual loan, to build a barn or a house or buy land. The old Reiffeisen system used to be one under which it was contemplated that five farmers would hypothecate their land for 50 per cent of its value, and hold the funds in a common fund for the common good.

Mr. PLATT. Farm-land bank cooperation is not in the sense of liability, but it is a cooperative bank as far as both borrowers and investors are concerned.

Mr. SOUTHGATE. The point we are trying to discuss is community of interest in the borrowing—five men put mortgages on their five

farms for the benefit of some central good. It is not done in this country, I believe, anywhere, at least not in the United States in any place where the highest measure of cooperation is developed, which, I think, perhaps, is in Minnesota.

Mr. PLATT. "For the benefit of some central good"—do you mean by that for the issuing of bonds, for instance?

Mr. SOUTHWATE. For the issuing of some individual community use. If you will read the history of the Reiffeisen banks you will find that is the way they first started.

Mr. PLATT. They were amortization personal-credit banks?

Mr. SOUTHWATE. No; it was the land-mortgage feature attached to the personal-credit association.

Mr. PLATT. The mortgages were placed for the purpose of guaranteeing credit rather than for purely mortgage purposes.

Senator Hollis, as I understood him, undertook to draw out from you an opinion as to whether you did not think it was possible to run these small \$10,000 banks as building and loan associations are run, without any overhead charges to speak of, with one man as secretary at \$300 a year, perhaps, and with the office open once or twice a week. Why could that not be done? I do not think you fully answered the question. You said that these little banks would have pretty high overhead charges and the big banks would be run with very much less overhead charges. I do not think that is correct.

Mr. SOUTHWATE. With less overhead charge; less charge on the basis of its earnings. For instance, suppose a bank was limited to 1 per cent of the business it did, and it had a capital of \$300,000; do you not think it could do business at a lesser rate than one that had a capital of \$10,000 on its overhead charges?

Mr. PLATT. I am not so sure about that.

Mr. SOUTHWATE. Of course it would. That would be denying the economy of large endeavor.

Mr. PLATT. But the large bank has to have the banking house, possibly with the onyx columns and all that sort of thing, but the small bank does not have to have anything but a little space to transact business, and they could keep open one night a week or maybe one or two nights a month. Why should it have any expenses at all.

Mr. SOUTHWATE. Another reason why that is absolutely impractical in our country is that we do not have the community interest among the farmers here that they have in Europe, where the average farm is 20 acres, where everybody is together, where everybody lives in the village and goes out to the farm every morning and comes back in the evening. That is an altogether different situation. When you come to a question of finance in which you expect other people to participate you have got to get away from every phase of sentimental reason or feeling this, that, or the other way. Unless it is on an absolute business basis it will not be a success. I do not believe the borrowing and lending of money ought to be done on any other basis.

If there are no other questions, I will leave the testimony with those three points that I wished to give you, which I have brought out.

STATEMENT OF W. B. DOAK, OF CLIFTON STATION, VA.

Senator HOLLIS. Mr. Doak, will you please state your full name and also state where you live?

Mr. DOAK. W. B. Doak, Clifton Station, Va.

Senator HOLLIS. And what is your occupation?

Mr. DOAK. Farmer; representing the Northern Virginia Farmers' Institute.

Senator HOLLIS. The Northern Virginia Farmers' Institute? Just tell us what the institute is, so we will understand.

Mr. DOAK. The institute is an association of farmers in that State, which meets monthly, and is the oldest in the State.

I will begin by outlining my position on the banking question, relating a little personal experience. I can remember when as the manager of the Burke's Garden Cattle Co. I got a statement from the Bank of Princeton, W. Va., giving notice of a note for \$30,000, and to make a new note. It was for another cattle company of a very similar name. Now, that brings out an idea. The man who borrowed that money, by the way, has succeeded in accumulating some 40,000 or 50,000 acres of land within the short space of one lifetime by what we conceive to be special privilege in the matter of borrowing money. He got that money outside the State. Now, suppose a farmer like myself, with, say, 300 acres of land, went over to that bank in West Virginia and asked for \$200 or \$300, an equal amount in proportion; he would get no money. The cashier would say he did not know me personally and did not know anybody that I knew, and I would not get the money. It brings out, as I see it, one of the failures of our present system of financing land. In other words, it actually consisted of a "restriction of credits and concentration of cash," as, I believe, President Wilson put it.

The average farmer, small farmer, is practically unable to finance his operations, yet he has to operate, and he must go to an agent and pay 5 per cent for the use of the money two or three years on terms that are practically impossible. A mortgage can not be paid off in two or three, or even five years, as people are well aware.

Now, a second experience I am just going to relate. Two brothers were left \$40,000. Not a very large amount, still it is right handy to have that much given you. Of one man's money, \$25,000 is in the bank stock—a controlling interest, by the way—and the rest in a farm, a \$15,000 farm. The other brother got a \$40,000 farm, about 800 acres. People say they started in life on an equal basis, but if Will wants to borrow money to stock that farm, buy hogs, cattle, sheep, and horses, and buy equipment to run it, and he goes to C. B. to borrow the money, and he is told, "You must put up collateral and get somebody to indorse your note; your land is not good at the bank; we can not loan you money on it; but if you get the money we will have to let you have it for only 30, 60, or 90 days." Will will say, "I can not do that in 30, 60, or 90 days; I can not turn my crop or turn my stock in that length of time." There are billions of dollars in bank deposits handled thus; in this case, between \$300,000 and \$500,000. That bank runs about \$400,000 in deposits and about the same in loan and discount. In other words, C. B. got this money

from the community, for which he gave no security and on which he paid neither interest nor taxes.

Now, that is the way it looks to a farmer. It certainly does not prove to me that we are getting a square deal up to the present time.

Mr. PLATT. Do you mean to say that some people who borrow money from the bank do not pay interest on it?

Mr. DOAK. No, sir. This bank has been known to take out 12 per cent in advance. I said that the banker got his money without paying interest. At that time the bank did not pay any interest. They do, I think, now. They have to pay some interest on time deposits; but at that time they paid neither interest nor taxes, nor gave any security. The other brother, the farmer brother, had to furnish collateral or personal indorsement, and that made it practically impossible for him to get sufficient money. There is a condition of affairs that is leading to ruin to-day. Land is being depleted and abandoned rapidly in Virginia, with the exception of the holdings of a few very wealthy men who have bought and improved land close to the towns and cities along the electric lines which is gaining rapidly in value. There is possibly 50 per cent more land being impoverished in Virginia than improved. Now, you need not take my word for it; you can ride up and down the railroads and in the country, riding by and see it, and you will see that things are getting bad, and things are getting worse and not getting better, but getting worse, and you can see that our country is very poorly financed. You can look at it from the two ways. Take our two adjoining counties across the Potomac River—Prince William and Fairfax. As a matter of fact, Fairfax County has 260,000 acres of land and Prince William County has 220,000 acres of land. And, by the way, the president of our farmers' institute is also president of the leading bank. We often have a friendly argument over this question. I tell him, "You need not try to make me believe you have got plenty of money. There you have got \$600,000 in three banks in Prince William County. That is less than \$3 an acre. If all the money were loaned to the farmers it would be less than \$3 an acre." The English tenant is expected to have \$50 an acre to equip the farm he rents with live stock and machinery. We have written our own condemnation on the landscape—bush-grown, gully-worn fields.

Mr. PLATT. Where do the deposits come from in this bank? Do they come from the farmers?

Mr. DOAK. Largely; yes, sir. I am not a banker. I would not undertake to say very much about it, but that would be my impression.

Mr. PLATT. If the farmer has deposits in the bank, can he get a loan?

Mr. DOAK. Oh, yes. I have always been able to borrow a little money.

Mr. PLATT. Do you think that it would be good banking, and would it be safe, for a banker to loan money, for instance, to a man who had nothing on deposit?

Mr. DOAK. I am not a banker. Of course, I will admit that does not look like good business.

Mr. PLATT. Is that not largely the real trouble among the farmers—that they do not do business with the banks at all, consequently when they come to ask for loans the bank has no way of knowing

what they save or whether they ever do save anything, consequently it is pretty dangerous business to loan other people's money to men who had shown no capacity to handle money.

Mr. DOAK. He offers personal credit or surety, which they usually require. That is not the main point we are driving at, however. I am going to state that when I went to the State Farmers' Institute, at Richmond, I was astonished to hear Dr. Coulter—who is, I believe, secretary of this commission—talk this matter over; and he never mentioned a farm-land bank. He discussed the credit union. It seems to me that the credit union is not anything like so well suited to Virginia conditions.

By the way, I happen to come from the stock-farming section of Virginia, and I expect I know about Virginia conditions as well as most any man, farmer or banker either, certainly from that standpoint. I sell cattle or sheep almost all over the State, and have lived east and west of the mountains, hence I feel like I am reasonably well qualified to represent the farmers before this meeting. They have been willing to trust me with the job, anyway.

In regard to the credit-union system, we have a rather old, worn soil, while our section is a comparatively new community, namely, farmers are moving in and out all the while. That is, we are not close to each other, and in that respect are not like Germany. We are not that kind, in fact—not that the men would not trust each other at all, but they would not indorse promiscuously, as Germans do in credit unions—but, as I understand this farm-land bank proposition, a man puts up his land for the money he gets; and it seems to me it is eminently suited to agricultural conditions here. As for the operation of the bank, I do not know what the difficulties along that line would be; but take our case particularly, why could not this president of the national bank there—it seems that was mentioned—also act as president of our farm-land bank? He seemed very much interested in the proposition, and is trying to develop it. I see no reason why it could not be worked very economically. We certainly can show a great many of our city friends all the way around the block when it comes to running an insurance business. We have a little farmers' mutual up there in Loudoun County—Waterford—which I suppose writes as much insurance as most any concern in Virginia. They are very close. They do not spend any money. A friend of mine—their local agent—told me the other day that they would not even let him have a blotter when he asked for it. [Laughter.] But we are doing the business, and we are insuring property, and putting a lot of city people out of business, for the very simple reason that their overhead charges are entirely too large. They are beyond reason.

Senator HOLLIS. You have given us some very valuable information. Do you find that your farmers are able to run the machinery of that insurance company, and run it economically and successfully?

Mr. DOAK. We have for a great many years.

Senator HOLLIS. Have you had any losses?

Mr. DOAK. Oh, yes; they have paid a great many losses. I am not an insurance man, but I know I insure with them, and know the thing has been going on there for a great many years.

Senator HOLLIS. Who are the men who run that insurance company? Are they farmers, or are they men of business experience?

Mr. DOAK. Practically all of them are farmers. It is run up there in the county 3 or 4 miles from a railroad, even.

Senator HOLLIS. You find that men are willing, for the sake of the community, to contribute more or less of their time to an association of that sort?

Mr. DOAK. Yes, sir; they are actually doing it.

Senator HOLLIS. Have you been able to run anything in the nature of a cooperative creamery or a cooperative selling agency, or anything of that kind?

Mr. DOAK. Well, I could not say that we have in the way that would be extensive enough. We are selling some few products, just in a small way, but we have no regular organization in that particular line. We have not done anything worth while.

Senator HOLLIS. You have heard the proposition as stated here this morning, and do you believe that the farmers and other men of property in your vicinity would take enough interest in a bank which would help them place their loans at a less rate of interest to subscribe to a substantial capital, and do the work without large salaries, if they were given the opportunity?

Mr. DOAK. Yes, sir; I think so; but I would object to the banker's idea of a large capitalization. I should think that \$10,000 as a minimum would be about right to start with.

Senator HOLLIS. If you have small local banks, of course, they would have to have small capital. Mr. Southgate's idea was that it was better to have a few large banks with large capital, so that they would command the confidence of the investor and have them, through their agents, serve the different communities.

Mr. SOUTHGATE. And have these banks under Government supervision, so as to prevent the possibility of overreaching, or anything else that would come by reason of large capital stock by which the farmer would be held down by the Government.

Senator HOLLIS. You see, Mr. Doak, there are those two schools of thought. One is to have a small institution with a local, intimate knowledge of the properties that are offered as security for loans, and work up, possibly, to a central organization; the other having strong, large institutions which will reach out locally and do the business. You see, there are those two schools. Which of those two schools do you think the farmers of your vicinity would prefer?

Mr. DOAK. I should think they would decidedly prefer something in the nature of this Fletcher-Moss bill. In the first place, it comes down to the local organization anyway, does it not? A bank at Richmond would not loan \$5,000 on my farm or \$10,000 on my farm without some local man to value it, would it?

Mr. SOUTHGATE. They would eventually send their agent down to you, and you would have to stand whatever expense there was attached to that.

Mr. DOAK. If they did send their agent would he be competent to put a rational value on that farm—if they sent their agent from Richmond down there? Would not the farmers, in other words, right there on the job, who know that land, be in better position to put a rational value on that farm and say how much it was worth?

Mr. SOUTHGATE. That would be contrary to every precedent of ordinary banking. Do you believe a man would like to borrow money from a bank, 50 per cent of whose officers were men who own farms? You take five farmers, they have an exalted opinion of their land. That would not be sound banking. You would have to have a fiduciary agent, as provided for by that bill to do that very thing, a censoring agent, to determine from the basis of assessment and all other things, the last sales of real estate, and all other methods that they would have of obtaining value.

Mr. PLATT. If the local organization was made up of farmers who had their capital stock in the bank and their money at stake, they might be a little conservative, I would think, in estimating what they would loan.

Mr. SOUTHGATE. They are cooperative, you see, to the extent of unlimited liability, to the extent they would have to limit the capital—

Mr. PLATT (interposing). Every corporation is cooperative anyway to some extent.

Mr. DOAK. Mr. Southgate was tending to leave the impression that by avoiding the small banks, the local organizations, he would reduce expenses. It seems to me that it would not do that, because it would eventually have to be brought down to the community, and that would be expensive. We farmers could do quite a bit of business without spending any more money than the expert Mr. Southgate would send down from Richmond would on one trip. We do not spend money so foolishly as some city men do. I am quite sure there would not be any savings there in time to come.

Mr. PLATT. Would you say that most of the farmers are willing to mortgage their land?

Mr. DOAK. Mr. Southgate also left the impression that farmers would not mortgage their land. At our last meeting one of the oldest and one of the best farmers in Prince William County—and by the way, he is not carrying a mortgage now—said that if this bill was passed he would borrow money; he would mortgage that farm.

Mr. SOUTHGATE. You must have misunderstood there.

Mr. PLATT. I would like to go into that a little further. You say he has no mortgage on his farm now?

Mr. DOAK. No.

Mr. PLATT. What would he do with the money? Does he need it on the farm?

Mr. DOAK. I would not undertake to say just what he would do. He is a man of good judgment. I do not think he would throw the money away. I do not know exactly what all his plans are, but I imagine he would probably lime, fertilize, and seed some fields to grass. He might buy some live stock, and there are many things a farmer might buy. You see, we are very poorly stocked. New Zealand is carrying one sheep to every 2½ acres, and we are carrying less than one sheep to 100 acres in our county. I am more familiar with figures on sheep, but our other industries stand in about the same proportion. That proves how much we lack of being stocked up. It shows how pitifully inadequate our present banking facilities are.

Mr. PLATT. If you had credit facilities at not too high a rate of interest you could easily use the money to advantage in conducting your farm?

Mr. DOAK. To be sure. We could use the money to advantage. Hundreds of thousands of acres of land in Virginia are absolutely abandoned, with not a head of stock of any kind on it.

Mr. PLATT. This particular farmer you spoke of, the man who has no mortgage now: what would you say from your own judgment as to whether he could profitably mortgage his farm and use the money?

Mr. DOAK. Yes, sir; I think he could use some money to great advantage.

Mr. SOUTHGATE. Would that assist in really getting a larger production and lowering the cost of living? That is the fundamental principle of this whole thing, to aid production and make more liquid the securities which the farmer has.

Mr. DOAK. We certainly could not raise sheep or cattle or hogs without putting them on the land, could we?

Mr. SOUTHGATE. What rate of interest do these farmers have to pay there now?

Mr. DOAK. You can hardly get money now—the ordinary man, you know—without paying 5 per cent.

By the way, he spoke against this relief from taxation as being unjust taxes on the banks. He does not know a thing in the world about unjust taxes. Consider new settlers or young farmers who undertake to buy land; when they come in they have to pay a third or a half down, as the case may be, and are assessed on the other one-half or two-thirds. They are made to pay two or three times as much taxes as they are worth. There is no justice in it whatever, counting both Federal and State income taxes. Thus the young farmer, struggling to improve an old farm worth \$5,000 to \$10,000, is forced to pay more money to support the Government than the fellow with a net cash income of \$5,000 a year, although nine times out of ten for the first five years on the farm he has no real income. All he can possibly make is used up in improvements. Is it any wonder people leave the land? That would be relieved, probably, by this bill making land bonds exempt. They would get the money cheaper by this bill.

Mr. PLATT. Do they have to pay a commission every time the mortgages are renewed?

Mr. DOAK. Yes; practically the lawyers get the money, you know. Maybe the bank gets the money. In our case this gentleman has a son who is a lawyer, who loans money and gets the commission of 5 per cent. The money may come out of the banks for all we know, but the farmers have to pay 5 per cent extra by way of commission besides other fees.

Mr. PLATT. If you had credit facilities at not too high a rate of interest you could easily use the money to advantage in conducting your farm. Would you consider a 5 or 6 per cent interest rate high if it was a straight rate, and there was not anything added to it in the way of commission?

Mr. DOAK. It seems to me to be high compared with other countries in Europe.

Mr. SOUTHGATE. You said that gentleman you spoke of would put a mortgage on his farm if this bill became a law. What do

you reckon he would get that money for? What rate to you have in mind that he would have gotten now? Just take the actual case. If he should put a mortgage on his farm under this bill, if this bill became a law, what rate of interest would he pay?

Mr. DOAK. Under this bill?

Mr. SOUTHGATE. Yes.

Mr. DOAK. Well, I should presume he did not think it would exceed 6 per cent

Mr. SOUTHGATE. Then, he would only be benefited to the extent of the commission?

Mr. DOAK. Yes; so far as interest goes.

Mr. SOUTHGATE. Is that all the benefit it would be to him?

Mr. DOAK. No. I understand this bill provides for a 35-year loan, does it not?

A very distinct advantage furnished by the Fletcher-Moss or similar farm-land bank proposition over our present private farm-mortgage business is that it prevents personal feeling in the matter. Some lenders are very kind and considerate. On the other hand, many succeed in making themselves and their mortgages exceedingly offensive. Instances arise in which the borrower is known to have been intentionally and maliciously crippled in his credit or otherwise injured to enable the creditor or his friends to acquire a large and desirable place at great sacrifice by foreclosure. You can readily see how this necessity of having loans renewed every few years places a very powerful weapon in the hands of the people who lend money. It has a particularly disastrous effect upon farmers, because the farmer's place of business is also his home. It disturbs the rooftree, the unit and very foundation stone of democratic institutions. That is, to make the point perfectly clear, no purchaser of farm-land bank bonds could say he held a mortgage or trust against any particular farm and farmer. Anything he might do to disparage one would work against all and prove of no particular benefit to him. Hence temptation to disparage any is removed. This difference alone, while quite impossible to reduce to figures, would justify the borrower in paying considerably more to get a farm-land bank to carry his loan.

All who have lived in the country realize how frequently opportunities offer by which men with influence may render the farming operations of any particular farmer unprofitable. Namely his taxes may be raised arbitrarily, personal credit denied at the bank, dealers refuse to handle his stock or crop at a fair price, his road or outlet to public road may be rendered practically impassable, or outside interference make it almost impossible to get along with neighbors or help.

We consider this matter of rural credits of infinitely more consequence to the country than agricultural extension, vocational training, or any other system of lecturing farmers. Is it not really absurd to presume that to put an inexperienced student in a county, and have him dispense cheap advice—always stale and often misleading—will effect any appreciable uplift in American agriculture?

Mr. PLATT. Yes; on an amortization plan by which to pay for the loan.

Mr. DOAK. There is quite a difference. At least, I would make quite a difference, because a man can not pay off a mortgage in three

or five years, and you know it. It is absolutely impossible to do it from the proceeds of the farm.

Mr. SOUTHGATE. That has nothing to do with the interest, of course—the question of what he paid for his mortgage. That is what I am getting at. The amortization feature; nobody on earth would say that that was not a splendid thing to provide for long-time payments, but he would get the money for no less than he is getting it now, perhaps.

Mr. DOAK. The commission makes a difference of 1 per cent. When we are borrowing \$10,000, \$20,000, or \$40,000 it is quite a little item.

Mr. PLATT. These farmers in your neighborhood would not expect this bill to make the rates of interest lower than they are, generally speaking, to merchants in the towns?

Mr. DOAK. No, sir.

Mr. PLATT. Suppose the bill did become a law, and it would make the rates of interest quite a little lower—5 per cent or $4\frac{1}{2}$ per cent—would that induce a good many farmers to mortgage their lands, who, perhaps, ought not to mortgage it for far more than they ought to borrow?

Mr. DOAK. I hardly think so. The farmers have been schooled pretty severely and can be depended upon. They are a lot more careful than city people in handling money. I would not blame the bill if an occasional farmer did get a little reckless with his money when I see the amount of money that has been frittered away in the towns.

Mr. PLATT. Would you think it wise to induce them to borrow?

Mr. DOAK. It depends on what they borrow it for. I do not think a farmer should borrow money to buy an automobile to gad around in, but if I am borrowing money to buy live stock, cattle, sheep, and hogs, or to make permanent improvements on land, I think it ought to be encouraged. Some of the poorest farmers I have ever known do not know anything and do not do anything more than simply sell off a little timber and live from hand to mouth, and the very poorest farming I know of has been done by men entirely out of debt.

Mr. PLATT. That is the truth, and that is one trouble—they do not do anything. If they are loaned money on mortgages on their farms, would they do any more than they have in the past?

Mr. DOAK. I believe most of them would. I believe it would stimulate production. The simple influence of others would help. An opportunity to do something at a profit, I believe, would be an encouragement. There is no question in the world about that.

I think this is the most important bill Congress has ever considered. At least it seems so to me.

By the way, I want to say what our bankers indorsed. They met in Richmond and condemned the Glass-Owen currency bill absolutely and unqualifiedly, and it would not be safe to follow our friends in the banking business, because we do not know exactly where they are. They have been on too many different sides of the same question.

It seems to me that Mr. Southgate left the impression that the farmers, in going into a farmer's bank, negotiating these loans, all individually stood for all the money that was borrowed. That is not my conception of the bill at all.

Mr. PLATT. I did not catch that.

Mr. DOAK. It seems to me that Mr. Southgate has left the impression that in establishing these farm-land banks, in negotiating these loans, that the farmers individually indorse and were liable for the loans, the money that was borrowed. I do not understand the bill means that at all.

Mr. PLATT. He was talking about a cooperative plan in Europe.

Mr. DOAK. That is what you said, isn't it?

Mr. SOUTHGATE. Exactly to the contrary. I said that farmers would not mortgage their land. Exactly to the contrary, that a man will mortgage land for his own benefit, for his own purposes, to buy more land or make improvements, to increase production, but he would not do it for the benefit of the community.

Mr. DOAK. That is all we ask to do, and it seems to me that the other matter is irrelevant.

Mr. PLATT. Are there any building and loan associations in Virginia that you know of?

Mr. DOAK. Not to my personal knowledge, loaning on farms.

Mr. PLATT. I understand they are making loans in North Carolina on the 12-year amortization plan. It is purely cooperative. Do you think the farmers would want as long loans as 35 years, for one generation?

Mr. DOAK. It occurs to me that a great many young men will buy farms and borrow. Some of our best farmers are practically without capital, at least without sufficient capital—I had better put it that way. It takes a lot of money to run a farm just right, and there are a great many men, some of our best farmers, now tenants. By the way, I have heard some of our good friends object to the bill. I think what they said was if there were ready money to be loaned to the other fellow, who would work their land, but what we want to know is how the people come in on that sort of proposition. I understand you represent the people of the United States, and it is the object of this currency and farm-land banking proposition, or any other banking proposition, to create such condition in the money market as that money will be available not only to a comparatively few men, just as I said about the head of the cattle company in southwestern Virginia who had managed to acquire, in the short space of one lifetime, 40,000 acres of land in Virginia by special favors. I know some good friends of mine, moneyed men, looking out for their end of the string and they said that the farm-land bank bill would be a very bad bill, as it would enable the tenant to buy land.

That is what the tenant ought to do. If he has money enough to stock it and knows how to run it, it is to the interest of the community and the interest of the man, and all good business sense would indicate, it seems to me, that he should be provided with funds. We have just as fertile farms as anybody on earth. We certainly can not give the foreign farmer all the advantage in the way of cheaper land and labor, lower taxes and interest, throw open our markets to him and expect to compete with him, can we? It costs me just as much money to put my wool and mohair into Boston or Sanford, Me., as it does the shepherd in New Zealand or Argentina. I understand they borrow money for 2½ per cent in New Zealand.

Mr. SOUTHGATE. Where is that?

Mr. DOAK. In New Zealand. I believe the Credit Foncier rate in France is 4.88, it is not, which pays both principal and interest? You take the matter of cattle—we used to run a great many cattle in Texas. The interest charge on a steer has been figured up, and it amounts to \$45—just the charge for the use of the money.

Mr. PLATT. Of course, I do not know what the value of land is in New Zealand, but in Europe ordinarily the rate of interest is so low, and that is particularly because Europe is the great reservoir for capital, and it also ought to be considered that land is a great deal higher priced: it is worth three or four times the value of land in this country, and that somewhat offsets the difference in the interest rate.

Mr. SOUTHWATE. Mr. Chairman, those are subsidized by the Government and can loan money to the institution at a lesser rate, thus enabling them to loan that money at a lower rate than it can possibly be done over here under our system or by our institutions.

Mr. DOAK. Would it not really be easier and better and comparatively safer to handle at a profit $2\frac{1}{2}$ per cent money on a margin of 1 per cent than 6 or 7 per cent money at 1 per cent? Could not our local banks, in other words, handle the money, say, 2 or 3 per cent money, on a 1 per cent basis at less expense, and could not they do a safer business and more profitable business than with 6 or 7 per cent money?

Mr. PLATT. I do not quite understand how.

Mr. DOAK. That would be a greater rate of profit relatively, wouldn't it?

Mr. PLATT. You mean if somebody furnished them the money at $2\frac{1}{2}$ per cent—the Government, for instance?

Mr. DOAK. Yes; postal savings. What do they bring, for instance?

Mr. PLATT. Three per cent now, I think.

Mr. DOAK. Would it not be comparatively easier to get a profit on that money at 1 per cent than it would be if you had money at 6 per cent. from a banker's standpoint? I am not a banker, but it looks to me like that?

Senator HOLLIS. Is this your point, Mr. Doak, that if these banks can get money to loan at 2 or $2\frac{1}{2}$ per cent, then, of course, it is easier for them to loan it out at a low rate of interest?

Mr. DOAK. At $3\frac{1}{2}$ per cent.

Senator HOLLIS. Sure; because they would get their margin there, and the cheaper they could get the funds the cheaper they could accommodate the borrower. I think that is perfectly evident.

Mr. PLATT. It is not your idea, is it, that the Government ought to let them have money at 2 per cent—these banks?

Mr. DOAK. I am not a lawyer and have never gone into these things as carefully as that. It occurred to me that if the Government has postal savings to loan, that they can just as well put it back into the country. I think it has gone heretofore into the financial centers, and I think it would tend to equalize things and it would go far to benefit the people.

Mr. PLATT. That would not go very far. There are only \$40,000,000 of postal deposits in the country and something like \$8,000,000,000 of farm loans already.

Senator HOLLIS. \$2,500,000,000.

Mr. PLATT. Roughly speaking, there are almost 10 times as much money in farm mortgages—in fact, almost 100 times as much—as the postal savings.

Mr. SOUTHWATE. If the postal-savings deposits were wrapped up in 35-year bonds, where would the Government come in? How can the Government get the money, if it wanted it, out of these 35-year bonds?

Mr. PLATT. There is not any question about that. There is one thing I would like to ask you: Do you think the farmers would stand for a plan by which they were somewhat supervised as to how they were to use the money? For instance, a farmer has a farm worth \$2,000, and he mortgages it for \$1,000; would it be practical for any State or Government agent to watch to see how he was spending the money, to see whether he was really spending it in purchasing cattle and stocking his farm to make it more productive, or would they resent that?

Mr. DOAK. They have to be subject to a little inspection in dairying, for instance, already.

Mr. PLATT. You do not see that there would be any serious objection to that?

Mr. DOAK. I do not take too kindly to a Government supervision, but I think we would have to submit to it; we would be willing to, for we would be better off than under present conditions. Something has to be done for the farmer. Farming is in a bad way, and there is no question in my mind but that it is getting worse all the time.

Mr. PLATT. These farms that are being abandoned—are they mortgaged?

Mr. DOAK. I say “abandoned”—there is no land in Virginia that nobody pays taxes on, but it is land—say a man owns 500 or 1,000 acres; he probably may have two-thirds of it that is virtually abandoned; it is not fenced, not stocked, and nothing in the world done with it; it is impossible for him to do anything with it under present conditions; there is no crop put on it.

Mr. PLATT. He might sell it to somebody who can use it.

Mr. DOAK. Who would he sell it to? There are more people selling than buying, I reckon.

Mr. PLATT. Is it the tendency in Virginia to split up the larger farms?

Mr. DOAK. Generally speaking. Of course there are certain sections which are prospering; there is no question about that.

Mr. PLATT. Is it the tendency to split up the larger farms?

Mr. DOAK. I think the farms are inclined to grow.

Mr. PLATT. They are more inclined to grow?

Mr. DOAK. In size, anyway.

The place adjoining my farm has been in the hands of nonresident owners 30 years. To the best of my knowledge, they have never set a post, planted a crop, or put any stock thereon. Although nearer the town, more level in contour, heavier timbered, and slightly deeper in soil, hence of greater inherent value, therefore in justice it should pay the most taxes. On the contrary, taxes on my farm have been raised until it is paying four times what the other does. On the other side two other farmers have recently left. These places all

had comfortable houses, which are empty all the while, and are within a day's drive of the National Capital.

Easier money will enable people already in the country to take over most of these practically abandoned places and stock them up with sheep and cattle for grazing purposes, thus greatly increasing supplies of beef and mutton and relieving the people's demand for meat, which is, and will continue to be, the most acute problem of the high cost of living.

Where soil is adapted to intensive culture and high acreage production can be maintained every year, small holdings are advisable. On the other hand, most of Virginia and other Eastern States are hilly or mountainous and better suited to grazing than cultivation. It has been clearly established that even for general farming a place of less than 400 acres is not an economic unit, while for grazing considerably more is indicated. Physical conditions must be allowed to determine whether holdings of land be made larger or smaller.

MR. PLATT. In spite of the fact that a great many farmers can not use all their land?

MR. DOAK. They are more likely to grow than not. It is this way: Some people have an idea that land is advancing, you know. People will sacrifice to hold it, hoping that somebody will come in and buy it. I do not know what the figures are, but I think there is more increase in size than otherwise. Dr. Coulter can say.

MR. PLATT. I do not mean according to the census figures; I mean from your observation of your own country.

MR. DOAK. Yes.

MR. PLATT. People are buying more land instead of splitting up larger farms?

MR. BULKLEY. I wish you would tell us how far you feel satisfied with the Fletcher-Moss bill, and what changes you would suggest in it.

MR. DOAK. I am not a banker or a lawyer, and I do not make any specific recommendation.

MR. BULKLEY. Never mind the exact language.

MR. DOAK. It seems to me to be a right good bill. I am not objecting to it in any particular.

MR. BULKLEY. I do not mean in exact language, Mr. Doak; I mean broadly what your criticisms would be.

MR. DOAK. I do not know that I have any particular criticisms. We voted to indorse it just as it stood. A 20 per cent minimum on capital stock, viz, \$2,000 loan from a \$10,000 bank would leave out the majority of our farms, as they sell from \$4,000 to \$20,000 each. Might not this be modified so a few of these larger propositions might be handled from the start?

MR. PLATT. You think a little bank would be organized with \$10,000 capital?

MR. DOAK. I do not think there is any question about it.

MR. PLATT. Do you think the farmers could organize it themselves?

MR. DOAK. Yes, sir.

MR. PLATT. They could finance it?

MR. DOAK. I think the farmers would put up the money.

MR. BULKLEY. Would the farmers buy these bonds?

MR. DOAK. The farmers might. They put money out now, too, through their lawyers. A woman has an estate left her, and the

lawyer gets the money—gets 5 per cent, quite a nice little fee on a \$5,000 loan. That money would go into farm-land bonds. There is no question in the world in my mind but that they would sell all right, and she would get just as much and get more, in fact, because those bonds would be exempt from taxation. Our rate is \$1.40. I think that is what it is. That has to come out, as it is, of the 6 per cent. You see it cuts both ways. It is just like this: A man puts in his money on a land bond, and he would not get any more than $4\frac{1}{2}$ per cent. The tax rate sometimes runs as high as \$1.70 in some countries. You see it is only $4\frac{1}{2}$ per cent, or a little less than that, is all they actually get on the money.

Mr. PLATT. Are mortgages taxed in Virginia?

Mr. DOAK. Oh, yes; land tax. The banker seems to be laboring under the impression that he is subjected to hardships, but he has no hardships at all. The farmer's cattle, sheep, and hogs, and everything on the place is his stock in trade, and he has got to pay a tax on it. Demand deposits in the bank is the banker's stock in trade, but he does not pay any tax on it.

Senator HOLLIS. The banker has to pay a tax on deposits in the bank, if he has in his vault enough to come in under the law.

Mr. DOAK. The legislature just passed a law in Richmond which says only 20 cents on \$100.

Senator HOLLIS. Twenty per cent?

Mr. SOUTHGATE. It had been \$1.25 prior to the time it was made 20 per cent.

Mr. PLATT. I did not know that bank deposits were taxed in any State.

Senator HOLLIS. I have to turn in every year, to show how much money I have in the bank, and I do it, every cent; I take it out of my bank balance.

Mr. PLATT. That does not obtain in New York State.

Mr. DOAK. They have not been doing it in Virginia. I went down to Richmond one day and there was about \$60,000,000 in bank and they reported some \$600,000—\$120,000. That is about all that was reported. So that you see the bank's money has never been taxed, strictly speaking.

Senator HOLLIS. You see a bank might have deposits of \$1,000,000 and notes and discounts of \$1,000,000, and only 20 per cent of that actually in the vault, on hand, so that they might be perfectly square in that. I think that is right. They would be taxed on what they actually had on hand.

Mr. DOAK. I can not agree with that. I remember being down in Richmond when Auditor Moore was making that campaign to tax bank deposits. I am giving it offhand, but the figures are approximately correct at any rate. There were about \$60,000,000 on deposit in the banks in Richmond the day they returned some \$500,000 or \$600,000—less than one-hundredth actually returned for taxation.

Mr. PLATT. If you taxed the bank deposits, you would tax about ten or eleven times more money than there is in existence in the United States, because the bank deposits amount to I don't know just exactly how many times the actual currency in existence; but the amount of currency in existence is about \$3,500,000,000, and the bank deposits how much?

Senator HOLLIS. \$17,000,000,000.

MR. PLATT. \$17,000,000,000. In other words, the bank deposits are the amount loaned, and not the real money.

MR. SOUTHWATE. Under the law the amount that is on deposit is offset by what is loaned. A man has to use the money for loaning and for all kinds of purposes. You can not take a thing of that kind and say you are going to produce figures thus and so.

MR. DOAK. I notice the court figured on that the other day, and they ruled that the bank would have to pay. The contention there was that it was mostly borrowed money, and that they ought not to pay taxes, because they borrowed the money, but the court required them to pay.

MR. BATHRICK. I would like to ask this gentleman one question. I was interested in your statement that a good many farms in Virginia are permitted to lie out. I believe that is the expression that they use. You said that that condition is existing and growing, as I understand, in your State, where the farmers get money at 5 and 6 per cent. Did you say you got the money at 5 or 6 per cent?

MR. DOAK. Six per cent.

MR. BATHRICK. What do you think would happen—would that condition increase to a greater extent, of farms lying out and being abandoned, so far as production is concerned, if you had to pay from 10 to 20 per cent?

MR. DOAK. Yes, sir; I think so. It certainly would strike me that way. I am one farmer that would quit the farm anyway.

MR. BATHRICK. You believe it would be disastrous to production if you had to pay 10 to 20 per cent?

MR. DOAK. Yes, sir.

MR. BATHRICK. Do you think it would be possible to develop an agricultural district, however rich it may be, if the farmers, in order to develop that country, have to pay 10 to 20 per cent interest on their capital? Do you think it is practicable and possible?

MR. DOAK. To develop the land?

MR. BATHRICK. Yes, sir.

MR. DOAK. There are so many things we have to consider: land might be so very much better than our land, and the location might be better and the labor cost might be lower, so I would not commit myself without knowing more of the details.

MR. BATHRICK. Take conditions with which you are familiar: do you think it would be possible to develop, to any particular extent, agricultural areas where the farmer, as a general thing, has to pay from 10 to 20 per cent for money?

MR. DOAK. Do you mean to say do I think it can be done in Virginia?

MR. BATHRICK. Yes: in the land markets you are familiar with.

MR. DOAK. No: I do not.

MR. PLATT. How much do you suppose the commission would be that would be paid in Virginia by a farmer when he first issued his mortgage?

MR. DOAK. For a loan running as long as, say, 5 years, for instance, a man pays a commission of \$50 per \$1,000, and spreads that over the number of years.

MR. PLATT. Reckoned down to percentages, would it amount to more than 1 per cent increase in the interest?

MR. DOAK. Fully 1 per cent and probably more.

Mr. PLATT. Then the farmer is really paying considerably over 7 per cent?

Mr. DOAK. Considerably over 7 per cent, because there is the abstract of title to be drawn, and at times there is a resurvey and abstract of title, and that runs the rate up. By the way, every time you sell, buy, or borrow on land you have got a fee to pay a lawyer; you have got to have an abstract of title, deed, etc.

Mr. BULKLEY. Is there anything else you wanted to say, Mr. Doak? Have you concluded?

Mr. DOAK. Yes, sir. I thank you very much.

Mr. BULKLEY. Mr. Southgate, do you want to add something to what you have said?

Mr. SOUTHGATE. I wanted to try and clear up, in just two or three minutes, Mr. Chairman, the subject that Mr. Doak seemed to be mixed on, to some extent, the difference between the personal-credit side, as bearing on the question, and my conception of the land-mortgage bank, and I have it in print here, a preliminary report that I made, and I would like to read it to show my own view of how I hope that this thing would greatly benefit the farming interests. I do not think it would take five minutes. This was written a month after we returned from Europe.

NORFOLK, Va., September 22, 1913.

HON. WILLIAM HODGES MANN,

Governor of Virginia, Richmond, Va.

DEAR SIR: In keeping with your appointment to membership in the American commission formed by the Southern Commercial Congress for the purpose of accepting the invitation to the principal countries of Europe extended the Southern Commercial Congress through the International Institute of Agriculture at Rome, Italy, to study the existing systems of agriculture cooperation and finance:

I went to Europe, without cost to the State, as a member of said commission, which body consisted of 2 representatives each from 36 States of the Union and of 4 Provinces of the Dominion of Canada, and also of 7 Federal commissioners appointed by the President of the United States.

The joint work of the commission covered 3 months of active labor, 10 hours each day, as may be seen when it is advised that very thorough investigations were made in Italy, Hungary, Austria, Russia, Egypt, Germany, Switzerland, France, Belgium, Denmark, Sweden, England, and Ireland.

The commission was graciously received in every instance by the Governments of these respective countries, who, by prearrangement, were ready with experts from national and local institutions, officers of central societies, eminent economists, bankers, specialists in agricultural development, etc., all of whom gave valuable testimony which otherwise it would have taken the commission months to secure, and thus to have covered such a field would have been practically impossible in so short a period of time.

So important and far-reaching have been the results of the research that by and with the consent of President Wilson the American commission has become a permanent body, to continue its labors for general welfare and rural uplift, electing the following as its officers: Senator Duncan U. Fletcher, of Florida, president; Dr. Kenyon L. Butterfield, of Massachusetts, vice president; Thomas S. Southgate, of Virginia, vice president; Harris N. Weinstock, of California, vice president; Clarence J. Owens, of Maryland, managing director.

The offices of the commission will be in Washington, D. C. Two committees have been duly appointed, viz: Committee on compilation of official report; advisory board to the compiling committee.

These committees are charged with the duty of assembling and compiling the official report for the people of the United States. It is hoped that this report may be ready for distribution during the fall or winter of this year.

Irrespective of this official report, I have thought it courteous, as well as obligatory, to render you direct a brief report, in view of being for the time the agent of the State, and this will be done in the briefest possible manner

to be at all useful or comprehensive, and it will be purely a personal expression of my own opinion and in no manner having connection with the official expression of the commission as a body.

First, let it be said that uniformly in all countries of Europe agricultural development is far in advance of that to which our American farmers have yet attained. Not because European farmers possess a larger degree of intelligence—in fact, this is to the contrary—but the reasons for this difference are along other lines and are most obvious:

First. The high cost of living and the necessity for furnishing food for over-populous areas make it the most vital and far-reaching concern of the Governments themselves; hence their direct assistance.

Second. One of the fundamentals of political economy is that a nation which can produce a surplus of life's necessities immediately and automatically places itself in an independent position and becomes a factor among other nations as a world power; hence the Government's additional incentive.

Third. The struggle of the Governments of Europe to prevent the balance of commerce from being invariably against them by reason of the constant need for the importation of foodstuffs to feed their people.

Fourth. The vital need for improving rural-life conditions, not only to keep men on farms, but to prevent socialistic unrest, so pronounced in many parts of Europe. These Governments believe firmly that the higher the ideals of country life the higher the type of citizenship which will inevitably result therefrom.

This, then, is a brief outline of why this development has exceeded ours, which naturally leads to a statement of the fact "Of what do these advanced methods consist?"

First. A genuine system of cooperation for mutual aid and betterment in finance, production, and marketing.

Second. Intensifying of acreage and yield by the application of better and more improved methods.

Third. The strenuous conservation of every phase of resource. (They say we waste more than they produce.)

Fourth. Educating the farmer to business methods in buying and selling and handling his records and accounts.

Fifth. In the continued thought for rural uplift work. The inaugurating of cooperative schools, even churches, clubrooms, amusement halls, libraries, playgrounds, etc.

To analyze these: First, in regard to cooperative effort in finance, marketing, and production. There are three popular systems of banking which should be mentioned, because they are fundamentally the basis or starting point of all cooperation: (1) The Raiffeisen system of "unlimited liability"; (2) the Schulze-Delitzsch system of "limited liability"; (3) the general "land-mortgage" system with amortization features.

The Raiffeisen system of rural banking operates as follows: A community, neighborhood, or county organize themselves into a cooperative banking society without capital stock; the membership of these organizations average from 24 to 40 each. When one man wishes to borrow, the obligation is upon him to satisfy the loan committee of the bona fide need which he may have. This done, the note or bill is made in the name of the society, and every member is thus bound for the payment of the loan of the one so borrowing. This note or bill is rediscounted with an affiliated State bank, several of which in each country act as agents for the country societies both to receive their deposits and furnish funds for their loans. The country bank borrows its money from the State institution, usually at $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent, and in extending its loan to its customer adds one-half of 1 per cent to cover the expenses only, as these country banks are not operated for profit but only in and for mutual benefit and protection.

The second system, that of the Schulze-Delitzsch, is identical with the Raiffeisen system, except that these banks or societies are founded with share capital and are called "limited-liability" banks. When loans are granted members, the security to the State or discounting bank is the entire capital stock of the country bank or society first; then the prorated remaining liability of the stock members second.

The third system has but little direct connection with either of the others. It is less cooperative, but is of all factors used in Europe the most potential in the development of general agriculture, viz. the "land-mortgage" system. These institutions are very large and influential, with capital stocks ranging

from \$10,000,000 to \$100,000,000, which capital is used to perform but one function; that is, the loaning of money on farm-land mortgage.

It will be readily observed that these two separate styles of banking institutions render two separate but nevertheless very important functions.

In the first (the Raiffeisen or Schulze-Delitzsch system) the loans to affiliated members are all short-time loans, payable usually within the year, at harvest; this style of money is called by them "dynamic," because it assists in immediate results, enabling the borrower to buy new equipment, to purchase stock, to build barns, to save growing crops, to do all those things for the individual farmer that ready money does for the merchant. Not only this, but more: These cooperative banking societies borrow money frequently for the benefit of their members jointly. For instance, suppose an affiliated society wishes to build for themselves a tobacco warehouse in which to conduct its own sales, or a cotton storage warehouse or gin, or a cooperative dairy; it borrows the money for the benefit of all. The same committee fixes a low uniform charge for its use. As the public utility earns slowly a profit in its operations, the joint note is gradually curtailed and finally disposed of without one-third the cost for its (the public utility's) service to any member that would result in shipping as individuals the various products to city commission men or otherwise; and thus cooperative marketing follows as naturally as possible and great economies invariably result.

But further still, this same society, through its executive committee, pools the need of its members for fertilizer, machinery, stock and other basic essentials and thus buys in large quantities for cash from the discount of its note or bill, and each member pays as his interest may appear. The result is the society buys, for instance, the general individual products of fertilizer, assembles them, and mixes the constituent parts, according to National and State formulas readily furnished by the Government, with the result that the member farmer effects large saving in buying cost; he ceases to pay the large percentage of filler; he quits paying the railroads of the country \$2 to \$5 per ton freight on the weight of the filler that is of no use to him; and thus it will be seen something of what European cooperative production means.

These are only mere outlines of what may be done by these small banking community societies, the full force of which may be appreciated by the statement that in Germany alone the societies using the two systems (Raiffeisen and Schulze-Delitzsch) did a business in 1912 of \$1,500,000,000, and other systems were used in addition.

These figures are from Government records, which also testify that this wonderful amount of business was handled on cooperative responsibility without the loss of one one-hundredth of 1 per cent. Surely, then, this class of money has rightfully earned the terminology of "dynamic."

Now, the third important system, viz. the "land mortgage" bank, performs also a wonderful service and can possibly be briefly illustrated as follows. This form of money is termed "static":

A farmer who is a renter, or who may be working on shares, as so many do, saves a small amount and wishes to become an owner. He prepares to buy a \$5,000 farm. He pays 40 per cent cash on it, or \$2,000, and gives his mortgage for \$3,000. He decides that it will take 20 years for him to liquidate his loan. The bank takes his mortgage on the amortization or sinking-fund basis only, and charges him 4 per cent flat for his money, plus an amount that will amortize the loan in the period of time he desires. For instance, if 4 per cent be the basis (as it is in most all parts of Europe, and $4\frac{1}{2}$ per cent in some sections), he will pay as follows: For 20 years, 7.65 per cent; for 15 years, 9.35 per cent; for 10 years, 11.85 per cent.

He has thus paid a rate of interest which he can earn readily, and in many cases no more than ordinary rent would otherwise be; and at the end of this period his mortgage is paid and his property has doubled in value in the meantime. The illustration, of course, applies to the large farmer as well, who may own 100 acres and wishes to buy 200 more; he simply follows the same course.

The governments of Europe say that these institutions not only assist greatly in making the rural-life proposition sufficiently attractive to induce larger production, but that they perform a great sociological service as well, for any system which helps to make an owner out of a tenant or hired man contributes to an incalculable degree to the citizenship of the State or nation, and hence the governments feel keenly the obligation to assist, foster, and promote these institutions wherever they are needed.

This, then, is but a brief outline of what is really meant by European cooperative rural finance, as referred to above in section 1.

As to section 2—the intensifying of acreage and yield—not a great deal can be said, for this is a story which is already being constantly agitated by the agricultural departments of all the States, as well as by the department of the National Government. Suffice it to say the yield need is so great that the most of these farms are made to produce two separate crops at the same time; in some instances, two vegetables on one large flat row with fruit or vine culture above.

They also study constantly the intelligent application of fertilizer and employ the most scientific methods of cultivation and irrigation when necessary.

In the matter of conservation, it would be difficult to recite in print the degree of care and thought applied by these people to this one phase of farm operation, and surely there is no lesson our Virginia farmers need to learn for their own profit more than that which this phase teaches. European farmers believe that everything produced has a value, and use effectively every by-product. They raise that which they need for their own use, as also that of their stock. They also employ the idea of cooperative selling, as explained above.

Further, as to sections 4 and 5, it must be admitted that the application of intelligent business methods is a desirable foundation for any line of endeavor, and should, theoretically at least, apply to the farmer as well as to other avocations in life. This is where cooperative rural-community work has such an effective opportunity to teach and spread broadcast among its affiliated membership reforms of this character.

Men are slaves of rut, habit, and custom; hence when a few strong leaders of any rural community take advanced stands for the public good, it is not difficult to get others to readily follow.

Many forceful illustrations of this idea were found in the rural sections of Italy, Austria, and Germany, where country life has been raised to a happy, contented, and attractive state, which is the direct result of the various forms of community life made possible by genuine cooperative effort along all lines.

SUMMARY.

This, then, is but the briefest possible outline of what European cooperative rural effort means, and, as stated above, will be treated far more comprehensively in the commission's official report when issued.

In conclusion permit me to say that I appreciate to the fullest extent that I was not instructed by the State to make recommendations as a result of the study of this subject; yet if some suggestion as to a possible plan of action to use some of the striking features developed be not made, the question arises as to the purpose of attending at all. Hence the following suggestions are made solely as such; and if there be any practicality in them, I shall be glad and feel fully repaid for the sacrifice of time and means employed.

SUGGESTIONS.

First. At the forthcoming session of the legislature a commission should be raised, of which the commissioner of agriculture should be either chairman or a member; the purpose of said commission being to personally visit all magisterial districts of the State and spread broadcast among the farmers of same this new and progressive method of finance and marketing.

Rural banking societies should then and there be formed, either with or without share capital contributed by the farmers themselves. Those society banks should then clear through and deposit with a parent bank of the State, centrally located, either some institution now in existence or hereafter to be formed for the purpose.

Absolutely advocating exactly what I have spoken of to-day, making a commission for the State, at this present session of the legislature, to stand between the farmer and the market, yet that has nothing to do with mortgage banks no more than this piece of wood, because you can not float bonds that come from land-mortgage banks, unless you have got a system to them that will commend

them to the fiduciary agencies that are going to buy them. That is why I wanted to clarify the two things or conditions that are so essential for the farmers' good.

Second. By all means the farmers of the State should have new and improved facilities for using a land-mortgage system with long time amortization features for the purpose of acquiring additional land and also to assist tenants to become owners.

It is hoped that as a result of the Fletcher bill already introduced in Congress such a great national institution may be formed, with branches located centrally in every State. It is proposed by this bill that such land-mortgage bank shall be run under strictest Government supervision and not for profit; on the contrary, to afford the farmer the opportunity to borrow money on the lowest possible interest basis. If Virginia is to have access to such an institution it will no doubt be necessary to have an intelligent reconstruction of our present homestead, registration, and other land laws.

Third. An outright repeal of the State and other taxes on land mortgages. In no country of Europe does such a tax exist. The elimination of it is really one of the fundamental prerequisites to cheap money to the farmer.

With the filling of this report, which is most respectfully submitted, my commission is thus fulfilled.

I only arose to take that six or eight minutes to clarify the differences between those two forms of money which are all over Europe. One is called static and one is called dynamic, and they are just as different as it is possible for money to be.

MR. BULKLEY. You have touched two or three times on the subject of Government aid or subsidy to personal-credit societies.

MR. SOUTHGATE. Over there, do you mean, or here.

MR. BULKLEY. Well, I think you talked about it over there, but I would like to get your view of what we can learn from foreign experience, in view of adopting it here.

MR. SOUTHGATE. I do not believe that it is necessary or desirable to affiliate here to that extent, because the Federal board will pass upon those mortgages and will make their face value absolutely beyond question.

MR. BULKLEY. Do you think it advisable to deposit postal savings funds in those banks?

MR. SOUTHGATE. No, sir. I think that every national bank and every depository of the United States Government should be authorized to accept the land-mortgage bonds in lieu of Government bonds, to secure deposits.

MR. BULKLEY. You said that, but how about putting postal savings funds in land-mortgage banks?

MR. SOUTHGATE. I think it is absolutely improper, because the Government should have the money where it can withdraw it if it wants to.

MR. BULKLEY. Do you think it would be impossible for the Government to deposit postal savings funds with the land-mortgage banks for the purpose of assisting them in raising a reserve fund?

MR. SOUTHGATE. I think it would be very much better if the Treasury Department would issue a ruling, if it could do so without congressional enactment, to the effect that money deposited in the present depositories for postal savings—that the Government would accept land-mortgage bonds as security for those deposits, where they now require certain forms of commercial paper or Government bonds.

Mr. BULKLEY. Can you tell us briefly why it is undesirable for the Government in this country to aid these banks when, as a matter of fact, very many foreign Governments are doing it?

Mr. SOUTHGATE. They do not do it per se. They may do it indirectly. Perhaps some of these gentlemen who were there may know of that. If the current money rate in Italy is 4 per cent, the Government will loan these great institutions money for $2\frac{1}{2}$ per cent. It is equivalent to a subsidy of the differences of what they loan it at and what the money would bring on the market.

Mr. BULKLEY. That is what I said.

Mr. SOUTHGATE. Yes; that is right.

Mr. BULKLEY. But what is the distinction between the conditions here and there that would make it desirable there and undesirable here?

Mr. SOUTHGATE. Because I think we have not any centralized governmental systems here as they have there. Ours is more a Government of the people, and any form of subsidy of any kind is distasteful to a certain part of the people of this country, and, again, I do not believe agriculture desires to be helped by that form of subsidy. What agriculture wants is for the Government to say that when it issues its bonds predicated upon its \$10,000,000,000 worth of farm land, that those bonds are as good as the Government's own bonds. That is what is true in Europe and that is what the Federal board would do in establishing these bonds when they are issued.

Mr. PLATT. It might be said, right in this connection, that the Federal reserve act provides for the deposit of all Government funds in the Federal reserve banks.

Senator HOLLIS. It gives the Secretary power to put them there if he wants to, but he is not compelled to put a dollar there unless he wants to.

Mr. DOAK. Mr. Chairman, speaking about the farmer, and what you think we are entitled to—we do not ask for special favors; we ask for a square deal, which is to be put on an equal footing with foreign competition in the matter of interest. The gentleman leaves the impression that the foreign farmer is worse off than we are. In Australia, for instance, 71,000 miles of rabbit-proof fence was built. If the sheep business was the same in Australia as it is here, there would not be a sheep in the domain. I do not say the Government should do those things. I really make a statement of fact of the condition of the Virginia sheepmen. We are up against it, and I certainly feel that we are entitled to at least some effort being made by the Government to offset the manifest inequality in our labor cost in the production of farm products.

Mr. BULKLEY. Do you differ from Mr. Southgate's opinion when he says the farmer does not need the Government to lend financial aid to the extent we are here proposing?

Mr. DOAK. I do not have the remotest idea that it will be found necessary for the Government to undertake to float all these farm bonds. I do believe the Government will have to put a little money into it. Who is carrying all of these farm mortgages now? Will not a large per cent of this money go into these farm bonds? Why should it not? The widows and orphans I have referred to will not get in our State over 4.40 or 4.70 per cent on their money, don't you see? It is just like cutting out another middleman and making the

stuff lower, because the commission runs up on the borrower's side, and it is double taxation, and that robs the lender, don't you see, and both of them suffer.

Mr. SELDOMRIDGE. Do you not think that if we can defer in any way the funds seeking investment, that both the investor and the farmer will be benefited?

Mr. DOAK. Yes, sir. That is another point—that farmers have an idea that this bill will tend, at least, to bring a tremendous amount of money that has been literally squandered by our big concerns in high ideas—that most of these funds are literally squandered by men in the cities, and you see, this bill will tend to put a little of that money back into the country where it originally came from, and where it originally belongs now, and where it would certainly be for the interest of all to put it.

Mr. BULKLEY. Mr. Jones would like to make a few remarks.

Mr. GORDON JONES. Our farmer friend has touched on some very vital points, and I am in hearty accord with him in a number of things. He would change his opinion somewhat, however. I am confident, if he were to come in closer touch with the investing public, as Mr. Southgate, Mr. Breitung, and others whose evidence you have had before you have done. Now, I have the greatest respect for the men who drew the Fletcher-Moss bill, but I do not believe they have had much actual experience in feeling the pulse of the investing public as some of the rest of us have had. I hope this does not sound egotistical, but we who come constantly in touch with the investing public or are investors ourselves believe we can better appreciate how land-mortgage bonds are going to be received and whether they will be looked upon as safe or not.

Our farmer friend believes that the little \$10,000 bank will be able to issue a safe and satisfactory bond. It is natural for him to feel that way, for it is on his security that the bond would be issued. Doubtless a mortgage upon his land would be safe and sound. But we have to face the other fellow, the man whose money is to be put up to buy the bond. He is the man we are trying to reach. I do not believe the experience of those who have come in most intimate touch with the investor has been brought into this Fletcher-Moss bill. I was very much interested in Mr. Southgate's remarks. I had some correspondence with Mr. Southgate, and while he did not fall in line and agree to indorse the minority report of the American commission, he had some very pronounced independent ideas. So I consider I am fortunate in being here this morning to hear him, for I did not even know he was to be before you.

Having heard Mr. Southgate, I am convinced that he and the minority could get together absolutely, for I am sure Mr. Southgate would see the strength of the minority's plan of building up to the large bank that he advocates if we could properly put it before him. I hope before he goes back to have a private interview with him for that purpose.

Mr. Southgate touched upon one matter that I had expected to ask you to hear me upon this morning.

I would like to amend my remarks of yesterday to the extent that I would not permit the investment of postal savings funds direct in land-mortgage bonds. Mr. Southgate brought out one reason that I have for this suggestion, namely, the necessity of the Government

keeping these funds available at all times and not invested. Those funds, outside of what are invested in United States Government bonds, are now deposited in banks subject to check. I would amend that, however, as Mr. Southgate suggests, and permit the bonds of land-mortgage institutions to be accepted as collateral from such depositary banks. This in addition to my suggestion permitting the bonds to be accepted by the Secretary of the Treasury against regular funds. The postal savings funds, to me the most sacred funds that we have built up in this country, would then have behind them, first, the depositary commercial bank, either State or national; second, the land-mortgage banks; and third, specific land-mortgage bonds as collateral. It would be an absolutely safe security, and I do not believe that Congress will ever consider investment of postal savings funds direct in any other security than Government bonds, as now provided, and I believe it would be folly to put it up to Congress with such provision in the bill.

Now, this central bank that I have spoken of, built up from the federation of the unit banks, should be allowed to receive accounts of the affiliated banks. That is a form of credit deposit. The unit banks would send in their securities for which they should be allowed to take credit upon the books of the central for convenience and to facilitate the transaction between them. It will be necessary for them to have open accounts with each other, and there will always be a debiting and crediting between the central bank and the affiliated banks. That would furnish the simplest method of settlement of amortization amounts and of interest payments. Therefore the affiliated banks and unit banks should all be allowed to carry accounts with the central bank to that extent, but under no circumstances should deposits be received by either the central or the unit banks from other sources.

Mr. PLATT. Would there be any interest payments on that?

Mr. JONES. I should leave that for adjustment between them. Such accounts may be very temporary and need not ever draw any interest.

One other thing I think is very important, and that is the machinery for increasing a bank's capital as demand comes upon it. After it loans 15 times its capital there is going to be necessity for increasing the capital. You should make that machinery for increasing just as simple as possible.

Mr. SELDOMRIDGE. Would you favor taking in the public as subscribers to the capital stock of land-mortgage banks?

Mr. JONES. Oh, yes. It is only the public that the plan contemplates will own the stock.

Mr. SELDOMRIDGE. You would limit the sale of the stock to the public?

Mr. JONES. Yes, sir.

Mr. SELDOMRIDGE. And not accept the purchase of stock by any banking concern?

Mr. JONES. No. If I did not make that clear I have failed in my purpose. I do not propose that these country banks would themselves own the stock, but that the farmers and bankers in each community would subscribe.

Mr. SELDOMRIDGE. To the land-mortgage bank stock?

Mr. JONES. To the land-mortgage unit banks.

Mr. SELDOMRIDGE. Do you think that the local regional banks would be so enlarged as to permit them to pass upon the capacity of these land-mortgage banks to organize, subject to appeal from its decision to a higher board?

Mr. JONES. I thought over that a great deal last night, Mr. Seldomridge, and the more I think over this subject the bigger the subject gets. I will say to you frankly that I believe you have just as big a subject to handle as the whole Committee of Banking and Currency had when they undertook to organize the regional banks. It is just as far-reaching if not further reaching.

Senator HOLLIS. It is. It is going into a newer field, where disaster would be more widely spread.

Mr. JONES. Mind you, the Federal reserve act has been built up on what has been urged and advocated for years. I myself have studied and talked on that subject for 15 years and urged some of the principles that are in the bill now, along with many others. But here you have taken hold of something all of a sudden, and I say it is more far-reaching and you have a more complicated problem to solve than was the currency bill.

Mr. SELDOMRIDGE. It is largely a practical demonstration, is it not? It is not merely political, but it is getting into the domain of practice.

Mr. JONES. Certainly. I would not imply that it is theory that you are working on.

Mr. SELDOMRIDGE. I do not mean that. I mean the time has come where we can learn very little along the line of investigation, but we must learn more now in the matter of demonstration in this rural finance.

Mr. JONES. There is our point. It is not practical to draft into this country European ideas unless you can Americanize them. We believe in American customs and usages such as the majority of the committee has suggested. We want to apply what has proven a success elsewhere if we can harmonize them to our recognized customs and usages. Only in that way can we with safety undertake anything so radically new.

Dr. Coulter suggested in correspondence with me that the minority recommendation as to the maximum amount of bonds to be floated by the central should be limited to 15 times the capital of the central. You should have some expert work that out, if you entertain the minority's plan, because there are many things that should be considered. Dr. Coulter's limit would be impracticable and would kill the operation of the plan. It is so easy to get a joker in a bill. There was no effort, of course, on Dr. Coulter's part to get a joker in our plan, but that would be a joker, for this reason: Each little unit bank could loan 15 times its capital. The central bank is to be built up from 25 per cent of the capital of each one of the unit banks. For illustration, say we have 10 unit banks with \$10,000 capital each. That gives \$2,500 as the amount each unit bank shall put into a central, which would only give the central a capital stock of \$25,000. Limit that central bank in issuing bonds to 15 times its capital and you see how it would work out. They can not float all the bonds necessary to take care of the mortgages sent it by the units. That is a matter that must be figured out, and it did not

occur to me at the moment of my correspondence with Dr. Coulter, therefore I know it had not occurred to him. So I know he was not trying to get the joker in over me, but it would be a joker.

Mr. COULTER. That is, you would limit the central bank to four times its capital.

Mr. JONES. In order to meet this condition a larger amount of founders' shares would have to be sold than we thought wise; that is, if there be a limit of bond issue in proportion to the capital of the central. Should the limit not correspond with the amount of mortgages the central could receive from the units? Otherwise we kill the federation idea and build up the unit plan of bond issue to which we object.

I am frank to say that I am endeavoring to get a system which is strong and that will make the federated plan the better, so that there will be no unit banks; they will see they must federate.

Senator HOLLIS. In this broad field where there will not be any fear of the Money Trust and New York dominance, and so on, do you not favor giving the central authority, whatever it may be, broad discretion in those details?

Mr. JONES. I do. At the same time, the Government must provide a regulating hand.

Senator HOLLIS. Well, that would be the Government, in my judgment.

Mr. JONES. I do not think there is any feature that will strengthen the plan like strict Government supervision and regulation.

Senator HOLLIS. In my judgment, the Government would have a strong hand on it, just as they have on the Federal reserve system. That is my judgment of it.

Mr. JONES. You must do it in order to find a market for the bonds.

Mr. COULTER. That is the main thing.

Mr. JONES. Another point. You asked me a question yesterday regarding the land-mortgage failure as having previously been operated in this country. There is one other cause that I did not dwell upon.

There was considerable wildcatting because of the lack of Government supervision and regulation and there was no amortization feature. I remember several banks had issued debentures along this idea, 10-year debentures, series A; 10-year debentures, series B. As they gathered in their bonds collectively they would issue debentures against them, put them aside specifically to secure a certain series of debentures.

Mr. PLATT. You mean they put the mortgages aside?

Mr. JONES. They put the mortgages aside, just like it is proposed now, but these mortgages had no amortization feature, and they were not taken care of.

It is a well-known fact if a great many farmers are not required to pay up gradually they are going to count on renewing time after time. Is that not so, Mr. Doak? He may buy an automobile if he gets ahead instead of applying it on his mortgage loan. I am speaking of some farmers, not you, Mr. Doak. As Mr. Seldomridge says, if we do nothing else we want to require him to get out of debt.

I am satisfied if there had been Government regulation and if there had been an amortization feature we would have had vastly

different conditions 20 years ago. But the system went down, and went down with a crash, and the people remember it. We must overcome that prejudice. The amortization feature, under strict Government regulation and supervision with the more stable conditions now prevailing, and a system of federation, preventing wild-catting, all will combine to overcome it.

I think you very much for your attention.

Mr. BULKLEY. The committee will stand adjourned until 2 o'clock this afternoon.

(The first part of the testimony of Mr. Gordon Jones can be found at page 609 of these hearings. The minority report of the American commission to which he refers is part 2, S. Dec. No. 261.)

(The committee took a recess until 2 o'clock p. m., Wednesday, March 11, 1914.)

AFTER RECESS.

The committee assembled at 2 o'clock p. m.

STATEMENT OF H. S. MOBLEY (FARMER), PRAIRIE GROVE, ARK.

Mr. BULKLEY. Mr. Mobley, will you give your name and business connection to the stenographer?

Senator HOLLIS. Just give your name, Mr. Mobley.

Mr. MOBLEY. H. S. Mobley.

Senator HOLLIS. Where do you live?

Mr. MOBLEY. I live at Prairie Grove, Ark.

Senator HOLLIS. And your business is what?

Mr. MOBLEY. I am a farmer.

Senator HOLLIS. Now you may go ahead.

Mr. WINGO (a Representative from Arkansas). Just a moment. I would like to have Mr. Mobley show what his connection is with the farmers' organizations.

Senator HOLLIS. I think it would be well to give us that. Just give a broad perspective, Mr. Mobley.

Mr. BULKLEY. I hope, with Mr. Mobley's consent, that Mr. Wingo will interrupt when he thinks some point ought to be developed, because I know Mr. Wingo knows Mr. Mobley and the local conditions down there, and we want him to develop anything he desires to.

Mr. WINGO. I would like to have Mr. Mobley state what his connection is with farmers' organizations.

Mr. MOBLEY. I am State president of the Arkansas division of the Farmers' Union.

It is usual to express one's appreciation of the opportunity to address this committee, and I want to say that it is sincere on my part, not because I personally have the privilege of being here, but because this committee is discussing the subject which is of vital interest to the farmers of the South, and especially of the State in which I live—Arkansas.

I do not know much about the northern, eastern, and western farmers or the farm conditions in those sections, but I am intimately acquainted with southern farm conditions. Of course, I know in a general way something of the rates of interest and financial resources of the northern, western, and eastern farmers. Generally

speaking, I realize that they enjoy much better financial opportunities than we do; but I want to confine my remarks to southern conditions and leave it to others to discuss the needs of the other sections of the country.

The small southern farmer suffers a serious discrimination in the matter of getting his share of the money of the farm communities to finance his business. He is discriminated against both as to money on long time for investment, and also in regard to short-time loans to be used in producing and marketing his crop. We have two notable instances in our State illustrating this. Assisted by the secretary of the Chamber of Commerce of Little Rock, the president of one of that city's largest financial institutions, the editor of one of our State farm papers, and others, I organized at Scott Station, in Pulaski County, a selling agency to market the cotton crop of that community. Those composing this agency were what we call large plantation owners, and their experience was that they suffered but little inconvenience in procuring money to market in the neighborhood of 1,000 bales of cotton. That was an instance of the ability of this class of our farmers to take care of themselves financially.

Now, an instance illustrating the difficulty of the small farmers to do the same thing is found in your records page 57 of part 1, Hearings of Rural Credits, subcommittees of the Committees on Banking and Currency, of the Senate and House of Representatives.

I read there a statement to the effect that a farmer from Arkansas, who had his cotton in a warehouse, went to the banks, tried to borrow money on that cotton and was refused, but the commission man could have bought that cotton from this small farmer and the banks would have advanced the commission man money on it. The comment of this committee seemed rather queer to me. Your comment seemed to infer that this farmer might have been trying to get this money in order to hold the cotton for an increase in price; that the banker could not tell how long the farmer wanted to use it; how long he would hold the cotton; and for the reason that he might have wanted the money for speculative purposes, he should not have been granted the loan.

In regard to that I desire to mention another matter: Last fall, when Secretary McAdoo placed a large sum of money in the banks for the purpose of moving that year's crops, the national meeting of the Farmers' Union, at Salina, Kans., appointed a commission to visit Washington and wait upon President Wilson and Secretary McAdoo. This committee did so and represented to them that for 12 years the organized southern farmers had tried to obtain money to be used in a cooperative way for financing the sale of the cotton crop, but that they had been unable to get any appreciable help from the banks, and that if this money from the National Treasury was to be placed in the southern banks by the Government at a low rate of interest, we believed that the producer ought to have a fair representative portion of it at a correspondingly low interest rate to be used in a cooperative way in marketing his own crop in cases where the farmer could offer sufficient security for the money.

Mr. WINGO. Right there, Mr. Mobley, you are now referring to the proposed deposit of \$50,000,000 by the Secretary of the Treasury in

different banks throughout the country last fall for the purpose of marketing the crops?

Mr. MOBLEY. Yes; for the purpose of marketing the crops.

Our committee visited the President and Secretary McAdoo, and afterwards made a report of the result of their interview, which was published in our national organ, the *National Field*, of Atlanta, Ga. In substance, the report carried great assurance to the producing farmer that this money would be loaned to him as well as others without discrimination. I want to say frankly that we did not believe—we did not question the sincerity of the President or Secretary—but we did not believe that even they could, under the circumstances, successfully execute a system of financial aid to the small southern cotton farmer. We did not believe that this money would be made to reach and help the small producer after it had been placed in the commercial banks of the cotton sections. This farmer, previously referred to in your hearings, made a special effort, which proved that we were correct. He is the manager of one of our cooperative societies. This society has a splendidly constructed steel warehouse, and is incorporated. The cotton was fully insured in a reputable company, and, in fact, every detail that would make this cotton proper security for money had been attended to. This farmer went to the banks that had \$800,000 of the Government's money on deposit and tried to borrow some of it, not for the purpose of holding cotton for speculation, but to take care of the distressed cotton of the members of that warehouse association.

Perhaps I had better explain what distressed cotton is. We classify cotton as distressed and nondistressed. Nondistressed cotton is that which remains in the possession of the producer after he has paid the debts which constituted a lien upon it. Distressed cotton is that which is raised by a man who, for various reasons, has not been able to discharge his indebtedness, and, therefore, who can not direct the sale of it. We try to finance this distressed cotton in our southern societies so that it may be sold on the same basis as the nondistressed cotton. Otherwise, the distressed cotton would be forced on the market by the ones holding liens against it, which would have the effect of depressing the price, both of the distressed and nondistressed cotton. But this selling agency, through its manager above referred to, was unable to procure any of this money for that purpose. This was a thorough test of the inability of the small farmer and the owner of distressed cotton to procure, under the then existing financial system, aid which would be of a direct benefit to the producer.

This test convinces me that no matter how broad-minded the gentlemen of this committee are—and from the hearings I have read and what I have seen in this room, I believe they are fair—I desire to add further that men of small means who operate the small farms in Arkansas were discriminated against to an unreasonable degree by many of the banks and supply merchants of Arkansas. And I have offered you this instance as a proof of it.

Senator HOLLIS. Now, we are more interested in the reason for that, Mr. Mobley. Why do you suppose that condition prevails?

Mr. MOBLEY. I will try to explain.

Senator HOLLIS. I wish you would.

Mr. MOBLEY. When we consider farmers of the South, those of us who work with them, we divide them into three classes. The first are the landlords. They often own a relatively large stock in the local banks and are often largely interested in the supply houses or have commissaries or supply houses on their plantations, and are men who ordinarily have good bank resources for financing their business. That is one class. Another is the small farm owner, who owns his own farm, which is relatively small, actually operates it; that is, tills the soil himself or personally participates in doing so with members of his family and possibly some hired help. We call him the small farm owner and classify him in two ways. There is in this class the equity farm owner—you understand what I mean by that—the one upon whose farm there is a mortgage. And the third class are the tenants and subtenants.

With regard to the tenants I wish to speak further. I have shown the landlord is reasonably well able to take care of himself with the banks and supply houses. The small farm owner, if he lives close to a good market, is agriculturally an educated or experienced man, and uses good business sense and industry and patronizes the bank, is not to a great extent discriminated against, but if he is at a distance from the bank and is on an average with the majority of our small farm owners, he is in a class that is discriminated against as the tenants are.

We have here in these hearings some statements that bear this out. I will read from page 61 of No. 1 (Hearings on Rural Credits before the subcommittees of the Committees on Banking and Currency of the Senate and House of Representatives), in Mr. Thomson's testimony. The report says:

In a very short conference with the president of the bank, he said his bank loaned negroes at 60 to 100 per cent interest, both principal and interest payable in six months. In other words, he, the negro, has to pay \$120 six months from date for the use of \$60 for that period of time.

I am not going to say that this is a typical case of how the white farmer obtains money in Arkansas, but I am going to say that you will find that it extends further among the small white farmers than you might be willing to believe unless you were to make an investigation.

I want to read you another thing. They have there the small farm owner or tenant who are not able to finance their crops. They do what we call "make arrangements." They go to a merchant and sign a blanket chattel mortgage that covers everything in the world that they have, itemized and identified, and include in that what they do not have—that is, any crop that they may raise the next year, for a relatively small sum of money. And this statement that I am going to read aptly illustrates and shows conditions on that line.

The advancer (that is the merchant) is obliged, as one man put it, to furnish the brains for the whole community. He knows the tracts of land, its productive power, and what to expect when a man goes on it; he knows how much family the advancee has, how much flour, meat, meal, or sirup he ought to use in a given time, and will not let him (the advancee) have more; asks him how much company he has had since he got his last barrel of flour, or how he

could use it so quickly, assuming that possibly he (the advancee) sold part of it to go to a show, or something, or to buy whisky; he (the advancer) also watches his (the advancee's) cotton and corn crop, and questions him closely as to how much work he is putting on it, and if there is a possibility of a crop failure, the advancer cuts down the rations dealt out in advance.

I believe that this statement describes a condition that prevails among a great many of the tenants and small farm owners who are unable to finance their business on an equality with the larger farmers.

Mr. WINGO. That is the tenant farmer you are speaking of?

Mr. MOBLEY. The tenant farmer and small farm owner who gives these chattle mortgages for supplies.

Mr. SELDOMRIDGE. Is there any usury law in that State you have mentioned?

Mr. MOBLEY. Yes: a very strong one.

Mr. SELDOMRIDGE. How is it evaded?

Mr. MOBLEY. I was coming to that. I have some evidence here.

The small farm owner and tenant makes that arrangement with the merchants, or if he is a little further up in the financial grade, he goes to the bank and borrows money and pays cash for the goods. I have a note here, signed by one of these small farm owners who borrows money to finance the production of his crop, which I would like to read, but I would not like to give the name of the bank, because I do not want to awaken opposition. This note is signed by a man who is the son of a Methodist preacher. I mention this to show that his childhood environment would naturally have afforded a chance for a fair education. He is an industrious man and a good citizen. I am taking this case because it is illustrative of the better class of small farm owners who have to borrow money on short credit for productive purposes. The note is dated February 12, 1913, and is due in nine months. The face calls for \$50 but the farmer who made it received only \$45. In other words he paid about 15 $\frac{2}{3}$ per cent interest for the use of that \$45. That is an example of how the usury laws are evaded. It is in the nature of a discount. If he had borrowed that money for only six months it is very probable that he would have received only \$45, but would have paid 10 per cent interest on \$50 for 12 months in advance. Do not understand me to say that all our banks and merchants do this.

To show you where the matter reaches us, making us feel very strongly on the subject, if our organizers go into a community to organize the cooperative union for the purpose of buying supplies and selling and financing our crops, we often find that the supply merchant and the banks who are guilty of these practices with this class of farmers succeed in breaking up such organization. Almost all of the small farmers owe them something and are under obligation to them, and their influence prevents the success of farm cooperation in almost every instance.

Here is a letter which will show how this opposition manifests itself. It is addressed to me, and says as follows:

I, myself, know of a surety that nonunion men rented all of said ----'s land that was formerly farmed by union men in the year 1909, and for no other reason known to our farmers, except they objected to patronizing his way of ginning. ---- claims he could not make a living by ginning at 50 cents a hundred, but other gin companies claim they could make a profit at 45 cents

less B. T., and, so far as I have knowledge, there are no union farmers on this farm to-day.

This is a typical case of such communities. I have more of such letters, but will not take more of your time by reading them. Their efforts to organize and gin their cotton under a cooperative contract was defeated by the farms which they tended being rented out from under them by the landlord, supply merchant, and gin owner, who wanted to make a profit by ginning their cotton, selling them goods, and lending them money. I have been informed that some of the men referred to in this letter had lived on that farm for 20 years, but that did not prevent them from being dispossessed and set adrift.

Thus we find a very strong opposition among that class to any effort to organize the small farm owner and tenant to better their own condition.

The fact that this condition prevails is why we have come to the national Congress asking Federal help. This local condition is so influenced by these people that it is practically impossible for that class to receive proper relief under the present system.

I want to mention in this connection that it appears to me that it is the conclusion of this committee that you must have a local body of farmers in order to initiate a system of farm mortgage credit. I subscribe in a manner to that idea and would recommend it if the conditions I have shown did not prevail. I have worked for years and succeeded in organizing several organizations which could be made to serve this purpose. But these have succeeded only in communities which were practically out from under the influence of the class of merchants complained of.

So I believe that if we should tell these people that the Federal Government was going to assist them to organize cooperative land and personal credit banks, whereby they could borrow money at a low rate of interest and buy supplies at cash prices, that the first idea that would present itself would be to ask, what is the banker who holds my note and the supply merchant who has a mortgage on my crop going to say about it? Their conclusion would be that if they were to antagonize these persons they would shut off their supplies. Therefore, we can not afford to take membership in such organizations.

I want to emphasize the fact that personally I am in favor of this particular provision and many others of the Moss bill, but I have brought up this difficulty since I believe it will be a serious hindrance to the organization of these local credit banks among the class of farmers I have referred to. You can see from this the force of the request for direct Government aid.

That is what compels them to take the position set forth by Mr. Hobbs and the representatives of the national grange in their testimony. I realize that direct Government aid is not supposed to be a really worth while opinion, but I ask for it nevertheless, because I am conscientiously convinced that the condition we have will not be met by the local cooperative bank idea except in relatively few communities for a long period of time.

I desire to say that this class of bankers who hold the notes of the small farm owner, or the landlord who holds the mortgage of the tenant, will ask the man whose notes are mortgages they hold. "Are

you going to join this bank"? And the man will often say "No," very probably, and refuse to join.

The question of direct aid to farmers is one that I realize you gentlemen are not very friendly to. I have read all of the hearings, I believe, except a few numbers. I have also read the report of the visiting committee that went to Europe to study the subject, the Fletcher bill, and the Moss bill. But looking at it from the standpoint I have outlined, we can not see any other way to obtain help; we can not see how you can figure out any other method which would reach us without giving the small farm owners and the equity farm owners and the tenants the right to have their lands or other property appraised and properly taken care of as regards the proof of credit value, and then have a direct way that we can get credit from the Government. It is not a popular suggestion, but I believe you will find it represents the wish and necessity of a very large number of organized farmers.

Mr. PLATT (interposing). You are talking about personal credit?

Mr. MOBLEY. No, sir; I am talking about both personal and land credit from the Government.

Mr. BULKLEY. You do not think it would be possible to mortgage a piece of ground without making a public record, do you?

Mr. MOBLEY. No, sir; however, the arrangements for the loan could be perfected without that.

I want to mention another matter. I do not know what you think about it, but I noticed that Mr. Doak asked, "Should the land bank, as organized under the Moss bill or a similar bill, receive postal saving deposits?" The banker from Virginia—I did not catch his name—did not think they should. This is the way we reason: If this postal deposit money is received from the depositor, who is a citizen, at 2 per cent, and deposited in a commercial bank at $2\frac{1}{2}$ per cent, and then we organize a land bank and take our bonds, which would bear, according to the Moss bill, I do not know what interest (and nobody else knows, according to that bill, as I read it), and deposit those bonds in a commercial bank; if the bonds draw 6 per cent interest and the bank bought them with money costing it $2\frac{1}{2}$ per cent, the bank would be making $3\frac{1}{2}$ per cent on the deal, and the Government would furnish it the money to make this off of us. That is the way it looks to me, and I have read a good many other arguments in these hearings that have the same kind of logic in them.

That brings me to this thought: That whatever bank bill you recommend to aid the farmer—if the aid that he gets in that, has to come from a commercial bank, you are going to discredit the system in the South. They and the supply houses have got us in this economic condition down there where we have to sell what we produce at the lowest wholesale price and buy all the supplies we use in production and hire what money we use at the highest rate of interest and profit price. In other words, we are buying at retail and selling at wholesale, and we say this: We call them middlemen; that is the way we designate them. They stand there getting our money both ways. It makes us suspicious—I want that word to go—it makes us suspicious whenever they begin to talk about something like that question of the postal savings bank. We would like to have aid direct from the Government. If it must come through the commercial banker, the money that they would lend us would be in part money

they paid $2\frac{1}{2}$ per cent for, and the return they would get from us for its use would be possibly 3 or 4 per cent. In other words, it would all be coming their way, we would be paying the bill and the Government would be furnishing them the money. In other words, we would have another middleman between us and the money supply, and when we get another middleman we have to pay more for the loan. Do you agree with that?

Senator HOLLIS. Yes.

Mr. MOBLEY. We are American people and are not unreasonable. We believe that we are unreasonably discriminated against.

Somebody said something here this morning about the possibility of the farmer borrowing money to buy an automobile. We do not want to answer arguments like that, but they bring out the idea that the farmer as a class can not safely be trusted to pledge his credit and use the money. I will admit in certain cases he would not be, but I do not like to have sarcasm flung at us. I believe if the statistics were examined as to buying automobiles, you would find there are many more people in the towns buying automobiles who can not afford them than you will find in the country. It may not be good form to say it and I do not like to, but we want to say that if you take the—

Senator HOLLIS (interposing). When we had the banking bill, the Federal reserve act, before the committee there were a great many more flings made against the bankers than any class of people I have ever known of. You are not discriminated against in that particular?

Mr. MOBLEY. We were not present when those things were going on, but we are usually present when these things go on.

Senator HOLLIS. I think it is a fact that there are more such things said against the bankers than any other one class of individuals.

Mr. MOBLEY. We "cuss" Wall Street some ourselves, as well as anyone else; but, then, we do it straight from the shoulder, and have logical reasons for doing so. But that is rather by the way.

The question has been raised with regard to a limited loan, and the idea as outlined in the hearing seems to be that the farmer should be able to borrow money to pay outstanding debts against his land, to use in improving the land for which he has already paid, or to pay by the loan the balance of the purchase price. That is the way I understand it. I will tell you what I believe about it. The farmer, when he makes application for that loan, ought to declare in the application exactly what he wants the money for, what he will use it for. I believe in that, and the farmer will stand for it. I have talked with many of them and I know they will. I know the men in my country and their condition, and I know they will not only stand for it, but they will be glad to, because they will realize that if the money is actually loaned for such purposes it will increase the value of the land, the security they have to offer, and will help to bring about a lower rate of interest and better terms. You might find some, though, who would disagree with this.

There has been another matter raised in these hearings, the question of statistics on farm lands as security, and the question is asked whether land as security appreciates or depreciates in value. I believe if I mortgaged my farm to a land bank or the Government that there is no better system you could devise by which I might get

the money at a lower rate of interest, on long time, than to compel me to keep an account of the land I cleared, the additional production per acre or loss, the extra houses built, pig houses, smokehouses, etc., the extra painting, repairing, and fence building I had done, together with whatever had been lost by fire, etc., to show whether the security has appreciated or depreciated, and to file this report with the local land bank or Government agent annually.

Mr. BULKLEY. You would require the borrower to make an annual report as to the condition of the security?

Mr. MOBLEY. Yes; and I would require that the fiduciary agent in the local bank, if you decided in favor of that plan, that he should sign it.

Mr. BULKLEY. Subscribe that proof?

Mr. MOBLEY. Yes.

Mr. BULKLEY. What if he found there was a depreciation?

Mr. MOBLEY. I have opened the proposition. If the suggestion is good it is for you gentlemen to work it out, but there ought to be a foreclosing or penalizing proposition behind these bonds. I want them to be good, because I want the low interest. I am going to leave that part of it for you to work out. There would have to be some provision for penalties or foreclosure proceedings, since if he borrows the money he must pay it back and keep up the security. I want the thing done squarely and in the manner that will most efficiently help the farmer.

Mr. WINGO. I wanted to get your idea about it. Your idea is to protect against what some denominate reckless borrowing or borrowing for other than proper purposes. You feel like supervision ought to be had, and some provision ought to be made so that if a man had made a reckless loan or borrowed money for purposes other than that for which he represented that we would have some way by which the legitimate borrowers' interest rate would not be affected by reason of what you might call wildcat borrowing, so as to tend to show that he is a bona fide patron of the system, and so, incidentally, to affect his loan for the full term. In other words, you feel that there ought to be some provision by which his loan could be foreclosed if he does not show by his acts and use of the money that he is of the class that needs it and was intended to be benefited by it.

Mr. MOBLEY. In substance along that line; yes; and that this could be by a simple system of farm accounts, though it would have to be very simple. The department could furnish blanks at a minimum cost so that he could carry it out. It could be made a wonderful help for the farmer. If you can get him to keep some simple form of farm accounts it will educate him more than anything you can do for the present southern farmer of the last two classes. We have attempted something along that line in our own work. There is nothing that will make a man so watchful as to keep an account of the money he spends.

Mr. WINGO. Would you make him keep books?

Mr. MOBLEY. Yes, sir; a very simple form of accounting. As I say, a blank form can be worked out that the borrowing farmer can be compelled to keep as one condition of his loan.

I have not made any notes; I studied the matter over thoroughly. I was bothered very much about the tax-exemption clause of the

Moss bill. I realize that if these bonds can be exempted from taxation and the mortgages exempted from taxation, it is very desirable, because it will help to get a lower rate of interest. I do not know whether it can be done or not, but whatever bill you bring in, if you bring in something that does that, you strengthen it.

Mr. SELDOMRIDGE. How long have you lived in this section you speak of?

Mr. MOBLEY. Since 1879, in Arkansas.

Mr. SELDOMRIDGE. Has there been any improvement in agricultural conditions there in the past 5 or 10 years?

Mr. MOBLEY. A very great improvement.

Mr. SELDOMRIDGE. Does that improvement relate to the population which has been permanent there, or does it relate to a new element of population?

Mr. MOBLEY. I could not answer that question. I do not believe anybody could answer it. It might relate to a new population, Government activity, it might relate to the work of the agricultural schools, it might relate to the farm organization's work, university extension, farm demonstration, and many other agencies.

Mr. SELDOMRIDGE. Has the State in any way, through its legislature, attempted to relieve the conditions that exist with reference to injurious financial conditions?

Mr. MOBLEY. No, sir; except in passing usury laws.

Mr. SELDOMRIDGE. Is that due to a lack of interest or simply because of a lack of information?

Mr. MOBLEY. It is due to the fact that those men——

Mr. SELDOMRIDGE (interposing). They control the State government? Is that the idea?

Mr. MOBLEY. They are the men that control.

I want to tell you a story. I cried when I heard it. A farmer, an old man, in the State of Arkansas, said in one of our conventions, "This is the greatest day in my life," and the tears ran down his old face. He said: "Twenty years ago I came in town here to the store and made arrangements; I have finished paying back to-day, and am out of debt."

It is a kind of commercial peonage there in many places that influences the debtor to vote or do what his creditor wants him to.

This man, who had been in debt to one man for 20 years continuously, would represent that class of commercial peonage, and, of course, he would be more or less influenced by his creditors.

Mr. WINGO. Mr. Mobley, is it not true, in answer to Mr. Seldomridge's question as to what had been the causes of the agricultural improvement in your State—is it not true all those different elements which have been named have contributed to your rapid development?

Mr. MOBLEY. The railroads have helped; the university, through its extension department, has helped; the common agricultural schools have helped; the farm-demonstration work and the State department of agriculture have helped to advance everything except the financial side of it, and that is left severely alone. The help is all for more production only.

Mr. SELDOMRIDGE. If the committee should find, in its judgment, that it would be impossible to render the direct Government aid that is asked for, but should provide an agency through which the

farmers might work together with others who might be interested in his welfare, do you think it would be possible for the agency to be developed independent of this moneyed interest you say dominates or controls?

Mr. MOBLEY. It would in many more localities than if our aid is indirect. Of course the conditions I mention do not prevail everywhere. But we could work it out best with direct aid.

Mr. WINGO. Coming to the bill that has been introduced, known as the Fletcher-Moss bill, do I understand you say you think it would be wise to put in an exemption proposition to which you referred, exemption from taxation?

Mr. MOBLEY. If they could do it by exempting simply the mortgages that are given to these banks, but not to exempt all real estate mortgages?

Mr. WINGO. In other words, your exemption would go to the mortgage indebtedness due these banks alone?

Mr. MOBLEY. To this class of banks or the Government; yes.

Mr. WINGO. You would not exempt the mortgages and bonds and stock of the bank? You would not exempt all of these different classes?

Mr. MOBLEY. No, sir; I would not exempt the stock and surplus and net income derived therefrom.

Mr. WINGO. This bill provides for banks with a capital stock of a minimum capital of \$10,000, and the theory of these gentlemen who propose it seems to be that a certain number of farmers will get together and take that stock. Now, do you believe there is ready available money in the hands of the farmers to organize these banks in our country?

Mr. MOBLEY. I know there is not.

Mr. WINGO. Is not the trouble with the tenant class that they are lacking not only in investment capital, but they are lacking also in short-term credits?

Mr. MOBLEY. Yes, sir.

Mr. PLATT. Aren't we allowing a kind of a misapprehension to get out as to who can organize these banks? There is nothing to prevent a Wall Street business man from organizing one of these banks down there, is there?

Mr. MOBLEY. If a company of men, not less than 10 in number, in the ordinary farm districts of Arkansas can assemble so much as \$10,000 of money as a working capital over and above their farm necessities, they can put that money to commercial and bank uses that will make them infinitely more than they can ever hope to make out of one of these banks. Such banks would be failures with us as local institutions.

Mr. WINGO. Let me ask you: You stated to the committee that there were three classes, the landlord, the small farm owner, and the tenant farmer. Now, is it not a fact, as you have already stated, that for the landlord there is not a present economic need for legislation of this kind in his behalf, but that there is need for it in behalf of the tenant farmer and the small farm owner?

Mr. MOBLEY. There is no need on behalf of the landlord; he is fully able to take care of himself. But the other two classes must have help, and that soon.

Mr. WINGO. The man you are thinking of is not the landlord or the man who has money already upon deposit with the banks, but it is the man who has to mortgage his crop in advance in order to get supplies to furnish him. That is the man you have in mind and whom you wish to benefit when you ask for Government aid?

Mr. MOBLEY. Yes, sir; also the small farm owner who needs money to pay off a mortgage on his farm or to make improvements.

Mr. WINGO. Now, then, if you could get investment capital; if these farmers that you have in mind could secure investment capital by which they could pay for their homes, secure farm homes on a low rate of interest at a long time under an amortization plan; in other words, if you could secure for them, under some feasible practical plan, investment capital, what is your opinion with reference to whether or not personal credits could be taken care of locally and the pressure along that line be relieved?

Mr. MOBLEY. I have studied personal credits from the standpoint of this class. I have not paid so much attention to European personal credits, because I felt that they would not reach us. We already have a personal-credit system in Arkansas.

Mr. WINGO. That is the point I wanted to bring out, that if he could get this investment capital that situation would be relieved?

Mr. MOBLEY. That is what I want to bring out. If this law did authorize these land banks or granted Government aid and would go further and authorize a personal-credit proposition, and they were permitted to loan money on good chattel mortgages with good personal risks behind them, these banks could put out money on the chattel mortgages, or advance these people money to do this farm work on chattel mortgages, without them having to pay this enormous 100 or 150 per cent store profits and the large interest rates they now pay. Those chattel mortgages are good; those people do not lose on them. If we had this resource for money we would be relieved from the tension. I believe that it would be simple if we had a law giving us the right to do a chattel-mortgage business and borrow money—a national law—to borrow money on those chattel mortgages in a manner similar to the proposal to borrow on land, that we could use those chattel mortgages and often find money ourselves from what surplus we might have to a great extent, and relieve the tenant and small farm owner from his high interest rate and take care of his needs.

Mr. PLATT. Why couldn't you do that now under a State law?

Mr. MOBLEY. We could not afford it. Our investment in our farms is too hard to carry at present for us to undertake to do such a thing without help.

Mr. WINGO. If you could furnish the small home owner a rural-credit plan by which he could get the money easily with which to pay for his home or pay off the existing high-rate mortgage—short term and high rate mortgage—and come under a low-interest rate and a long term and get his investment capital where it would be more permanent, so that it would not bother him for a long term of years, would not that then relieve the pressure and break some of the alleged monopoly of the personal-credit system to which you refer?

Mr. MOBLEY. It would not break it, but it would help a whole lot.

Now, in this law—this is not a criticism, but it is a question that comes in my mind and has occurred to many gentlemen

with whom I am associated in this work; and we have studied it a great deal. There are about 3,000 counties in the United States. Suppose we organize the banks that are proposed under this law in a number of those counties—300 of them, or one-tenth of the number of counties—and attempt, each bank, to sell its \$150,000 worth of bonds. Our belief is that it would have a directly opposite effect from what the hearings here seem to expect; that instead of it decreasing the interest we have to pay, it would increase it, because we would become competitors for money. We would be in about the same position the Frenchman was, as I remember reading, in his *Credit Foncier*. Originally he went to a bank and put up his security and received a handful of bonds, and had to go out and sell wherever he could. Would not that be just what we would have to do under this law? Each one of the banks, when it went out to sell its own bonds under this proposed system, would be putting practically the same system in force here that they did in France. Having to peddle these bonds, would we not have to sell them for just anything we could get?

Mr. WINGO. In other words, you think there would be keen competition, or some competition, in the same market?

Mr. MOBLEY. Yes.

Mr. PLATT. And you would have the extra charge of getting out the bonds and selling them added to the mortgages?

Mr. MOBLEY. Yes, sir; and then we have this further condition: Instead of the money-lending world seeking us to lend us money, which would give us an advantage in the interest rate, it would be putting us in the position of competing to borrow money, and that would have a tendency to put up the interest rate.

Mr. WINGO. You think that would increase the burden on the credit system of the country and increase the interest rates?

Mr. MOBLEY. Yes, sir; not only on the credit system of the country, but would really make us pay a higher rate of interest through the operation of a law which had intended to give us a lower rate of interest.

Mr. PLATT. In other words, you think the whole system if issuing bonds is a bad one?

Mr. MOBLEY. No; though I think it would be in the way this proposed law leaves it. This law says:

* * * Any national farm-land bank may, with the consent of the commissioner of farm-land banks, maintain either within the State in which it is operating or elsewhere sales agents or agencies for the sale of its national land-bank bonds or for trading in the same.

In other words, we might have a Washington County land bank with an agent in Chicago, and there might be one in Benton County and 300 or 400 or 500 other counties of the United States, each one with its agent out trying to sell \$150,000 worth of bonds for each bank. That would place us in the position of competing one against the other instead of having them come to us—seeking us.

Mr. BULKLEY. I think you understood that correctly; but there would be an offset for that in the advantage of exemption from taxation. However, I see the justice of your criticism, and I thought you would make some suggestions as to how it could be made an advantage to the borrower.

Mr. MOBLEY. I am Populist enough to want the Government to let us have the money, and all of the organizations that I am acquainted with think that, and we ask that. But if you can not get what you ask for, then take the next best thing.

Mr. BULKLEY. What is the next best thing?

Mr. MOBLEY. I believe the next best thing would be for a commission in the National Treasury to handle those bonds, and for none of them to be sold anywhere except through this commission, and the sale to be graduated or controlled—

Mr. WINGO (interposing). Would you have a Government commission that would exercise such supervisory control as to prevent fraud in the giving of those mortgages and then, under that Government supervision, let the Government commission market the bonds, and expense of marketing be paid by the Government.

Mr. MOBLEY. Yes; and not let any of those banks market their bonds at all, but let them give them to the Government commission to market and without waiting for the bonds to be sold provide that the Government will advance the issuing bank the par value of the bonds even before they are sold.

Mr. WINGO. Suppose that this bill is passed. The banks must have some mortgages before they can issue bonds, as I gather from the bill. Would there be any way by which the local land bank, if it were organized, could determine what rate of interest they would charge the farmer who wanted to mortgage his land? How would they arrive at what rate the interest should be, because the bill says there must be a 1 per cent premium. In other words, on the mortgage, as I understand, the farmer must pay at least 1 per cent higher rate than that the bonds call for. How will they know in advance what the bonds will sell for? How would that be determined? Have you studied that question?

Mr. MOBLEY. Yes, sir. Under this law, as it is written here, if I went to a land bank and offered my land for mortgage and asked what rate of interest I would have to pay, there would be nobody in that bank and nowhere else on earth who could answer it. I would take a chance on what I would have to pay, because that bond would have to be sold, and whatever it sold for would be what I would have to pay plus 1 per cent. But if you had a commission to sell those bonds of course it could determine in advance about what the rate would have to be in order for the bond to sell at par.

Senator HOLLIS. That is where the judgment of the managers would come into play. They would have to form a judgment as to what would float the bonds out and charge you a rate of interest in accordance with it. And if they loaned it to you too cheaply they would have to lose and that would have to come out of the capital?

Mr. MOBLEY. It could not be any other way under the proposed Moss bill.

Mr. PLATT. You could assume that the thing would start off with no considerable decrease in interest. If this plan is put into effect, would it wipe out the commissions and all that sort of thing?

Mr. MOBLEY. No; not at first at least. We are ready to accept that condition; but now there is another thing that could be done about the interest. The Government commission for selling these bonds ought to say what interest these bonds shall bear and they ought to

be sold at that, just like any other Government bond. The Government does not underwrite these bonds—it does not guarantee them—but yet it could say what interest those bonds shall bear and make that the rate of interest through its commission.

Mr. BULKLEY. Now, right there, Mr. Mobley. How can you do that? You can not compel anybody to invest in them?

Mr. MOBLEY. No, sir.

Mr. BULKLEY. Then, how can you tell at what rate of interest they will sell?

Mr. MOBLEY. Now, gentlemen, I am not positive, but I believe this commission could go so carefully into the selling value of such bonds and first-class securities and the usual rates of interest that prevails in those things, and the rate of interest that would be given to those bonds could be very nearly determined. The commission in selling them could increase or lower it, as the money market demanded.

Mr. PLATT. Would you make uniform rates of interest for all parts of the country?

Mr. MOBLEY. No, sir.

Mr. PLATT. How could the United States Government fix a rate of interest unless it applied uniformly everywhere?

Mr. MOBLEY. Your question goes beyond my ability to answer.

Mr. WINGO. Let me call attention to the regional reserve bank provision, by which the directors of the reserve banks fix the discount rate.

Mr. BULKLEY. They have to fix it from time to time.

Mr. MOBLEY. That is what I had in mind in my first suggestion, in suggesting that the Government sell these bonds and fix the rates to prevent the local banks having to fix them.

Mr. BULKLEY. Do you mean you would try to figure some rate of interest which would make the bonds sell at par; is that your idea?

Mr. MOBLEY. Yes, sir.

Mr. BULKLEY. Don't you see, if we should fix the rate so low that the investing public would consider those bonds to be worth a little bit less than par you could not sell them at all, because you would not be authorized to sell below par?

Mr. MOBLEY. You evidently misunderstood me.

Mr. BULKLEY. Possibly. What did you mean?

Mr. MOBLEY. You are talking about an arbitrary rate of interest?

Mr. BULKLEY. That is what I understood you to say.

Mr. MOBLEY. Mr. Platt asked me if I would make the same rate for all sections of the country.

Mr. BULKLEY. What did you mean?

Mr. MOBLEY. I said the Government ought to fix it, but I did not mean to fix a general legal rate. I mean this commission ought to fix the rate at which the bonds sell at the time they are sold.

Mr. BULKLEY. Suppose they have an issue ready to sell; how would you fix the rate?

Mr. MOBLEY. This commission that handles the bonds would fix a rate at which they could be sold at that time.

Mr. BULKLEY. All right. They would have to sell at par, wouldn't they?

Mr. MOBLEY. Yes, sir.

Mr. BULKLEY. Then my point is perfectly good. If the investing public would not be willing to pay par for them, then could not buy them at all?

Mr. MOBLEY. No. The commission could raise the interest.

Mr. BULKLEY. The commission could raise the interest?

Mr. MOBLEY. Yes.

Mr. BULKLEY. And call for a new subscription?

Mr. MOBLEY. No; the interest would not be printed in the face of the bond. The rate upon the bond would not be entered until after the commission knew what they would be sold for.

Mr. BULKLEY. I do not understand how the rate could be fixed for which the bonds could be sold. You could not get anybody to buy a bond if they did not know what the interest was going to be.

Mr. MOBLEY. Let us state a case: You are an investor and the gentleman there [indicating] is the commissioner. You say, "I will buy those bonds at 4 per cent." He has tried to get $3\frac{1}{2}$, but he could not get it, and he says, "All right; they are your bonds"; and he writes them out at 4 per cent and you take them.

Mr. BULKLEY. By agreement with the purchaser?

Mr. MOBLEY. Yes.

Mr. WINGO. As I gathered from your statement, your idea was that this commission would investigate and would be able to ascertain what a bond of that character would really be worth, and that they could hold those bonds for that figure. After that, if there was no competition or there was an effort to try to force the sale at a higher rate than the commission had fixed, they could be held off the market and the commission could ascertain what the real value of the bonds of that character were, and say, "We will not sell at a higher rate than that which they should really bring."

Mr. MOBLEY. That is my idea exactly. The commission will inform itself of what will be a reasonable rate and refuse to sell at an unreasonable rate. And if for that reason the bonds are held off pending sale at such reasonable rate of interest, then the Government would permit us to go ahead and conclude our transaction with the borrower, it holding our bonds for face value as its security.

Mr. BULKLEY. Of course, there is the idea that somebody ought to keep down the rate of interest and to keep up the price of the bond; but it seems to me much better to do that by having some person who is interested in that than it would be to have some Government official upon a salary do it.

Mr. MOBLEY. I disagree with you. I have arrived at the conclusion that the Government can find men who backed up by its prestige can sell those bonds better than I could myself, or any little bank. I believe that is good common sense. In other words, I believe the Government commission could sell these bonds better than any individual.

Mr. WINGO. In other words, you believe that a Government commission, under a Federal law having authority to supervise the issuing of these bonds which, in itself, would carry with it an implied, though not a legal, guaranty of the correctness of all the formalities and the solvency of the issue—that that, within itself, would give them sufficient prestige to bring the highest price, or rather the lowest rate of interest, in the open market?

Mr. MOBLEY. Yes, sir.

MR. SELDOMRIDGE. Do you recognize that that value would attach to a bond if it had been certified to by the central agency within the State rather than by the General Government acting under a Federal law?

MR. MOBLEY. Yes; I realize that. The central-agency idea would be our third idea, as I would express it. The direct aid would be the first idea. The Government supervision and selling of those bonds at the best interest rate they could would be the second idea, and the central-bank idea, one for each State, would be the third.

Now, then, if I have said enough about that, I will say: As I see this law, a central bank would be about the only thing we would have for Arkansas. We would hardly have a local bank, because, as I understand it, there is no limit on the amount of money the shareholder can subscribe to the stock in those banks. I do not find where it is limited, and I understand the stockholder can be a nonresident. He don't have to be a citizen of the United States. I understand the board of directors can be one-fourth of them nonresidents. I think I am correct in that. Then taking into consideration the further fact that \$10,000 is the lowest amount of money you can use to start one of these banks, and then coming down in my country where we don't have that amount of money to go into this kind of a business—that is, our kind of people don't have it—some other class of people are the people who are going to put up the money to start the banks and carry them on. That is patent on the face of this thing.

MR. WINGO. In other words, the condition you have in mind to meet is a condition which would naturally have to rely upon outside capital?

MR. MOBLEY. Yes, sir.

MR. WINGO. You have not the local capital available; you must get outside capital?

MR. MOBLEY. Yes, sir.

MR. WINGO. Isn't it a fact that syndicate banks already operate in our State; that is, Kansas City, St. Louis, and others bankers own a string of banks all through that country? One man, I think a preacher, a friend of Champ Clark, it is alleged, owns, I think, 28 banks in your State or has the principal interest in the corporations that do. Now, bringing in that outside capital under the present system, these banks do not lower the rate of interest. They do bring in some outside capital, but the competition is so great locally it still keeps the high interest rate.

MR. MOBLEY. Yes; but I want to add something to that. The competition, as I call it, for the hire of money has held it up, and a custom resulting practically in restraint of trade in money matters also tends to keep interest up.

MR. WINGO. Let me ask you this question: Is there anything in the State law you know of that would prevent the organization of a bank similar to the ones provided for in here, even if Congress never does act?

MR. MOBLEY. In a general way, no. I expect on the question of the exemption of mortgages and things like that you would have to have a State law.

MR. WINGO. But I mean you could get together and organize State banks for the lending of money on farm mortgages under a long

term and an amortization plan. There is nothing in the State law to prevent this that you know of?

Mr. MOBLEY. Nothing, if they could sell their bonds.

Mr. PLATT. If farmers in your neighborhood can afford to pay 100 per cent it would seem to me a pretty profitable thing to go into the organization of these banks.

Mr. MOBLEY. Let me tell you, Mr. Platt, that is profoundly put and very hard to answer. It brings up a condition of mind that a man gets into. It is like a man who is mesmerized—he is controlled by the outside power, not his own mind. You said a while ago you did not understand. I caught your point all right. I do not care to explain, but there is a condition of mind there. I do not want to talk mysteriously, but that condition of mind would keep many out of such banks.

Mr. PLATT. What can be done?

Mr. MOBLEY. I tell you direct Government aid will reach him right now.

Mr. SELDOMRIDGE. Mr. Mobley, what security has he to give either for a loan from the Government or an individual?

Mr. MOBLEY. He often has, among the small landowners, a pretty good piece of ground.

Mr. SELDOMRIDGE. Do you mean clear of indebtedness or mortgaged?

Mr. MOBLEY. Many, a great many, of this one class are without mortgage. He has, in the next instance, a good piece of ground with a debt on it, and if he can borrow enough to pay that debt off, that man—

Mr. SELDOMRIDGE (interposing). What is the average size farm that you have owned by the class of people that need this help?

Mr. MOBLEY. Now, I have read in your statistician's report here, Dr. THOMPSON, a whole lot of statistics about the average farm in the United States, and all like that, but I do not believe any information he submitted about that. It would range anywhere from 10 to 160 acres.

Mr. SELDOMRIDGE. What is the value of your land?

Mr. MOBLEY. The value of our land would range from \$10 to \$100 an acre.

Mr. SELDOMRIDGE. Is it land as some witnesses have described as being in river bottoms, capable of being flooded or its value destroyed by any overflow?

Mr. MOBLEY. Some is in the broad, rich, alluvial river bottoms: some is in the wide, rich swamp sections which have been drained: such lands being subject to overflow. Some of it is the red clay on the hillside; some of it is rocky, mountain land; some of it is on the plateaus of the mountains, and some of it is in the narrow valleys.

Mr. WINGO. May I be permitted a suggestion? Mr. Seldomridge asked what can he offer as security. In other words, you want to know whether he has got the security to justify it?

Mr. SELDOMRIDGE. Yes.

Mr. WINGO. Has not the small farmer in Arkansas a place that is of sufficient productive value so that he now makes a living on it and yet pays a high rate for the money with which to operate?

Mr. MOBLEY. Yes. It is of enough productive value to make that and in the mercantile-supply proposition to pay from 150 to 200 per cent.

Mr. WINGO. In other words, he is making a living now in spite of the bad conditions?

Mr. MOBLEY. Yes.

Mr. PLATT. Coming back to these tenant farmers, isn't it possible for them to dig themselves out from under the storekeeper class through the parcel post? Why can not they go to Sears Roebuck occasionally and buy their stuff for one-tenth what they have to pay?

Mr. MOBLEY. Mr. Platt, I will answer you this way. I will say I am the owner of a plantation and you are my tenant, and you are out in the field at work, and I come over to your house to the pump to get a drink, and I see a catalogue which a little child has left lying around on your porch of Sears Roebuck & Co.; the next year I don't think you would rent from me again.

Mr. WINGO. He has no assurance that the Sears Roebuck & Co.'s catalogue would be of any benefit, as their prices are as high as he has to pay at the local store?

Mr. MOBLEY. I am not going to argue against that; but it is serious, Mr. Platt; it is very serious.

Mr. PLATT. You mean to say the landlord who owns the ground and owns the store would actually throw a man off the property because of his buying goods from an outside source?

Mr. MOBLEY. In many cases; yes. Some might. Of course you will have exceptions, but they will be a mighty few. The ordinary man who is a renter could not afford to patronize Sears Roebuck very much if his landlord knew it.

Mr. PLATT. His lease is from year to year?

Mr. MOBLEY. Yes; I think so.

Mr. PLATT. There is never any longer lease than that?

Mr. MOBLEY. Most of them are for one year.

Mr. PLATT. Do those tenants have any possible chance to buy that land at a reasonable price, any of them?

Mr. MOBLEY. Not under the present financial condition; but there might be a very vague exception in the case of the very industrious and economical man that he could do it.

Mr. PLATT. Is it ever sold for any reasonable amount, so that if he had the finances he could buy it?

Mr. MOBLEY. There is always a class of land in Arkansas owned by the sawmills, which we call cut-over lands and hill lands, which can be bought at reasonable prices. But with that would be the improvement expense of building a house, buying the tools, and general physical plant of the farmer added to it.

Mr. PLATT. But these lands you speak of, they are now leased from year to year and are not ever sold?

Mr. MOBLEY. Oh, no, sir. They are almost entailed estates, in effect, except in rare cases.

Mr. WINGO. Mr. Mobley, I have heard it suggested by one gentleman, in just a general way, that it might be feasible to use the postal savings banks as the machinery to handle this proposition by authorizing the investment of the postal savings bank funds in mortgages. Would that relieve the class of people you want to be relieved and

let the Government of the United States, whenever necessary, deposit money in the postal savings bank as they do in the regional reserve banks? Had you thought any along that line?

Mr. MOBLEY. I have thought that that might be a suggestion of one way we might have direct Government relief up to the extent of the funds.

Mr. WINGO. Now, under the Federal reserve act the commerce of the country, the merchants can, through their local banks, go to the regional reserve bank and have their paper rediscounted and get current funds to meet their needs; and where the till money of the regional reserve bank has run out they can issue regional reserve bank notes. Had you thought whether a feasible plan might be developed with that as a skeleton by which relief might be granted to the farmers?

Mr. MOBLEY. We people of the farm reason by analogy all the time. We seldom reason independently. We say if that is done for another class of business, we can not see why it could not be done for us.

Mr. WINGO. And your idea is, then, you might get around the constitutional objections to the Government loaning money for the purpose of aiding farmers as well as you do in the Federal reserve act in coming to the aid of the merchants; is that the idea?

Mr. MOBLEY. That is analogy again. If you can get around the Constitution for one class, if they get around the Constitution like in the Federal reserve act, they ought to get around the Constitution for another class. I think that is a farmer's viewpoint.

Mr. PLATT. I think you are right in saying that. I think the Federal reserve act has no business containing a special privilege in it, which it has, in the way of terms.

Mr. MOBLEY. It is like this: We are asking for something that will help us, but we do not care whether it is a special privilege or non-privilege, if it reaches the point. Now, this technicality over terms, I have no patience with that. I am not saying to tear down the Constitution and avoid the law: I am just as law-abiding a citizen and want protection of my property, what little it is, and life, as well as the rest of them. I am frank to say the farmers of the United States are pretty well persuaded of the fact that certain people of the United States have special privileges; but there are two viewpoints, you know. But I want to emphasize this thought, that we will be grateful to you for any help that you can devise for us. We recognize the difficulties that you are laboring under. We know that precedent is a hard thing to get around. We know these things, and that you, if you give us a direct banking law by which the Government of the United States gives us direct relief, that you will reach the thought and the sentiment and the heart and awaken the gratitude of the greatest number of farmers possible in the South and in the Middle West.

Mr. BULKLEY. You do not find any analogy in the Federal reserve act for these direct loans you are talking about?

Mr. MOBLEY. Let us see if we do not. I go to the post office and put in my dollar and take out a deposit slip that bears 2 per cent. That dollar is taken out of the post office and carried over and put in a national bank and bears $2\frac{1}{2}$ per cent; and when I get hard up I go down to the national bank and borrow it at from 7, 8, 9, 10, 12,

and 15 per cent, and the Government gave them the money to do it with and it paying 2½ per cent, and the individual stockholders are making personal profit out of that privilege which the Government grants them.

Mr. BULKLEY. That is all true, as far as it goes, but is not in any way responsive to the question I asked you.

Mr. MOBLEY. I thought it was direct aid to the national bank, the Government furnishing them money out of which individuals make a profit.

Mr. BULKLEY. The postal-savings law, you are talking about?

Mr. MOBLEY. Yes.

Mr. BULKLEY. Of course I was talking about the Federal reserve act.

Mr. MOBLEY. I want to say, Mr. Bulkley, with all candor, that I am not an expert.

Mr. BULKLEY. No; I am not trying to trip you up. I wanted to call your attention to the difference between the Republican law and the Democratic law. You are talking about a Republican law. But what I was trying to find out is whether, in fact, you find any precedent in the Federal reserve act, which is what we are talking about, for a direct loan to the farmer or an individual of any kind?

Mr. MOBLEY. I must say that whittling it down to just one man that I can not see there is any analogy; that is, I do not know of any. But it comes so close to one man that we feel like the Government is almost directly aiding persons who are stockholders in these national banks to make profit, and that if it can do that that you could strain the laws to do the same for us, because you go to a company of men who stand between us and the Government and you give them Government aid by which they take our individual money and make a personal profit out of us. We feel that the Government gives them the help, and we can not see why if our money, deposited in the post office, brings 2 per cent from the Government, that it would not be right, by a careful valuation of our lands, with regard to districts, the stage of improvements, and so on, and the moral risk of the man who owns it, why the Government can not issue a bond on some safe evidence of our indebtedness that bears some reasonable rate of interest and sell it and send back to us the proceeds, and say "Old man, go on and pay your interest and your amortization to your local agent; your Government will grant you relief; it is in sympathy with your condition and fair enough to help you as well as others."

Mr. BULKLEY. Of course, we want to be as square as possible to you. When the Government deposits these funds in the banks—postal savings or otherwise—the banks undertake the responsibility of being ready to pay the money back to the Government whenever it is needed.

Mr. MOBLEY. Yes.

Mr. BULKLEY. You would not want the farmer to do that?

Mr. MOBLEY. Well, I will tell you, now—I may be misinformed—if you confine me to the postal savings banks funds, I understand that is to be paid on time; that has a certain time to run, which is specified, isn't it? It runs out at a certain time or is paid at a certain

time. The postal savings deposit has got to be a time deposit before it draws interest?

Mr. BULKLEY. You are talking about the depositor's deposit in the postal savings bank? I am talking now about the deposit which the Government makes with the banks. The Government holds the banks responsible to pay at any time.

Mr. MOBLEY. I suppose that is right. That is my understanding of it.

Mr. BULKLEY. We have to figure out for the farmers some scheme that won't require the borrower to pay back on demand. We have got to give him a long time.

Mr. MOBLEY. Let me ask you this, and then perhaps I can answer. I want a little information I do not possess: Is it not a fact that there are bonds, or have been, at least, guaranteed by the Government and sold that run for long periods of time—railroad bonds and things like that?

Mr. BULKLEY. The Government gave aid to the building of railroads across the continent—land grants.

Mr. MOBLEY. Those were long terms, weren't they?

Mr. BULKLEY. I do not recollect about the bonds; they gave lands. Mr. MOBLEY. I understand. I am not criticizing what the Government did. I am just wondering—I have asked the question lots of times, and I have been asked it by others—I understand the Government has issued bonds running from 50 to 75 years?

Mr. WINGO. No; not that long.

Mr. MOBLEY. From the answers I have had, I am pretty well persuaded the Government has issued long-time securities to aid certain enterprises of a corporate nature, which resulted in private gain.

Mr. BULKLEY. I think you are mistaken about that.

Mr. PLATT. Other Governments have. I do not know whether the Canadian Government has guaranteed the Canadian Pacific bonds or not, but I think they have.

Mr. MOBLEY. But, then, that might bring up another thing while we are talking on this. Suppose the Government has not done so. Are we bound always to do only what has been done before? Is it not possible sometimes to do something that has not been done before?

Mr. BULKLEY. That is a question. Some say it is not constitutional. I have not formed any opinion on that, but it is very strongly urged that is not constitutional.

Mr. MOBLEY. I am not able to tell you very much about the constitutionality of it; I am not a lawyer, but I thank you very much for having brought out that side of it with emphasis, because when I go back home our people are going to say, "Did you ask for direct aid?" and I will say, "Yes." And then, if they get hold of this record, I want to say, "I emphasized that," but if we can not get direct aid, then we will take anything you give us.

Senator HOLLIS. Mr. Mobley, if you gentlemen are going to be interested in what is said here and done here I think we ought to suggest some of these difficulties. In the first place, with direct aid, it is pretty hard where to draw the line. If you do not draw the line but let any one in who has good security to offer, this law would take two or three or four billion dollars, and all we have on hand now is some \$200,000,000. And to procure that money the Government would have to issue bonds, and how long those bonds would have to

run, and what rate they should bear if you undertake to put out such an amount as that, are more or less problems. Those are some of the difficulties in the way, even if it was constitutional.

Mr. MOBLEY. Of course, if you can not do it all at once, you can only do as much as you can. You can not accomplish an impossibility. Why couldn't you, if your committee suggests direct aid to the farmer, give so much—have your statistician figure out what you safely could do, how much you could aid a year to each State, according to the population, and hold the thing down to where you would not over run the money market?

Mr. WINGO. What would you do with reference to limiting the character—in other words, the point I want to get at is taking an arbitrary grade that you would make. Say that you would limit the loans from \$250 to \$1,000, and to a man who is not actually living upon his farm on anything beyond, say, 100 acres, or whatever would be a proper amount. In other words, limit it to the class which really has a pressing economic need for it. Have you noticed that something has been said about the farmers needing \$2,000 loans?

I would like to get your view point on that: Would you regard a man as belonging to the class that ought to be relieved as a farmer, who has a farm that is properly developed and would demand a direct loan of \$2,000 from the Government under any system?

Mr. MOBLEY. Down with us that man would be tolerably well to do.

Mr. WINGO. You would call him a landlord down there?

Mr. MOBLEY. Oh, no. We have wealthy men; you know that.

Mr. WINGO. I mean as a class?

Mr. MOBLEY. Yes; he would be tolerably well to do. You suggested something more there, of course, what was suggested here just now, but my mind has grown a little confused over it. I suggested to loan that money according to the population, so much each year. Now, that does bring up a thought I have omitted. It is a thing our organizations has talked about a good deal and I am one who can safely speak for a lot of other men. There is no egotism in that. Those things come up for conference in our conventions. And they are farmers, too. It is suggested that this loan ought to be made in such a restricted way that the man who makes that application, swears to it, that he is an actual operator and tiller of the soil. He might employ supplemental labor, but he himself must be an actual operator and tiller of that soil and that loan stands as long as he operates and tills it or his successor operates and tills it; and when he ceases to operate it, or his successor, the loan becomes due right away.

Mr. BULKLEY. Do you believe in limiting the amount any one borrower could get out of this system?

Mr. MOBLEY. Yes; I do.

Mr. BULKLEY. At what point would you place that limit?

Mr. MOBLEY. Well, I would not place that limit over \$1,250. I would place it at \$1,000.

Mr. BULKLEY. You think \$1,000 would be sufficient?

Mr. MOBLEY. Yes; I do. Some of them have suggested a man might borrow money to spend foolishly. If he could borrow a good deal of money he might spend it foolishly; but the man who has pressing necessities and borrows inside of the limit of those pressing

necessities he is going to take care of that money a whole lot better. I know that right in my own experience.

Mr. WINGO. Your idea would be to lend the money to actual tillers who own farms and the small farmer?

Mr. MOBLEY. Yes.

Mr. WINGO. And limit it, say, to \$1,000 on the theory that the small farmer is the class that ought to be relieved, and his economic needs are such as to justify, under the general welfare theory, aid of this kind, and you think the \$1,000 would meet the maximum necessities of that class of men?

Mr. MOBLEY. Yes, sir.

Mr. PLATT. Suppose this system was adopted, why shouldn't a farm-land bank, if it has large enough capital, make a loan of \$20,000 on a 1,000-acre farm, for instance, to a man who owns it and is operating it personally?

Mr. MOBLEY. I know now, from the ordinary viewpoint, I guess that would be all right; but from the viewpoint that we look at it, it is like this: This is a measure to give help, real help, to those who really, genuinely need it. You can talk paternalism and benefactions all you please. We look at this thing from that standpoint, and the man who has \$20,000 worth of property looks to me to be pretty well able to look to the commercial banks for his help.

Mr. WINGO. Isn't that true in our country?

Mr. MOBLEY. I know that is true in our country.

Mr. WINGO. And the man who needs \$2,000 or \$3,000 in the operation of his farm can ordinarily take care of it with a commercial bank?

Mr. MOBLEY. Yes, sir; he can get money at 8 per cent right there in Arkansas.

Mr. WINGO. These statistics given us by Mr. Thompson showing the average interest on farm loans in Arkansas was about 8 per cent; isn't it a fact that he based his average on the insurance loans and such as these for which they get 8 per cent; and isn't it a fact that this class of men you are referring to can not usually get that money, but those loans are made to the men who have the large plantations?

Mr. MOBLEY. In almost all cases; yes. And I will give you a name. E. Hall, of Scotland, got one of the department letters, and he answered it, and the same week he answered that letter he went to town to negotiate a loan and a premium was exacted of him on that loan that was, anyhow, 10 per cent—the premium outside of the interest. I think I report it as he told it to me.

Mr. SELDOMRIDGE. Have interest rates been growing higher or lower in your State during the last 8 or 10 years? Has there been any variation in the interest rate?

Mr. MOBLEY. It is hard to say whether they have or not, but I believe they have.

Mr. SELDOMRIDGE. Is there a lack of money being offered for farm loans?

Mr. MOBLEY. Yes.

Mr. SELDOMRIDGE. It is more difficult to secure money; it is becoming more and more difficult?

Mr. MOBLEY. Yes, sir; for farm loans there is never much money going around in Arkansas except at high rates.

Mr. SELDOMRIDGE. What is the average term of farm loans under present conditions?

Mr. WINGO. You mean land loans or personal?

Mr. SELDOMRIDGE. Land loans. How long can you borrow money for now on farm mortgages?

Mr. MOBLEY. The most of us borrow on one-year term and renew.

Mr. SELDOMRIDGE. They give a new mortgage every year?

Mr. MOBLEY. Yes.

Mr. SELDOMRIDGE. And how much does it cost to make a mortgage there?

Mr. MOBLEY. I have made one pretty near every year, and I have not figured it.

Mr. SELDOMRIDGE. Do you have to furnish an abstract of title?

Mr. MOBLEY. Yes.

Mr. SELDOMRIDGE. Are you charged a lawyer's fee in furnishing it?

Mr. MOBLEY. Yes; for examination.

Mr. SELDOMRIDGE. Have you any idea as to what that expense is?

Mr. MOBLEY. The lawyer's fee amounts to about \$1, the acknowledgments 50 cents, and the recording fee about \$1 and \$1.25. It all amounts to \$6 to \$10.

Mr. SELDOMRIDGE. Do you ever have to pay any commission or do others have to pay a commission?

Mr. MOBLEY. Not on these one-year loans I am talking about now in the locality I live in. The gentleman I mentioned is living down south and east of me; he had to offer to give a commission or a good premium, which would be the same thing. There are some places where you have to pay a premium and some places where you do not. It is always a good stiff rate of interest and the man who does the borrowing pays all the expense, whatever it is.

Mr. SELDOMRIDGE. There is a growing tendency of money becoming scarce on good land security, with no reduction, as far as you know, in the expense of obtaining it?

Mr. MOBLEY. Not only a growing tendency, but actually is, and it is continuing; and the only hope we have is through something like this, as far as the people I know of.

Mr. SELDOMRIDGE. The average rate of interest, you said, is 8 per cent?

Mr. MOBLEY. Oh, no. I said Mr. Thompson's average rate of interest was 8 per cent.

Mr. WINGO. Yes; it was Mr. Thompson he said who made that statement.

Mr. MOBLEY. Let me tell you the average rates of interest as ascertained at our State convention. We have a membership of 23,000 farmers, who elect delegates. Their finance committee prepared a report as to the long-time interest rates on loans, and it was found to be between 10 and 11½ per cent.

Senator HOLLIS. Do you suppose the men who gave those statistics included commissions and lawyers' fees?

Mr. MOBLEY. We did not ask that. I think not. No; it is this way. Where those fees are charged our men look on it as a necessary evil that does not belong to the loan, but just belongs to the one who negotiates it. We can not help that, and so we pay it and don't consider it.

Mr. WINGO. Referring to the increasing demand for money there, the reason for that is the extraordinary development and the increasing demand for money for our purposes is greater than the increase in the volume of capital that is in the State.

Mr. MOBLEY. I am going to answer that question this way: That may be it, but I am not competent to answer that.

Mr. WINGO. I say, that is one of the reasons?

Mr. MOBLEY. We recognize a growing tendency out there to want to borrow long money for farm purposes at a low rate of interest that is reasonable, but it gets no better. I know that; but as to why money is scarce, and things like that, of course, I know that the State is developing some—very much in some localities—and that calls for money, and that might have something to do with the stringency.

Mr. PLATT. Suppose the supply of loanable capital in Arkansas would be considerably increased; would the prevailing monopoly prevent the lowering of rates below the going rates to bankers?

Mr. MOBLEY. I will answer you frankly. I believe, if you would organize a bank under this bill 12585, that the present banking interests down there would control, either directly or indirectly.

Mr. PLATT. Suppose some entirely outside capital came down there and organized some banks?

Mr. MOBLEY. Here is the point on that: When they came down there they would say, "Well, these other bankers are making that money, and why not us?" That is the way I look at it.

Mr. WINGO. Well, you think, Mr. Mobley, do you not, if some aid was given so as to furnish investment capital, that would lower the demand that now presses on the local supply of money?

Mr. MOBLEY. Oh, yes; if you increase the supply of money. Then, instead of it being the one who wants to borrow seeking the bank who has it to loan, the man who has it to loan seeks the borrower. That will be it.

Mr. PLATT. I am trying to bring out whether the monopolist forces are such that the people could not go to these new banks and be a borrower because they would not be allowed?

Mr. MOBLEY. There would be some who could. But I said there would be half of our people it can be safely said would be under the domination from these other sources so strong that unless some direct aid is given it will take a good while for them to be helped.

Mr. PLATT. Suppose there was direct aid; wouldn't it all go to the storekeepers ultimately?

Mr. MOBLEY. I did not quite understand that.

Mr. PLATT. Suppose the Government loans to the people direct who are now financed by the storekeepers, won't the storekeepers get it all away from them, ultimately?

Mr. MOBLEY. That brings up a mighty big question, Mr. Platt, and I am going to answer it the best I can. It is almost in line, as I understand, with the suggestion that if we gave all the people a lot of money whether there would not be a few people who would get it all, after a while. It is true they would, and that is my answer. I have studied on that a long time, and I came pretty near being a Socialist; but I am not. I got my cue on that by studying economics, and I got my cue right in line with your question. The economist says there is land, capital, and labor used in production, and I woke up to the fact that all the land, capital, and labor you can get under

this condition I spoke to you about would not amount to much if a man did not have the proper knowledge, energy, and industry to take care of it. That is my answer to the question. If he had the proper knowledge, energy, and industry, they would not get it; but if he did not have these qualifications they would. And that would apply no matter whether you pass any one of these laws or not.

Mr. WINGO. Take one of those men who is improvident and unable to take care of himself, and that same result would flow from any kind of a system?

Mr. MOBLEY. Certainly.

Mr. SELDOMRIDGE. Do you not think, Mr. Mobley, if there was a machinery of the Government that would in some way value the land and manage the bonds issued on land in your State that those bonds would sell for a much lower rate of interest than the farmers are now paying to individuals and loaning companies; and that fact would have a tendency to release the grip of those who control the financial dominating power in your State at the present time?

Mr. MOBLEY. Yes; if the sale was regulated also so as not to create too great a demand for money.

Mr. SELDOMRIDGE. And you think that those people who have control of the money at the present time would be forced to come down in their charges?

Mr. MOBLEY. My belief that that would be the result is the reason I am here.

Mr. PLATT. What rate of interest do the landlords pay?

Mr. MOBLEY. I think about 8 per cent—7 and 8 per cent—something like that.

Mr. PLATT. Is there any money loaned in Arkansas at less than 8 per cent to amount to anything?

Mr. MOBLEY. Not that I know of.

Mr. WINGO. If you will pardon me, right there: I used to get loans for my clients from the Colonial and the United States Mortgage Co., a British concern, large loans over \$1,500, for 8 per cent.

Mr. MOBLEY. He said below 8 per cent.

Mr. WINGO. That is the lowest I know of within my own part of the State. I think if you take eastern Arkansas, the large plantation owners sometimes possibly get money for 7 per cent; but as a rule those large plantation owners are men who have other business interests. They themselves are often very large stockholders in the banks. As a matter of fact, they often organize the banks and prescribe the policies for them.

Mr. MOBLEY. I have one other item I want to speak to you about, and that is the length of time of the loans. I have heard a great many inquiries about the length of them, and I realize that a good 15 to 19 year loan—I believe I realize it would bring a lower rate of interest than a 35-year loan. Now, I would stand for a 15 to 19 year loan with the amortization plan, with a representative of the Government to watch after either the appreciation or depreciation of the security, to be loaned only to actual bona fide tillers of the soil, or to their successors, due when it comes into the hands of a speculator and not over 19 years for the length of a loan and not under 5 years for the shortest period, with just as nearly direct Government aid as you can possibly give us. I believe you would more nearly reach our class of people with that plan than any other.

Then another idea. I have heard of the bank bill, a Government State central bank, and I want to say if a law like this Mess bill is passed, I believe it would practically result in that in my State. You would have one or two of the banks there handling all of the business of this kind.

Mr. BULKLEY. Do you mean to suggest there is some objection to a longer term of amortization?

Mr. MOBLEY. No, sir. I may say this: That in figuring for the lowest possible rate of interest I believe—I am just putting that “Me”—I believe a 19-year loan would bring a better rate of interest than a 35-year loan.

Mr. WINGO. You mean a lower rate of interest?

Mr. MOBLEY. A lower rate of interest.

Mr. BULKLEY. The provision of the Mess bill, as I understand, is that the loan may be as long as 35 years, and, by agreement with the borrower, may be a shorter term?

Mr. MOBLEY. Yes; by agreement with the borrower. You can leave it that way. Make that from 5 to 35 years. Now, I thought about that last night. If you make it from 5 to 35 years, here would be the result—that I would negotiate for a 10, 15, or 20 year loan, and somebody else would negotiate for a shorter loan and the bonds could not be related to those lengths of loans in the interest that they would draw. Do you get my point?

Mr. BULKLEY. I am not sure that I do.

Mr. MOBLEY. I believe it is true that a 19-year loan would bring a lower rate of interest than a 35-year loan, and your bonds would largely be issued against the 35-year loans and I would have to pay that interest.

Mr. BULKLEY. Why do you say 19-year loans would bring a lower rate of interest?

Mr. MOBLEY. I am only speaking from my experience. A reasonable loan for us brings a better rate of interest than a longer loan.

Mr. BULKLEY. That is a single loan?

Mr. MOBLEY. Yes, sir.

Mr. BULKLEY. Now, we are proposing a bond issue which would cover a large number of loans.

Mr. MOBLEY. I understand.

Mr. BULKLEY. And you know it is often an element of strength in bonds that they have a long time to run. People are investing in bonds for the purpose of disposing of the money on long time, so that they will not be troubled with reinvesting.

Mr. MOBLEY. For those who are actually in the investment business that would be true; but I do not believe it would be true of investment of orphans' and trust funds but for such as life insurance funds.

Mr. PLATT. That is just where it is true. I think, that they invest orphan funds in such bonds as much as possible so that they won't have to be changing.

Mr. MOBLEY. I realize that is true with reference to quick changing. Of course, I realize that, but I would not think 35 years would be a good loan for an orphan.

Mr. PLATT. I think those are pretty long loans myself, and much longer than there is a demand for.

Mr. SCUDDER. May I ask Mr. Mobley a question?

Mr. BULKLEY. If Mr. Mobley has no objection.

Mr. SCUDDER. As I understand it, Mr. Mobley, the point you wished to make clear regarding "Governmental aid" might be illustrated about as follows: Owning and occupying a cultivated and unencumbered farm worth \$2,500, you say in effect to the Government, "Lend me \$1,250, or \$1,000, taking a mortgage as security for this well-margined loan." The Government answers, "No; that can not be done; there is no provision in our system of finance for such a transaction." In reply, you then point to the fact that your brother, who is a dry goods merchant in the adjoining town and owning, say, a stock of merchandise worth \$2,500, can obtain accommodation to the extent of even three and four times the value of his moveable property through a Government-made "commercial credit system," and that you are asking no favor when demanding that some such Government aid be given to the "agricultural interests" of the country. Isn't this, Mr. Mobley, about the size of it?

Mr. MOBLEY. That is what I said, in a general way, by reasoning from analogy. If it applies in a general way to one, it ought to apply to all.

Mr. SCUDDER. Mr. Chairman, I believe the point made by the farmers of this country is well taken; and unless our Government actually lends a hand in some such way as that suggested by my previous testimony, i. e., by either a guaranty or actually investing in these bonds (just as our big savings banks invest large portions of their deposits in 50-year and other long-term bonds) those particular subdivisions of our citizenship known as farmers and cattle raisers will continue to be dissatisfied with a governmental financial arrangement which for 50 years has discriminated against their interests in favor of the merchant and the manufacturer. The Government should provide the farmer with some equal, reasonable accommodation or rather "credit aid."

Mr. MOBLEY. That is just what I said in my testimony. I think the Government ought to do that.

Mr. SCUDDER. In this connection the Postal Savings Funds could be materially increased if the Government allowed a better interest rate on the savings of the people. The only reason in the world why farm mortgages haven't been considered "liquid assets" in this country, Mr. Chairman, is because the whole subject, including the "amortization" proposition, has been neglected and has been entirely left out of our general financial plan. There can be no explanation other than that this collateral, the very best security in the world, has been denied a place—in fact has been ignored by our great Nation—in its balance sheet of useable assets. Who would take from me as security that which my own Government has either rejected or ignored?

The world over, it has been recognized for more than a century that farm mortgages when operated on the "amortization plan" become the best kind of collateral. And bonds issued against them, with all the proper safeguards, are recognized not as "slow" but as "liquid" or "quick" assets. Mr. Chairman, I venture the ascertainment that if this inequality, this omission of the American farm mortgage from the woof and warp of our financial system, is corrected and agriculture is thus once placed in its rightful fiscal position, the final results will prove even more satisfactory, from a

purely money standpoint—leaving out the economical benefits, which will be incalculable—than anything ever yet demonstrated as the outcome of Government credit aid to the “mercantile” side of our Nation’s life. Take the old-country record of 1,000 such farm loans under the amortization plan, and the record of 1,000 mercantile loans under the usual three, four, and six months’ system, with the usual renewals, covering a period of 25 years, and what is their history? At the end of that time the farmer will have fully paid out, while many merchants will still be using that credit aid originally given, or at least a portion of it. And meanwhile at least 50 per cent more of failures in the mercantile than in the agricultural “1,000 borrowers” will have taken place. Quite true, the Government has lost nothing by these mercantile failures, no matter how great the “credit inflation” has been, and sometimes this inflation goes as high as 20 to 1 in the mercantile and industrial world. The “losses” are always borne by that system of “aggregate banking capital” which always stands between the Government and the merchant, who oftentimes has been borrowing many times his working capital.

Likewise, Mr. Chairman, the Government can be adequately protected by some aggregate capital standing as a further pledge for the final liquidation of the farmer’s loan; although such capital need not be so very great, because it is most improbable that so large a security margin as 50 per cent could be entirely wiped out of existence in a growing, prosperous land such as we are blessed with. There is no such severe fluctuations, after all, in improved farms occupied by their owners as the fluctuations taking place every day on articles which form the basis for mercantile credit. Mr. Chairman, I feel very deeply that something should be done promptly and in an efficient, practical way to check the very evident backward and demoralizing movement now going on in this country, from “farm occupancy through actual ownership” to “farm occupancy through the landlord.” In my judgment, as great and important a task confronts you as that which came before your Committee of the Whole last summer; and in accomplishing this work I beg of you not to forget the “personal-credit” side of this question, which need not be attached to the mortgage plan, but can and should be simultaneously provided for by you, because in some States it is the more important of the two.

Mr. MOBLEY. That is our contention.

(Thereupon, at 4.20 o’clock p. m., the committee adjourned until to-morrow, Thursday, March 12, 1914, at 10.30 o’clock a. m.)

THURSDAY, MARCH 12, 1914.

UNITED STATES SENATE,
Washington, D. C.

The subcommittees assembled in joint session at 10.30 o'clock a. m., Hon. Henry F. Hollis presiding.

Present: Representatives Stone, Seldomridge, Weaver, Ragsdale, Woods, and Platt.

Present also: Senators John W. Weeks, James A. O'Gorman, and Thomas P. Gore.

Senator HOLLIS. The committee will come to order. We will hear you, Mr. Morris.

STATEMENT OF ARTHUR J. MORRIS, OF NORFOLK, VA.

Senator HOLLIS. Will you please state your name, residence, and occupation or business?

Mr. MORRIS. Arthur J. Morris; a member of the law firm of Morris, Garnett & Cotton, Norfolk, Va., and president of the Industrial Finance Corporation of New York, and Fidelity Corporation of America, of Norfolk.

Senator HOLLIS. Tell us a little about the Industrial Finance Corporation, if you please.

Mr. MORRIS. The Industrial Finance Corporation of New York is a corporation that has recently been completed for the purpose of taking over the Fidelity Corporation of America, which was originated a few years ago at Norfolk, Va., for the purpose of developing the Morris plan of industrial banking. Without going into the details at the specific moment of what the Morris plan of industrial banking is, for the immediate present it is sufficient to state that the Morris plan of industrial banking is a system by which credit is afforded the industrial classes of the cities. In a word, it does in America very much the same work that the banks of populari, the people's banks, do in the cities of Italy, and the Schulze Delitsche banks do in the cities of Germany.

Senator HOLLIS. What evils is it intended to correct?

Mr. MORRIS. The Morris plan is intended to correct, as far as practicable, the loan-shark evil in the cities, and the present existing misapprehension that prevails in the minds of the laboring classes with respect to capital. One of its fundamental purposes is to teach the laboring classes of this country habits of frugality, the value of systematized thrift, by placing thereupon such a premium as would afford a specific basis for credit.

The Morris plan of banks was intended to be to the wage earner what the national banks are to the men of commerce.

Senator HOLLIS. Are you the originator of the Morris plan?

Mr. MORRIS. Yes, sir.

Senator HOLLIS. And it is named for you?

Mr. MORRIS. It is called the Morris plan after my efforts. The plan was originated by me and developed in an association with my law firm, consisting of Messrs. Theodore S. Garnett, jr., and Preston S. Cotton, now of Norfolk, Va. The name was rather unfortuitous, having been designated in the beginning in some newspaper articles by that, and gradually assumed that designation.

Senator HOLLIS. Now, Mr. Morris, if you will, give us the information that will do us the most good, please.

Mr. MORRIS. In the course of my study of industrial banking, which began about 1901, I soon found that the avenues of my investigation necessarily included the European experience. As a result of my study of the subject matter in Europe I necessarily came in contact with the experience respecting land credits. In some instances the land credits were the beginning of an evolution that ended in industrial credits, as well as in other cases the industrial credits in the urban community began the evolution in the line of mortgage credits. According to my view the two are sufficiently linked together as to be unwise and decidedly inexpedient not to obtain such a benefit as would accrue by the correlation of the two.

To be practical, I mean by that that in this country, as has been the experience abroad, the key to the successful development of any system of land banks must necessarily depend upon the availability or the marketability of the land-mortgage debentures. In other words, the proceeds from the land-mortgage debentures must bear the same analogous relationship to the land-mortgage banks as the ordinary deposits do to a commercial bank, and unless the land mortgage is issued properly, secured properly, marketed properly, and its liquidity insured, its marketability for proper banking basis insured, the usefulness of any land-mortgage bank or any system of rural credits would, in my opinion, be so far limited as to fail in the purpose for which it was intended.

Therefore, the first question to my mind that confronts the committee, one arduous task, is the question: Where is the money coming from to develop a system of land-mortgage banks? Is that right?

Senator HOLLIS. I think the committee feels that very strongly, and we hope you can help us.

Mr. MORRIS. In this connection just let us briefly refer to the similar inquiry with respect to other banking systems. In the realm of commercial banking the capital of the various banks is provided, as we know, by private subscriptions. The resources with which the individual banks multiply their avenues of effort are furnished by the deposits very largely. In the realm of commercial banking these deposits come from the people who are served by the banks. We therefore find, in a consideration of land-mortgage credits, the absence of the last condition.

I mean by that the farmers who are going to be particularly served by a proper system of land-mortgage banks can not be expected to furnish, through any system of deposits, or through purchase of land-mortgage debentures, sufficient funds to insure the financial success of such a large undertaking as a system of land-mortgage banks. In this anomalous position the issue before us is decidedly different from the commercial bank, therefore we can recur to the question "Where is the money coming from?" In my opinion it

would be unwise to expect to acquire this money from any sources that would in any manner limit or impede the progress or development of any present system of finance. It is not fair to the commercial-banking system, for example, at the present time, at the threshold of perhaps its best and most scientific development, to expect commercial deposits, to any large extent, to be invested in land-mortgage debentures, and thereby furnish any part of this rural-credit capital.

The farmers, as before stated, who are going to be accommodated, are borrowers in the main and will not be, to any large extent, depositors. Therefore, my idea of the subject is that this money is coming from that virgin field that has not yet been tapped in this country, except in a most superficial, paradoxical fashion. I refer to the savings and the earnings of the industrial classes of America.

Senator HOLLIS. Before you go on with that, Mr. Morris, I wish you would discuss the advisability of permitting these land banks to accept deposits subject to check.

Mr. MORRIS. In my opinion it would be one of the most unwise things you could do for the following reasons: First, if you start the land bank and permit them to accept deposits subject to check, the natural tendency of most bankers will be to develop that phase of the business at the expense of the other business for which the institution was primarily designed. Any banker knows from his own experience that the rapid turnover of funds through liquid transactions in commercial loans that would be necessary to preserve the liquidity and the safety of deposits is more attractive and perhaps more profitable; and to permit a land bank to engage in this business would, in my opinion, soon have the effect of developing this business at the expense of the purposes for which it was designed.

Secondly, it would get in competition with banks of discount and other commercial institutions of a similar character, national and State.

Thirdly, it would not be very long, in my opinion, before the exigencies of the moment would cause these banks to put these deposits in land mortgages, expecting, of course, to rediscount them; but in the event their expectations were not readily realized they would find themselves with a large amount of deposits subject to check, and that would make the bank unsafe and unattractive.

I have examined the provision in the Moss-Fletcher bill limiting deposits to 50 per cent of the capital, and I even doubt the advisability of entertaining that suggestion.

Senator HOLLIS. Right there, Mr. Morris, do you believe that a deposit department, limited to 50 per cent of the capital, could be made profitable enough to pay for the bookkeeping and clerical end of it?

Mr. MORRIS. Absolutely not. It is involving an institution that could be kept simple and stable without accomplishing any result that would justify the complications; and it is very doubtful in my mind if it could be even maintained.

Senator HOLLIS. I would like to ask you whether you think it would be possible to originate a system of land-mortgage banks that would not need an ordinary banking office and would not need to be open during banking hours; that is, run more on the system of the building and loan associations?

Mr. MORRIS. I infer that your question is one of physical procedure rather than a banking principle.

Senator HOLLIS. Yes. It is a question of reducing the expense of a small bank.

Mr. MORRIS. In my opinion a land bank can be run very cheaply. I am constitutionally opposed, perhaps by reason of my experience with our industrial banks, to upstairs offices and locations that are not dignified and open and aboveboard. I believe that when people have a banking transaction which involves a credit and character and reliability and reputation, whatever the class, whether it be a farmer, a merchant, or a laborer, it ought to be in an institution that is dignified, but inexpensively run. A land bank could do away with all the marble trimmings and mahogany appurtenances thereunto belonging and could be run very cheaply. We have scientifically reduced our operating expenses, speaking of the Morris plan of banks, so that in no case will they exceed 3 per cent of the entire volume of loans.

Senator HOLLIS. Tell us in a general way what sort of equipment you have.

Mr. MORRIS. In our industrial banks we usually rent a place that in floor space would be about 20 to 25 by 100 feet. We usually divide it up into three compartments or rooms, one part of which is a receiving and paying space, the other part a waiting space, the third part a committee room, where the discount committee meets.

The total rent would average less than \$2,000. In some cities, where the inhabitants number 100,000 people or thereabouts, the rent will hardly average more than \$1,200 per annum. The committee will find the Morris-plan bank in Washington, if they would like to look at it.

Senator HOLLIS. Give us the location of it.

Mr. MORRIS. The location of the Morris-plan bank at Washington was formerly at Twelfth and G Streets. It has been moved. It is now between H and I. They were compelled to move because the building on which they had a lease was torn down. I do not believe the cost of operating a land bank would be as much as that of operating an industrial bank, if properly and carefully worked out.

Senator HOLLIS. When I diverted you, Mr. Morris, you were just getting to the subject of obtaining access to the savings of the thrifty industrial worker. Now, if you will, go on, please.

Mr. MORRIS. In my opinion, I do not believe this country has developed the saving among the industrial classes, and when I use the term "industrial classes" I am using it rather generically. I mean by that the wage earner, the very small merchant, the artisan, and the little fellow. I do not believe, as I started to say, that this country has developed or encouraged their saving as other countries have done.

Senator HOLLIS. In New England and New York, as you know, we have a great many mutual savings banks, which have very large deposits. Do you believe that in New England and New York that a great deal more can be done in that line?

Mr. MORRIS. I do; and I will show you why in a moment.

However, in this connection I will say that in New York City approximately 30 per cent of the combined savings of America are on deposit in savings banks, most of them mutual; in fact, entirely mutual, I

think. From the last report on the subject approximately \$7,000,000,000 are on deposit in the savings banks of this country. I think I would be conservative if I said that approximately 95 to 97 per cent of the people that own deposits can not get a dollar's worth of credit from the institution they support.

Senator HOLLIS. Well, if they will pledge their savings bank books, they can in New England.

Mr. MORRIS. In some States if they pledge their savings-bank books they can, but in the majority of States even in that event they can not.

Senator HOLLIS. That strikes me as quite remarkable. I do not see why they can not.

Mr. MORRIS. The reason why they can not is also simple, if you consider it. The majority of laws governing savings banks, which are practically statutory banks, compel them to invest their funds in a limited class of securities, most all of which are not liquid. Now, if they were compelled to loan money to any large extent on their pass books, they would soon find that the demand for loans would resemble a run on the bank.

Senator HOLLIS. If they were compelled to issue them by statute, that would be possible; but if it was left to the discretion of the bank officials to loan as much as they have current and can properly loan, it makes an entirely safe and rather profitable investment. I know in the bank I am connected with that it is very profitable.

Mr. MORRIS. Absolutely. You do not want any better investment. Even then, it would be a very small accommodation to the depositor, because in the majority of cases if a depositor wants to borrow money on his pass book and he can not borrow it from the savings bank, he will withdraw it and lose the interest. The point I want to make is a man who has been a steady and habitual depositor in a savings bank probably for years and consumes his savings deposits, and then desires a limited amount of credit consistent with his earning capacity, and for which he could give good security, or at least safe security, the very bank he has assisted in supporting all his life can not accommodate him.

Senator HOLLIS. You are entirely right. On my last visit to New England a conductor on a railroad train, a man earning at least \$100 a month, wanted to borrow money of the New Hampshire Savings Bank, in which he had a deposit of \$10,000, drawing interest, and he could not borrow \$1,000 on his note without putting up his savings-deposit book as collateral. It shows there is absolutely no connection between the savings bank and the depositor as there is between a commercial bank and its depositor. That illustrates the point.

Mr. MORRIS. Absolutely.

Senator WEEKS. I do not see any objection to that. The conductor has no commercial credit. Not having any commercial credit, and not being in a commercial business, if he wanted to borrow money he ought to put up collateral. The collateral he has is his savings-bank book. That is a business transaction. He ought not to object to that.

Mr. MORRIS. Suppose his money was in a savings bank. In the majority of States they would not even lend him money on his pass

book. Then he goes around to the commercial bank and offers to put up his pass book as collateral, and the first question that the commercial banker asks him is, "Do you deposit here?" If he says he does not, they do not accommodate him.

Senator WEEKS. That is not true of the mutual savings banks, as far as I know. It certainly is not true in Massachusetts.

Mr. MORRIS. No; in Massachusetts they can borrow on their pass books.

Senator WEEKS. You spoke of the bank which these men have been supporting. They have not been supporting the bank; the bank has been helping them to support themselves, because a mutual savings bank makes no money; it simply pays its operating expenses and the depositors get the benefit.

Mr. MORRIS. That is true, but in the majority of States you will find that they can not even borrow on their pass books.

Senator HOLLIS. That is, the statutes prohibit it?

Mr. MORRIS. The statutes prohibit savings banks loaning on their pass books in a large majority of the States.

Senator HOLLIS. We have diverted you again. We want to have you begin where you left off.

Mr. MORRIS. In other words, how long would men of commerce patronize their banks and deposit in them if legitimate credit within proper limits were not afforded? The fact that the industrial classes, therefore, in the past—before the installation of the Morris plan banks—having enjoyed no credit and their earning capacity has not heretofore been either capitalized or recognized by financial institutions in this country, to my mind is having the effect on their saving propensities. Also securities, for example, that are issued in large denominations, largely bonds of \$1,000 each, seldom less than \$500, and only recently—in the last year or two—in denominations as small as \$100, which may be designated as baby bonds, have never been offered on any material scale to the wage earner or to the small investor. In France, for example, it has been stated by experts that the French peasant is as familiar with the price and value of bonds of small denominations, usually \$20, as he or she is with the fashion or price of shoes. Their institutions over there, the Credit Foncier, for example, that distributes securities in small denominations, largely \$20 each, in the aggregate sum of millions per annum. In fact the Bank of France, in 1912, is reputed to have made discounts and loans to the small wage earner and peasants of France aggregating \$500,000,000, the average loan of which did not exceed \$20 (or 100 francs), and nearly one-third of their business or over \$1,000,000,000 worth of loans were made the average of which did not exceed \$160.

The point I wish to impress upon the committee is that abroad the small man is furnished credit facilities, saving opportunities, and investment opportunities. He is encouraged to save; he is taught if he is frugal he can get proper credit; that if he needs \$50 or \$100 or \$150 or \$200, or whatever limited amount, as the case may be, for urgent and required purposes, he does not have to go to a loan shark on the fourteenth story of a building, but he can go to his bank and get it. He can get it at a rate of interest that is economical and that will compare favorably with the opportunities afforded men of commerce. What is the result? The result is that the army of wage

earners, or at least people of small means and small requirements, have built up such a system of finance abroad that they furnish a great part of the capital to develop just such systems of finance as we are confronted with this morning.

For example, the People's Banks of Italy, last year financed subcontractors and small artisans to such an extent that the loans made to the small subcontractors of Italy represented one-third of the entire financing of the railroad construction of Italy given for that period of one year.

The Morris plan of industrial banking is endeavoring to do this in this country. Now, if a system of industrial banks is built up in America, and people are encouraged to save, and the aggregate savings will exceed the large amount already on deposit in savings banks, land debentures properly issued, properly secured, and through such a system that would insure both their liquidity, especially for collateral purposes in these industrial banks, which would make them attractive investments for the industrial classes, and that virgin reserve of capital could thereby be tapped, and, in my opinion, if the details are properly worked out these land-mortgage debentures can be sold among the industrial classes of America to such an extent that the aggregate amounts will supply a very large part of the capital required to make the land-mortgage problem a success. I have in mind the practical details of how this should be brought about. That answers your question, however, does it not?

Senator HOLLIS. You say you haven't it in mind?

Mr. MORRIS. I say I have it in mind, but I do not know whether you want me to go into that.

Senator HOLLIS. Yes; that is what we want. I wish you would.

Mr. MORRIS. Before I go into the practical details of how such an evolution can be accomplished, let us revert for the moment to the part that the present municipal bonds or the present railroad securities or other generally accepted security plays in the ordinary finance and banking in this country.

The majority of large investors buy these securities, first, because they have a listed market value, and, secondly, because they can be used for collateral purposes on most any occasion and, of course, because they are safe, otherwise they would not have the foregoing qualities. Land-mortgage debentures must be given the same attributes. In addition to being perfectly safe and sound they must be available for collateral purposes for the big man in his national bank, for the little man in his industrial bank. I have never yet known of any security that in the majority of instances did not have the ready market; that you could always use it at a bank for collateral or similar purposes.

Senator HOLLIS. Conversely, they will not take it at a bank unless it has a ready market, I suppose.

Mr. MORRIS. Yes; and the converse is equally true. Therefore, the first thing to be perfectly worked out is a system under which these land-mortgage debentures are going to be issued. I hesitate to go into the details of this for fear that I would either indulge in repetition of what the committee has already had, or that I may be burdening them with some ideas that they may or may not desire to hear.

Senator HOLLIS. I wish you would go into that fully, Mr. Morris.

Mr. MORRIS. In the first place, I believe that in order to get the investing public of America to put their money in land-mortgage debentures, whether the large investor or small investor, the entire plan must be analogous to our present banking system. In other words, the man that buys a land-mortgage debenture must be made to feel that he is buying something that is just as good as any other security, and the antipathy or the reticence that has heretofore been felt regarding farm mortgages by what might be termed the usual liquid investor must be eliminated. The way to eliminate that is to bring the land-mortgage debenture into being under a system that will compare favorably with our present banking system. To do that, in my opinion, it is necessary to establish at Washington a bureau of farm-land banks that at least have a similar relationship as the Federal Reserve Board does to the national banking system.

Senator HOLLIS. What would you say to putting that under the direct charge of the Federal Reserve Board to work out as they want to, or establishing a bureau under their charge?

Mr. MORRIS. I was going to suggest that a bureau be established to be known as the Federal bureau of land banks, or some such similar name. I figure it is a detail to be worked out whether it requires a separate bureau or whether it could be incorporated within the duties of the Federal Reserve Board. I can not at the moment, without having given that suggestion the proper thought, see why the Federal Reserve Board, with a land-bank bureau, would not accomplish many of the things which I have in mind.

Senator HOLLIS. That is, it would give it dignity and standing?

Mr. MORRIS. That would give it dignity and stability right from the beginning.

Senator HOLLIS. And it would eliminate, perhaps, the jealousy that many farmers and friends of farmers have of commercial banks, that they have the inside track?

Mr. MORRIS. Yes; it would accomplish that, and accomplish it quickly.

I will not undertake to go into the details of what should be the duties of such a bureau, because I would like to work that out in more careful detail, but the general outline of its structure would be to exercise a supervisory and controlling influence, similar to the Federal Reserve Board, and not permit any regional land banks, which I will describe in a moment, to issue any land-mortgage debentures until the required information properly certified to under oath has been presented to the bureau and the certificates permitting the regional land bank to make the issue was allowed.

Senator HOLLIS. Would you not advise having the board place its indorsement, not in the sense of financial responsibility of the debenture, but indorsement that it had complied with all the regulations and was approved on the security itself?

Mr. MORRIS. Absolutely, to such an extent that the bureau would have to watch over all the land-mortgage debentures, each one of which would bear certification from the bureau or its duly authenticated representative appointed for that purpose.

Still, following the Federal reserve act in its analogy, a sufficient number of regional land banks should be established, and the minimum or maximum number of them is another detail which requires as careful and scientific consideration, but I would say offhand not

less than 10 and perhaps 15 or 20. These banks should be of fairly good size, if practicable not less than \$1,000,000 each, and certainly not less than \$500,000. I would prefer the former to the latter. Then, under the statutes—and I might say by way of interpolation that all these ideas can be worked out under the present Fletcher-Moss bill as a basis. In other words, from my examination of the Fletcher-Moss bill it has many good parts to it that could be used as a foundation basis for creating the act necessary to carry into effect the ideas here expressed, and I intended to come here to-day with a revision of the Fletcher-Moss bill so far completed as would carry into effect all the ideas that I here express, but unfortunately I have not been able to complete that undertaking.

Senator HOLLIS. Will you complete it and send it to the committee? It would be of great value to the committee.

Mr. MORRIS. To answer that question, I will say that I will do my best.

Mr. PLATT. Would not the necessity for all that examination and certification between the mortgagor and the investors interfere with the making of the mortgage and delay him in getting the money?

Mr. MORRIS. I do not think so. I will bring that out in a moment, when I get the contour of the plan in the record. I believe it could be worked out very simply.

Mr. PLATT. If the Federal Reserve Bureau has to certify them in order to satisfy investors, it looks to me like it would be a long time before a man could get his money, and one or two crop seasons might go by.

Mr. MORRIS. That might be so if the Federal Reserve Bureau had to conduct the investigation, but my idea is that the local unit banks, which I have not yet described, would of course conduct the investigation and determine whether they would make the loan. Then if the unit bank made the loan, it would see before making the loan that the conditions imposed by the Federal Reserve Bureau in order to issue land-mortgage debentures against that mortgage were performed. They would in turn satisfy the regional land bank that that had been done, and simply a certificate showing the execution of those conditions would be filed with the Federal Reserve Bureau, which would ministerially grant the right to the regional bank to issue the land mortgage debentures; the idea being that it would be largely a supervisory work. But the purpose of it is to prevent a repetition of the experience of the eighties with the land-mortgage debentures.

Mr. PLATT. Would the local land-mortgage bank take the risk and advance the money to the farmer?

Mr. MORRIS. Oh, yes; they could do that. The only reason in the world the local unit bank would be taking is to guarantee that they are complying with the fundamental conditions. That would be necessary to get a land-mortgage debenture issued against them. The mortgage itself could be made.

Mr. PLATT. And the money advanced?

Mr. MORRIS. And the money advanced at once, but the capacity of the local bank to rediscount that mortgage at the regional bank and obtain their funds from the land-mortgage debentures would depend upon their carrying out the conditions. That I believe is necessary to repose in these land-mortgage debentures absolute security. They

in turn will bring about their liquidity which these debentures ought to have in order to readily market them.

Mr. Woods. What is your objection to having a regional bank in each State?

Mr. MORRIS. I have thought of that and it was my first idea to have a regional bank in each State, but I am afraid that it will make too many, and I am afraid it will be difficult to get each one of them of sufficient capital to make the guaranty behind these land-mortgage debentures strong enough. You see there would be forty-odd banks, and if you cut up these regional banks into that large number I fear you would have to have them too small in capital.

Mr. JONES. Mr. Morris, we have in a great many of our States, as you of course are aware, a much larger area than many European countries.

Mr. MORRIS. Yes, sir.

Mr. JONES. And yet in all of those European countries there are literally thousands of successful land-mortgage banks.

Mr. MORRIS. That would refer, would it not, to the unit banks?

Mr. JONES. Yes.

Mr. MORRIS. The unit bank would take care of that, would it not? I have no objection to the number of unit banks, but my idea is to concentrate to a reasonable degree, largely on account of size and strength, the bank that guarantees the debentures and issues them.

Mr. JONES. You are touching upon a point there that has been presented in the last few days. Have you read what is called the minority report of the American commission and what that report recommends?

Mr. MORRIS. No; I have never read the minority report. I read the report signed by Senator Fletcher. Is that the majority report?

Mr. JONES. That is the report of the United States commission.

Mr. MORRIS. Yes; I have read that.

Mr. JONES. The American commission, the larger body, divided.

Mr. MORRIS. Yes; I know that.

Mr. JONES. The majority made no recommendation, because those who controlled the majority were members of the United States commission.

Mr. MORRIS. Yes, sir.

Mr. JONES. They deferred to the United States commission, but a minority, who were not members of the United States commission, felt some severe criticisms could be made of the unit-bank system without federation, and they have presented a minority report and the last two or three days have had hearings before this committee.

Mr. MORRIS. No; I have not read the report, I am sorry to say.

Mr. JONES. You are bordering so close to what their recommendations are I was wondering whether it was possible that we could have influenced you in any way or whether our ideas independently seemed to be working toward the same direction.

Mr. MORRIS. No; I have never read that report and have never seen it.

Mr. JONES. And you have never talked to anyone in regard to it?

Mr. MORRIS. No; I never have.

Mr. PLATT. You do not think that the complication of State laws in regard to taxes, registration of title, and one thing and another,

would interfere with having units larger than States? The bonds would have to be issued in State series, would they not?

Mr. MORRIS. Just what do you mean by State series?

Mr. PLATT. I mean the bonds of one State would not be worth as much as the bonds of another State, because of the laws interfering, for instance, on foreclosures?

Mr. MORRIS. Of course, we are confronted in this country, under our dual system of government, in studying this question with several practical difficulties, one of which you have just indicated. One of them is lack of uniformity of registration and lack of uniformity in tax laws. I am hoping that a bill will be worked out that will, in respect to taxation under Federal legislation, make it uniform.

Mr. PLATT. That is what I wanted to bring out.

Mr. MORRIS. I believe it is an absolutely essential thing to do, you have just got to do that.

Senator HOLLIS. On the other hand, until this is done—and it will take a long time to get uniformity in the various States—your idea is to have these central units which you have described look into the validity of the titles and tax, so that when they put their stamp of approval on it people will know that those conditions have been complied with?

Mr. MORRIS. The regional bank, not the unit.

Senator HOLLIS. Yes; the regional bank.

Mr. MORRIS. That is right—the regional bank. My idea is to have an agent at every unit bank, some man designated there that will probably be the representative in the State of the regional land bank. So that it may be that expense can be saved, but I do hope that if any system of this kind is concluded, that every State will cooperate sufficiently to get together on the best registration and exemption from taxation system, and these land-mortgage debentures under Federal supervision will solve the largest part of the tax question.

I was talking to Gov. Glynn, of New York, on Monday, and they are just as much concerned over the matter up there as you gentlemen are here in the Federal end of it, and I know they are going to do every thing they can to cooperate with the proper system.

Mr. PLATT. All mortgages in New York State are exempt from taxation on payment of one-half per cent recording fee.

Mr. MORRIS. I understand the recording or transfer tax concludes the taxation of the mortgage?

Mr. PLATT. Would that answer the general purpose? It is very unlikely that States can be gotten absolutely to repeal their laws on the taxation of mortgages unless something of that sort takes its place, I should think.

Mr. MORRIS. Of course that is entirely a matter that the commission will have to contend against who is going to have that in charge. In other words, if you expect to bring about any uniform legislation in the States there ought to be either an organization committee or a commission that will be charged with the duty to get behind each State and get this thing done.

Mr. PLATT. The Moss bill provides—

Mr. MORRIS. That does not undertake to do this.

Mr. PLATT (continuing). That it shall not go into effect fully that the security shall not be made available for trust funds, etc., in

States where mortgages are not exempt from taxation and where the recording, etc., is not satisfactory.

Mr. MORRIS. Yes; I remember that.

Mr. PLATT. Do you think that would accomplish the purpose? Would that bring sufficient pressure to cause the States to change their laws?

Mr. MORRIS. You are asking me a very hard question as to what would be the effect in the States of a provision of that character. It requires largely a prognostication answer. I believe it will have a very strong effect, because I believe the farmers of those States that want to get the benefit of this bill are going to get behind the legislature and say, "Now, you can not get the benefit of this law unless you comply with the conditions provided." I believe that will have a very strong effect. As to what would accomplish the desired result, I would not undertake to prognosticate.

Senator HOLLIS. This at least is here, Mr. Morris, that if you have these districts larger than one State, each district institution would have a State expert who could pass on all State loans that were made a basis for bonds.

Mr. MORRIS. Each regional bank would have a department very similar to the legal department of the Industrial Finance Corporation. Every time we organize an industrial bank in a State at the present time our legal department has worked out all the details relating to that particular State. They have made a study of it and know exactly the kind of charter that is required and the by-laws and the incorporation laws that are necessary.

Mr. PLATT. If Mr. Moss was here, he would proceed to say you were going to get the overhead charge on those bonds so high that the rate of interest would not be very much lowered to the farmers. That is his chief objection, as I understand it, to the State unit banks.

Mr. MORRIS. The State unit banks?

Mr. PLATT. Yes.

Mr. MORRIS. Don't you think it would be less for 12 or 20 of them than it would be for 40 or 50 of them?

Mr. PLATT. I should think it might be, provided you did not have to spend too much money to investigate State laws.

Mr. MORRIS. They will not have to do that, because a Federal enabling statute will create the institutions, and the only thing to be investigated are the exemptions under the enabling statute. The exemption exempting land-mortgage debentures from taxation and the other exemptions will only have to be inquired into to the extent they might come in conflict with State laws, and that will really be a single proposition—a first-instance proposition. After it is done in the first instance and they are regulated by the legislatures it is not a recurring expense.

Mr. PLATT. That is true.

Mr. RAGSDALE. Is it your idea that these various banks that are to be established—

Mr. MORRIS (interposing). You are referring now to the regional land banks, not the local unit banks?

Mr. RAGSDALE. The regional banks—shall take over the mortgages in the different States and then they are to issue their bonds against these mortgages?

Mr. MORRIS. That is correct.

Mr. RAGSDALE. Would it not be better, as a matter of fact, instead of issuing these bonds, issuing bonds in State series, that the bonds covering one State be secured by mortgages in the particular State?

Mr. MORRIS. You mean to segregate the mortgages of one State and issue bonds against those?

Mr. RAGSDALE. Yes.

Mr. MORRIS. And not interstate the segregation?

Mr. RAGSDALE. That is right.

Mr. MORRIS. Is that what you mean?

Mr. RAGSDALE. My idea is, the wisdom of it; it seems to me that it would be better in the long run, would be wiser, to allow the regional bank to loan money in as many States as it wished to, and in issuing bonds against mortgages it do not—

Mr. MORRIS (interposing). Let me interrupt you, Mr. Ragsdale. The regional bank under the plan I have been discussing does not lend any money.

Mr. RAGSDALE. It only guarantees.

Mr. MORRIS. It only issues debentures against mortgages that the unit banks have previously loaned on.

Mr. RAGSDALE. Yes; but where does it get the money from?

Mr. MORRIS. From the sale of the debentures.

Mr. RAGSDALE. If it does that, it has bought in the security, hasn't it?

Mr. MORRIS. Oh, yes. It has bought in the security; at least it indorses a debenture made promptly by the unit bank the same as the Credit Foncier of France.

Mr. RAGSDALE. Don't you think it would be better to absorb the mortgages itself and then issue bonds against those mortgages?

Mr. MORRIS. You mean to cut out the unit bank, practically?

Mr. RAGSDALE. Yes.

Mr. MORRIS. It would not be practicable.

Mr. RAGSDALE. You do not think it would be?

Mr. MORRIS. Positively not. You can not expect a regional bank—it, for instance, can not pass on the credit of a man somewhere down in Virginia.

Mr. RAGSDALE. Why not?

Mr. MORRIS. It is too expensive.

Mr. RAGSDALE. Are not the great insurance companies and the British-American mortgage companies and other local loaning institutions of that character doing that very kind of work and materially reducing the interest in the different parts of the State?

Mr. MORRIS. You mean loan agents?

Mr. RAGSDALE. Yes.

Mr. MORRIS. They are doing it to an extent; but if you start that, I think you might have a repetition of the 1884 land-debenture schemes. In other words, I am opposed to any more agency propositions for wrecking these institutions. An agent who starts a branch is inculcated with the idea of getting a branch and getting his commission. It is not his money at stake. It seems to me very much like if you send a man out to spend your money—it is not his money and he won't be as careful in spending it as he would if it was his own. Some men would spend your money with greater care than they would spend their own; but it is the exception that proves the rule.

Mr. RAGSDALE. You do not think Government supervision would reduce the danger?

Mr. MORRIS. Yes; I think Government supervision would reduce the danger.

Mr. RAGSDALE. Don't you realize there is some danger of that character, no matter how well we safeguard it, as shown by the local national banks that handle lines of credit throughout the State?

Mr. MORRIS. Yes. You have to depend on human agency in any kind of a proposition.

Mr. RAGSDALE. The same thing would apply in this instance. Don't you think the establishment of local banks would have a tendency to decrease rather than to increase the effectiveness of these laws?

Mr. MORRIS. I do not know that I quite understand the question. Will you read the question?

Mr. RAGSDALE. My idea is this: Don't you think they would be less likely to secure the loans from local banks than they would from a regional bank? Who is going to supply the capital of the local banks?

Mr. MORRIS. That would be a matter of private investment.

Mr. RAGSDALE. Don't you think in the place where the money is most needed they would be less likely to raise the capital there?

Mr. MORRIS. Where it is most needed they would be less likely to raise it?

Mr. RAGSDALE. Yes.

Mr. MORRIS. I do not quite follow that.

Mr. RAGSDALE. Isn't it the history of the country now that the money centers are sending their money into the communities where it is most needed?

Mr. MORRIS. Yes.

Mr. RAGSDALE. If you have to go into that community to raise your capitalization for the bank, don't you think they are less liable to have the capitalization that is necessary to sell their mortgages?

Mr. MORRIS. They do not sell their mortgages there. That is just the distinction. If that is what is on your mind, they do not sell the debentures there. The regional bank will sell the debentures where they have the best market.

Mr. RAGSDALE. I understand, but the local bank has first to make the loan.

Mr. MORRIS. The local bank has to get together the original or inceptive capital.

Mr. RAGSDALE. Yes; and it is going to depend on the amount of the capital it has to get the credit that the regional bank will allow the local bank.

Mr. MORRIS. Not necessarily. Of course there will be a maximum limit of 10 or 15 times the capital in the Moss bill.

Mr. RAGSDALE. Just disregard the Moss bill. The regional banks are going to depend for their loans to the local banks on the capitalization of the local banks?

Mr. MORRIS. As the maximum limit: yes.

Mr. RAGSDALE. They are going to depend on it for the maximum limit or whatever you want to prescribe.

Mr. MORRIS. Not the regional; you mean the local—the unit bank.

MR. RAGSDALE. But the regional banks are going to lend to the local banks the fiat paper from which to get capital and guarantee its capital.

MR. MORRIS. That is correct.

MR. RAGSDALE. And therefore in the communities where the money is the most needed—in the outlying agricultural communities the banks would have the smallest amounts of capital. Is not that true?

MR. PLATT. Mr. Ragsdale seems to imply the capital has got to be raised in the community where the bank is located.

MR. MORRIS. That does not necessarily follow. A large part of it will.

MR. RAGSDALE. That is the reasonable deduction for any institution that is going to loan on land, and the people from that community are not going to put the money into that community and have the local people govern in order to reduce the rate of interest.

MR. MORRIS. That is largely true.

MR. RAGSDALE. That being the case, in the agricultural communities where the money is mostly needed, won't they have the smallest capitalization of these unit banks?

MR. MORRIS. I do not think so.

MR. RAGSDALE. Where is your money coming from?

MR. MORRIS. I think there are funds belonging to the community now, and by getting a place provided which would develop the earning capacity—I should say where the institution is needed most it would be the most attractive place to invest.

MR. RAGSDALE. It will earn the most money and be the most attractive investment, because there they will charge the higher rate of interest?

MR. MORRIS. Not necessarily. I think I can clear you up right now on that. The fact that the farmers may need more accommodation in that community does not necessarily mean there are not other people in the community who are not farmers who will supply the capital to start the bank. It may mean you will have more capital, because the farmers will need the money most there; but it does not necessarily mean there are not other people with means who will supply capital for this unit bank if it is a good investment.

MR. RAGSDALE. But would not those people, if they had money to invest, make direct loans on the real estate or take mortgages themselves, or take stock or deposit it in a bank where the opportunity to earn is much greater?

MR. MORRIS. I do not know. I believe these can be made to develop an earning capacity which would compare very favorably with the national banks. Of course they would not have the opportunity a national bank has of turning the money over 5, 10, or 20 times. For instance, if I invest \$100,000 I could only make, with that \$100,000, \$100,000 worth of mortgage loans.

MR. RAGSDALE. In what system? What system limits it to that?

MR. MORRIS. I said if I would individually make the loan. You were asking the question if they had the money, why wouldn't they make the mortgages direct to the farmer?

MR. RAGSDALE. Yes.

MR. MORRIS. My answer to that is if I had \$100,000 and loaned it direct to the farmer, I would not have any opportunity of loaning more than my original capital—

Mr. RAGSDALE (interposing). Oh, but you would.

Mr. MORRIS (continuing). Whereas with the bank doing it, the banks operating with the regional banks can immediately issue land-mortgage debentures against it, and sell them in the open market and get back the \$100,000 and reloan it.

Mr. RAGSDALE. You started out with a preface that is not true, because the capitalists are able to put up the mortgages and discount them and keep on loaning.

Mr. MORRIS. I say that a capitalist would not have that opportunity as a bank would that is a part of a well-regulated system; but in that event, if the individual did have it, he would be merely called an individual, whereas he would be in the identical position of a bank of which I speak.

Mr. RAGSDALE. My observation and experience has been in the communities where they want to get long-time loans, secured by mortgages on real estate, that the individuals who have money enough to loan do not want to see the rate of interest reduced, and that the reductions of the rate of interest on loans have in nearly every instance come from outside parties who made the loans.

Mr. MORRIS. Is not that so simply, Mr. Ragsdale, because they have a selfish desire to enhance the value of the money?

Mr. RAGSDALE. I think so; but why, then, should they want to go in a State that would try to reduce the return on the value of their money?

Mr. MORRIS. I think necessity would intensify their opportunity—I think they would realize they had to do it.

Mr. RAGSDALE. They might whenever the system was a success; but until it is a success do you believe that they will come in and try to make it a success?

Mr. MORRIS. I believe they would, except in those instances where it might absolutely be in conflict with the individual's business. Then I think you are right. I do not think they would do it, but I think they would be in the hopeless minority.

Senator WEEKS. Mr. Morris, you were outlining your ideas of the organization which should be arranged for the carrying out of this general plan. Will you go on now, if Mr. Ragsdale is through.

Mr. RAGSDALE. I am through.

Mr. MORRIS. I believe I had described my ideas respecting a Federal bureau of land banks and that then there should be a certain number of regional land banks?

Mr. JONES. You have spoken of lessening the expenses of operating by having that done through a regional bank, or lessening the expense of inspection. The same point was asked me. As Mr. Platt says, Mr. Moss is dwelling upon that idea that by forming the banks you are going to increase the expense of appraisement. I take the position it is going to decrease the expense of appraisement. I think that was your position.

Mr. MORRIS. I do not think there is any doubt about it, and I will show you why I think so.

Mr. JONES. You had begun to outline it when you were diverted into another line of discussion.

Senator WEEKS. Suppose you go on from that place?

Mr. MORRIS. On the question of expense, every mortgage has to have at least one appraisement. That would be done by the unit

bank. The detail of the present system would be so arranged that at the time that appraisement is made a resident agent of the regional bank will be one of the original committee making the original appraisement, an original appraiser, so that when the appraised value of the inceptive mortgage reaches the regional land bank, for its consideration, it will be sufficiently authentic for the regional land bank to act upon the record as it then appears. Of course the regional land bank will be sufficiently informed to be able to know the various localities from which it is buying mortgages, and if any material discrepancy appears upon the face of the presented record, it would be apparent to the committee on appraisements of the original land banks. Assuming that the mortgage with the attendant record as presented to the regional land bank was satisfactory, they would in turn fill out a certain certificate and present it at Washington, where it would be ministerially examined, properly verified, and a certificate permitting the regional bank to issue land mortgage debentures against a series of mortgages that had been submitted and properly certified would be issued by the Federal bureau.

Now, a question was asked me before whether or not the mortgages of a single State should represent a particular series. I do not think we completed that—whether the mortgages of a single State should form a segregated hypothecation for land debentures. Is not that the idea?

Mr. PLATT. That is about it; yes.

Mr. MORRIS. In the beginning I am inclined to believe this would be best, certainly more conservative. I am not prepared to say, however, to what extent their marketability would be affected by such a segregation. In other words, I can foresee where the market price of land debentures emanating from one State might be different from those emanating from another State.

Mr. PLATT. Would not that be a very good thing? Would not that be just the thing that would put pressure on the legislature of that State to change its laws, for instance?

Mr. MORRIS. It would, provided the laws were the things affecting the market value and not the land.

Senator WEEKS. Mr. Morris, would not that be almost certainly the case; necessarily in a developing section of the country rates of interest must be higher than in the older section?

Mr. MORRIS. There is no doubt about that. My own view of the statistics, as well as the scientific view upon the varying interest rates, is that you are bound to have differences in the interest rates which will of course affect the marketability of the bonds, and therefore I am inclined to believe certainly in the beginning it would be better to segregate the mortgages from one State so that they would be issued in State series.

I do not know whether I am uniform in my treatment, since we have digressed into various phases of it, but I think I had not quite finished the discussion of the plan by failing to refer to the unit banks. Of course, if the regional land banks are provided, they would be banks of debenture issue. The unit bank would be the local institution. That should be run very economically and their business would be to issue the original mortgage.

Under such a plan the practical question that first presents itself is exactly where the local unit bank is going to make its money and

where the regional bank is going to make its return. After examining some of the excellent information that has been presented before this committee, I am frank to admit it is a very difficult question. I am going to presume, however, to give you my conclusions for what you might think they were worth. Let me, firstly, say don't try to give the farmer too cheap money. If you do, you will endeavor theoretically to accomplish an impracticable object or result. Secondly, do not divorce the price of money from the laws of economics. In many foreign countries, for example, we have no usury laws. The price of money is regulated by its supply and demand. The price of money to-day in other parts of finance, even in this country, is largely regulated by supply and demand. Therefore any legislation enabling a proper system of mortgage credits must be sufficiently flexible and elastic to conform to the laws of economics respecting the laws of supply and demand, with the incident cost of the money. Otherwise, I believe the system would be sufficiently unscientific as to inherently be limited in its development.

Now, how are we going to do this? To be concrete and practical, in my opinion, there should be a commission paid by the farmer to the unit bank. A maximum should be placed on that commission. Of course, the farmer will have to pay the necessary disbursements. I mean by that the examination fees and the recording fees and similar expenses. It will be entirely up to the States to get together and minimize those local expenses by passing the proper laws. I believe a local bank can make enough out of a commission to make the matter sufficiently profitable to attract capital.

As a lawyer who has come in contact with mortgage loans, never charging a commission of more than 2 per cent, and who has always found it has been a lucrative department of a law practice, I believe in large quantities it can be gotten down perhaps as low as 1 or perhaps a maximum of 2 per cent. These are details that I am reluctant to place a final limit on without a little more detailed consideration of their requirements; but we will assume, for the moment, that a commission not exceeding 2 per cent and disbursements is charged by the local or unit bank. Then the difference in rate of interest on the mortgage and the rate on the debentures would be the profit to the regional bank. I am not opposed to the Moss-Fletcher provision that this difference should be limited to 1 per cent. I believe that 1 per cent would in all probability be a fair maximum.

In considering this, a very practical question has presented itself to me, as to what kind of provision should be imposed to take care of the maximum difference between the original mortgage and the debentures and the state of market or market price that may or may not limit the sale of those debentures. For example, suppose a farmer desired a mortgage from a unit bank, but by reason of the abnormal condition or other conditions of the money market either of the locality in which the regional bank disposes of its debentures or even of a broader character, the sale of land mortgage debentures for the time being was very slow and the regional bank said to the unit bank by law we can not issue any discount on those mortgages, we are limited to 1 per cent, and we have found it impracticable in the last 30 or 60 days to dispose of those debentures readily. In fact, in order to keep our funds satisfactorily located, we have had

to sell some of our debentures at a loss, at 98, for example, and therefore we can not accommodate you.

Whereupon, the farmer would be willing, perhaps, to stand the 2 per cent discount, it being only a single instance. How could the law be arranged so as to provide for that, to flexibly arrange for the care of those debentures, and, at the same time, impose proper limitations so that the farmers could not be taken advantage of? I believe the only way to do it is to insert a provision that would enable the regional banks to discount the mortgage to the unit bank (it is in effect to the farmer) at a discount that would preserve the equilibrium between the market discount required for the marketability of the debentures. If some such provision is permitted, it will always give the farmer a right, in lieu thereof, to receive from the regional bank debentures equal to the mortgage.

Mr. JONES. He can market them himself, then, if he can find the market?

Mr. MORRIS. If he can find the market, let him market them himself. In other words, if a farmer had a \$100,000 mortgage and the regional bank says it won't handle that mortgage above 95, and the law says the bank can not do it, rather than prevent the farmer from getting the money on account of the pressing condition of the market, let the regional banks have the right to discount at 95 or have the farmer say, "Well, if you can not do better than that give me the debentures."

Mr. PLATT. Is there any advantage in trying to fix a rate of interest on debentures at which they will sell at par? Why not fix the rate of interest and let them take their course in the market and sell for just whatever they will sell for?

Mr. MORRIS. That is my idea, to fix the rate of interest, and let them sell at the market. But the present bill says that the difference can only be 1 per cent and that they must be discounted at par. I am afraid that may choke the farmer temporarily.

Mr. PLATT. That is the average plan with all the municipal bonds, that they fix the rate of interest. But is there any advantage? If a 4 per cent bond sells at 90, why not let it sell at 90? You get just as much out of it, ultimately, as if it was a 5 per cent bond that sold at par?

Mr. MORRIS. I agree with you there ought not to be any limit on the price at which the bond should be discounted or sold; that you should have to submit to the market conditions. And they will always be like that. So that if a regional bank for any reason is attempting to take advantage of the unit bank, the farmer could go right in and put a check on it and say, "Give me my debentures to the par value of the mortgage."

Mr. PLATT. As a matter of fact, I understand farm-mortgage debentures in Europe do not sell at par a good deal of the time, but have been sold around 90.

Mr. MORRIS. Oh, no; they sometimes sell below 90 and sometimes they sell at a premium, and that is going to be the idea over here. It would be entirely dependent on market conditions.

Mr. RAGSDALE. Then, your idea is no matter how exacting conditions might be at the time these mortgages are placed with the regional bank, that under no condition should the Government extend any aid?

Mr. MORRIS. The only thing I have been able to work out with respect to Government aid is that the Government might consider seriously subscribing 25 to 50 per cent of the capital of the regional land banks.

Mr. RAGSDALE. That is the limit as far as you think the Government should go?

Mr. MORRIS. Yes, sir.

Mr. RAGSDALE. That is, the long-time securities of mortgages should be the only class of securities that should be tabooed in so far as assistance on the part of the Government is concerned?

Mr. MORRIS. Well, now, when you ask that question, when you say it is the only class that should be tabooed, give me the relation that is in your mind.

Mr. RAGSDALE. I merely say in relation to the banking and currency bill, all other bonds may be admitted into the United States Treasury from the regional banks, as I understand it, and the Federal Treasury notes issued against them.

Mr. MORRIS. You mean certain limited commercial paper and the like, and notes issued against that?

Mr. RAGSDALE. I think all kinds other than long-time farm loans are comprehended in it, are they not?

Mr. MORRIS. Not all kinds.

Mr. RAGSDALE. What other loans are not?

Mr. MORRIS. My recollection of the bill—

Mr. PLATT (interposing). You are talking about notes; not bonds?

Mr. RAGSDALE. No notes secured by bonds may be?

Mr. MORRIS. My recollection with respect to bonds is only a very limited schedule of them are used and then only for specific purposes.

Mr. WEAVER. You do not claim that they issue currency on bonds, do you, Mr. Ragsdale?

Mr. RAGSDALE. I understand that the regional banks may purchase bonds; yes.

Mr. PLATT. The United States bonds?

Mr. RAGSDALE. Yes.

Mr. PLATT. From these other national banks?

Mr. RAGSDALE. Yes.

Mr. PLATT. It has not anything to do with this question.

Senator WEEKS. I think what Representative Ragsdale has in mind is whether mortgages of this kind are being discriminated against as compared with other forms and securities with which the recent law deals. Now, I think he will find when he looks that up that no collateral loan would be rediscounted by the regional bank. That was especially provided for—to provide for commercial paper that the only rediscounts that can be made by the regional banks are rediscounts of commercial paper of a stipulated character; and I do not understand that the regional banks can invest in any other bonds than bonds of a public character.

Mr. MORRIS. Only certain bonds to cover a certain amount of their cash reserve; but they can not issue Federal notes on any rediscounted bonds. I do not know of any.

Mr. JONES. I can clear up that situation.

Senator WEEKS. I think you will find that is true.

Mr. JONES. The only bonds the regional banks can purchase are Government bonds, and that provision was put in there so that they

could purchase Government bonds and issue currency against them to prevent a too rapid contraction of the national-bank currency in case the national banks decided not to come into the system and began to retire, which would contract the currency. That provision was put in there at the request of the banks, and I at that time happened to be the spokesman of the bank who asked that amendment. It was put in there for the purpose of not only preventing the contraction of the currency, but to maintain the market value of the 2 per cent bonds, so that the regional banks might purchase those bonds and issue currency against them. But they have not the right to purchase any other bonds.

Mr. RAGSDALE. Under what condition, then, may the industrial and railroad bonds be used by the national bank as security to the regional banks?

Mr. MORRIS. They can not be used for rediscount purposes.

Mr. RAGSDALE. As security for currency?

Mr. MORRIS. No, sir.

Senator WEEKS. Oh, no; that can not be done, Mr. Ragsdale.

Mr. MORRIS. The way to get around it, a national bank could take a note and treat it as a commercial note regardless of whether it is a railroad security or not, and then attach its own note, with its own indorsement, and rediscount that commercial paper, but that has absolutely no relation to the collateral security accompanying it.

Mr. RAGSDALE. Theoretically it has not.

Mr. MORRIS. Actually.

Mr. PLATT. They could do the same thing with a note secured by mortgages.

Mr. RAGSDALE. No; I think the law prohibits a mortgage maturing over five years.

Mr. PLATT. No.

Mr. MORRIS. It has nothing to do with the rediscount. Of course any one maturing over six months would come within the limitation; but it says national banks can lend money on farm notes provided they did not mature over five years.

Mr. RAGSDALE. But it can not get into the regional banks unless it gets into the national banks.

Mr. MORRIS. That is true.

Mr. RAGSDALE. And therefore they have provided no way for them to get into the system; and as I understand, there is no way for them to get in a farm note of any kind having maturity over five years from date.

Mr. JONES. In the regional banks?

Mr. RAGSDALE. In the regional bank there is no way to get paper in that matures over five years.

Mr. MORRIS. No national bank can make a farm mortgage for more than five years.

Mr. RAGSDALE. Therefore if it can not pass that bank it can not get into the regional banks.

Mr. PLATT. It can not get into the regional bank anyway if it runs for more than six months.

Mr. RAGSDALE. It can by way of collateral to a bank's note, as I understand it.

Mr. MORRIS. No; it could not.

Mr. RAGSDALE. It is a difference of construction. I will study it up again and see if I am mistaken. I may be. That is one of the things I fought for and hoped that it had been provided.

Mr. MORRIS. Your idea is a bank can put up its own note, accompanied by a mortgage note, expiring over six months?

Mr. RAGSDALE. Under certain conditions.

Mr. MORRIS. No, never. That would destroy the limitation of the six months.

Mr. RAGSDALE. Oh, no; that is not by way of a rediscount note. It can not rediscount a paper for over six months.

Mr. MORRIS. That is the only way it would get to the regional bank.

Mr. RAGSDALE. All right; I will look it up this afternoon, and I think I can show you the section under which I form my opinion, anyhow.

Mr. MORRIS. I may be wrong about it; that is just my impression.

Mr. JONES. You spoke of the capital of the regional banks being open to popular subscription and the Government taking a certain part. How would the balance of the capital be made up? Had you considered whether the unit banks would take a portion of the capital of the regional banks?

Mr. MORRIS. I think a provision should be in the act requiring the unit banks to take a minimum percentage of the regional bank's capital.

Mr. JONES. You would then prevent unit banks from operating unless they are those federated with the regional bank?

Mr. MORRIS. Absolutely.

Mr. PLATT. Mr. Morris, on the point you were speaking a while ago, about selling at par value and the rate of interest, how would it do to fix the rate of interest on all farm debentures, say, at 5 per cent?

Mr. MORRIS. Make it uniform?

Mr. PLATT. Make it uniform and let them take their course in the market. Then in one State they would sell at par, in another perhaps at 90, and then in another perhaps at 80. What harm would that do? Wouldn't it be better than to fix a rate of interest for the different States?

Mr. MORRIS. I do not think it would be better; I think you should let the rate be fixed according to the market conditions.

Mr. PLATT. Why?

Mr. MORRIS. I can see some very good reasons for it; but in the beginning I doubt the feasibility of it, for this reason: Suppose you had a uniform rate in some localities and then you would limit the regional bank to its 1 per cent. The conditions of money may be such that it is unreasonably cheap or unreasonably high in a particular State or in a particular locality whence the original mortgage emanates. If it is unreasonably low it has a fictitious value, a fellow will say, where he takes a \$100 mortgage or \$100,000 mortgage, drawing interest at 5 per cent, say in Louisiana or Washington, and it can not be sold at more than 50; I am afraid that it would affect it. Financially I can see where it would be in the long run the same thing if you made it uniform and let the value of the bond be dependent on the market.

Mr. PLATT. Would not it be a good deal less confusing? For instance, have an issue of bonds for the State of Texas, bearing per-

haps 8 or 9 per cent, and an issue in the State of New York bearing 4 or $4\frac{1}{2}$ or 5 per cent?

Mr. MORRIS. Yes.

Mr. PLATT. Now, for the varying States you have varying rates of interest on your bonds?

Mr. MORRIS. Yes.

Mr. PLATT. In your effort to make them all sell for par, they would not sell for par anyway.

Mr. MORRIS. Not positively.

Mr. PLATT. If they did put a uniform rate of interest on them, then you could absolutely measure the difference between the values, by the market value, without having to consider anything else.

Mr. MORRIS. I say that is true from a purely theoretical or scientific viewpoint; and whether or not it would be possible to do that, it occurs to me assuming a great deal. For instance, it has not been the history of other securities; and when you start a new system of finance, is it not more conservative to be guided by the precedent offered you by past experience than to start and make innovations? You might use the same argument with municipal bonds. Why are not they the same rate? Why do not the railroads issue bonds with the same rate?

Mr. PLATT. Railroads nowadays do not try to sell at par.

Mr. MORRIS. I concur in your former statement that the price at which these land-mortgage debentures will be sold will depend entirely upon the market.

Mr. PLATT. Do you think it will be possible, in case they are certified by a bureau in the Federal Reserve Board, to have them listed somewhere where they would have a regular market?

Mr. MORRIS. I think eventually they would be listed; I certainly do.

Mr. PLATT. Would the New York Stock Exchange or some other stock exchange list them?

Mr. MORRIS. I do not know about the possibility in the beginning. That is a question of business judgment. I am inclined to think that perhaps the sooner listed the better it would be.

Mr. JONES. They are all listed abroad?

Mr. MORRIS. Yes; they are all listed abroad.

Mr. JONES. That protects the farmer from being taken advantage of, because he knows what the market is?

Mr. MORRIS. I am in favor of their being listed.

Mr. PLATT. I should think they would have to be listed in order to get a ready market value?

Mr. MORRIS. To give a stable and ready value.

After the unit banks are organized, as I stated, then the question of Government aid is a very difficult question, and I would approach the subject with a great deal of reticence. I am in principle opposed to a government subsidizing any industry or financial undertaking of this or other character. At the same time, if the opinion of the committee is that the Government should aid this undertaking, it occurs to me the most practical avenue for their aid is to take a substantial part—not less than 25 and perhaps not more than 50 per cent—of the capital of the regional banks, because I think they ought to be of substantial size and strength.

Mr. PLATT. Do you think it would be more difficult to raise the capital for the regional banks than it would be for the unit banks?

Mr. MORRIS. I do not think there would be any serious difficulty raising the capital for the local banks, because they will not have to be exceptionally large; but I think for the local banks as much local capital as is available ought to be obtained on account of local management. However, there is no fundamental reason in my mind why the Government, if it should prefer, should not take a part of the local capital, or if they should prefer to take a part of the regional capital; and should it develop it is harder to raise capital for the local bank than the regional bank, why, they should not subscribe locally as distinguished from regionally. I think that is more a question of the necessity of the hour, and the act may be drawn to give the Government the right to do either or both.

Mr. PLATT. If the locals are required to subscribe, say, 10 per cent of the capital of the regional, would not that furnish the capital?

Mr. MORRIS. No; I do not think it would.

Mr. BULKLEY. Mr. MORRIS, when you say you think capital would be readily subscribed for local banks, you mean assuming that they are federated into State regional systems, don't you?

Mr. MORRIS. Oh, yes.

Mr. BULKLEY. What do you think about subscriptions to the capital of the local bank as provided in the Moss bill without any federation?

Mr. MORRIS. I think that would depend entirely upon the personal equation behind it.

Mr. BULKLEY. Speaking generally, over the whole country. Do you think we could count on that?

Mr. MORRIS. I doubt it very seriously; but I think even if you were to get the capital I believe the development of the whole undertaking would be largely minimized by the failure to sell the debentures of those little banks. In fact, I might here state that I am opposed to any bank as small as that permitted by the Moss-Fletcher bill. I do not think they ought to be any different from the minimum capital required of national banks—\$25,000—and I think in that connection, also, that the number of these banks that are allowed to be chartered under this act should be subject to the discretion of this Federal bureau, so that there would not be too many.

Mr. BULKLEY. What do you mean by too many?

Mr. MORRIS. I think there can be too many.

Mr. BULKLEY. What is your test?

Mr. MORRIS. The test is the business would be cut up so that no one of them could make a good thing out of it. Just like to-day the Comptroller of the Currency will not allow a national bank to be chartered in a community if the comptroller says he thinks there are enough banks already established to afford facilities for the people of that community. As Burke says, "in union there is strength." If you get too many banks in a community, unquestionably, I think, it is a bad policy.

Mr. PLATT. You do not think those little banks could be organized and run as building associations are, simply by opening a room on a second floor and keeping open once a week or something like that?

Mr. MORRIS. I do not. I think they must be run very economically, and I think, as I stated in my earlier testimony—I do not

know whether you were here—they can not be run as building and loan associations. The most successful building and loan associations now have ground-floor headquarters, and are open mighty near every day in the week; but, as compared to these institutions, I believe they can be run with similar minimum expense; but I doubt the possibility—like some building and loan associations are run in Baltimore, for example, of having them open on Saturday night and keeping open for two or three hours.

MR. PLATT. That is the way they are run in my home town. They open once or twice a month, I think; and we have one with assets of over \$1,000,000.

MR. MORRIS. Where is that, may I ask? I think it depends on the communities.

MR. PLATT. Poughkeepsie. I think it has lately, however, taken an office on the ground floor and keeps open most of the week.

MR. MORRIS. Poughkeepsie is a larger city than Norfolk, Va., and to my knowledge, four or five or six building and loan associations right in Norfolk, Va., have ground headquarters and keep open every day in the week, and loan, each, over a million dollars per annum.

MR. PLATT. They have not a savings bank with \$15,000,000 along side of them?

MR. MORRIS. No; they have not.

MR. PLATT. You think these will have to be real banks, then, with banking quarters?

MR. MORRIS. I do not think they ought to be expensive institutions at all; I think they can be run very similar to the industrial banks.

MR. JONES. Mr. Morris, would you limit the amount of bonds that the regional bank would issue in proportion to its own capital?

MR. MORRIS. In proportion to its own capital?

MR. JONES. Yes; or would that be based on the amount of the aggregate securities from the collective banks?

MR. MORRIS. I think the amount of the mortgages from the unit banks should be limited.

MR. JONES. And float their bonds on them to the extent of fifteen times—

MR. MORRIS. Fifteen times is pretty good.

MR. JONES. Now, my opinion is, unless you put up a capital in the same ratio in the regional bank, the regional bank is not going to be able to float the bonds.

MR. MORRIS. That may be true.

MR. JONES. Against the aggregate amount of those collective securities?

MR. MORRIS. No; I do not think they ought to be limited.

MR. JONES. They should not be limited in proportion to the capital?

MR. MORRIS. No.

MR. JONES. The minority in making its report left blank whether they should limit the amount or not, realizing there was a scientific calculation that had to be made.

MR. PLATT. In the State bank; not the regional bank.

MR. MORRIS. Any limit would have to be one established in a practical scientific proportion so that the practical accomplishment would not be impeded. Of course, I do not think one can ever make a

mistake by putting some maximum on a banking institution's liabilities, but it will have to be very elastic.

Mr. PLATT. The aggregate of the collective securities received by unit banks would be the basis of the limit in your mind, then?

Mr. MORRIS. That is right.

Mr. PLATT. And the amount of bonds that the regional could issue?

Mr. MORRIS. Of the amount of bonds that the regional could issue; that is correct.

Now, I would do this: I want to get this clear in your mind, that I think that the outstanding amount at any one time should have a scientific table of limitation put upon it.

Mr. PLATT. Would not that automatically be regulated?

Mr. MORRIS. It would, of course, by the resources and their facilities for selling their debentures.

Mr. PLATT. By the amount the unit banks would send in?

Mr. MORRIS. That is true; and the limitation imposed on the unit banks.

Mr. PLATT. At the same time you would furnish the regional bank with some additional capital?

Mr. MORRIS. Its corporate capital, which should have a minimum sufficiently large for the purpose.

Mr. PLATT. Yes; and the regional is going to make all the difference between the interest rate of the mortgage and the interest the bond pays. Won't the regional bank have a great deal more chance to make a profit than the individual banks?

Mr. MORRIS. No; because I believe the present bill limits it to 1 per cent; they are issued on a 1 per cent basis. That is the present bill. And I believe that amount sufficient. In other words, the amount of gross profits of the regional bank would largely be limited to 1 per cent of the face value of the mortgages discounted, and the local banks can get 2 per cent commission; and I believe you will find 2 per cent is about a fair commission.

Mr. PLATT. You would limit the banks entirely to a mortgage business or allow them to take some deposits?

Mr. MORRIS. I would limit them entirely to a mortgage business; certainly at the beginning.

Mr. PLATT. Both State and local?

Mr. MORRIS. Yes, sir. I gave extended reasons in the earlier part of my statement why that should be.

Now, I have just attempted to give a brief outline of the system of rural credits through a national bureau, regional banks, and unit banks, having in mind to carry out a system that would be reasonably analogous to the Federal reserve system. As to who shall constitute that Federal Reserve Board and what present employees of the Government's official outfit should be ex-officio members, I believe the committee could determine that better than I could suggest. But I have in mind it should be linked up very strongly, similar to the Federal Reserve Board, so that the Government will have a proper part to say in it, a very strong say—not the control of it.

Before leaving this subject, however, I think I should call attention to the fact that to my mind the Government is not going to complete its obligations to the American people and satisfy completely its party pledge if they confine their entire efforts to banking facili-

ties for men of commerce and for the farmers and leave out the laboring man. I think it should be considered just as important, even more so, to provide in this act, in addition to long-time mortgage loans, a provision that will enable the man in the city who is to-day without any banking facilities except what the Morris-plan banks offer and the few philanthropic societies that are not of any very large importance. There is one notable exception to that, the Provident Loan Society of New York, which does entirely a pawn business, making an average loan of \$33, and which did a business in 1913 of over \$13,000,000.

Mr. WOODS. What rate of interest do they get?

Mr. MORRIS. One per cent a month; and I have no doubt they do a great deal of good, although it is limited to loans on pawns. And I repeat this act should have a department entitled "industrial credits" or "industrial banks."

It might be interesting to this committee to know that our firm of Morris, Garnett & Cotton have been working on this system for some years. Three or four years ago we started the first bank that operated under the Morris plan in Norfolk, Va., with \$20,000 capital. The first year we made loans of about \$60,000, and last year, in the one institution, made loans (the average amount of which did not exceed \$100) of more than a million of dollars.

Senator WEEKS. Now, tell the committee just exactly how you did that business, Mr. Morris?

Mr. MORRIS. I will come to that in a minute, but I want to explain, first, that since that time the Fidelity Corporation of America, which was organized for the purposes of developing these banks throughout the country, has organized and have to-day in operation 14 or 15 banks. These banks last year did an aggregate business of between \$4,000,000 and \$5,000,000, and are loaning to-day about half a million a month. The average statistical amount loaned, or the amount of the average loan from our statistics, is \$100. The banks are making a moderate dividend, running anywhere from 8 to 10 per cent on the capital employed, and the older ones even a little better than that; and their losses have been less than a tenth of 1 per cent. They have not scratched the surface. A \$7,000,000 corporation has just been completed in New York, having behind it men from New York and other cities—men that represent the very best in thought and in character in this country—in order that these banks might be multiplied and started wherever they are needed, so that the industrial classes might have an incentive to save their money in these banks and at the same time be offered proper credit facilities consistent with their earning power and character.

Mr. WOODS. What rate of interest do you pay on deposits?

Mr. MORRIS. In most of the States we take no regular deposits, as I will explain the plan in a moment. We issue installment savings certificates, sold on a weekly plan—what would be analogous to a weekly deposit—bearing 4 per cent and in some instances 5, and the paid-up certificates, which are paid in multiples of \$50, have paid 5 per cent, and in a few instances even 6. The loans are made at the legal rate of interest in the respective States, and each borrower is required to take a savings certificate on which he pays a stipulated amount weekly for 52 weeks, and which he pledges as collateral and on which he gets no interest.

Mr. PLATT. It is pretty nearly the building and loan association plan?

Mr. MORRIS. It is similar in a few particulars, but not identical at all.

We start a bank with a corporate capital and then increase our resources in a way analogous to a bank. We issue two kinds of savings certificates. One is known as a paid-up or class B certificate, issued in multiples of \$50, and usually bearing interest at 5 per cent and in smaller communities even 6 per cent, with interest evidenced by semi-annual coupons attached. Those certificates are only subject to three conditions: One, that they are withdrawable on 60 days' notice; second, that the bank reserves the right to redeem them also on 60 days' notice. The first condition, I should say, is that they can be withdrawn; that the bank reserves the right to require 60 days' notice in the event of withdrawal and the bank can retire them on 60 days' notice to the holder, if they multiply faster than we have need for the funds; and in case of stringency the bank reserves the right to limit the withdrawal in any one month to the amount of weekly receipts, so that there can not be any run on it.

Senator WEEKS. You organize under the laws of the States?

Mr. MORRIS. We organize under the laws of the States.

Senator WEEKS. Under the general law?

Mr. MORRIS. Usually in some States under the banking law and in some under the mortgage loan and investment law and in others as general investment companies.

Senator WEEKS. The capital must be paid in?

Mr. MORRIS. Capital must be paid in.

Mr. JONES. And what you desire is to have some national legislation permitting the organization of them?

Mr. MORRIS. I was going to suggest that in a moment.

Mr. JONES. Independent from the farm-land bank?

Mr. MORRIS. No; as a part of the bill.

Mr. JONES. You would conduct the two banks in one?

Mr. MORRIS. Oh, no; you could not do that; but I would just have separate subdivisions under the head of "industrial banks."

Mr. JONES. I was sure that was your idea, but I just wanted to get that in the record.

Mr. MORRIS. A great many people can not save in multiples of \$50, and for those we issue a certificate known as class C certificates on which they pay \$1 a week, and at the end of 50 weeks it is convertible into a paid-up certificate of the first kind and subject to withdrawal in cash with accrued interest.

Now, if a man wants to borrow money he files application for a loan and we always require that he satisfy the cashier there is an economic necessity for the loan.

Senator WEEKS. What kind of a man would you make these loans to?

Mr. MORRIS. I can tell you of the actual experience. I would say, generally, that we make loans to three classes—the small wage earners, the little merchants, and the small contractors, the little fellow who needs anywhere from \$25 to a few hundred dollars.

Senator WEEKS. You require him to make a financial statement?

Mr. MORRIS. I am going to explain exactly what we require him to do.

Mr. Woods. What length of time do you give?

Mr. Morris. We make most of those loans for one year. He has to file an application for his loan and state in his application for what purpose he needs the money; what he is doing; his assets and liabilities; to give references; and to state where he is employed and how long he has had his position. A detailed statement has been worked up from a very scientific study of the whole situation, as well as experience.

Just to go back and answer a former question, as to what class of people we make these loans to, I will read a few we have loaned to in the Atlanta bank: Clerks in railroads, clerks in banks, clerks in post offices, grocery stores, soda fountains, cigar stands, painters, salesmen, stenographers, bookkeepers, switchmen, housekeepers, boarding-house keepers, mechanics, railroad firemen, railroad agents, lawyers, engineers, insurance agents, tailors, collectors, dressmakers, telegraphers, proprietors of business, general office managers, railroad conductors, ladies maids, as well as lady foremen, dentists, doctors, preachers, subcontractors, trained nurses, car inspectors, street car conductors, cabinetmakers, instructors, circulation managers, meat cutters, city policemen, manufacturers, washerwomen, day laborers, soda sellers, confectioners, bridge patrollers, lubricators, etc.

Senator Weeks. Now, Mr. Morris, under what condition would you loan to a person not engaged in any commercial business and who was dependent on a daily or weekly or monthly wage?

Mr. Morris. Take, for example, a city policeman. Will that give you an example?

Senator Weeks. Yes; I think that will answer.

Mr. Morris. A policeman came to one of the banks at one time and wanted to borrow \$150. We told him he would have to make out the required statement and show he needed the money and furnish us two indorsements. Of course you understand if they own these B or C certificates that is all they need to pledge as security, without any indorsements. The thing he said when he started to fill out the application was "I am only a common policeman, earning \$85 a month; I can not give you two names on my note." We asked him what he wanted with the money, and he said he had three children that had been sick with the diphtheria and he had just lost two of them, and he wanted to pay a doctor \$50, a drug store and a undertaker's bill \$50, and he owed a grocery bill of \$50, in all \$150. He had been unfortunate enough to have borrowed money from a loan shark and was paying 10 to 20 per cent a month to him.

Senator Weeks. Let me ask you: If it had not been a case of personal distress or family distress would you have loaned him the money?

Mr. Morris. I will show you in a minute who we loaned it to, and that will answer your question. We asked him if he could not get two other policemen to indorse his note, and he said, yes, he could get all the policemen he wanted. He got the chief of police and a police sergeant and lieutenant, so he had perfectly good indorsers. Then we found out that the grocer would go on his note to the extent of his debt, provided his check was sent direct for \$50, and the doctor would go on his note to the extent of his debt, and so on. Each one of them asked the same question if they would get the

money direct, and we said, "Yes." And that fellow had \$250 worth of indorsements.

So that man, or any other man of good character, could borrow a sum of money not more than 10 per cent of his annual earning capacity, if he gets two people to vouch for him, one usually in his own walk of life, if he needs the money.

Mr. WOODS. That is the point: he needed the money. Would you let him have it if it was not a case of human necessity?

Mr. MORRIS. Oh, yes. I will give you some of the reasons we loan the money for, if that will answer your question. We have some very interesting statistics on that. I do not want to burden you with too much.

Mr. BULKLEY. Oh, no; this is just the kind of information we want.

Mr. MORRIS. In Atlanta, the first year, out of 1,200 loans made, over 1,100 were to take them out of the hands of loan sharks. By an actual computation they were saved over \$75,000 in excess interest.

Mr. WOODS. Were those loans originally made because they had been extravagant or because they had had misfortune?

Mr. MORRIS. Because they needed the money either from misfortune or other circumstances.

Mr. RAGSDALE. You did not necessarily go into the cause of the necessity; the only feature that presented itself to you was a real necessity?

Mr. MORRIS. Yes. The cashier interrogates them to know what it is needed for. The necessity may be superinduced by necessity of extravagance. If it is superinduced by extravagance and they are satisfied the fellow realizes he has made a mistake it is all right, we make the loan to him.

Mr. JONES. Does it finally result in making him more prudent if you bring him out?

Mr. MORRIS. Frequently 40 to 50 per cent become savers. That is what I was going to bring out.

(Thereupon, at 1 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS.

The subcommittee reassembled at the expiration of the recess.

ADDITIONAL STATEMENT OF ARTHUR J. MORRIS—Resumed.

Mr. BULKLEY. Now, Mr. MORRIS, if I remember right you were going to explain to us the relationship which you would suggest between industrial-credit banks and rural-credit banks.

Mr. MORRIS. As I stated this morning, to my mind, the first problem before the committee in working out the proper system of rural credits is to supply the money.

Assuming that the details of the dissemination of that money, as they will be worked out, will be along lines heretofore suggested, or along lines which I suggested this morning, the source of supply of that money is an important consideration. The provision in the Moss-Fletcher bill, and in some of the other bills, making the land-mortgage debentures legal investments for fiduciaries and savings banks, and insurance companies and the like, to my mind, is very

important. That should be preserved and will enable them in the beginning to afford some character of market for these land debentures as issued.

I believe, however, in the ultimate analysis the best source of supply is from the industrial savers of this country.

Now, if a particular system of industrial banks is encouraged in the beginning, that will afford credit facilities to the industrial classes; we put by those facilities a premium upon thrift that will encourage the industrial classes of this country, as abroad, to become better savers. If that is accomplished—and it is already being accomplished—those same banks should offer for sale to the industrial classes of this country these land-mortgage debentures. They should be issued in small denominations—\$50 and \$100.

These industrial banks, at least those that are now in operation, known as the Morris plan banks, keep in touch with their savers and borrowers, and have a system by which the names and addresses of all their savers and borrowers are kept together.

And these land-mortgage debentures are offered—these industrial banks will offer to their patrons the opportunity to purchase these land-mortgage debentures in small denominations. They will at the same time say to their patrons, “If you have not the money with which to purchase the security, we will lend you (on whatever plan such industrial banks is being operated), say, 50 per cent to 75 per cent of the purchase price,” so that they can buy these land-mortgage debentures on such satisfactory terms as are consistent with their earning capacity.

At the same time these industrial banks will receive these land-mortgage debentures as collateral security for loans to the industrial classes, and in that way the small saver will be able to utilize a land-mortgage debenture identically as a large saver or richer man utilizes municipal or railroad securities at his bank; and in my opinion, in the aggregate, results could be accomplished through that medium of endeavor that would compare favorably with similar results that have been accomplished abroad, notably in France.

Therefore, for the reasons given this morning, it is equally important, in my opinion, that the industrial banks should receive some attention as well as the question of agricultural credits. Does that answer your question?

Mr. BULKLEY. Yes. Have you stated all that you want to about what you propose to put in the pending legislation with respect to the incorporation of industrial banks?

Mr. MORRIS. After the present land-mortgage bill is completed, or while it is being completed—or whatever bill is to form the basic structure of the land credit system, an enabling act should be passed providing for the incorporation under Federal charter, subject, perhaps, to the supervision of the same bureau as was contemplated this morning—of industrial banks for the wage earners in urban communities.

These banks should provide a corporate capital and be subject to similar restrictions regarding the payment and the amount of the corporate capital as are now provided for national banks. They should be allowed to either take deposits or issue savings certificates of investment, both in paid up denominations and in weekly installments.

They should be allowed to discount notes, covering a period of not more than one year, at the legal rate of interest in the State in which they operate, and provision should be made whereby it would be required or allowed that such borrower should either purchase weekly certificates of investment or make weekly deposits, either on account of the loan or on account of a collateral saving certificate pledged as security for the loans.

These banks should probably be known as industrial national banks, subject to making reports either to the Comptroller of the Currency or to the bureau, whichever is determined to be better. I am inclined to believe that it will probably be better to have them report to the bureau.

Mr. WOODS. Mr. Morris, what would be your objection to giving the tenants on farms the same advantages as those you would give in large industrial centers?

Mr. MORRIS. Do you mean with respect to short-time loans?

Mr. WOODS. Yes.

Mr. MORRIS. The question of short-time loans, as distinguished from long-time mortgages?

Mr. WOODS. Yes; and the savings features that you have mentioned; the same advantages exactly that you have figured on giving the city people.

Mr. MORRIS. None at all, except in this: You should bear in mind that the wage earner can meet a liquidation of his industrial credits extended to him on a weekly basis, which enables that to be done with reasonable profit, whereas a tenant on a farm can hardly pay more often than twice a year. However, I think the same banks should have privileges in their incorporation that would enable them to take care of the tenant as well. In other words, so that they could make loans on this weekly plan, and on a monthly plan, and on a semiannual plan.

Mr. BULKLEY. You do not see any difficulty about the same institution carrying both kinds of loans?

Mr. MORRIS. Not so far as the tenants' short-time loan and the industrial wage loans are concerned.

Mr. BULKLEY. That is what I meant.

Mr. MORRIS. No; of course your present Federal reserve act, to my mind, solves the question of the short-time loan for the farmer. But this would be a supplement. We are now making, in Morris-plan banks, a great many loans to farmers and tenants on farms. The only difficulty is that it is rather embarrassing to them to borrow under the Morris plan, because of the weekly return; whereas, if these banks were allowed to take deposits, I believe that the industrial bank in a community would probably in the final analysis become the institution that would serve the short-term credit to the tenant.

I believe the development of those industrial banks will be a great supplement to the present system of savings banks in this country; and then you will have the savings banks and the industrial banks as your mediums through which to dispose of your land-mortgage debentures.

Mr. BULKLEY. Can you tell us how far it is now possible, under existing law, to incorporate banks with the functions that you have described in the several States?

Mr. MORRIS. Well, of course, the Morris plan is now operating in several States. It is operating in Massachusetts, Colorado, and Virginia; it is about to operate in North Carolina, New York, Missouri, Georgia, and South Carolina. I believe that is all—also Maryland and the District of Columbia.

Mr. BULKLEY. So far as you know, it is generally possible that these banks can be organized under State law?

Mr. MORRIS. It is generally possible, but not under such conditions as would attract capital and be readily organized and promulgated.

Mr. BULKLEY. Will you explain that just as fully as possible—just what advantages we would get by Federal charter?

Mr. MORRIS. Well, in the first place, that kind of banks, if operated under Federal charter, will be uniformly known—for instance, the one in Washington would be known as the Industrial National Bank of Washington, D. C. The one in Chicago would be known as the Industrial National Bank of Chicago. Another one would be known as the Industrial National Bank of St. Louis.

There would be a uniformity to the undertaking that would attract interest and stability.

In addition to that, there could be tax provisions that would not only be uniform, but more economical. Now, these institutions are subject to the varying tax laws of the various States. One State will tax an industrial bank like they would any other bank, and another State will not tax it at all. And in these particulars it is very difficult sometimes to meet the laws of the respective States and at the same time have the business done in such an economic way as would afford a really economic facility to the man that you are seeking to benefit.

In addition to that, you could have your savings certificates so uniform that they could be used in one city and be interchangeable in another city. You could also arrange so that the land mortgage debentures which you disposed of could be handled and could be received as collateral from one city to another.

It would, in addition to that, being under National Government supervision, have the same degree of confidence; it would inspire the same degree of confidence as national banks enjoy compared with State institutions, although in some localities the State institutions enjoy equal confidence. But in the majority of instances the national-bank supervision is an asset and an incentive to the development of the banks operating in that community.

In my opinion, as an aid to the development of the rural credits, by being a medium through which the land-mortgage debentures could be disposed of—in my opinion, if these banks were operated under an enabling Federal act, that would be accomplished much quicker and in a larger degree and on a broader scale, amounting in the aggregate to a far more satisfactory result than if left, as now, to the separate States.

Mr. BULKLEY. Do you think it would be to the interest of those industrial banks to sell the land-mortgage bonds?

Mr. MORRIS. Do you mean to the financial interests?

Mr. BULKLEY. Yes; or any other interest that would accept them.

Mr. MORRIS. I think it could be worked out on a basis by which they could sell them at a commission; make it worth their while.

At the same time they would be educating the industrial public to become investors in a security that would operate as a collateral for loans that these institutions would make to them, thereby eliminating the necessity for indorsements.

Mr. BULKLEY. Well, as I understand it, one of the reasons why you suggest that we should set up the industrial bank is to afford a market to our land-mortgage bonds.

Mr. MORRIS. That is right. That is an incidental reason. One of the most important reasons why you should do it is that it is just as important to furnish and afford the city laborer or wage earner proper credit facilities as it is to afford the man of commerce or the farmer with credit facilities. That is the fundamental reason. Then, if in meeting that reason, you can help the undertaking that is affording the farmer credit, and vice versa, you can help the wage earner. Why, it is a correlation of assistance that should appeal to Congress.

Mr. BULKLEY. Your idea is that it will help the wage earner to have this class of investment brought to him in a convenient way through these banks?

Mr. MORRIS. I do not think there is any doubt about it. You take the French, and they are more saving and more frugal than we are. Why is that? First, because they can get legitimate credit for their expenditures; and secondly, that they are savers and frugal, because they are educated to buy securities.

Mr. BULKLEY. Do you think we can rely on the self-interest of these banks to distribute the land-mortgage bonds, or do you think we ought to provide in the law that they shall handle the bonds?

Mr. MORRIS. I do not believe you could make it mandatory, because it would superinduce financial burden on the bank that would involve the safety of the bank. There might be some localities where an industrial bank could not possibly within the period of its existence handle these bonds. I am satisfied it would be an impracticable thing to make it mandatory.

Mr. BULKLEY. You suggested that these rural banks should be federated in regional units. Do you make the same suggestion in regard to your industrial banks?

Mr. MORRIS. No; not in the beginning.

Mr. BULKLEY. You would not provide any such thing in any present law?

Mr. MORRIS. I think that ultimately they will become a part of the national banking system. The only reason I suggest a federation of the farm-land banks is simply on account of the issuing bank. I want to avoid the land-mortgage debentures being issued from the units. I believe that is impracticable, and fundamentally so. I want to see these land-mortgage debentures issued from a regional institution of sufficient size, strength, and importance as will insure first, their safety, and second, their marketability. That is the only occasion for the federation of these land banks into a regional bank. In the industrial banks that is not necessary. I think perhaps after a few years' experience there ought to be an arrangement by which the industrial banks will be able to rediscount their bills receivable at a regional reserve bank. But I think that will come. I think that will be a matter of evolution. You first have got to demonstrate to this country as we have demonstrated in the Morris-plan banks—

that labor and character can be safely capitalized, and that it will afford a reasonably profitable security for banking purposes.

Mr. BULKLEY. I have no further questions. Have you anything more that you wanted to develop?

Mr. MORRIS. Representative Platt, of New York, raised a very interesting question this morning about the desirability of making these land-mortgage debentures a uniform rate. If we had to limit the difference between the regional mortgage and the debenture rate to 1 per cent, a regulation making the debenture rate uniform would necessarily require a uniform interest rate for the incipient mortgages. There is much to be said in favor of this, but in the final analysis I believe it is impracticable, because of the following effect: For example, suppose you pass a law requiring the mortgage interest rate to be uniform and a mortgage, for example, was consummated in Texas, and that uniform rate was 6 per cent in mortgages and 5 per cent in debentures; when the unit bank took that 6 per cent mortgage to the regional bank—and we will call it, for the purpose of simplicity, a rediscount, whereas, as a matter of fact, he takes it there for the purpose of having land-mortgage debentures issued against it—the regional bank is not going to lose sight of the economic fact that money in that State is worth 8 per cent. What would be the effect? The effect would be that the regional bank would immediately undertake the sale and disposition of its land-mortgage debentures at a sufficient discount for the entire period to insure the economic rate of return as distinguished from the legal rate, or the rates legalized by uniform law. And what would be the effect of that? The effect of that would be that you would find land-mortgage debentures selling at rates 30, 40, 50, and 60 cents on the dollar, according to the time and length of the mortgage. For that reason I doubt the wisdom of attempting any uniform debenture rate which implies a uniform interest rate, because the psychological effect on the investing public of having land-mortgage debentures selling anywhere from 30 to 40, 50, or 60 cents on the dollar would be bad, in my opinion, whereas if the rate was left to the State, with the provision that it can not exceed a legal rate and 1 per cent less for the debentures, the land-mortgage debentures would be sold at such price, which would perhaps not be uniform—some of them would be below par and some above par; but the differences between the price would be regulated by the condition of the market and not to such an extent as would reduce the par value to such a figure as would make it more or less an unattractive security.

Mr. BATHRICK. Mr. Chairman, may I ask a question?

Mr. BULKLEY. If it is agreeable to Mr. Morris, certainly.

Mr. MORRIS. Yes, sir; I will answer any question I can.

Mr. BATHRICK. You seem to have had a great deal of experience in these banking matters and to have given it a great deal of thought. Have you given the question of what land-mortgage debentures would sell at, or any thought to what the rate would be to hold them at par throughout the country?

Mr. MORRIS. Yes; I have given that some thought. It is a very difficult question, though, to think out a satisfactory answer. Why? Because the price of any security is dependent to such an extent in this country upon the condition of the market, both with respect to supply and demand, of money as well as security. I believe, how-

ever, that security around 5 per cent issued under such a system of farm-mortgage banking as has been described this morning, subjected to the governmental supervision, as has been indicated this morning, under normal conditions would approximate par. That is as near as I can give you an answer, and you must take that answer. As I stated to one gentleman this morning, there are some things within the purview of human discernment about which one can reasonably conclude, and there are other things that are so far beyond the control of human discernment that the only answer you can give is the prognosis of it.

Mr. BATHRICK. The fact is now, I believe, that some municipal bonds are selling for more than 5 per cent, are they not?

Mr. MORRIS. Yes; there are some selling for more than 5 per cent.

Mr. BATHRICK. And some very good municipal bonds, too.

Mr. MORRIS. Yes; very good ones that six months ago sold for that.

Mr. BATHRICK. And I believe some railroad bonds have been offered at 6 per cent, have they not?

Mr. MORRIS. Yes. Then, again, you take the recent issue of New York State bonds that yielded a fraction over 4 per cent, they sold at a premium. It depends entirely upon the conditions. Suppose, for example, last June and July a 5 per cent security was offered in this country, at the time we were undergoing an unsettled condition, before the passage of the currency bill, and the financial condition of the country was more or less intensely uncertain, a 5 per cent debenture would have had a very difficult market at that time.

Mr. BATHRICK. I believe you referred to Government inspection as one of the means of establishing a market and giving the public greater assurance in the land-mortgage bonds.

Mr. MORRIS. This morning I undertook to lay out a plan by which a Federal bureau would be established respecting the land-mortgage banks that would be analogous to the Federal reserve board in the system of commercial banking, and that Federal reserve bureau would lay down certain rules and regulations under which regional banks could issue land-mortgage debentures, and before a regional bank could issue land-mortgage debentures they would have to certify to the bureau at Washington, under oath, that these conditions had been complied with, and these debentures would be registered and certified from the bureau which would act in the nature of a registrar.

Mr. BATHRICK. The real value of a debenture is the character of the land upon which the mortgage is based, and upon which the debenture is based, is it not?

Mr. MORRIS. Yes.

Mr. BATHRICK. It is also the degree of care with which the appraisal of the farm or the land is made, is it not?

Mr. MORRIS. Yes.

Mr. BATHRICK. Now, any Government inspection that would be thorough—speaking of Government inspection—would it not be necessary for the inspector to know what the character of this land was that is behind the mortgage and the debenture?

Mr. MORRIS. I think so; and I provided for that in my statement this morning. You were not present, I believe.

Mr. BATHRICK. Now, if it is necessary for the Government inspector to know the character of the land that is behind this mortgage

and debenture, it would be necessary for this inspector to inspect the land, would it not?

Mr. MORRIS. Yes; I provide for that inspection here. I suggested it be done in order to hold down expenses, and to be practicable and not have too much red tape about it, that each regional bank would have a local Federal agent properly approved that would be on the regional appraisal committee, and he would certify to the regional bank, which would in turn certify to the bureau.

Mr. BATHRICK. A bank examiner that examines a national bank goes into a bank, and he is reasonably familiar with the securities which that bank holds—that is, the character of the people behind those securities, is he not—and the character of the commercial stability behind the securities?

Mr. MORRIS. I would not say that he is at all times closely familiar with the people behind the securities. He takes the word of the men behind the bank for that. The bank examiner, after he has called frequently to examine the bank and has seen your note and my note there too often, he will make a note of it, and when he comes back, if he again finds those two notes, he will say, "I saw those two notes the last time, and I see them this time; how long have you been carrying them?" He will make superficial inquiries of that character. But with regard to the people behind the majority of national-bank notes he would not know that. An examiner has no intimate acquaintance with them. He forms a general idea from a reasonable amount of proper inquiry.

Mr. BATHRICK. Do you think that these land-mortgage debentures could be marketed to any extent in Europe?

Mr. MORRIS. Yes; I think a good many of them could be. I meant to suggest that this morning. I am glad you brought it out. I think that these regional banks should be allowed to have European branches. That should be embodied in the act.

Mr. BATHRICK. In order to market these securities in Europe there would be required a certain character of underwriting to be done, would there not?

Mr. MORRIS. You mean in Europe?

Mr. BATHRICK. And in the United States.

Mr. MORRIS. Not if the regional bank had its own branches there. That would depend entirely upon whether they did it through underwriters in America or whether they did it through their foreign branches. In some countries it would probably pay them better to do it through underwriters with American agents.

Mr. BATHRICK. Suppose one of these agencies which you speak of is attempting to market these debentures, what would you consider a reasonable commission for so doing?

Mr. MORRIS. You mean an underwriter's agent?

Mr. BATHRICK. Yes. Each one of these concerns that handle these debentures would require some commission to handle them, would they not?

Mr. MORRIS. Yes, sir; which is the point I brought out. If they were selling them to foreign underwriters without having their own branch over there they would necessarily have to do it on a commission basis. If they had their own branch over there they would do it themselves. That is a very difficult question to answer. It de-

pend entirely upon the time when these debentures are offered and the amount, but I should say anywhere from 1 up to 5 per cent.

Mr. BATHRICK. As commission?

Mr. MORRIS. As commission. It just depends entirely upon the time and conditions of affairs and the manner. If the agent handled a few hundred thousand dollars of them he would probably want 5 per cent. If he handles several million dollars he would probably be glad to do it on 1 per cent. It is due to the quantity and condition of the market.

Mr. BULKLEY. Are you through now, Mr. Bathrick?

Mr. BATHRICK. Yes.

Mr. BULKLEY. I think Mr. Korbly has some questions he would like to ask.

Mr. KORBLY. Do you contemplate that the Morris-plan banks would give accommodations to small merchants?

Mr. MORRIS. We are doing that now.

Mr. KORBLY. To that extent you are somewhat in the nature of a commercial bank.

Mr. MORRIS. To that extent, yes; except that commercial banking, as distinguished from industrial banking, might be defined as making loans on a commercial basis—30, 60, 90 days, or 4 months. Any loans made for a period of 1 year repayable in weekly installments has more of an industrial character, whether it be made to a wage earner or whether it be made to a merchant; and we are accommodating many little merchants.

Mr. KORBLY. And a farmer who does not own any land can get some accommodation under the Morris plan of banking as now operated?

Mr. MORRIS. Yes. We accommodate a good many farmers now.

Mr. KORBLY. So that a man might buy cattle or equipment, or have money for his operations?

Mr. MORRIS. Yes. The only difference is that we could not do it under our plan to-day, except to a superficial extent, because under our plan a borrower has to become the purchaser of an installment savings certificate, on which he pays 2 per cent a week. If he borrows \$100 he purchases two savings certificates and deposits \$2 a week on those savings certificates. A farmer can not pay in weekly amounts.

Mr. KORBLY. Unless he is dealing in butter and eggs.

Mr. MORRIS. Unless he is a dairy farmer, or some similar farmer; and in order to overcome that limitation I would suggest that the act provide, in the enabling of industrial banks, that they should be allowed to take deposits, so that from these deposits they can handle the short-time loan farmers, under 4, 6, 8, and 12 months.

Mr. KORBLY. That suggests the question I really wanted to come to, the central question in my series of questions, whether it is not just as important to provide some credit or banking facilities for that class of farmers who own no land as it is to provide credit for those who may own land, as for industrial people in the cities. That is a question you have not yet touched on. I was out part of the time this morning while you were talking.

Mr. MORRIS. That is really a big question—short-time loans. Of course, your Federal reserve act has made some provision for that and for certain purposes a farmer can borrow as long as 6 months.

These industrial banks, with the right to receive deposits, would also, to my mind, make loans of that character. In addition to that, there is not any reason why the act should not provide and enable cooperative institutions that would let a group of farmers pledge what we call a community of indorsements. That will probably be the result as soon as we get the banks. I personally do not believe that the cooperative features, as successfully developed in Europe, can be considered as a feasible instrument in this country. The day may come when cooperation may be developed in America, but it has not come yet. Everybody's business in this country is nobody's business. Besides, there is an American feeling, a feeling characteristic of American people—and farmers are no exception to that feeling—where they do not like to club together and let each one know the other's business. I have studied the question of the cooperative unions in cities and among manufacturing plants, and while a few of them have succeeded in a small way, yet in a majority of instances the credit union or cooperative bank in the cities or among the farmers, while they should be allowed where they may be some locality where they will get together, and while you do it you might as well include it, because it can be very simply done, permit these cooperative societies to be organized, but in so far as their developing into a satisfactory result, I do not personally believe that they will do it for years and years to come, if at all.

Mr. BULKLEY. Mr. MORRIS, if it is still agreeable to you, I think Mr. THOMPSON would like to ask you a question.

Mr. THOMPSON. Suppose I live in a town of 300 or 400 people, which has two commercial State banks, more or less acting privately, would you suggest the creation of a third bank to be made the local unit in this land-mortgage system, or would you allow one of the existing banks to connect up in some way to the system?

Mr. MORRIS. In a community of 400 or 500 people?

Mr. THOMPSON. Yes.

Mr. MORRIS. What is the nearest town to that?

Mr. THOMPSON. What is the nearest town?

Mr. MORRIS. Yes; what is the nearest town to that?

Mr. THOMPSON. That is a village.

Mr. MORRIS. What is the nearest larger point?

Mr. THOMPSON. There will be a county seat, let us say, 18 or 20 miles away.

Mr. MORRIS. How large is the county seat?

Mr. THOMPSON. Say 3,000.

Mr. MORRIS. By all means let the existing bank connect up.

Mr. THOMPSON. That means, then, does it not, that you would make provision in the law whereby existing banks could connect up with the land-mortgage system?

Mr. MORRIS. I think so.

Mr. THOMPSON. In what way would you make that arrangement?

Mr. MORRIS. They are State institutions?

Mr. THOMPSON. Yes.

Mr. MORRIS. I would incorporate a clause that any existing bank that will segregate a certain amount of its capital and otherwise comply with the provisions with that segregated capital, just as singly and completely as if it was an independent institution, shall be legal-

ized to do a certain business in conjunction with either another unit or the regional bank.

Mr. THOMPSON. Do you believe that a great many existing State banks will do that?

Mr. MORRIS. That is hard for me to answer, because I am not familiar with the little places. I can tell you that in the larger places I do not think so, because there would not be any gain in it. In these little places I am inclined to think, theoretically, they would, because they are looking for an opportunity to expand the volume of their business, and any bank that can expand the volume of its business on other people's money would, to my mind, be glad of the opportunity, and such a connection would enable them to get that result. Where that is impractical it is a very simple matter for any one bank in that county seat to make one of these banks its agent just to file applications, and the appraisal committee could go right out there and look at it. One of the beauties about this undertaking is that the size of a farm mortgage would, as a general rule, be sufficient to permit that without inconvenience being done.

Mr. THOMPSON. As a practical thing, then, you believe that a good many banks would be agents?

Mr. MORRIS. Oh, yes, sir; they will be in the nature of agents.

Mr. BULKLEY. Have you covered everything that you have in mind, Mr. MORRIS?

Mr. MORRIS. I just want to emphasize what Mr. Platt said in one of the hearings, that one thing we have got to do is to take personal property all over the country and make it an instrument of credit of all kinds. That very aptly illustrates what I mean by saying that these land-mortgage debentures must be liquid in the hands of everybody whom you expect to buy them, and you can not expect to confine their purchase to large investors. He will say, "Oh, I have enough securities in railroad bonds and municipal bonds. They are good enough for me. I am not interested in these farmers." You need to make them so that plenty of other people who are interested will buy them; the little fellow will buy them—the little saver, the little investor—and the way to make him buy them, in my opinion, is to give to him the same facilities in his hands with a land-mortgage debenture as the richer man, the bigger man, has with municipal or railroad securities in his bank. It seems to me that is an important phase of this matter that you can not overlook. I can not remember at this moment the exact limit of period in the Fletcher-Moss bill. Will somebody prompt me on that? In the Fletcher-Moss bill how long can these mortgages be made for?

Mr. PLATT. For 35 years.

Mr. MORRIS. That is, to my mind, too long. I have felt that 25 years is long enough to spread that over. However, I suppose the committee has enough information before them already on that point to determine just what is best.

In drawing the bill every precaution must be taken to avoid the repetition of the eighties and up to the panic of 1894, with debenture schemes. In my opinion that was largely superinduced by the delegation of too much authority.

In other words, it was the old, old story of the agent far more interested in making his commission than he was in insuring his investment, insuring good judgment, and properly selecting the loans.

In view of the ideas that were expressed this morning, I believe that that could absolutely be provided against.

Mr. BATHURICK. In other words, Mr. Morris, that was due to mismanagement?

Mr. MORRIS. Pure and simple; but it was the kind of mismanagement that will ensue in a majority of cases unless in the beginning the opportunity for such character of management is precluded.

Mr. BULKLEY. I believe Mr. Jones wants to ask you a question.

Mr. JONES. Mr. Chairman, there are two or three questions I would like to ask Mr. Morris, leading up to interest rates, the unification of interest rates. He touched on that, and there is a point or two that I would like to have cleared up in my mind.

Mr. Morris is advocating the unifying of unit banks into regions similar to what the minority of the American commission is advocating. He has extended the region beyond the confines of different States, whereas the minority has recommended that the regions be coterminous with the States.

Mr. MORRIS. That is the State regional banks.

Mr. JONES. State regional banks; for reasons set forth by me in my statement, very elaborately, a day or two ago, in this hearing. You know the Fletcher-Moss bill provides that bonds floated by any land-mortgage bank shall not be floated at a rate of interest lower than 1 per cent; or, rather, to put it the other way, that they shall not charge the borrower a higher rate of interest than 1 per cent above what they float their bonds at. Now, how do you believe that can be made practicable if you establish a large region? Suppose you were to follow the regional banks or the regions established for regional Federal banks, and the territory that is being asked by a number of cities should be put in one region? Particularly have I in mind Omaha, in its claim for Nebraska, part of Iowa, Colorado, and Utah. Throughout that region the rates of interest vary very greatly. Iowa farmers now can borrow money at 5 per cent; Wyoming farmers pay 8 per cent; Colorado farmers pay 7 per cent; and the Nebraska farmers pay 6 per cent. Now, with your regional bank made up of units throughout all of these States, when they get their loans collected together and are going to issue bonds against the collective loans, bearing various rates of interest, how could they comply with the provision prohibiting them charging over 1 per cent above that of the bond?

Mr. MORRIS. The first way to do it would be necessarily to have to combine together a sufficient number of mortgages of a uniform rate. I should think they would have no difficulty in doing that with respect to the minimum 1 per cent difference. In other words, suppose they had several varying rates, some mortgages at 5 per cent, some at 6 per cent, and some at 8 per cent; I do not imagine that with the territory as large as you suggest there would be any difficulty in their getting a sufficient number of 7 per cent mortgages to issue a 6 per cent debenture thereupon, or a sufficient number of 6 per cent mortgages to issue a 5 per cent debenture, if I understand your question correctly.

Mr. JONES. I think you have understood it and have probably offered a solution.

Mr. MORRIS. Let me just amplify that a little further.

In some instances where that might be impracticable they could get enough of them together to comply with the minimum cost so that the 1 per cent less would conform to the law with respect to the maximum and still leave a wider margin on the maximum mortgage. Another thing that that would do—it would tend to encourage uniformity. If a regional bank finds that they are taking a great many mortgages at varying rates, and that to do so, it was more or less inconvenient to issue against them land mortgages, debentures, they would soon realize the necessity, and the rather practical necessity, of getting together on a uniform rate, which, I think, would operate in favor of the farmer rather than against him.

Mr. JONES. To the farmer in the State that has the 5 per cent rate, or to the farmer in the State that has the 6 per cent rate?

Mr. MORRIS. I think that would depend entirely upon the market for the debentures. If they had any difficulty in getting rid of the 6 per cent debentures the 7 or 8 per cent man would soon find himself in the 6 per cent class.

Mr. JONES. You say it would have a tendency to make a uniform rate? You mean by that the rate would seek a level?

Mr. MORRIS. I do not mean an absolute uniform rate, but more uniformity of rate, for, in other words, there would be less divergence between the mortgages. A regional bank in a section like that would soon find itself issuing but two classes of debentures, either fives or sixes, and they would finally classify the various mortgages in one of those two classes. My main reason for a regional bank that is not limited to one State, as explained to you outside of the committee, is that, in my opinion, if you had to have 40-odd regional banks it would be unwieldly; you would have several State regional banks, if we might call them that, with not sufficient capital to be large and strong enough to accomplish the function that I would like to see accomplished by a bank of issue, and when I say a bank of issue I mean a land bank of debenture issue.

Mr. JONES. I believe you said this morning that you had not seen the report of the majority of the American commission?

Mr. MORRIS. I have never seen it. I have never heard of it until you asked me this morning. I would like to see it, though. I would like to get a copy of it before I leave here.

Mr. JONES. They make the suggestion that after the States have built up their State units it might be found advisable for some co-ordination of the State units through some selling agency. But at the start—

Mr. MORRIS (interposing). I do not know that I quite follow that. Would you explain that a little more fully? Do you mean independent of the State regional banks?

Mr. JONES. No; that the State regional banks themselves might federate into a body higher up, some centralized body, to sell the bonds, in case it became necessary to find a broader field.

Mr. MORRIS. I think that is a matter of evolution.

Mr. JONES. That is our argument; that is the point exactly that we make.

Mr. MORRIS. If I was not afraid of being too far ahead of the game I might suggest something like that. I have that in the back of my head.

Mr. JONES. That is exactly the point that the minority makes. They felt that we were going a little rapidly to suggest too much machinery to start with, but we did feel that it was not going too rapidly to give the organization of these centralized State banks reaching out through the States until they had built up sufficiently to justify reaching a broader and bigger field. I question in my own mind whether it would be necessary to go abroad after our banks have become established, especially along the line that you suggest or that the minority suggests, to find a market for our land-mortgage bonds. I believe we will have a sufficient home market, just as Germany has established, among the savings and industrial classes and trust funds.

Mr. MORRIS. I think that depends entirely on how it is done. If it is done properly, I see no reason why that result should not be accomplished.

Mr. JONES. And, following that, the minority suggested that they go no further than the State organization at this time and let the future take care of itself as to whether we need to go a step higher in our organization to reach a broader field.

Mr. MORRIS. You see that my idea of regional banks goes a little further than your idea—the State bank—does, without going as far as a single central institution. I think it would be unwise to do that now. In the first place, the time and tendency of the whole feeling is against one single central institution, whether it be a commercial banking system or farm banks. I think that ought to be a matter of evolution.

Mr. JONES. We had no idea of a State central bank.

Mr. MORRIS. I do not mean a State central; I mean a Federal central.

Mr. JONES. We call it a federation of banks, just like the regional banks have been established for the national banks.

Mr. MORRIS. I think for the present that the idea for a Federal bureau occupying an analogous position to the Federal reserve board is all that would be required in that connection for the time being.

Mr. JONES. It seems to me you do federate the unit banks and the regional banks.

Mr. MORRIS. Oh, yes; federate the unit banks and the regional banks into a bureau, subject to the board's supervision, identically like the Federal reserve board is going to supervise the Federal reserve banks. Why not utilize it? If it is right and scientific and its basis is sound, as we all believe it is in the contour of its structure, now is the time to use it—right in this matter.

Mr. WOODS. What object would the investor have in purchasing a bond drawing 5 per cent when he could secure a bond drawing 7 per cent backed by the same institution?

Mr. MORRIS. Let me see exactly what you mean by "backed by the same institution."

Mr. WOODS. The issuing institution.

Mr. MORRIS. You mean the regional bank? They would guarantee, would they not?

Mr. WOODS. They issue them.

Mr. MORRIS. They issue them. Do you mean if they issue some fives, some sixes, and some sevens?

Mr. WOODS. Yes.

Mr. MORRIS. My answer to that is some people would rather have a 5 per cent debenture based on an Illinois mortgage than a 6 or 7 per cent debenture based on the mortgage of another State.

Mr. WOODS. That would be true if it is just a mortgage, but it is guaranteed by the same institution. I do not think you would find that many of your 5 per cent bonds would find a market.

Mr. MORRIS. You may say the same thing with respect to railroad securities and municipal securities.

Mr. WOODS. That is a different proposition entirely; there are different railroads and different securities.

Mr. MORRIS. Yes; it is the same thing. The security that is back of the bonds, after all, is the land behind it. You must not lose sight of that.

Mr. WOODS. That is true; but if these railroad securities were guaranteed by the Government there would be some analogy.

Mr. MORRIS. These bonds are not guaranteed by the Government.

Mr. WOODS. They are guaranteed by a large institution which makes their payment sure.

Mr. MORRIS. I believe it is an impracticable thing to try to make a uniform rate. You can do it.

Mr. WOODS. I do, too, but I think the faith of the institution is much preferable and would be more successful.

Mr. MORRIS. I am frank to admit that my first idea was a State regional institution, but the more I thought of it the more I am afraid that you will have too many of them, and another reason I am afraid of it is that it will give it an atmosphere of provinciality—a Utah regional bank will issue Utah debentures, and if that bank can not sell its debentures in its own section, and it goes to New York City with them, or somewhere else, they will say, "Oh, they have a Utah regional bank; they can not sell them; we do not want it," where if you have one regional bank covering several States, there is a larger market, and I think it would be a rather unwise thing to limit inherently your market for your debentures. For example, debentures issued out of Utah might find a market in several States, whereas if you had a regional State issuing bank, just as sure as the night follows the day you are going to fail in your purpose. At least, that is my opinion. People will get a psychological impression that this institution in Utah ought to sell its bonds to its Utah friends, and if they can not sell them to their Utah friends there is a nigger in the woodpile somewhere, and we do not want them.

Mr. JONES. Mr. Norris, one argument that occurred to the minds of the minority that caused them to confine the regions to the State, was on account of the different State lines regarding exemptions, homesteads, land titles, and many other things. The Fletcher-Moss bill provides that bonds issued by land-mortgage banks may be available for certain specific purposes, such as postal savings, trust funds, court funds, the funds under the control of the courts, provided that those States have met certain conditions regarding registration, exemption, etc. If you go outside of the States you will find considerable conflict. One State may have complied with all of those conditions, another State may have complied with a portion of them, and another State may have complied with none of them, and all within the same region. Now, how can the bonds find the

market we are seeking if those conditions are so varied regarding the different securities that are offered as collateral?

Mr. MORRIS. I agree with you that those conditions may affect the marketability of these debentures in a particular territory.

Mr. JONES. The minority has thought that out. We thought very strongly over this, and spent two months working on it, and if we have left anything unprovided for we would like to have it. That is the cause of my legal questions to you, to see if we were wrong in our final conclusions.

Mr. MORRIS. I believe, for example, if you have a regional bank covering Virginia, North Carolina, South Carolina, and West Virginia, or any other two or three States, and under the Federal law these land debentures were exempt from taxation, and were made legal investments for certain specific purposes and fiduciaries on condition that the registration laws of the States from which they are issued had done so and so and so. I can readily see that in some States, where these State laws do not comply with the provisions of the Federal act the mortgages in those respective States would be more or less circumscribed. But I believe that is one matter that the legislatures of the several States will fall in line on. If such a banking system is authorized they are going to get together; they are going to realize the necessity of doing it, just like the national banks have all fallen in line. A great many national banks had their doubts about the currency bill, and some of them said they would charter under State law, and some said they would do this and do that, but you will find that most all of them came in under the act, and I believe that would be the result in this case.

Mr. JONES. Should not the States stand upon their own merits? If one State makes the bonds more saleable by certain provisions of law, should it not have the advantage of the rate of interest which their bonds will sell for?

Mr. MORRIS. They would have it, whether you would confine it to—

Mr. JONES (interposing). Then a neighboring State that had not met those conditions at all, should not, it seems to me, be attached to the same regional bank whose credit assists that neighboring State to float its bonds.

Mr. MORRIS. Perhaps the regional bank will not take them. There is nothing in the law that is going to make it mandatory.

Mr. JONES. They should have a regional bank that would take them, or else the operation of the law—

Mr. MORRIS (interposing). I do not know but what it would be a good idea for the regional bank to say to that State, "We are perfectly ready to handle your mortgages, but you must get your laws right." I think that is probably one of the ways to help get it.

Mr. WOODS. In some States the constitutions would have to be amended, and those things are not easily done.

Mr. BATHRICK. How could you say, Mr. Morris, that if you have a regional bank covering several States the cost of money may be different in those States?

Mr. MORRIS. I think the cost might be cheaper in the long run; I think the market for your land-mortgage debentures would be considerably enhanced.

Mr. BATHRICK. Do you think the cost of money might be different in one of those several States than in another?

Mr. MORRIS. Possibly, but I think it is only a question of a short time when it will probably be uniform.

Mr. BATHRICK. It occurs to me that if the regional bank is to guarantee a land mortgage at 5 per cent in one State and 7 per cent in another, that it would not guarantee even the 7 per cent unless it was a good mortgage, would it?

Mr. MORRIS. I think not.

Mr. BATHRICK. That being the case, and they can sell bonds at 5 per cent in one State, why can they not sell bonds at 5 per cent for this 7 per cent mortgage State?

Mr. MORRIS. That would depend entirely on the market. If they find that in that 7 per cent State they can sell those bonds all right and there is no prejudice against them—there may be prejudice in that State by reason of its lack of development as compared with another State—I think you will find the rate decreased.

Mr. BATHRICK. Of course the regional bank will dispel that by reason of the fact that they are guaranteeing them.

Mr. MORRIS. It would have a tendency to uniform the rate and cheapen the price of farm money.

Mr. BATHRICK. You say it would cheapen the price of farm land?

Mr. MORRIS. It would cheapen the price of farm money. Whereas, if you keep it in one State each neighboring institution may feel that each State regional bank ought to paddle its own canoe, and I am afraid the psychological effect would be that each State regional bank would have to distribute its own debentures, and after all, finance a distribution of securities; and modern finance is largely a matter of temperament, and I am sure my friend, Mr. Jones, will appreciate that. You let something emanate from one State, some security, where they have not the proper facilities in that State to handle it, and let it go into another State, and they inquire immediately, "Why don't you handle it at home?" You might with more or less success, but it does not create the right atmosphere.

Mr. BATHRICK. You think, then, eventually, this regional bank, by reason of its guaranty and its stability, would create a market and a uniform rate for these bonds in all the States which it covered?

Mr. MORRIS. I think so. I think that would be largely the evolution of this system.

Mr. BATHRICK. How long do you think it would take that to transpire?

Mr. MORRIS. That is a very difficult question to answer, but it is not so far in the future, as it is simply a question of getting the market educated to the fact that a mortgage properly appraised in one State is just as good as a mortgage appraised in another State, even though the development of one may not be as far advanced as the other, and they will take that into consideration when they make their appraisal. There is no reason why a mortgage that is good in Texas is not just as good as a mortgage from Illinois. The only reason why there is any difference in the interest rate is that there is a superficial judgment to the contrary. A regional bank comes along and it includes Texas and other territory, with sufficient size and strength and capacity behind it, so that when they certify a mortgage from Texas every investor knows that it is just as good

as the regional bank's certification in Illinois, and you will find that the rates will gradually approach uniformity. That is dependent upon the regional's ability to market. They may have a live wire in the Illinois regional bank and a very slow one in the Texas regional bank, and if he sleeps on the job and fails to float his land debentures and does not move quick enough, you will find that the rate will not be the same as the live wire, who drives them out of the field.

Mr. BATHRICK. You are aware, I presume, that the only reason for any Federal legislation on the proposition at all is the conservation of agriculture and the perpetuation of our food supply.

Mr. MORRIS. Yes; that is the underlying fundamental.

Mr. BATHRICK. You believe that power, then, will tend to make uniform interest rates all over the country?

Mr. MORRIS. Yes.

Mr. BATHRICK. Because they raise food in the West, where the rate is high, as well as in the East, where the rate is low.

Mr. THOMPSON. Mr. Chairman, may I ask a question?

Mr. BULKLEY. Yes, if Mr. Morris does not object.

Mr. THOMPSON. My question has a direct bearing on the subject now before the committee and on the position that Mr. Morris has taken; and if it is not too late, I would like to present it.

A statement was made as to the rates of interest in the several States, showing a discrepancy or variation of rates between Colorado, Idaho, Nebraska, and Iowa, and then that statement has been followed by the statement that it would be desirable, possibly, to limit the interest rates in order to avoid wide discrepancy in rate conditions. I was going to ask what he would do in the case of a State like Minnesota, where in the extreme north-central part you would have mortgage loans varying from those of the extreme southern part of the same State by 3 or 4 per cent.

Mr. MORRIS. Do you mean, what would the State authorities do in those cases?

Mr. THOMPSON. Yes.

Mr. MORRIS. That is up to my friend Mr. Jones to answer.

Mr. WOODS. The mortgage rates might be different, but the taxation is the same. That would tend to clarify that.

Mr. MORRIS. Mr. Jones, how would you handle that situation in these debentures you were talking about?

Mr. JONES. We have the same conditions in Colorado. Our rates vary from 2 to 3 per cent throughout the State. It is much easier to liquidate, however, than it would be between States, and I have no doubt but what if you had a State unification of land-mortgage units the rate would be uniform throughout the entire State.

Mr. MORRIS. Carry that a little further, and do you not think that if you had two or three contiguous States you could accomplish the same result?

Mr. JONES. Yes; if you could get the uniform laws throughout those different States regarding the bonds of which I spoke a moment ago, the same as you can get them in one State covering different counties.

Mr. MORRIS. That would be a difficulty that would have to be overcome, but I believe the result would justify the effort.

Mr. JONES. As I understand your position you believe it would assist in accomplishing that result?

Mr. MORRIS. I do. Understand me. I am not absolutely opposed to a State regional bank, but in practice I do not believe you are going to get nearly the desired result that you would out of the regional bank.

Mr. PLATT. You are up against State constitutions in a great many cases.

STATEMENT OF T. CUSHING DANIEL, OF WASHINGTON, D. C.

Mr. BULKLEY. Will you please state for the record your full name, residence, and occupation?

Mr. DANIEL. My name is T. Cushing Daniel; formerly of Virginia; now of Washington, D. C.; 1416 F Street is my city address.

Mr. BULKLEY. Mr. Daniel, you are a financial writer, are you not?

Mr. DANIEL. Yes; before presenting my views to your committee, I deem it only proper to state my qualifications for so doing.

I am the author of *Real Money versus Bank Credit as a Substitute for Money*, published in 1911, and of *The High Cost of Living: Cause—Remedy*, published in 1912, copies of these books were sent to Hon. Woodrow Wilson and William J. Bryan when published.

The author brings to the solution of this important economic problem, first, experience on a farm, then years of experience in commercial life in New York and other sections of the country, the study of law, familiarity with all the financial legislation of Congress on money, the debates and records of all the international conferences on money since 1867, and the study of all the leading economists on the subject, supplementing these advantages in recent years by personal investigation of the money systems of foreign countries.

After years of independent study and investigation of economic problems I was satisfied that the evil underlying all our troubles was an absolutely false money system—I had great hopes that the incoming Democratic administration, led on by Woodrow Wilson, would solve the money question upon a sound economic basis in the interest of all the people. When I read the first draft of the regional bank bill, in which it was suggested that these regional banks should issue their notes, I addressed the following letter to President Wilson and sent a copy of it to Mr. Bryan, Secretary of State:

OCEAN DECK APARTMENTS,
Atlantic City, N. J., May 8, 1913.

WOODROW WILSON,

President of the United States.

SIR: The Republican Party has foisted upon this country the English scheme of "banks of issue" with the present result.

In the present critical stage of American development I would call your attention to the following maxim of the "money lenders" of the Old World: "Let us control the money of a country, and we care not who makes its laws."

Those who favor the continuance of banks of issue in this country are to be classified in history with John Sherman and Nelson W. Aldrich and the money power.

It makes no difference whether it is done under the name of the so-called national reserve association of the United States or "regional banks," as now suggested by Congress.

The issue is at last squarely drawn, and the Democratic Party will stultify and absolutely discredit itself if it indorses banks of issue in any form.

The majority of the 6,500,000 men who voted for Bryan believed that the issuing of the money was a Government function. The 4,000,000 men who voted for Roosevelt in 1912 voted on the money plank of his platform, which declared "the issuing of money to be a Government function."

An organization of the Socialist Party in Chicago has declared that the issue of money should be by the Government.

The Democratic Party, from the days of Thomas Jefferson, has declared in favor of the Government issue of money and against banks of issue. The Constitution of the United States unequivocally provides for the Government alone issuing money.

I presented the side of the people in the hearings before the Banking and Currency Committee after the panic of 1907, and expect at an early date to make a statement before the Banking and Currency Committee of the Senate. I regret very much not being able to confer with you on this subject in the interest of the people as requested in my letter of April 22, 1913.

With great respect,

T. CUSHING DANIEL.

Upon my return to Washington, I, attending the hearings before the Banking and Currency Committee of the Senate, and realizing the kind of bill the administration had indorsed and was then putting through the Senate, wrote the following letter to President Wilson [reading]:

WASHINGTON, D. C., November 25, 1913.

WOODROW WILSON, *President United States*.

SIR: The people of the United States have never indorsed an asset currency.

No political party in the United States has ever suggested in its platform the issuing of an asset currency. The whole record of the Democratic Party is in direct opposition to the pernicious theory underlying the issuing of asset currency.

The issuing of bank credits as a substitute for money in the United States and Europe has caused such inflation as to expose and absolutely destroy the so-called gold standard of values.

In Document 15, hearings before the Committee on Banking and Currency, S. 2539, the writer conclusively demonstrates that there is no such thing as a gold standard.

In section 29 of the pending bill, if passed by Congress, the Democratic Party will absolutely reverse and stultify itself by indorsing an economic absurdity, and something that does not exist, after having opposed it for over 40 years.

Mr. President, if you or Mr. Bryan had taken the people into your confidence, and had stated that you were in favor of an asset currency, and of the Government issuing debts instead of dollars as money, as provided in this bill, neither would have received the support of the people of this country.

The issuing of real money, for which a valuable consideration is given, and not debts redeemable in gold, is a Government function, as provided in the Constitution of the United States.

No incorporated banking institutions with stock issues are necessary as a condition precedent to the Government's exercising this highest act of sovereignty—to create and issue money—in the interest of all the people. Salmon P. Chase, ex-Secretary of the United States Treasury, fully realized this, and said:

"My agency in procuring the passage of the national-bank act was the mistake of my life. It has built up a monopoly that affects every interest in the country. It should be repealed. But before that can be accomplished, the people will be arrayed on one side and the banks on the other in a conflict such as we have never seen in this country."

In the light of experience and present conditions, it is as plain as the noon-day sun that if the people are now forced into partnership again with this convicted Money Trust and those responsible for it, as contemplated in this bill (S. 2639), it can and will produce nothing but disaster.

Bank credit inflation has swamped the so-called gold-standard theory until every man of ordinary intelligence can now see the economic fraud that has and is now inflicting untold loss and suffering upon the people.

The world's gold supply shows the cause of the money crisis to be worldwide.

Debts of the world specifically payable in gold over 100 billions of dollars, while the total gold money in the world is about 7 billions, or less than 7 cents on the dollar.

The annual increase of gold in the world during the last six years has been only \$9,967,500. (See p. 302, Director Mint, 1912.)

The world's annual production of gold has increased since 1908 from \$442,476,900 in that year to \$462,335,000 in 1912, or \$19,835,000, only \$4,958,750 per annum for the whole world. In the meantime the net imports of gold by India has risen from \$56,346,699 during the British fiscal year ending March 30, 1908, to \$134,409,087 during the fiscal year ending March 30, 1912.

The importation of India last year, plus the world's industrial consumption, was \$57,353,250, more than half the world's production, leaving only \$173,814,247 for the monetary use of the world.

The Director of the Mint, in his last report, 1912, states: "India's holding of gold steadily increases and is retired from monetary use and from the world's available supply," and says, "At this writing it seems probable that imports of 1912-13 will equal and possibly exceed those of the preceding year."

He then states: "It can not be safely predicated on the strength of present conditions in the principal gold fields of the world that the production of gold will materially increase in the next 10 years."

Mr. Wexler, the leading representative of the American Bankers' Association, makes the following admission before the Banking and Currency Committee of the Senate:

"Mr. WEXLER. * * * In other words, we have not been able to find where we are going to get gold enough to carry the reserves that are necessary.

"Q. Now, if the faith and credit of this big institution (the central reserve bank) ever became seriously impaired, it might have to get up gold very quickly, might it not?—A. Well, of course, if the people lost confidence in the note issue and everybody came to the window and demanded the amount in gold, it would require a general liquidation of credit of all the notes of everybody which the bank had, and the system would break down."

* * * * *

"A. Suppose that you had been required to sell \$100,000,000 of bonds in the last six months for the purpose of bringing gold into this country. You could not have sold them in any civilized country in the world, except at a tremendous discount, because all of the commercial nations of the world were begging each other for gold."

The report of the Director of the Mint, 1912, page 302, shows that from 1906 to 1912 the total increase of gold in our monetary system has been only \$59,805,000.

The debts specifically payable in gold have been created amounting to not less than \$12,000,000,000.

The total amount of gold money in the United States in 1912 was \$1,616,538,976. (Report of the Director of the Mint, 1912, p. 243.)

Nonlegal-tender notes, redeemable on demand in gold, \$1,822,631,739.

Debts specifically payable in gold, not less than \$40,000,000,000.

In the face of this impossible condition it is now proposed to issue an asset currency of hundreds of millions of dollars redeemable in gold. And under section 29 of the bill pledges the American people to maintain these gold payments to the extent of issuing bonds to get the gold to meet the demand coming from this mountain of debts for which gold can be required.

I would ask, What right has the Government to pledge the people to do this impossible and ruinous thing, and place them absolutely at the mercy of the money lenders and manufacturers of debts?

The banking corporations now have \$881,936,455 of this gold in their possession, and \$930,695,254 of credit currency immediately convertible into gold. This will more than absorb the entire amount of gold in the money system of the United States, when there is a demand for gold.

Is it reasonable or just to pledge the people to maintain gold payments under this condition?

Europe holds enough American securities to exhaust our gold supply by unloading them on the market. Is it just to pledge the people to maintain gold payments when this occurs?

Debts specifically payable in gold in the United States, not less than 40 billions of dollars.

Total amount of gold money in the United States, \$1,616,538,976. Only enough to pay 4 cents on the dollar.

Is it any longer rational to pledge the people to maintain gold payment—under the fraudulent pretext of maintaining the parity of our dollars and the so-called gold standard of values—a thing that does not exist?

Upon this false and fraudulent gold-basis system, it is now estimated that the banking corporations of the world have created out of bank credits as a substitute for money about 60 billions of debt against the people. Do you not consider it time to stop this bank-credit inflation that requires money from the borrowers that is not in existence, and that the Government should exercise its sovereign power and issue full legal tender dollars into the money system of the United States?

In legislation on money you deal with the highest attribute of sovereignty of this great people. The Constitution provides that "Congress shall coin (create) money and regulate the value (quantity) thereof." This means money and not asset currency or debts redeemable in gold, the quantity of which is measured only by the debts that the banks can manufacture against the people by rediscounting debts already held against them. This currency is farmed out to banking corporations already burdened with interest charges, which the borrower eventually pays. This is done in order that banking corporations may multiply more debts with higher interest charges upon an already overburdened people.

At this time to multiply more debts upon the people by the Government issuing an asset currency in partnership and cooperation with these banking corporations, redeemable in gold, would be the monumental fraud and absurdity of the age.

Mr. President, allow me to say that nothing but deep concern for the people and the future of this country prompts this frank statement of the facts here presented.

Very respectfully,

T. CUSHING DANIEL.

P. S. Those who control the money of the banks will control the so-called Government banks. The officials become mere figureheads, mere employees.

MR. BULKLEY. Mr. Daniel, you understand, do you not, that we are discussing the subject of rural credit, and the matter of the gold standard is not before us at this time.

MR. DANIEL. That is the basis of the whole system, you know. It is useless to discuss the superstructure unless we get the foundation properly laid.

MR. BULKLEY. I would like to suggest that you confine your remarks to questions relevant to the subject matter we have under consideration.

MR. DANIEL. Mr. Chairman, in the interest of the American farmer, I object to this constant reference to the rural-credit systems of the practically bankrupt countries of Europe as examples for the guidance or adoption of any such scheme in this Republic.

This was the plan adopted by the National Monetary Commission, headed by Aldrich, to divert the attention of the people from the preconceived Aldrich Money Trust bill subsequently indorsed by this commission, and introduced in Congress.

There is nothing new in these Fletcher-Moss bills (S. 4246 and H. R. 12585) to establish national farm-land banks indorsed by the administration. This system, previously framed up, was described by President Taft long before Woodrow Wilson was nominated as President of the United States.

President Taft in his speech before the Bankers' Association of New York, in the summer of 1912, stated that he knew nothing about the money question, yet in the same speech he indorsed the Aldrich Money Trust bill then pending in Congress. Also in the summer of

1912 he committed himself to the foreign-bank credit system for agricultural loans as follows:

As a later step, I favor the enactment of laws by Congress permitting the organization of national land-mortgage banks to be operated under strict Government supervision, with power to guarantee and market the guaranteed debenture bonds of the State land-mortgage banks or cooperative societies. * * * Such assumption is the essential precedent for obtaining the confidence of American as well as of the European investing public.

We find in the Republican and Democratic platforms an indorsement of an investigation of the rural-credit societies and corporations in foreign countries, and that national banks be allowed to loan money on real estate. What does all of this mean? Are the people to be fooled and further plundered by credit substitutes for money, and the enlargement of the powers of banks of issue—in this country—under the pretext of helping the farmers? The money power having manufactured debts on everything else in sight are now turning their attention to the American farmers.

If they can work their credit money scheme, and manufacture interest-earning mortgages and bonds on the farm lands of this country, indorsed or guaranteed by the Government, it would be equivalent to increasing the national debt so far as the obligation to pay is concerned; and at the same time have the farmers—the great producers of this country—mortgaged for all time to the nonproducers, and foreign and domestic bond dealers. Or if the holders of the farm mortgages or debenture bonds preferred to own the farms the operation would be described as follows: The credit society or bank would loan the farmer its credit, and the farmers mortgage would become an asset of the credit society, which would lend another farmer upon the basis of the first farmer's mortgage as an asset. A small amount of cash would thus create a pile of mortgages, each drawing interest, and no corresponding increase in money whatsoever to pay them. It would then only be necessary for these credit corporations to contract the currency, call in farm loans, foreclose their mortgages, and own the farms. On the other hand under the operation of a direct loan of money by the Government, the mortgages given by the farmers would be held by the Government, thus the expenses are reduced to a minimum, and the interest paid applied to reducing the taxes of the people until the mortgage was paid by the farmer.

In other words, the Government would lend them legal-tender money that would then be in existence and available to pay debts instead of a bank's credit, that vanishes into thin air almost as soon as the debt is made. It should be always borne in mind that although a loan is created by a "bank credit" it has to be paid by the borrower in money, and there is no corresponding amount of money in existence to pay it.

On the other hand, the Government would pay out the real money to correspond with every loan made, and this money would be available in order that the debtors could pay their debts.

Under prosperous conditions brought about by real money being put into circulation and in a few years under this system the farmers would gradually pay off their mortgages, and have enough cash to their credit in bank to carry them through a bad season. The other plan assumes that the farmer must always be in debt and never

have any money to his credit in the bank. This construction I consider economically unsound and dangerous to the best interests of the farmers.

If I were not acquainted with the hopeless poverty and suffering of the people in European countries, I might be more tolerant of these suggestions and references to foreign banking systems.

Mr. Moss, of Indiana, who introduced the bill now being considered, admits that the women do most of the work on the farms in Europe and that the girls are made prematurely old thereby.

I will now quote from a reliable authority, the *National Real Estate Journal*, of December 27, 1913:

House owners are steadily decreasing according to the *National Real Estate Journal*. A hundred years ago 70 per cent of all Berliners owned their own homes. Now only 12 per cent do so.

[Reading:]

BERLIN, *November 13.*

The report of the Public Weal Society, organized for the relief of distress among the poor, reveals a surprising state of affairs in 189 German towns. According to the report, 35,000 children habitually went breakfastless to school, while of the total children 5 per cent were sent to bed each night supperless and hungry. Not less than 95,000 children had to be fed by the public assistance committee and requiring an outlay of \$150,000, a sum insufficient by far to cope with the distress.

LONDON, *December 25.*

The London County Council approved an extra expenditure of \$125,000 for providing free 2-cent and 3-cent meals to necessitous school children whose parents are unable to feed them. This supplementary vote will bring the money expended for this purpose by the end of the financial year 1909-10, March 31, up to over \$311,000 instead of \$150,000, which it was estimated would be sufficient.

The number of free meals supplied in 1909 was 7,700,000.

Mr. Chairman, instead of being precedents worthy of imitation the whole European money system should be held up as a horrible example to be avoided by this Republic. Economic failure is written upon the future of European countries so plain that any man who knows their condition can not fail to realize it.

Mr. Chairman, we should no more pattern our monetary system after that of Europe than rewrite the Constitution of the United States to conform to the monarchies of Europe.

Another objection is the great expense attached to the proposed system.

The expense of the national banks as a tax upon the circulating medium of exchange, and paid by the people to maintain the system, is now absolutely unreasonable and unjustifiable.

The report of the Comptroller of the Currency for 1912, at page 18, states that the charges against gross earnings (expenses) were \$300,-986,646, or 66.48 per cent.

This is for national banks alone. Apply the same rate of expense to all these banks, viz. 25,195, in the United States and the expenses will amount to over a billion of dollars a year.

As the total amount of currency in actual circulation or doing the work of money is only \$1,720,000 (see Report of the Comptroller, 1912, p. 9), it is shown that in order to use this amount of currency

as a medium of exchange the people are taxed for the expense of the banks handling it over a billion dollars a year.

This being the case, can it be justified or satisfactorily explained to the people why the circulating medium of exchange should be taxed with another tremendous expense by a system of regional banks and a central reserve board and all the incidental expenses that such a system will place upon the circulating medium of exchange of the people of the United States that they must eventually pay?

In the Fletcher-Moss bill it is further proposed to establish another system of farm-land banks in all the States of this Union, thus entailing another enormous and unnecessary expense upon the people for the use of a circulating medium. Under such a system how can the people ever get the use of money at fair or low rates of interest?

All this unjustifiable expense could be saved by the Government issuing directly its legal-tender money and receiving a valuable consideration for it or its use, instead of issuing it indirectly as a credit substitute through banking corporations.

Farm loans could be made through the postal savings banks. Local appraisements made for the lands offered as security and reporting to the agent of the Government, just as proposed in the bill now being considered by this committee. Under this plan the borrower could obtain real money from the Government that would be in existence and go into the channels of trade, thus increasing the volume of money available for debtors to pay their debts.

In place of a credit substitute for money, viz, bank credit, that fades out of existence when checks are drawn against it, are matched in a clearing-house exchange or charged up on the crop accounts of the bank's ledger.

In making the loan direct the Government gets the interest on the farm mortgages until they are paid, and can thus reduce the taxes of the people.

Under the national land-mortgage and rural-credit scheme proposed, when these farm loans are made indirectly through banking corporations and the clearing-house operation used, enabling them to furnish their "bank credits" as a substitute for money, the debts in the aggregate become absolutely unpayable, as there is no corresponding amount of money in existence to pay them.

These mortgages become the basis or security of debenture bonds, practically indorsed by the Government, made long-time investments, like railroad bonds, dealt in and manipulated by bankers, the interest payable to foreign and domestic dealers in debts and bonds.

This system is based upon the European plan of capital's control of labor.

The word "capital" is generally misapplied and misunderstood. It is not money but a fictitious substance known as "bank credit," created and used by bankers in creating interest-bearing debts upon the people.

From the best calculations that are obtainable, take into consideration the national debts, the municipal debts, the corporate debts, and the real and personal debts of the people of the United States, is figured in the neighborhood of \$90,000,000,000. Upon a 5 per cent basis this would mean \$4,500,000,000 annually.

This can be paid in only one of two ways: Either by adding it to the cost of the things the people buy or use, or by reducing the rate of wages that produce them.

It is therefore a mathematical certainty unless the system of manufacturing unpayable debts is stopped, it eventually means repudiation, for the simple reason that the net earnings of all the labor in this country are no longer sufficient to carry these charges.

It is interesting to know how these debts have been manufactured upon the people of this country. In 1854 there were 50 banks in the city of New York with a capital of \$47,000,000. They established at that time, outside of the money system of this country, what is known as the "clearing-house" process. This enabled them at that time to pay incoming checks upon these banks amounting to \$20,000,000 with only \$1,000,000 of money, which was not paid to any drawers of the checks, but simply divided among the banks as their balances appeared.

This business has grown to an enormous amount until the daily clearings in New York amount to \$319,000,000, and this is settled with about \$16,000,000 in currency, divided among the banks.

As a matter of fact, when Mr. Morgan and the great financiers of New York manipulate the underwriting of bonds and stocks they prepare the necessary amount of cash as a basis of the operation, as, for instance, the United States Steel Corporation is required to carry a cash deposit with the Morgan banks of \$75,000,000. That \$75,000,000 in cash as a basis would take care of the underwriting of an issue of more than \$400,000,000 in bonds and stocks, under the operation of the clearing-house system of matching of checks.

It is shown by the Comptroller of the Currency that with only \$1,573,000,000 of actual money in all the 25,195 banks in the United States they have multiplied debts against the borrowers amounting to \$17,000,000,000.

The whole thing resolves itself into a plain demonstration of misgovernment as applied to the most resourceful and productive country on earth, and if continued will result in industrial revolution or repudiation.

To sum up: With \$134,000,000 of national wealth, we have already created 90 billions of dollars of debts.

In my study of the question of money, the greater portion of this deception comes from the idea that we are getting foreign capital. We often hear it stated that in England, or in Europe, they have accumulated a great deal of capital. Now, as a matter of fact, nobody ever sees any European capital in this country. What we really borrow is a bank's credit, which is a fictitious, nonexistent money. And old England has worked the clearing-house operation, located at the crossroads of the trade of the world, and mortgaged other countries by the process; and the international bankers have adopted the same process in regard to the United States.

Mr. Chairman, if you think it would be an economy in time, this memorandum that I have could be printed without the trouble of my reading it.

Mr. BULKLEY. Well, you may submit that, and we can look it over and decide whether it should be printed or not.

Mr. DANIEL. "Let us control the money of a country and we care not who makes its laws." This is the maxim of the house of Rothschilds, and is the foundation principle of European banks. If a country

and its people are mortgaged for the assessed value of their property, and the bankers control the money, the bondholders and not the people own that country. It makes no difference whether you call it a republic or a monarchy. The people can never be free "as the borrower is the servant of the lender."

As the banking and currency bill that passed the extra session of Congress is the basis upon which the bill now before this committee will depend, it should first be taken into consideration, and the people of this country should know the genesis of this Federal reserve act establishing this new money system in the United States.

The Federal reserve act as passed by Congress did not originate with the people. The influence of the money power framed the bill, and it is acknowledged to be a banker's bill.

As an evidence of this I quote from the hearings before the Senate Committee on Banking and Currency, referring to the testimony of H. Parker Willis, this advocate of the so-called exploded gold standard theory, an expert on money, who gives a fair indication of his qualifications as a go-between and expert adviser to the President of the United States and the Banking and Currency Committee of Congress, in the following statement of his economic calculations on money:

Senator REED. Well, is it not true, as a matter of financial law, that, taking prices in the aggregate and not picking out a particular year, but taking a period of time great enough so that you can strike a fair general average, the rise of prices has always followed the increase of per capita circulation?

Mr. WILLIS. I honestly do not think so. You ask me for an opinion, and it is my duty to tell you just what I think.

Senator REED. Certainly.

Mr. WILLIS. I do not think so. But I also add to that that there is scientific opinion in favor of the view that you have expressed, but that, in my judgment, the weight of scientific opinion is against it—closing, then, with the statement that, while there is a great deal of evidence on behalf of both sides, my own studies of the subject have led me personally to the conclusion that the quantitative theory of money is not a sound, is not a tenable one.

Senator REED. Then, if that is true, it will not make any difference how much per capita circulation we have out: as long as it is good money it will not affect prices.

Mr. WILLIS. Provided it is good money, and instantly redeemable, I do not think the mere quantity in circulation makes any difference.

In order that there may be no further doubt on this question, I will state that there has been only one standard in the money system, and it has long since been fully recognized and indorsed by the leading economists and recognized authorities on money. Concisely stated, the standard of value in a money system is constituted by the number of dollars in the system. The value of the dollar is made by the demand for dollars, the demand operating against the supply.

Therefore, if the dollars are few, and the demand is great, the standard of their value is high, and their purchasing power is great; and if the dollars are many and the demand is small, the standard of the value is low and their purchasing power is small. Thus, the value of the money unit is made by the demand operating against the supply.

I will now quote from John Stuart Mill's work on Political Economy:

The value of money, other things being the same, varies inversely as its quantity; every increase of quantity lowering the value and every diminution raising it in a ratio exactly equivalent.

John Locke says:

The value of money in any one country is the present quantity of the current money in that country in proportion to present trade.

Sir James Graham says:

The value of money is in the inverse ratio of its quantity, the supply of commodities remaining the same.

Mr. Willis declines, at this late day, to recognize the universal law of demand and supply affecting the value or purchasing power of money.

After reading the statements of political economists and so-called experts in their indorsement of these bankers' bills, one has a painful realization that there is a great deal of truth in the statement of Lord Macaulay, the English historian, when he said that for a valuable consideration he could get men of high standing and ability to question even the law of gravitation; and the recent statement of Vice President Marshall that he could, for \$500, get expert testimony on any subject in this country.

I call your attention to the following statement made before the Banking and Currency Committee of the Senate. I will not read it.

MR. BULKLEY. Mr. Daniel, the time which the committee allowed you has about expired and we have other witnesses from out of town—

MR. DANIEL (interposing). Well, the rest of this can be printed if you desire; I have no disposition to read it.

MR. BULKLEY. You may leave any memoranda that you have with the committee and it will then be determined whether it ought to be printed in the record of the hearings.

Can you state, in a few words now, before you leave, what is the specific application these thoughts you have expressed to the subject of rural credits? It seems to us as if you have been talking about financial standards generally, and we do not see that you have said much about rural credits.

MR. DANIEL. I am opposed absolutely to this Government issuing any more credit substitutes for money. We are running this country into bankruptcy as fast as we can with debts, and the idea of banking corporations in any form being allowed to loan a substitute for money, that every other man in the United States has to pay part of his life to meet, by a fictitious application of bank credits, has gone on long enough.

MR. BULKLEY. I do not know of any suggestion pending for the Government to issue any more substitutes for money.

MR. DANIEL. These rural-credit banks will not lend real money. There is no additional currency being issued in the United States to-day. This Government to-day under the national reserve act, can not issue one dollar of real money into the currency system of the country. It has got to get a man to bring into a bank a debt, have it rediscounted, and then it has got to have two strings tied to it, to be brought back into the Treasury of the United States. To my mind it is one of the momentous questions, the idea of allowing farmers in this country—the men that feed us all—to be put into perpetual debt, as they are in Europe—

MR. BULKLEY (interposing). Your idea is that the farmers ought not to be allowed to borrow money?

Mr. DANIEL. Yes, sir; let them borrow money; but let that money be real money, in existence; do not let it be a credit substitute. There is where the evil comes in. I have gone particularly into that very feature here. It has not been touched on in the 3,000 pages of testimony in the Senate Banking and Currency Committee. I have a memorandum here that clearly shows what that credit substitute for money is, and how it works. And that is the reason why I was anxious to build this foundation, and get an idea before you that has not been placed before this committee.

Mr. WOODS. What do you refer to in speaking of real money—letting the farmers have real money?

Mr. DANIEL. The legal-tender dollar; that completes the transaction, and is it in existence, increasing the volume and enabling the farmer to get hold of the money to pay his debts. For instance, if you allow these farm banks to be established, let them establish a clearing house, where the farmer checks on these banks. All these farmers' checks will be congregated in a clearing house and they will—for instance, \$100,000 of those incoming checks can be paid at the clearing house, and that will simplify the matter. But when the money is loaned from the outside, there is no money in existence that that farmer is able to get hold of when the demand is placed upon him to pay his mortgage.

Mr. BULKLEY. You do not think the farmer will be able to buy his goods with these checks and pay his obligations to the storekeeper, and that sort of thing?

Mr. DANIEL. The individual farmer cancels his debt, but when the check goes to the bank it is canceled by being credited on account of the man that he gives the check to. But there is no additional money in existence.

Mr. BULKLEY. Well, what I want to get at is: What more could the farmer buy with the legal-tender dollar than he could with the bank check?

Mr. DANIEL. Well, I will make an illustration. Suppose you go into a stockyard and want to borrow 100 horses, promising to return 100 horses. You would be very much interested in the quantity of horses outside of that pen, as you would have to return those horses one of these days in a physical way; therefore, the more horses there were in the open, outside of that pen, the better chance you would have to get the horses to be returned to the pen. The whole trouble is this, that the banker creates, by a fictitious substitute for money, a debt. He can pile those debts up until he, for instance, loans out \$8 of his "bank credit" in the way of a substitute for money, when there is but one real dollar as a basis for those held by the bank. Now, if the debtors try to earn the real dollars to pay those debts they are not in existence.

Mr. BULKLEY (interposing). What you are afraid of is he could not pay the debt by a check?

Mr. DANIEL. What is that?

Mr. BULKLEY. You are afraid that they would not accept the check in payment of the debt?

Mr. DANIEL. Not at all. My proposition is that when a man signs a contract to loan you \$10,000, that \$10,000 should be in existence, and he should loan you the thing he obligates himself to loan. And

you know, if the quantity of money is increased that much, it makes it easier for the debtor to cancel his debt in money, because he can not pay it back in a credit—the fictitious money that created the debt.

Mr. BULKLEY. Well, I have many times borrowed \$10,000, and have always been able to take the money out of the bank with me, and I never wanted to do so.

Your time has now expired, Mr. Daniel.

(Whereupon, at 4.35 o'clock p. m., the subcommittees adjourned until 10.30 o'clock a. m., Friday, March 13, 1914.)

FRIDAY, MARCH 13, 1914.

UNITED STATES SENATE,
Washington, D. C.

The subcommittees assembled in joint session at 11 o'clock a. m., Hon. Robert J. Bulkley presiding.

Present: Senator Hollis, Representatives Stone, Seldomridge, Woods, and Platt.

STATEMENT OF GEORGE H. SHIBLEY, DIRECTOR AMERICAN BUREAU OF POLITICAL RESEARCH, OF WASHINGTON, D. C.

Senator HOLLIS. You may state your qualifications. Mr. Shibley.

Mr. SHIBLEY. For the past 13 years I have been director of the American Bureau of Political Research. Twenty-five years ago I was admitted to the Illinois bar, and later was admitted to the bar of the Supreme Court of the United States. My work in the law has been principally research and law publishing. I retired from business at the age of 29 years, and soon afterwards, while engaged in researches in the law, matriculated at the University of Chicago, studying economics, political science, and social science.

Since then—that is, for 20 years—I have been devoting my entire time to public questions, from the standpoint of the people's interests, without holding office. Five and one-half years of my time I devoted to the money question and to the banking problem. Recently I was expert to the Senate Committee on Banking and Currency, when the Federal reserve act was under consideration.

I desire to present a short statement in support of the idea that the Federal Government should, in connection with its regulation of the issuance of the land-mortgage bonds, guarantee the payment of the principal and interest. I believe that this plan is incorporated in some of the bills that are before you.

By providing the proposed guaranty it would lower the interest rate, and at practically no expense to the taxpayers.

In Great Britain, under the Irish land-purchase act of 1903, the Government stands back of the transaction. During the first 18 months after the act went into effect the amount for which the Government was obligated was \$100,000,000, and the total amount would, it was expected, foot up to \$500,000,000.

A saving of 1 per cent in lower interest on this vast sum would be \$5,000,000 annually, or in 35 years a total of \$175,000,000, which, at compound interest, would amount to some \$300,000,000, or more than one-half of the entire principal.

This is a tremendously large saving to the people through the cooperative use of their combined credit, yet it is for only part of one small island. Here in the United States, with an area as large as all Europe, the saving in interest from Government guaranty of land-mortgage bonds would be tremendous.

But as yet there is not even a Federal system for the issuance of land-mortgage bonds in this country, because until one year ago the Federal Government was in the hands of the powerful few, through machine-rule party government, who used that Government to promote their own selfish interests at the people's expense. Accordingly, there was no lessening of interest rates to the people through action by the Government in any way.

However, the people are again in control of the Federal Government, as is evidenced by the legislation and the acts of administration of the past 12 months, and an improved form of rural credits is about to be installed, to include, I trust, Government guaranty of payment of the principal and interest of the land-mortgage bonds.

In New Zealand, where the people have had control of the Government for many years, it is saving to the farmers in lower interest rates direct a sum estimated at \$800,000 per year. These are the figures given by Hon. Hugh H. Lusk, of New Zealand, in his book *Social Welfare in New Zealand*. New Zealand is a very small place as compared with our country.

Now compare Germany. In the words of the minority report on agricultural cooperation and rural credit in Europe—

Little or no Government inspection is provided to require the farmers' cooperative land banks to charge off losses or to keep their up to a certain standard (p. 9).

The result is that there have been glaring cases of actual failure and of considerable losses, while the interest rate must inevitably be higher than though the Government did its full duty.

The explanation of the action of the German Government is that it is controlled by the few for their own benefit and they evidently do not desire to reduce the interest rates for the money that they loan to the farmers.

Senator HOLLIS. Right there, Mr. Shibley, I would like to ask this question: Your idea is that if the Government guarantees these bonds, it, of course, will be much more careful to inspect them and see that only good bonds are put out?

Mr. SHIBLEY. Yes; that is it.

Senator HOLLIS. And that same Government inspection will tend to give them credit, in addition to the Government guarantee, and would put the interest rate very much lower than it can be put in other ways; that is you thought, is it?

Mr. SHIBLEY. That is my idea. In other words, the principle whereby our Government is warranted in guaranteeing the payment of the land-mortgage bonds is that as the said Government is to regulate the issuance of the bonds it should guarantee that its supervision is all that it should be. Should the Government refuse to guarantee that its supervision has been properly made, it would, in effect, amount to a declaration to the would-be purchasers of these land-mortgage bonds that they, in order to exercise due caution, must individually reinspect the conditions under which the bonds were issued.

Now, I would like to know if I am correct in that statement? If the Government should refuse to guarantee that they have made proper inspection, then the purchasers themselves would have to go out and inspect each bunch of bonds that are to be purchased.

Senator HOLLIS. Mr. Shibley, you see that there is quite a difference between the Government stamping them as duly inspected and approved and placing a guarantee on them, which would make the Government responsible for their payment in case the principal defaulted.

Mr. SHIBLEY. Exactly. Now, what would be due care on the part of the purchaser if the Government refuses to guarantee? Why, they must go and see if the bonds were properly inspected—if they were issued properly; if there is a proper amount of value behind those bonds.

Senator HOLLIS. Well, do you not think that the purchaser would be satisfied if the Government certifies that they have been properly inspected, and were approved, without the Government guaranty?

Mr. SHIBLEY. No; certainly not. The risk would be 1 per cent higher at least.

Senator HOLLIS. Well, I am glad of your estimate on that. I think it would be considerably higher myself.

Mr. SHIBLEY. Yes; whereas, if you put the seal of the Government's guarantee on them the Government would be more careful; would do better work. Now, if any unforeseen accident should arise, so that there is to be a loss—a loss without anyone being negligent—should the few people who happen to be where the trouble is suffer all the loss, or should there be an insurance, so that the loss is scattered all over the country, and no one feel it?

Senator HOLLIS. I wish you would discuss this from the standpoint of one who considers that the Government has done substantially the same thing in loaning its Federal reserve notes to the Federal reserve banks.

Mr. SHIBLEY. Yes; that is—

Senator HOLLIS (continuing). On good security, of course.

Mr. SHIBLEY. On good security, and each one of those notes is guaranteed by the Government.

Mr. BULKLEY. They are Government notes.

Senator HOLLIS. It is a Government note loaned to a Federal reserve bank on good security. Now, is your proposition analogous to that, in your judgment?

Mr. SHIBLEY. Exactly. And I have been told that it is the policy of the administration to establish insurance of bank deposits in connection with the Federal reserve act; and the farmers should have the same plan extended to them in order that they may get lower interest rates. The situations are exactly analogous, in my judgment.

Mr. BULKLEY. I am afraid we are getting into a doubtful analogy about the guarantee of bank deposits, because, as I understand it, there has been no definite declaration on the part of the administration with respect to that, and the guarantee of bank deposits might be a virtual guarantee on the part of the banks without any Government intervention at all.

Senator HOLLIS. I think that has not gone any farther than this, that the Democratic Senate caucus indorsed an amendment in favor of guarantee of bank deposits, but that was stricken out in conference, and the Senate Banking and Currency Committee has now appointed a subcommittee to consider the subject. Perhaps that is as far as the administration has gone.

Mr. SHIBLEY. It is well, however, to have it in the record.

Senator HOLLIS. That is merely of the Senate action.

Mr. SHIBLEY. But in connection with the Federal reserve act we will possess a fund that can be used for the payment of such losses as may arise, so that no one would have to be taxed separately to get a fund for the guaranty fund or the insurance fund, whichever you may call it.

Senator HOLLIS. Do you mean to suggest that that surplus fund from earnings of the Federal reserve banks might be extended to the farm-land guaranty?

Mr. SHIBLEY. Yes; the same as it was in the Senate bill.

Senator HOLLIS. Yes; I see.

Mr. SHIBLEY. A portion of that fund would be sufficient.

Mr. BULKLEY. But you would make the Government absolutely liable on the bonds, whether any fund happened to be available to make good the loss or not, would you?

Mr. SHIBLEY. Yes; certainly, because otherwise the interest rate would necessarily be higher, too high.

Mr. BULKLEY. Yes.

Mr. SHIBLEY. This matter of an insurance fund I believe is poor policy, because the Government, the entire people, ought to stand as guarantors; but under the insurance plan we would put in a certain amount of money, and if that should prove to be insufficient the individuals would lose.

Mr. BULKLEY. So that the fund is a mere incident to your plan, but the liability is absolute.

Mr. SHIBLEY. Yes; in order to get the lowest possible interest rate. I noticed the other day that the Canadian 4 per cent bonds were selling at 102; and the New Zealand 4 per cent bonds were selling at about the same price. At the high rate that has been prevailing in recent years the New Zealand Government has been loaning to its people at something like $4\frac{1}{2}$ per cent.

Mr. BULKLEY. New Zealand does not guarantee land bonds; they issue their own Government bonds and then lend the money to the farmers; is that not the situation there?

Mr. SHIBLEY. Yes; but the liability of the Government is the same. They have assumed liability for the whole matter, and so they would under the guarantee plan.

Mr. BULKLEY. Why do you think that your plan is better than the New Zealand plan?

Mr. SHIBLEY. For many reasons we should not have the direct-loan plan in this country. In the first place, the Government acts too slowly; there is too much red tape about it. And in a great country like this if the farmers want to go ahead and pay the rate then prevailing, they ought to be able to get their money promptly and have it attended to so that they can go on about their business.

The function of Government, as I take it, under the present status of civilization, is largely to regulate competition. That is its main function; and in regulating in matters where the Government is to go into the adequacy of the security, like the land-mortgage bonds, it ought to affix a guaranty in order that the people as a whole can get better results; the Government should do whatever will bring the best results.

Senator HOLLIS. Would you make the farm-land banks stand this expense of Government inspection and indorsement, or would you make that payable out of the general revenues of the Government?

Mr. SHIBLEY. I have not studied that carefully, but my idea is that we ought to treat alike all industrial groups. If in the case of national banks a considerable sum is being paid by the Government in inspection, we should do the same for the land banks. I am confident that the farmers are not asking for anything special for themselves; they simply desire to be placed on the same footing with other industrial groups.

As to the matter of direct loans, I wish to present a statement as to the general function of government by Prof. Lester F. Ward, the noted social scientist. In his volume, *Pure Sociology*, page 567, he says:

The whole truth is that Anglo-Saxon supremacy is due to the ability of that race to see and act upon the principle that while individual initiative can alone accomplish great results, it must be free, and that, under the influence of the normal and natural forces of society, and taking the whole human nature into account, it can not be free unless the avenues for its activity be kept open by the power of society at large. Even the economists are beginning to see that free competition in business is a myth unless it be protected from the universal tendency of all competition in nature speedily and surely to end in monopoly.

Thus Prof. Ward clearly enunciates the principle whereby we of the United States should shape our governmental activities. In industry we should restore the competitive system wherever practicable, and regulate it to whatever extent necessary; and along with that regulation to guarantee that inspection has been properly made. This guaranty should be given in connection with land-mortgage bonds in my judgment.

Mr. SELDOMRIDGE. What is the name of that book?

Mr. SHIBLEY. *Pure Sociology*.

Senator HOLLIS. That is, you would guarantee the purity of the land-mortgage bonds the same as the Government guarantees the purity of beef or other food?

Mr. SHIBLEY. That is it, exactly.

Mr. SELDOMRIDGE. You would guarantee it a little bit more than that, would you not?

Mr. SHIBLEY. Yes; because in the nature of the case it can be guaranteed more: that is all. It is a peculiar situation. At times I have been asked how far should the Government go in guaranteeing payment in the business world? My answer is that it depends upon the nature of the case—upon what is practicable. The whole thing is a matter of practicability for the Government, in my judgment.

Mr. BULKLEY. I would like to ask you whether you are familiar with the market for New Zealand bonds; you just referred to their price. As I remember it, New Zealand has an exceptionally heavy debt per capita, and I would like to know if you can tell us where those bonds are held, and how they maintain such a good market for them?

Mr. SHIBLEY. The quotation that I saw was in the *London Economist*, and there they were quoted at a top-notch price along with Canadian bonds.

Mr. BULKLEY. Do you know whether they are held largely in England?

Mr. SHIBLEY. I think they are largely held in England. The reason for the large debt per capita in New Zealand is that funds have been borrowed for use in productive enterprises—money has been loaned to the people, so that it is in good use. As to the reason why the New Zealand Government has entered into the direct loaning system over there—well, I do not know all of the details, but surely the conditions are very different in this country, it being so large. So that the direct-loan plan is not as good as the guaranty plan, in my opinion, because under both systems the rates will be practically the same to the farmers—a much lower rate than would be the case if the guaranty is not given.

Senator HOLLIS. You feel that with a properly conducted system of inspection and guaranty, the Government would not be called on to give anything but its supervision, do you?

Mr. SHIBLEY. That is practically all.

Senator HOLLIS. That the losses would be so few that they would be negligible, and could be made up by some sort of allowance out of the earnings of the banks?

Mr. SHIBLEY. Yes; they could be made up in that way, but preferably, I should say, make them payable from the earnings coming in through Federal reserve banks—that money that we are trying to find a place for. The law states that it shall be applied to the retirement of Government bonds in order to get it out of the way—keep it apart from the funds for the payment of current expenses.

Senator HOLLIS. You are very clear, are you, that you would make these farm-land banks constitute a part of the Federal reserve system, under the Federal reserve board?

Mr. SHIBLEY. I am not sure of that.

Senator HOLLIS. I am asking you what your ideas are; I just assumed that that was your idea.

Mr. SHIBLEY. From what little study I have given to the matter of supervision it struck me that perhaps the plan provided for in the Fletcher-Moss bill may be about right. I have not given that subject sufficient study to speak with exactness.

Senator HOLLIS. I spoke as I did because of your plan to apply the surplus earnings of the Federal reserve system. It would hardly do to apply that to anything that was not a part of the Federal reserve system. I should think.

Mr. BULKLEY. Mr. Shibley, I do not want to take you out of your own logical order of development of this subject, but I hope before you get through you will tell us about who is to issue the bonds, according to your idea.

Mr. SHIBLEY. Well, I will say frankly that I have not had time to give the entire subject full study in all its details. I have taken up this matter of guaranty, and that is as far as I feel qualified to give any assistance to the committee.

Mr. BULKLEY. The Fletcher-Moss bill provides for the issuance of bonds by an indefinite number of small independent banks, scattered all over the country. Some of our witnesses have suggested that those banks ought to be federated into State units, or, perhaps, larger units, and that the larger unit should issue the bond. Have you no opinion about that?

MR. SHIBLEY. I am not sufficiently acquainted with the details to express an opinion. I realize that in a matter of this kind each factor may be a determining element.

MR. BULKLEY. Let me ask you this question: When you say that the Government should guarantee the bond, you intend to imply that some bank or institution other than the Government shall be primarily liable on the bonds, do you not?

MR. SHIBLEY. Certainly.

MR. BULKLEY. And that their assets should first be absorbed in paying any loss before the Government would be called upon?

MR. SHIBLEY. Yes; and that there should be double liability by the stockholders: and that all other practicable checks on the bad debts shall be provided; and then that the Government shall carefully inspect; and if inspection is not properly made, or if there is a loss anyhow, then the Government should pay the loss, and not some innocent individual. The Government is the only one that has the right to inspect.

MR. BULKLEY. According to your plan, in every case some private interests are bound to do their utmost to protect the Government against loss in order to save themselves from loss?

MR. SHIBLEY. Most assuredly. I am glad you have emphasized that fact. And to such an extent would that be the case that I presume that there would be almost no losses to the Government and the interest rate to the farmers would be materially lowered. In a few years this saving would amount to a billion of dollars to the farmers of this country.

MR. PLATT. Why should you be so tender about saving the Government a little money?

MR. SHIBLEY. Saving the Government?

MR. PLATT. Yes.

MR. SHIBLEY. Saving the people—

MR. PLATT (interposing). I mean on its guaranty of these bonds?

MR. SHIBLEY. Do you mean why should we have double liability of stockholders and matters of that kind?

MR. PLATT. Yes: that is one thing.

MR. SHIBLEY. Why, the inspection—

MR. PLATT (interposing). If the Government is going to guarantee, why should it not guarantee and stand the losses; why should it not find out whether the thing is good or not before it guarantees it?

MR. SHIBLEY. The guaranty would stand back of each bond as a last resort, and the self-interest of the stockholder of the land banks would cause them to see to it that the valuation is not too high. The stockholders are primarily liable in addition to the security taken. The guaranty by the Government would simply be a certificate of character to the world.

I believe that I have now covered the points that I had in mind.

MR. BULKLEY. Why is it better for the Government to guarantee those bonds than it would be for the Government to buy the bonds, and, if need be, issue its own bonds to secure the necessary funds?

MR. SHIBLEY. For the Government to issue its own bonds and sell them would leave off the individual initiative that brings such excellent results.

MR. BULKLEY. I do not see why it would.

Mr. SHIBLEY. If the bonds are to be marketed by the issuing corporation, then they are going to go out and find purchasers for them, and when they want money they will see that the bonds are sold; and the Government simply would put its guaranty on them, after due inspection. Individual initiative would exist. But if the Government itself has to sell the bonds there might be a great deal of delay, red tape, and so forth. Sometimes it might say to a would-be borrower: "We have not the money at present; we can not give you this loan." And the farmers, instead of being able to get their money to build and make other improvements on their farms, might have to wait a year or more. The Government might say "Money is a little scarce at present."

Mr. BULKLEY. Of course I am not talking about direct loans by the Government to the farmers. I am talking about the proposition of the Government buying the bonds of these institutions, whatever they may be.

Mr. SHIBLEY. Then they would have to have the capital with which to buy them.

Mr. BULKLEY. Well, does the Government ever have trouble in selling its bonds?

Mr. SHIBLEY. It might have some trouble. If it can always sell its bonds quickly, so that there would be no hitch in getting the capital, well and good.

Mr. BULKLEY. Well, of course the Government issues of bonds are always over-subscribed. It is simply a question of the price that the bonds will sell at.

Mr. SHIBLEY. They have been over-subscribed because we have had very little paper of such good character; but from now on, I take it that we are going to have more and more paper of a high character.

Mr. BULKLEY. What is there that will bring us more of a high character of paper?

Mr. SHIBLEY. I believe that the Government is going to do more in guaranteeing certain payments.

Mr. PLATT. Do you think the Government is going to guarantee railroad bonds?

Mr. SHIBLEY. If the Government inspects and says that capital should come in, then those railroad bonds should be as good as Government bonds.

Mr. PLATT. I think there is something in that. The New York State Public Service Commission, for instance, practically guarantees all railroad issues of stocks and bonds of the State now.

Mr. SHIBLEY. I am very glad that that goes into the record. That is an excellent point.

Mr. PLATT. And that is exactly what will happen when the Interstate Commerce Commission does the same thing.

Mr. SHIBLEY. Certainly.

Senator HOLLIS. You believe that is a good thing, Mr. Shibley, and you would extend it?

Mr. SHIBLEY. Certainly.

Senator HOLLIS. All right.

Mr. SHIBLEY. When the Government puts its O. K. on a thing let it be responsible in reality, and not say that each purchaser must go himself and find out whether it is true that the Government

has stated the thing properly. It is absolutely impossible to issue good securities unless the Government certificate means something.

Mr. PLATT. In speaking of guaranteeing these land-mortgage bonds, you mean more than the O. K. of the issue by the public service commission, or the Interstate Commerce Commission; you mean that the Government actually stands back of it, then, do you not?

Mr. SHIBLEY. Yes; I mean an effective O. K.

Mr. PLATT. Yes.

Mr. SHIBLEY. And not one that is ineffective.

Senator HOLLIS. We thank you for your attendance and testimony, Mr. Shibley.

STATEMENT OF HON. SHEFFIELD INGALLS, LIEUTENANT GOVERNOR OF THE STATE OF KANSAS, ATCHISON, KANS.

Mr. BULKLEY. Will you state, Gov. Ingalls, your interest in this matter and your special means of information?

Gov. INGALLS. Well, by way of qualifying myself as a witness, I might say I am president of the Commerce Investment Co., of Atchison—a mortgage company; a director in the First National Bank of the same city; a farmer per alium, and not per se; and, by way of diversion, I am lieutenant governor of the State of Kansas.

I first became interested in this class of legislation about two years ago during a trip which I made East for the purpose of selling farm mortgages. During that trip I met Mr. Breitung, who testified here the other day, and, with my brother, Ralph Ingalls, whose name I notice has been mentioned in connection with these proceedings by Mr. Robinson, I called upon him and as a result of that interview my brother became acquainted with Ambassador Herrick, who (as you know) has for a great many years been interested in this question. I regret very much that my brother is not here to-day, because he has technical knowledge (acquired by a very close study of this question) as regards the plans that are in operation in Germany, Belgium, and France. He has been for about two years co-operating with Ambassador Herrick in the collection of statistical matter.

I appear here to-day more as a practical mortgage man, interested in this subject purely for the reason that I would like to see the farm mortgage standardized, the credit of the farmer mobilized, and a market created for this kind of investments.

Senator HOLLIS. By the way, let me ask you this practical question: When you came East two years ago to sell your mortgage loans, to what class of persons did you actually go?

Gov. INGALLS. Well, it is a little hard to answer that question as you put it. You mean by that, I suppose, whether they were merchants or—

Senator HOLLIS (interposing). No; what persons did you go to? That will throw some light on who will be affected by these bonds.

Gov. INGALLS. Well, I called on the savings banks of New England, and personal friends of means, and brokers engaged in the sale of farm mortgages. I think I have made as complete a tour of New England as any mortgage man has. I might say, incidentally, that it was not very successful, because the connections which New Eng-

land has made with farm-loan companies of the West were made many years ago. But we have succeeded in making connections with one or two insurance companies, and have a reasonably large clientele. Our company, however, is not one of the large companies of Kansas. In fact, we are one of the smallest ones.

Personally, I have been engaged in loaning money on farms for 12 or 15 years, but it was only in 1910 that I organized the company of which I am at present the president.

I believe that I am the only witness that has appeared before this committee from Kansas, and I realize also that Kansas is a State that has done more to unpopularize the farm mortgage than any other State in the Union. But that is not hard to explain.

I believe that this committee has had some testimony with reference to the operation of the Lombard Investment Co. and the Jarvis-Conklin people in the early eighties. And you have been told that the failure of those companies was due to bad methods rather than to the security behind their investments.

I do not recall the time when they were operating in that field, because it was before I was in active business, but I know something about it. If you will remember—some of the older members of the committee may—the railroads in the late seventies and the early eighties organized great colonization schemes and brought into the State settlers in large numbers and took them out into the western part of Kansas and settled them on farms in what was known as the semi-arid region, and the farms and their powers of productivity were largely overadvertised, and, as a result of that, these mortgage companies sprang up and loaned money at exorbitant rates, upon high valuations, and the investors of New England held the sack. I was talking with the cashier of one of the largest savings banks in New Hampshire—at Portsmouth, I think—

Senator HOLLIS (interposing). Do you remember his name?

Gov. INGALLS. I can not recall his name now. He told me that they had made investments in Kansas, but were among the fortunate ones who held on to the security after it became their property, and, as the land enhanced in value, they sold out at a large profit. They still hold some properties in Kansas as a result of their early investments.

I say, the point that I am particularly interested in in connection with this legislation is to see an interest rate fixed, and I have not been able to determine from any of the testimony that has been offered here why it is beyond the province of the power of Congress to fix a rate of interest throughout the country.

Mr. PLATT. A uniform rate of interest?

Gov. INGALLS. Yes, sir. I do not see why that is impossible. Of course, these loans must necessarily be confined to the proven agricultural sections of the country, and while I come from a section in Kansas where land is selling, or has sold, as high as \$225 an acre, there is about half of the State where land is materially lower than that in value.

But it seems to me that all agricultural land has a value, and if a loan of \$5,000 on a quarter section of land in northeastern Kansas is safe and a loan of \$250 on a quarter section in Western Kansas is

safe, why should not the farmer in western Kansas—the homesteader, if you please, the man who is the pioneer and is doing the great work of the State out on those plains—why should he not be entitled to the same rate of interest, based upon the valuation back of his mortgage, as the farmer in the more favored section of the State?

Mr. PLATT. What rate of interest would you fix?

Gov. INGALLS. Well, not to exceed 6 per cent seems to be a kind of a magic rate.

Mr. PLATT. We are paying 1 per cent less than that all over the East. Would you raise our rates?

Gov. INGALLS. Well, you would have to suffer from that, possibly. The average rate of interest, as figured out by Mr. Thompson, I think, is $7\frac{1}{2}$ per cent. Under the plan that has been outlined in the Fletcher-Moss bill—and I consider that in connection with my remarks as containing the basic principles of legislation as it will be finally enacted—the difference between the rate on the mortgage and the bond is 1 per cent; so that the bonds will net the investor 5 per cent if written at a basis of 6 per cent.

Senator HOLLIS (interposing). Well, Gov. Ingalls, does it not seem to you that if these bonds are so safeguarded that they become a desirable investment, so that a large amount of capital is seeking them, that would have a tendency to lower the rate of interest and give the borrowers a lower rate than anyone might now think it was wise to fix? Or do you mean by that that it would leave it flexible, but have the same rate for the whole country?

Gov. INGALLS. I would have it the same for the whole country—not to exceed 6 per cent.

Senator HOLLIS. But would you have it fixed or flexible for the whole country?

Gov. INGALLS. Now, let me answer that in my own way, please. Of course, in this legislation we have got altruism, philanthropy, and avarice badly mixed up. At the inception of this movement the idea was to give the farmer of the country a lower rate of interest to help the farming class, which never has been the beneficiary of any financial legislation in this country. That was the beginning of it.

Now we have moved on from that point to this bill, which in a sense loses sight of that one important feature, it seems to me. Of course, I do not consider the direct loaning of money to the farmer by the Government a wise policy at this time. If this plan is to be inaugurated, it should be left to the State, as it is in Oklahoma and other States of the Union; but if this legislation is passed, you can not eliminate, in my opinion, a certain profit that should go to the association or the banks handling these investments. I stated 6 per cent because 6 per cent has been a living rate, and so recognized the country over.

And I believe that we have simply got to frame this legislation, keeping in mind as nearly as possible both the interest of the farmer and the interest of those who are going to handle these investments and make these loans and put the machinery in motion.

Mr. PLATT. Let me see if I clearly understand you, Gov. Ingalls. Do you mean to fix by law the rate of interest the farmer shall pay on his mortgage, or the rate of interest the bond will pay?

Gov. INGALLS. The rate of interest that is to be paid—the rate of interest over the country.

Mr. PLATT. Do you think that can be done by law?

Gov. INGALLS. We do it in the States.

Mr. PLATT. Do you, as a matter of fact?

Gov. INGALLS. We fix the legal rate of interest at 6 per cent and we fix the usury rate at 10 per cent in Kansas.

Mr. PLATT. Does anybody pay any attention to that?

Gov. INGALLS. Well, we have laws against murder and laws against arson, against liquor selling, which sometimes are not observed; but if the law is there it is intended that it shall be observed.

Mr. PLATT. Do you think, for instance, that you could fix a rate of interest at 6 per cent in New York State if its natural rate is 5 per cent by a law of any kind? Could you repeal economic laws by statute laws?

Gov. INGALLS. I have no finespun economic theories about it, but it seems to me that somehow it ought to be possible to arrive at a rate of interest that would be equitable all around.

We can not disregard the law of supply and demand altogether and certain economic conditions that exist in different parts of the country, but why are bonds in New York, for instance, selling at 4½ per cent, at a premium?

Mr. PLATT. New York City bonds do you mean?

Gov. INGALLS. No; New York State bonds. Who fixes that rate?

Mr. PLATT. The market.

Gov. INGALLS. Well, what is the market?

Mr. PLATT. The supply of capital that is handy and the demand for the bonds and the amount of the bonds issued. The rate has been going up on New York City bonds pretty steadily, as the supply of them has increased.

Gov. INGALLS. Yes. In other words, you think the rate is fixed simply by supply and demand?

Mr. PLATT. Unquestionably.

Gov. INGALLS. Then I will ask the question, Why do States fix the rate of interest, or attempt to fix the rate of interest, at 6 per cent and the usurious rate of interest at 10 per cent? Why are those figures particularly magic?

Mr. PLATT. In Europe, as a rule, there are no usury laws, and the best economic thought to-day, I think, regards them as foolish. They do protect some people from loan sharks; that is the only object of them. They do not protect the ordinary man at all; they are no good as to him.

Gov. INGALLS. It is the custom in Kansas for a mortgage man to charge a borrower in Scott County, which is west of the one hundredth meridian, 10 per cent. In our county we loaned about \$200,000 last spring at 5 per cent and \$15 a thousand as a commission, so that the borrower paid less than 5½ per cent for his money.

Senator HOLLIS. For what term?

Gov. INGALLS. Five years, with the privilege of paying it off after the first year. Now, the rate in Scott County—

Senator HOLLIS (interposing). Excuse me, but let us figure that up. That \$15 a thousand commission, applying to the whole period, would make one-third of 1 per cent for a year, and that would make the whole rate 5½ per cent.

Gov. INGALLS. Yes.

Senator HOLLIS. It seems to me that that is very reasonable.

Gov. INGALLS. Of course, I live in a part of Kansas where the farmers are prosperous and are themselves money lenders.

But what I started to say was that the rate in Scott County was 10 per cent simply because they make it 10 per cent. I can not understand why the farmer out there, if he has sufficient assets back of the amount of money he asks for, should not be entitled to as low a rate of interest as the farmer in my county. Unless this legislation is carried out with that idea in view it is going to fail of its purpose to a certain extent.

Mr. PLATT. Is not the reason for that condition in Scott County the fact that the farmers in that county went back on their mortgages in 1893 and 1894 and are suffering for that now?

Gov. INGALLS. We have passed through that moulting period, and with the immense activity of the agricultural departments of both State and Nation and the farmers having been taught how to farm that land, what kind of crops to put in, how to construct silos and what to do with them, I regard the mortgage of \$200 or \$300 to a quarter section in Scott County or Gove County or Logan County, which are all west of the one hundredth principal meridian, is just as safe an investment as a \$8,000 loan on a \$200 an acre farm in Atchison County.

Mr. PLATT. You would have hard work to convince eastern investors of that fact, and that is why they pay a higher rate of interest.

Gov. INGALLS. I know that.

Mr. PLATT. The supply, in other words, will not go there until they have themselves broken down the prejudice that they previously created.

Gov. INGALLS. That is the point, it seems to me, that Members of Congress have got to keep in mind in shaping this legislation, as to whether or not it is going to benefit the small farmer on the small farm; if it simply establishes Federal associations to standardize farm mortgages made in certain selected regions, it will help our loan men all right, but it will not go to the bottom of the subject and help the farmer.

With your permission, I would like to call attention to some defects in the measure known as the Fletcher-Moss bill, taking them up as they appear in order in the bill.

I notice, for instance, that in subdivision 1 of section 14 of the bill the terminology "national farm-land bank" is used. It seems to me that the word "association" would be preferable, because of the danger of a conflict between the national banks as now organized and these proposed land organizations.

I should like also to refer to subdivision A of section 16 of the bill, which provides the kinds of deposits that these banks are to receive. I should think it would be wise to permit the banks to receive other deposits than national deposits or deposits from postal savings banks; and while there is one section that does not prohibit the deposit of State funds, I believe you should include State, county, and city funds; and, in fact, I think these banks should be limited to receiving national, State, county, and municipal funds, and trust funds.

I believe in this, for the reason you would not then come in conflict with other banks as not organized, or in competition with them. In other words, let them do practically a trust-company business. In relation to subdivision 3, section 16, I notice that you limit the purposes for which these loans can be made. Of course, while that limitation might be entirely proper, it seems to me that it is entirely impracticable, because it would be quite difficult to limit the purposes for which these loans were made. If a man should make application for \$5,000 on a quarter section of land, if the quarter section was a good asset or good security for \$5,000, I see no reason why he should not be able to get that amount of money.

Mr. PLATT. Well, you are talking now about limiting the amount rather than—

Gov. INGALLS (interposing). No; this is subdivision 3, as to the purpose for which loans can be made. In other words, if a man wanted \$5,000, he could not get it unless he wanted it to complete the purchase of the land mortgaged, to improve and equip such land for agricultural purposes, or to pay and discharge debts secured by mortgages or deeds of trust on said lands.

Mr. PLATT. I thought from your statement as to \$5,000 on a quarter section of land that you were talking about the amount. Well, just why do you think that it would not be possible to limit the purpose to which the loan is to be applied?

Gov. INGALLS. Pardon me; I may have used the wrong language. It may be possible to do it, but I think it would be impracticable to do it, and in a sense it would be wrong to do it. If a man has a quarter section that is worth \$16,000, why should he not be able to borrow \$5,000 on it, regardless of the purposes for which it might be desired?

Mr. PLATT. Well, I am inclined to agree with you that it would be practically impossible to prevent him from getting it, regardless of the purpose for which it was desired; but would it not be possible to provide, for instance, that if he borrowed \$5,000 and spent it for an automobile, the mortgage should thereupon become due?

Gov. INGALLS. Let me tell you about this automobile business. I notice that all through these hearings reference has been made to automobiles, and the idea seems to be that it was wrong for a farmer to own an automobile. Now, in my country—

Mr. PLATT (interposing). I know they are all rich in your country now.

Gov. INGALLS. In my country the bankers are glad to see a farmer invest money in an automobile, simply because they have contributed very largely to the contentment on the farm of the women and the girls, and it has made it possible for them to transport their eggs⁺ and their produce to market quickly, and to go to town and get back home the same day; and bankers in Kansas no longer look with any degree of suspicion upon a farmer who feels like buying an automobile, provided he does not try to get one of the high-priced cars.

Mr. SELDOMRIDGE. I think in the one little town of Larned, in western Kansas, the statistics show that there are over 600 automobiles owned by the farmers.

Gov. INGALLS. I do not know how many there are, but there are a great many of them.

Mr. PLATT. Are they not used 10 times as much for pleasure as they are for productive purposes?

Gov. INGALLS. That may be true; but the farmer is entitled to his pleasure. That is the very thing which will make a farmer contented with his farm life, because he can go into town at night, attend a moving-picture show, and get back the same night; or he can ride over the fine roads in Kansas on a moonlight night, and chase jack rabbits and enjoy living as he never has before.

Mr. SELDOMRIDGE. He can also attend political meetings and listen to the campaign orators. [Laughter.]

Gov. INGALLS. Yes; come from miles around.

I also find in subdivision E—

Mr. PLATT (interposing). Before you leave that point I would like to say that of course I used the automobile merely as a convenient illustration.

Gov. INGALLS. Yes.

Mr. PLATT. Do you think it might be possible to make the mortgage become due, or something of that sort, provided the farmer was drinking up his money, or blowing his money in on riotous living, or something of that kind?

Gov. INGALLS. Of course that question will rest, under this bill, upon the appraisers of each institution. Now, it has been my experience as a farm-loan man that we investigate very carefully into the character of the man, into the character of his farm, and of the neighborhood, and his general demeanor and standing in the community in which he lives. I can not see why that process should be changed, simply because we had a Federal act that will provide for the creation of banks to loan money. After all, this is going to rest upon the individual judgment of the men who make the loans.

Mr. PLATT. On the appraisal of the land itself, without regard to the character of the man who owns it?

Gov. INGALLS. No; you misunderstood me—on the judgment of the individual men who make the loans. And they will take into consideration these very questions that I have just enumerated.

Mr. ADY. May I ask a question, please, Gov. Ingalls?

Gov. INGALLS. Certainly.

Mr. ADY. After a loan has been made, would you consider it advisable to have some supervision of the condition that the land is kept in during the life of the loan?

Gov. INGALLS. I think that would be an advisable thing. You would simply be doing what is done now by all the loan companies. They make inspections of the land from time to time during the term of the loan, to find out whether there has been any depreciation in the value of the security, or the general tone and character of the neighborhood.

Senator HOLLIS. Now, tell us how they carry that out practically? Do they have a man whose business it is to travel all the time and look after those things?

Gov. INGALLS. In reply to that question, Mr. Chairman, I would say that I stopped in Chicago on my way here and talked with Mr. F. W. Thompson, the farm-loan manager of the Merchants Loan & Trust Co. of Chicago. We talked over that very subject. He, for instance, makes loans in Brown County, Kans.

First, he went over the field very carefully, studying the topography of the country, and ascertained what the soil conditions were; and then, after a careful investigation, he made a selection of a responsible man there, who knew the country and knew the people, as his representative; and when this representative sends in applications to the amount of about \$50,000 Mr. Thompson goes to Brown County, investigates the security offered in each application, drives over the country with his agent, and then makes his own private report, a matter of record in the company. The average life of 5-year loans, I think, is about 3 years in these well-selected territories.

Senator HOLLIS. Now, tell us, please, what percentage of three-year farm loans are paid at maturity?

Gov. INGALLS. Well, I will have to put it a little differently. The loans are made for five years, but the percentage as worked out by Mr. Thompson, and as I have learned it from other sources, shows that the average life of these mortgages is three years. I have never worked it out myself, but from authorities that I have consulted, I find that the average life of these loans is three years. That was the experience, by the way, that I found in your own State of New Hampshire, in talking with the cashiers of savings banks there.

Mr. PLATT. That the loans were paid off in three years?

Gov. INGALLS. That their average life was about three years.

Mr. PLATT. Not by maturity, but by payment?

Gov. INGALLS. Yes; by payment.

Senator HOLLIS. That does not necessarily mean that the man who pays them up did not borrow money somewhere else.

Mr. PLATT. I was wondering whether a farmer could pay for a farm, or pay one-half the cost of a farm in three years; if he could do that he does not need any help in New Hampshire.

Senator HOLLIS. Gov. Ingalls does not mean that those loans were made on New Hampshire real estate; he means that those were loans made by the New Hampshire people on Kansas lands.

Mr. PLATT. I see.

Gov. INGALLS. Yes; that is it. Senator Hollis is right when he says that that does not necessarily mean that the farmer does not renew his loan elsewhere; but the average life of the mortgage is three years.

Mr. PLATT. Yes.

Senator HOLLIS. I diverted you, Gov. Ingalls, when you were telling us about how Mr. Thompson, of Chicago, did.

Gov. INGALLS. I think I stated his plan with reasonable accuracy, about the procedure he follows, except I might have added that, at some time during the life of that loan, it was their plan, either through somebody in the home office, or through their agent, in whom they had great confidence, to have a report made on the condition of the land.

Senator HOLLIS. What could they do about it, under the Kansas mortgage, if they found that the farmer was not behaving well, and was letting his land run out?

Gov. INGALLS. Some mortgages are drawn in a way to provide for just those contingencies.

Senator HOLLIS. Well, what is the phraseology?

Gov. INGALLS. Well, for instance, in our form of mortgage, if a man fails to pay his taxes, or fails to pay his insurance on his building or improvements, or defaults in several other particulars, his mortgage can be declared due at once.

Senator HOLLIS. Well, do they use the general expression about letting the land run down—for instance, that the loan shall become due, “if he shall commit waste”?

Gov. INGALLS. That is not included in the mortgage. That is only used in leases. I do not think I can recall any forms of mortgage that have that provision.

Senator HOLLIS. Well, of course, you know that if a farm, or any other lands has timber on it, it would be an infringement of the rights of the mortgagee for the mortgagor to clear the timber off and depreciate the security. That would be “waste,” and is covered in the average run of mortgages. I was wondering what the wording was in Kansas in that respect.

Gov. INGALLS. That is not used in Kansas. The land is the property of the mortgagor to do what he pleases with. The question of timber is simply one of crops; he could denude the land of timber, as I understand it, as well as he could gather his crop of corn in the field. It is simply a crop.

Senator HOLLIS. That is probably because timber is not an important factor in Kansas as it is in other localities?

Gov. INGALLS. I can say this, however, that a farm that has a certain acreage in timber is more valuable than one without it, simply as a matter of fuel.

Now, to recur to section 16, subdivision E, under the sixth paragraph, I notice that under the powers of these banks they are given the right to discount commercial and other short-time paper. The phraseology does not say whether that refers to the cooperative banks or whether it refers to land banks itself. In fact, one is led to believe that it refers to the land bank, because in the same subdivision it refers specifically to the cooperative banks by name.

Mr. BULKLEY. Well, in the cooperative banks provided for there is a land bank?

Gov. INGALLS. Yes; I understand that; but I am not thinking of the cooperative banks. In fact, I have not given that question any thought or consideration. Are we to understand that the land banks proper are permitted to discount commercial and other short-time paper?

Mr. BULKLEY. I so understand it.

Gov. INGALLS. Well, I think that is wrong.

Mr. PLATT. Do you think they should be allowed to take deposits at all?

Gov. INGALLS. Yes; along the line that I mentioned a little earlier in my testimony here. I think it should be confined to national, State, county, and municipal funds and funds of trust estates, or something of that kind. I think that would be wisest, simply for the reason that their operation would not then come in conflict with banks already organized to such a large extent. I do not see any reason why we should organize another system of banks here, to encroach upon the domain of our present banking system.

Mr. PLATT. Well, one point that Mr. MOSS makes, for instance, is that he expects a great many of the present banks to be reorgan-

ized into banks of this kind, the little \$10,000 banks that are so plentiful all over the Middle West.

Gov. INGALLS. I was coming to that a little later on, the question of the organization of this banking system by the creation of these little banks; and possibly I will touch on the point you now make as I come to it.

I also wish to refer to subdivision D under the heading of "Specific limitations," section 16, which attempts to fix the amount of money that is to be loaned to any one individual. I find that this is a subject which has been much discussed in these hearings, and I believe it is one of the most important subjects.

The Northwestern Mutual Life Insurance Co., which possibly does the largest farm-loan business of any insurance company in this country, until a few years ago fixed a limit of \$5,000 on any quarter section of land in Kansas, regardless of its value. Other companies have fixed a limit of \$50 an acre, regardless of the value of the land. The Union Central Life Insurance Co. fixes a limit of \$10,000 to any individual, regardless of the amount of land he owns.

Senator HOLLIS. That is, they would not go above that?

Gov. INGALLS. They would not go above that.

Senator HOLLIS. But the land might be worth very much less?

Gov. INGALLS. Oh, yes. But I mean where the security back of it is adequate. I think now the Northwestern Mutual Life Insurance Co. will not loan to exceed \$50 an acre on any land in our county, although, as I say, some of it goes as high as \$225 an acre in value. The Union Central Life Insurance Co. has concluded that \$10,000 is as much as any farmer should go into debt; that his earning capacity is not sufficient to carry a greater indebtedness than that.

Of course, under the bill here we have 20 per cent of the sum of the paid-up capital and surplus of the bank, and that would automatically fix the amount in every case, because a \$10,000 bank could only loan \$2,000 to any individual; and that, I think, is, in a way, going to solve this question of the organization of these small institutions as provided by this bill, to which I will refer a little later.

The clause relating to exemption from taxation, I believe, is going to cause a great deal of discussion, and it is to me one which seems to be a most serious problem. I believe it will be unwise to exempt the income of a bank from taxation. We have an income-tax law in this country, and we are also going to get one in Kansas. We are going to amend our constitution to provide for the taxation of incomes in line with the Federal act.

There has also been introduced into the Western States recently a new plan of taxing mortgages which they call a mortgage registration fee. Oklahoma has passed such a law. Kansas came very near doing so the last session of the legislature, and I think within a very short time we will have such a law.

Mr. STONE. Where do you expect the people of Kansas to go when you pass the income-tax law?

Gov. INGALLS. Where will they go?

Mr. STONE. Yes; where do you expect them to go?

Gov. INGALLS. I do not know; possibly Illinois.

Senator HOLLIS. You can ask me, and I would have to tell you I do not know where the people go who are subject to an inheritance tax in New Hampshire. [Laughter.]

Gov. INGALLS. We repealed our inheritance-tax law in Kansas.

Mr. PLATT. How much of a registration tax is proposed in Kansas; do you know?

Gov. INGALLS. The amount that was pretty well agreed upon last winter was \$5 a thousand, to be paid when the mortgage is recorded; and no further tax is levied against it.

Mr. PLATT. That is one-half of 1 per cent?

Gov. INGALLS. Yes.

Mr. PLATT. That is what the New York State tax is. Although I can not speak for the majority, of course, I imagine that if that is retained in the bill we will probably provide that once such a tax was paid the mortgage should not be subject to any local tax, because you can tax them 2 or 3 per cent in some cities, where the rate is high.

Gov. INGALLS. Yes. The question of the appointment of a fiduciary agent is another one that seems to have caused a good deal of comment. The bill provides that this fiduciary agent shall be any individual who is not an officer or director of the bank. I believe that is one of the very weakest points in the bill, for the reason that I hardly believe it will be possible to secure the appointment of an outsider as a fiduciary agent who would be satisfactory to the board of a bank, no matter whether it was a bank organized with \$10,000 capital or \$500,000. If the president or some officer of the bank could be designated as a fiduciary agent, who stands between the Government and the bank, I believe that that would be for more satisfactory than to bring in an outsider. Necessarily, this outsider would be objectionable to those whose money was invested in the bank, and who were responsible for its organization, and who had a pride in making it a successful and strong institution within the particular territory in which it operated.

Mr. PLATT. Well, perhaps it ought to be said there, that, as I understand it, there is nothing to prevent a bookkeeper or an employee of the bank from being made fiduciary agent, is there?

Gov. INGALLS. Yes; I think that was somewhat amplified by the testimony of Dr. Coulter here a few days ago, when he said that it might be possible to appoint a notary public, under bond, to certify as to these securities.

Mr. PLATT. In fact, this fiduciary agent is not very much more than a notary public anyway, is he?

Gov. INGALLS. No. I think he should be a more responsible officer than that. I think if the Government is going to take any part in seeing that these land bonds are good securities, this officer should be a responsible officer connected with the bank, and he should have some standing, both in the institution itself and with the Government, which result could not be secured by simply appointing a bookkeeper or some notary public.

In section 42 the bill provides for insurance, and the last sentence of the section is as follows:

In appraising property for loans, the buildings' indestructible property shall not be valued at more than 20 per cent of the total appraisement.

I believe that that sentence should be stricken out of the bill, and that these loans should be based entirely upon 50 per cent of the value of the land itself, irrespective of the improvements, and con-

sequently the insurance feature would become unimportant. That is the basis of assessment and appraisal that most of the insurance companies have. I do not believe it is wise to use the improvements as security in a farm mortgage.

Mr. PLATT. Is there not a great difference, Gov. Ingalls, between different sections of the country in the proportion of the value of the buildings to the land—for instance, the land in Kansas is probably worth a great deal more in proportion than the buildings are; but in certain other sections, possibly in the East, the buildings may be worth more than the land sometimes?

Gov. INGALLS. Yes; that is possibly true; and I am somewhat provincial in that, I guess, because I speak entirely from my knowledge of conditions in my own State. I think, perhaps, that would be quite true in regard to Pennsylvania and New York and some of the other Eastern States.

Mr. PLATT. Yes.

Gov. INGALLS. But in any event, the land is the basis of security for these loans, and I should think, in view of that fact, that you should disregard the improvements on it.

Mr. PLATT. Well, I agree that they ought not to be counted for very much.

Gov. INGALLS. Section 46 of the bill provides that any borrower may pay off his mortgage by presenting to the bank bonds of the same series as those issued against his mortgage. It occurs to me that it might be impossible for a bank to locate these bonds, in as much as they pass from hand to hand and are a liquid asset, and it would be practically impossible at times to secure bonds of the particular series which were issued against that mortgage.

Mr. BULKLEY. Of course the borrower always has the right after five years to pay it in cash, and this payment by presenting the bonds is only an option that he can exercise.

Senator HOLLIS. The idea being, that if the bonds should go below par he should get the benefit of that.

Gov. INGALLS. Yes; but in reading this over it occurred to me that there might be some central point of registration of these bonds, so that they might be followed in a way and located if they are needed.

I do not want to take much more of your time; but I do want to say this, that I believe that the theory you are operating on, under this bill to establish a multitude of small banks in a State, is not a sound one, because, from my experience in a small way as a mortgage-loan man, I believe it would be practically impossible to sell the land bonds of a small institution in Kansas, for instance, located in a small town of 700 or 800 population.

In other words, I am more or less of an advocate of the suggestions made in the minority report of the American commission; if it was entirely popular, I do not know but that I would be willing to go as far as to favor the organization of a central bank. But that does not seem to be in the air at this time, and it is something that, Mr. Morris said yesterday, we ought to leave in the back of our heads for the present.

But, at any rate, I do believe in the regional plan. And I believe in the organization, either into State units or regions, rather, comprising one or two States or three States, and that these local units would simply be federated so that we would have a bank of sufficient

size and magnitude and standing to give character to these investments.

Mr. SELDOMRIDGE. I would like to ask Gov. Ingalls a question. What would you suggest in the way of an effective and competent appraisal of the land—what scheme?

Gov. INGALLS. I think the scheme provided in the bill is as near safety as you can get it. In other words, if three directors of the institution, who have knowledge of land conditions and of property values and of the elements that go to make up the value of a piece of land, pass upon it under oath, I can not see how you can get down closer to the bedrock value of the security. You can not get an outsider, armed as he might be with some commission from the Government, to come into a locality and pass upon the value of the land just on a visit of a few hours or a few days. And I do not see any better way than is provided in the bill.

Mr. SELDOMRIDGE. Recognizing your support of a central unit to federate with these smaller units, would you confine that central unit to the limit of a State, or would you enlarge its field of activity?

Gov. INGALLS. My first thought was to confine it to the State—let each State stand upon its own bottom, as it were. I realize that there would be competition—

Mr. SELDOMRIDGE. You heard yesterday the statement of Mr. Morris that there would be more or less prejudice, somewhat psychological in character, against bonds issued by a State mortgage bank that might operate unfavorably in securing a market for those particular bonds?

Gov. INGALLS. I heard that; and I also heard the retort—I will not say the retort, either, but the question—of Mr. Thompson directed to Mr. Morris, asking him how he would adjust the difficulty of the different laws that might obtain in the different States with reference to interest rates and other matters, and also the question as to how it would be possible to establish these regional banks. Take, for instance, the States of Kansas, Nebraska, Missouri, and Oklahoma, with Kansas City the natural point for a regional bank; it is now competing for one of the reserve banks under our Federal reserve act. Then there is Omaha, on the other hand, a large city in that particular region, located in one of the proven agricultural sections of the State, would want a State or two in its region.

Mr. PLATT. Both of them are on the borders of the States, so that they would not either one be very well located for a State central institution.

Gov. INGALLS. Well, the geographical center is not necessarily of importance; it is a question of where it would be the wisest to put them under all the circumstances. I think it would be a very difficult matter to adjust the agricultural territory to any particular point.

Mr. PLATT. You would not think that providing regional or State central banks would add anything to the efficiency of the appraisal, would you? You would not think that a central appraiser should be sent out from the regional banks?

Gov. INGALLS. Simply to check up the appraisal of the local institutions.

Mr. SELDOMRIDGE. Gov. Ingalls, what percentage of mortgages on Kansas farm lands are now held by nonresidents?

Gov. INGALLS. I have no idea. In fact, I can not see how it is possible for anybody to determine that there are \$3,000,000,000 of mortgages in this country. I do not see under what scheme or what plan they have been able to determine that there are \$3,000,000,000 of mortgages in this country.

Mr. SELDOMRIDGE. Yes.

Gov. INGALLS. I have attempted for the last two years to find out what the mortgage indebtedness was in my own State, but have been unable to do so.

Mr. SELDOMRIDGE. Is there any tendency toward tenancy in Kansas?

Gov. INGALLS. Oh, yes. Kansas is a little over 50 years of age, and many of the pioneers who came out there and bought land cheap a long time ago and have lived on the farm are now growing old and are moving into the smaller towns, and those who have no families or children are simply renting that land out and living on the income of it.

Mr. SELDOMRIDGE. Yes. Is there any difficulty or distress caused by any lack of money to be had on farm loans? Do farmers have any difficulty in getting money now?

Gov. INGALLS. None, except that the rate is higher now than it has ever been in our State.

Mr. SELDOMRIDGE. There is no difficulty in a man getting a loan on good land, if he has it?

Gov. INGALLS. There is no difficulty in getting money, except that now they can only get it from the insurance companies; that is the only source of supply they have now.

Mr. SELDOMRIDGE. Have the insurance companies raised their rate?

Gov. INGALLS. Yes; the rates of insurance companies have increased from one-half to 1 per cent in the choice loaning districts of the State.

Mr. PLATT. Does tenancy tend to precede ownership? Do tenants buy the farms, or do they remain tenants all their lives?

Gov. INGALLS. The tendency is to acquire the farms.

Mr. PLATT. To lease the farm first and buy it afterwards?

Gov. INGALLS. That is the tendency in our country.

Mr. PLATT. You said awhile ago that you did not think anybody would take the bonds of these small banks, supposing that they were organized as this bill provides. Now, Mr. Moss thinks, for instance, that in his own State of Indiana the local people would take those bonds, just as they do local road bonds and things of that sort. He thinks they will be taken right in the neighborhood. Would not that be true in eastern Kansas, where the farmers are already loaning money to each other?

Gov. INGALLS. Yes; they would to a limited extent, but not in a sufficient volume.

Mr. PLATT. I mean that they would take the stock of the banks and would take their mortgages from those banks to give them a start, so that the bonds would get a chance to get afloat?

Gov. INGALLS. I will simply give it as my opinion that I do not think they would. I do not think there is sufficient money—what we call "private money"—in the several localities to absorb these securities. The fact that they will be tax free might attract investors; but we must look for a larger market for the bonds than

among local people. That is the trouble. We must go outside of the State for a sufficient volume of money to carry the mortgage indebtedness of the State. If it was not for the big insurance companies and the investors throughout the country, we would not have sufficient money to finance our farms to-day. Every two years, when the legislature convenes, the question comes up as to taxing mortgages, and right on top of that question comes the argument that "if you tax them, you will drive these insurance companies out of the State, and your rate will go up"; and that always has defeated the plan to tax them.

Mr. PLATT. They ought to be exempted; but then it is hard to convince people of that fact. Are mortgages normally taxable now under the laws as personal property?

Gov. INGALLS. Oh, yes; at 100 cents on the dollar.

Mr. PLATT. There is no legal exemption now?

Gov. INGALLS. Not a dollar.

Mr. PLATT. It is simply that you are not actually taxed by the assessors?

Gov. INGALLS. Yes: they are supposed to be. We have got very rigid taxation laws in Kansas, passed within the last few years. It used to be 25 per cent of the valuation, but now everybody is, under oath, supposed to turn in, dollar for dollar, his mortgages, securities, and money in the bank.

Mr. PLATT. That is a sufficient reason for the rate of interest going up in your State.

Gov. INGALLS. I can not say whether that is the cause or not, but that is the law.

Senator HOLLIS. Are there any other questions? We are very much obliged to you, Gov. Ingalls.

(Thereupon, at 12.50 o'clock p. m., the committee adjourned until to-morrow, Saturday, March 14, 1914, at 10.30 o'clock a. m.)

SATURDAY, MARCH 14, 1914.

UNITED STATES SENATE,
Washington, D. C.

The subcommittees assembled in joint session at 10.30 o'clock a. m.,
Hon. Henry F. Hollis presiding.

Present: Representatives Stone, Seldomridge, Woods, and Platt.

STATEMENT OF HERBERT QUICK, EDITOR OF FARM AND FIRESIDE, SPRINGFIELD, OHIO.

Senator HOLLIS. Mr. Quick, will you state your residence and your business?

Mr. QUICK. I am editor of Farm and Fireside, the home offices of which are at Springfield, Ohio.

Senator HOLLIS. Mr. Quick, if you will, please tell us what interest you have had in the matter of rural credits, and any special study you have made of that subject.

Mr. QUICK. Well, gentlemen, I do not know that I have made any such study of rural credits as entitles me to speak to you here. I suspect that all of you know more about it than I do. I, however, have been studying the agricultural situation, and have studied it from a practical point of view, and for years I have been editor of the Farm and Fireside, which is a national paper and goes to every part of the United States. Any advantage that I have had consists in the fact that I have been obliged to learn all I could about the United States, rather than any one location.

It has seemed to me for a long time as though some better system of rural credits is needed in some parts of the country. I think if we take up this matter as a thing of universal application, instead of thinking of farm credits as a thing which can be decided according to the differing local conditions, we are going to make a mistake. For instance, I do not believe that the farmers of the Middle West, where lands are uniform in quality and very high in value, and where a man might take a mortgage on any farm without much reference to its inspection and come out all right on the market, needs a system of farm credits as badly as the portions of the country which lack uniformity in soil, lack a developed loan system, and really need development rather than any very radical change in their financial system. For instance, in the State of Iowa it has been possible for a long time to borrow money on almost any farm at 5 per cent, sometimes even less than that.

Senator HOLLIS. Mr. Quick, do you mean that the average farmer actually gets his money as low as 5 per cent, taking into account lawyers' fees and commissions?

Mr. QUICK. I was going to add that I had letters from farmers in Oklahoma and in the South who are absolutely unable to get money

now at terms of less than 10 to 12 per cent, and as high even as 20 per cent.

Senator HOLLIS. How about in Iowa? Do you think that farmer himself gets his money actually at 5 per cent in Iowa?

Mr. QUICK. I am inclined to think in Iowa a 5 per cent mortgage will be renewed in five years at a nominal expense, which will consist of about \$5 as a fee for reexamination of the title, to see whether or not there have been any liens filed or accrued against the land in the meantime. That is not very burdensome. Well, take my own place—I have a farm up here at Berkeley Springs. I am building a house. Probably the building I am going to put up would not come within the purview of any system of farm mortgages or farm credits anyhow, but suppose it is an improvement that could come under the system. I want to borrow \$5,000 this year. I tried to get the loan first in my local town, where the banks are small. They said, "Yes; we would be very glad to loan you the \$5,000, but we can not loan it for any length of time"; but the banker said, "I will go down to Baltimore, and if you will give me a mortgage on the farm I think I can put it up down there and get the money." The Baltimore banker said, "We would be very glad to accommodate Mr. Quick, but we can not loan on anything but stocks and bonds and things we know the value of." "But," said my friend, "I will take his mortgage and sign his note with you, because I think he is all right," but he would not even take the indorsement of the president of my local bank on any paper that would be indirectly supported by a farm mortgage.

And all over the South, all over a good part of the Southwest, and over a large proportion of the United States, there is absolutely no means whatever for a farmer to get money in a broad way on the security on farms. There is no direct market for farm mortgages. There is no way by which the investor of New England or New York can know whether a farm mortgage is good or not. There is not any standardized method of getting those loans. The whole business of inspection of loans, of the original placing of the loan in a safe way, and all that, is in a state of absolute anarchy, and in my opinion the biggest work that Congress can do is to put into effect some plan by which the market for farm mortgages will be broadened, so that people who never saw a farm, people who do not know anything about farm people, who have no method of protecting themselves against bad loans, will be protected by some governmental agency that will assure them that the security for the money they invest is good. That is a very important matter, the making of the market for farm loans universal, so that anybody that has \$100, and, if it is possible, make it as low as \$25, or any larger sum, may safely invest in farm loans. So that a man working on a railroad, for instance, who, under present conditions, buys post-office money orders so as to have the Government back of his savings, or puts his money in postal savings banks, when he has accumulated \$25 or \$100 or \$500 may buy a bond based on a farm-land mortgage. If you can put through some legislation that will obtain a market for farm-land mortgages in that way, I think you will do a very great thing for the people of the United States.

Mr. BULKLEY. That is apart from the question of rates of interest? That is a question of getting a loan at all, is it not?

Mr. QUICK. It is a question of getting a loan at all. I know some gentlemen who went down to the Lake Charles district in Louisiana. They had some rice lands down there, and they organized a little bank there for the purpose of carrying on a loan business. They started operations and began loaning to farmers in that vicinity. They immediately found that they had done a very terrible thing. The bankers in that vicinity were all very much incensed at the idea of those men from the North coming down there and disturbing their financial system, which consisted in this: If a farmer wanted money, he did not go to the bank, but he went to his merchant, whoever it might be, the merchant went to the bank and borrowed the money and paid the bank rates and advanced to the farmer a sufficient amount of money to carry him through. The farmer then was supposed to buy all of his supplies of that merchant, and sell him all his products. The merchants all over the South—I should not say “all over,” because it may not extend all over the South, and I may be making my statements too broad, but so far as I know it is all over the South, the local merchants have that kind of system, by which for an article for which they charge \$1 to a man who pays cash, they charge \$2, or something like that, if he is a farmer who is indebted to the store. And it is that kind of a situation that the people of the South and the people in the more backward districts of this country need to have a market to get them out of. It is an oppressive thing. It is just about the situation which prevailed in Austria when the Austrian Government began to establish the *Landschaften* and *Raeffeisen* banks for the purpose of getting farmers out of the clutches of a class of men who were just simply sucking their blood. I do not mean to say that the people who are doing this thing are consciously bloodsuckers, but it is a system which has grown up in that section of the country, and it is an incubus upon its development.

Mr. PLATT. Mr. Quick, may I interrupt you?

Mr. QUICK. Yes.

Mr. PLATT. You spoke of some men who went down into the Lake Charles district and found they had done a very terrible thing. Do not those merchants control politically and every other way and will there not be trouble getting an institution started there because of their control?

Mr. QUICK. I do not know about that.

Mr. PLATT. We had a man here the other day who said that the statements he was making were likely to get him into trouble from those people.

Mr. QUICK. I have known cases in which that no doubt would happen, but I do believe this: That whatever you may do, if you enact wise legislation it will not begin to have a very strong influence to-morrow or the next day; but if in 10 years from now it will have accomplished this result it will be a piece of very wise statesmanship. I am not expecting this result to be immediate. The South is now looking up. The farmers of the South are among the most teachable in the world. They are better than the northern

people in that respect. Dr. Knapp's work has shown that the farmers of the South can be taught. They are bringing about a revolution in their practical operations. A large and growing number of farmers in the South are proud of the fact that they are farmers, who are making money on their farms. They started from a much lower plane than the northern farmer, but I believe they are getting out of that plane, and I believe they need some such system of farm credit.

Mr. PLATT. Can a northern farmer go into the South and actually work with his own hands without losing money?

Mr. QUICK. Some places he can, but he will be better off if he—

Mr. PLATT (interposing). Do the southern farmers work, or do they get somebody else to do the work?

Mr. QUICK. There is a large number of white men in the South who are working and working well and working hard, and the number is increasing very largely. In every part of the country, if you go to the very finest people in the towns, they will tell you that they have a higher appreciation of the man who works with his hands than they have of the man who does not. Of course that is to some extent an intellectual appreciation rather than sentimental.

Mr. PLATT. And that is growing?

Mr. QUICK. That is growing. That is aside, however, from the matter of rural finance.

I think that the first thing that is necessary is to furnish capital to farmers. If I had known I was going to have this privilege, which I appreciate very highly, I would have prepared myself with some figures from the State of Wisconsin which, I presume, you may have. They are available, have been published, and represent the work of Dr. D. H. Otis, of the University of Wisconsin. Dr. Otis has been getting reports from farmers as to their profits on their operations—profits or losses. In a great many cases they are losses. That is in Wisconsin. He has published a very interesting bulletin on this subject in which he shows that the farm is profitable in Wisconsin just in proportion to which its value is represented by the improvements—rather than tied up in lands. In other words, the farm which has 100 per cent land value is the ideal poor farm—the farm that produces the poorest results. The farm which has perhaps 50 per cent in value of improvements is the ideal farm for profits.

Mr. PLATT. By improvements you mean buildings?

Mr. QUICK. I mean productive improvements. I mean live stock and drainage and fencing and silos and barns and other improvements for carrying on farm operations. I think that farms having 40 or 50 per cent of their value in improvements (productive improvements) paid about the highest returns to the farmers of any farms that they had examined, and they had examined hundreds of them. I state this fact, and you can get the exact figures, if you like, because they are available, to show that what the farmer needs is capital productively invested. Therefore, I think, in the first place the plan of opening up the money markets of the world to the farmers so that they may get the capital which they need to make their farms productive ought to be coupled with some provision that the money obtained on those loans should be productively invested. If money is loaned to farmers merely because they have land, it will be a bad thing. In Dakota and Nebraska, in the early nineties, after a pro-

longed land boom there, during which a large portion of that country was taken up and homesteaded, the business of making farm loans was very highly developed. There were great concerns in Kansas City, Omaha, St. Joseph, Sioux City, and other towns out there, that were dealing very heavily in farm mortgages. They would take the farm mortgage down East and sell it to Senator Hollis and his friends—

Senator HOLLIS (interposing). That is, our bank?

Mr. QUICK. Yes; your bank. Those loans had been very, very good; they had paid interest all along, but two things were happening: First, lots of people who were not farmers were getting tired of their lands; and, second, the seasons were bad. At that time a great many of these homesteads were reaching a point where they could get titles. Many and many an instance took place out there where a man made his application for a loan, which was sold in Vermont, New Hampshire—all over the country—to savings banks and other concerns. He made his application for a loan, so that the money would be there the day that he went down and got his patent from the Government. He loaded his stuff into his wagon, went down, got his patent, made his mortgage, took his money, and left the country and never went back to that farm. There were many, many instances of that kind. There are many people who own land who, if they could get a loan, would simply get the loan and leave the country. For it is perfectly obvious, to my mind, that in any proper system of farm finance you must have not only local organization and local moral responsibility for the loans, but you must have local financial responsibility, so that if the loan is not paid, somebody concerned with the making of it will have to pay it. If you do not do that, you are going to have the possibility of booms in countries that are not economically sound, and your system will receive a setback and a black eye.

Senator HOLLIS. It has been suggested, Mr. Quick, that the money loaned should be confined to one of three purposes: First, to help a man purchase a farm for actual cultivation; second, to make productive improvements on the farm; third, to refund some existing obligations on the farm. Will you discuss those three objects? Do you think that fills it?

Mr. QUICK. Well, I think there is danger, as well as great possible good, in the provision for floating loans for purchasing lands.

Senator HOLLIS. That is done so as to permit the tenant farmers, particularly young men who have not very much capital, to get a good instrument and not spend their lives on a rented farm.

Mr. QUICK. That object is certainly good. I do not know about the words "productive improvements." I presume you might, perhaps, define the word "productive" to cover pretty nearly what you want. Anyhow, with those things in the law, it would be an improvement over the present conditions.

Senator HOLLIS. There is no doubt that farm buildings and drainage and fencing, etc., would come in under productive improvements.

Mr. QUICK. That is perhaps true.

Senator HOLLIS. Perhaps I should not use the word "productive." Is that in the bill?

Mr. MOSS. The word "productive" is not in the bill.

Senator HOLLIS. No; it is not in the bill.

Mr. PLATT. Do you think it is practicable to enforce any such provision?

Mr. QUICK. Any such provision as what?

Mr. PLATT. As you have just been speaking of—to say what the money should be used for?

Mr. QUICK. I think it is not only practicable, but I think it is absolutely essential to the system.

Mr. PLATT. What would you do with the man who did not spend his money for the things he secured it for? Suppose he wanted to mortgage his farm to buy a few shares of United States Steel stock; how would you stop him?

Mr. QUICK. I should say that it would be perfectly possible for a local bank to so conduct its affairs that it would know what the money was going to be spent for. I think it would be perfectly possible for the loan to be made so that they could at once foreclose if the money was not spent according to the arrangement. I understand that the loans in other countries are loaned under similar conditions. I suppose something must be left to the integrity of the man, and that is the advantage of a local concern. A man that would do that probably would not be able to get a loan from a local bank at all, because they would know that he is a rascal.

Mr. PLATT. He is not a rascal, if he has invested his money in a productive enterprise and his security is there.

Mr. QUICK. He is a rascal if he tells them he is going to invest it in improving his farm and then buys United States Steel.

Mr. PLATT. That may be. Of course, he is to the extent of having made a false statement.

Mr. QUICK. I do not believe that there would be much of that. I think that where the responsibility is local, both moral and financial, where there is a liability on the part of the man making the loan, they are going to be able to protect themselves.

Senator HOLLIS. Do you think that liability would be enough if the capital of the bank were hazarded, without any personal liability on the part of the bank officers?

Mr. QUICK. I think so; if the stockholders in the banks were liable at least to double liability, and perhaps an unlimited liability on their stock, to pay off bad loans, I do not believe the farmers of the United States would organize banks rapidly enough to meet their wants if there were an unlimited liability.

Mr. SELDOMRIDGE. Will you pardon me for a question?

Mr. QUICK. Yes.

Mr. SELDOMRIDGE. The bill provides for a minimum capital of \$10,000, with loaning power to the amount of 15 times its capital, but only provides for a profit of 1 per cent to the bank for performing this service. Do you think that men would associate themselves together in a banking corporation with double liability of stockholders, the profits of which would not possibly go beyond as small a figure as \$1,500? In other words, would they want to assume liability for their proportion of debt that the bank might obligate itself for?

Mr. QUICK. As a matter of act there is not any liability if the loans are properly made, and the advantage of that kind of organization

is that they have it within their power to protect themselves against any liability. If they make their loans properly there will never be any losses; it is almost possible to say that there will never be any losses, because the farm will always be worth more than the loan, and there will be men who would be perfectly willing to take it for the debt if they have to meet the loan. But they will make the loan so that they will not have to take those chances. That is the advantage of a local system instead of having the loans made from afar off. I do not know whether they would be very keen to organize themselves into banks for capitalistic purposes or not, but I do believe if farmers are permitted to organize along properly cooperative lines, that there will be great local interest on the part of both farmers and capitalists. I believe in our community that, almost regardless of the profits of the operations, people would be drawn together in these organizations. Take, for instance, the town of Mason City, Iowa, where for 30 years there have been city building and loan associations operating on purely cooperative basis. In these, in most cases, there are no salaried officials, and no salary whatever, except to a clerk who does the work, who gets about \$15 or \$20 a month. They have matured association after association, and if you should go to that town you will find that those associations are formed by public-spirited persons for the purpose of making the people more prosperous. In that town many people are living in homes that would seem to the average man away beyond their means to pay for, yet they own them and have paid for them, and they have done it through the building and loan association.

Mr. SELDOMRIDGE. Are those building and loan associations loaning to farmers?

Mr. QUICK. No; but in Ohio they have begun to loan to farmers, and they loan at 6 per cent and receive deposits at 5 per cent.

Mr. PLATT. Before you leave that question—you are talking about limiting loans to productive purposes—I would like to put that question in another way. If you limit these banks to loans made only for certain purposes are you not going to shut them out from getting a great many of the best loans they could get? Are you not going to limit their possibilities for competition right away? For instance, if there is a farmer in your neighborhood that has got a good farm that has no mortgage on it, why should he not use that farm for anything he wants to, if his security is good?

Mr. QUICK. I will answer that by saying that it is my belief the need is not for a system which loans to farmers who do not need it but rather to those who do need it.

Mr. PLATT. How can you possibly do that?

Mr. QUICK. I believe I have answered that in my other answer. In the first place, the probabilities are that a large majority of these farms that are not mortgaged at all would be able to use loans in a very productive way under a proper agricultural system. They probably need drainage or silos or barns or live stock more than they have now. But I do not believe that we need to take into account the trade, if I may put it that way, of a man who does not need the money on the farm to-day.

Mr. PLATT. I agree with your purpose entirely, but it seems to me you are going to limit the banks and make them less liable to be suc-

cessful if you shut them out from entering into competition which is legitimate farm loaning.

Mr. QUICK. If that field is as large as you think, I think it would be perfectly proper to shut it out for the sake of accomplishing the other objects.

Now, I think any system of rural finance will fail of its best good if you do not take into account the educational value. I have had a rather long correspondence with Senator Norris, of Nebraska, about that. He has a bill in the Senate for making loans direct to farmers.

Senator HOLLIS. You mean the Government?

Mr. QUICK. For the Government to make loans directly to farmers.

Senator HOLLIS. You will discuss that before you finish, I hope.

Mr. QUICK. In view of the fact that I am going on in a rambling sort of way, I might as well say what I have to say on that now.

The Senator's bill provides for Government loans at $3\frac{1}{2}$ per cent, I think, the avails to be loaned to farmers at 4 per cent. I do not believe that the Government can borrow money at $3\frac{1}{2}$ per cent when it starts out to make as many loans as it would have to make in order to take over the entire loan business of the United States, which it certainly would have to do if it started out with such a system as that. I do not believe the Government could go into the money market to-day and do it. Canada had bonds, over \$20,000,000 of them, on the Canadian market in the last four or five months, and there was only 17 per cent of them subscribed. The war preparations of the world and vast permanent investments are calling for such enormous sums of money that every corporation and man who has to borrow more than \$1,000,000, in fact, no matter how little he is seeking to borrow, is competing with the Governments of the world. Everywhere they are raking and scraping together all the liquid capital of the world. Liquid capital is now so far exhausted all over the world that I do not think that any such system of Government loans stands any chance of success. British and French securities have sold for the last year lower than for 80 years. German land bonds have sold within the last year for more money than Government bonds. I do not believe the Government could go out and take over the loan business of the United States without so disturbing the money market as to drive the interest above $3\frac{1}{2}$ per cent for even such a customer as the United States Government.

Mr. BULKLEY. Mr. Quick, a witness told us the other day that New Zealand 4 percents were selling at substantially par. New Zealand's bonded indebtedness is perhaps 8 or 9 times as great as ours, but they are in this business of loaning farmers direct.

Mr. QUICK. While New Zealand's debt is tremendously high, she has assets back of those debts.

Mr. BULKLEY. Under any proposed plan of Government loans to farmers, we would have assets.

Mr. QUICK. Yes; we would have assets back of it.

Mr. BULKLEY. That is a country of 1,000,000 people.

Mr. QUICK. I know; but those bonds are just as good as ours; it has the British flag floating over it; it is a new country; its fertility is enormous; its production is wonderful, and I presume the bonds of New Zealand, based upon land values, are just as good as those of the United States. I do not believe the United States could get money for less than New Zealand does.

That is my first objection to the plan. The second objection to the plan is this: That the United States in dealing with those loans at arm's length and through the United States district attorneys or clerks in their offices, making examinations, passing on loans, can not do it safely; that it must be done through men who are locally interested and locally responsible. Furthermore, the United States can not give to these borrowers the service that they ought to have. A man who borrows money ought to have some service as well as the money. He ought to be given something in the way of conference or consultation as to what he shall do, and a system of farm loans which requires that it be loaned on the land for productive purposes, it seems to me, will have great educational value. When a man finds out he is a bad farmer, who is doing business in a way that everybody knows is ruinous to his land, that people who are making loans on farms refuse to take him, because of the fact that his loan will not be used for productive purposes, because he does not know what a productive purpose is, you will immediately start going some such process as has been going on in European countries, particularly Denmark and Ireland, where the cooperative society and the banking society and the local bank is a great agency for the dissemination of agricultural intelligence; and as I said to Senator Norris, I would rather have the farmers pay 6 per cent for money with a service of that sort, which would be educative and increase the efficiency of our human resources, than to have them get it for 3½ per cent and not have that service.

I believe that the advantages of any particular system of rural finance—and, by the way, I have not read these bills; I have not been able to get them—but that a proper system of rural finance which gives that kind of a service will do more to increase the products of our fields and increase the efficiency of our rural population than anything else that can be done, especially if they can be induced to organize cooperatively.

MR. PLATT. That is entirely true, but it seems to me you are a little bit mixing up what has been done in Europe. You are mixing the personal credit or short-time credit with the long-time credit. I think that the farm-mortgage associations do not attempt to say that the money shall be spent for productive purposes. They originated among the nobles, and the money was spent by them for whatever they pleased.

MR. QUICK. Your criticism is perfectly correct. But I think, as a matter of fact, it is true that long-time mortgage loans are extended to farmers in very many countries, New Zealand among them, for productive purposes.

MR. PLATT. Under a Government loan system they certainly should be limited, if it is possible to so limit them.

MR. QUICK. So there is no reason that I can see why farm loans on mortgage bonds should not be just as carefully controlled as to their use as personal loans. Of course the American farmer needs personal credit and needs that very much. I do not know how the United States Government is going to help him.

SENATOR HOLLIS. Do you think a man would be likely to get a farm loan direct from the Government with reasonable promptness?

MR. QUICK. I do not think he will ever get it at all, Senator.

Senator HOLLIS. I mean if the Norris bill goes through, for instance. Do you not think that is one of the objections there will be, that there would be too much red tape, and it would take too long to get the money?

Mr. QUICK. Of course I think it is proper to anticipate some such situation as you suggest.

Senator HOLLIS. I have had some experience in New Hampshire with lands that were taken on account of the Forest Service, in the Appalachian Mountains, and it has taken the longest while to get the titles examined and the local forms complied with, to get the money for these landowners after the deal had actually been made. It takes a long while. If it were a private concern involved it would have been done in two or three weeks.

Mr. QUICK. That is perfectly true. It sometimes takes 12 to 15 years to get an application through in the Patent Office.

Mr. PLATT. Also on the line of a Government loan, do you think it would be advisable to try to have a uniform rate of interest all over the country, which probably would be the result of direct loans?

Mr. QUICK. I think it is not only not advisable, but I think it is impossible.

Mr. PLATT. You do not think it would be advisable?

Mr. QUICK. I do not think it would be advisable. I think that the rate of interest should be rendered as low as possible for making the land bonds attractive, through exemptions from taxation, as far as possible, and then, it seems to me, that in order to make the system economical, so that one region will not have to pay, through its excellence, for the poverty of another region, so that every region can stand on its own basis, so that the rate of interest ought to be a thing on which the local banks themselves can work. For instance, if, in any county where conditions are not very good as compared with Iowa or Nebraska, we find that by organizing a cooperative institution, with unlimited liability, we can get money for $4\frac{1}{2}$ per cent, whereas if we simply stand on our technical rights and have only a double liability we will have to pay 6, it will tend to render the local bodies more efficient. I think that the whole conduct of this business should be thrown on the people themselves for their own benefit. If it succeeds, let it succeed where it can succeed; if it fails, let it fail where it has to fail. For instance, manufacturers in the East are very largely paying 7 per cent for their money. They are issuing 7 per cent preferred stock to carry on their business. If it turns out that the legal rate of interest in any State is so low that nobody will buy the land bonds at that rate of interest, let it fail there and let them go to work and adjust themselves to that situation. On the other hand, if any farmers anywhere can so thoroughly transact their business as to put themselves on a solid basis, let them reap the benefit in the lowest possible interest rates. If you pass this bill, I can assure you, gentlemen, that it will be a live issue in one county after another over the whole United States, "What are we going to do about farm loans?" When the farmers get together they are going to discuss the question, "What can we do to get lower interest rates?" You will find that you will spread education in a way that will amount to something.

Mr. PLATT. I think there is no doubt about that.

Mr. QUICK. That is the second important thing in the whole scheme—the educational influence of it.

Senator HOLLIS. What do you say, Mr. Quick, to the Government providing to look after land banks, supervise them, and also send out agents or commissioners to demonstrate what can be done in the way of cooperation among farmers?

Mr. QUICK. Those would be people that would really——

Senator HOLLIS (interposing). They would be organizers.

Mr. QUICK. They would be organizers?

Senator HOLLIS. Yes.

Mr. QUICK. Well, I could not answer that question, Senator. I should not like to see this system, in the matter of its cooperative features, pressed faster than the local communities are ready for it. I would rather they would not be pressed too fast.

Senator HOLLIS. You would rather that they work from the bottom up rather than from the top down?

Mr. QUICK. I would rather they would not be organized than to be organized too soon. You see, there are very many instances of cooperative organizations that were started too soon. I think, though, that this might be well done, and I think it ought to be done. I think there ought to be some agency that would help the people that want to cooperate—somebody that will know. For instance, out in the State of Montana a law was passed, I understand, which forbids the establishment of cooperative creameries at any point until the State dairy commissioner has given them the right to organize, the object being to prevent the promoters of creameries, who promote them for the purpose of selling supplies, from going around and organizing creameries where there is no economic demand for them. The State dairy commissioner says, "How many cows have you here?" "We have 200." "Well, you want 200 more; wait until you get 200 more." "What are you going to do about agreeing that you will all patronize this creamery?" "We have not got around to that yet." "Well, get around to it; let us talk that over." If we get a similar service for the farmers in the matter of organizing cooperative land banks it will be a very good thing.

Senator HOLLIS. It takes a pretty intelligent man to sit down and read the income-tax law and comprehend what it means, so that he could make a return on a blank sheet of paper; but the Government, by providing blanks, directs a man's attention in such a way that a man of average intelligence can make a pretty fair return. It struck me that we might have some such help along this line—not too paternalistic, but helpful—and in that way help the farmers to organize banks and cooperative societies.

Mr. QUICK. The Department of Agriculture would be in position to furnish not only things that would correspond to blanks, not only communications that would go through the mails, but actual men to go and look the situation over. A man that can talk intelligently about any such organization as a land bank or creamery should be enabled to talk to the men themselves, see what sort of people they are, what they look like, and what their history is, because it is pretty important to have these things organized properly, and they can be organized too fast very easily.

Mr. PLATT. Mr. Quick, what do you think of fixing the rate of interest on the bonds? Instead of making a rate of interest at

which they would sell at par for each separate community, what would you think of putting a uniform rate at 5 per cent on the bonds and let them take the market as they would? In one community they would sell at 90, another 80, and another 70.

Mr. QUICK. I have not considered that question, Mr. Platt.

Mr. PLATT. Would that not be a pretty effective way to enable the people of the different localities to know about what their standing was with relation to other localities?

Mr. QUICK. Of course, it will all work out in the end; but I do not know. I have not considered that matter, and I do not believe that I would like to express an opinion on it.

Mr. SELDOMRIDGE. It has been contended before the committee with some reason that in order to find a market for the bonds it would be necessary for us to federate these banks, rather than have each unit bank issue its own bonds; that the only way in which we can find a market for the mortgage bonds is by bringing the small units together in some State federation, or some central body that will market and handle the bonds. Have you thought of that matter?

Mr. QUICK. It would seem to me that they would inevitably have to come together in some way. If you do not do it they would have to do it. I do not think that the farmers of the country would be satisfied with a law that would require them to sell their land bonds through any particular agency.

Mr. SELDOMRIDGE. Would they not more readily sell their bonds through an agency established by the Government and supervised by the Government? Would there not be a readier market for bonds coming through that kind of an agency than through an individual or corporate agency?

Mr. QUICK. I can see a great deal of advantage in the matter of satisfaction on the part of the people in giving them the right to sell their bonds to the people of their own town if they wanted to. But I will say also that it is equally true that they should have some central agency to sell them if they do not sell them in their own locality.

Mr. SELDOMRIDGE. In the localities which you mention as particularly needing this system, and in which they are unable at the present time to finance themselves, perhaps, would it not be necessary that they should seek an outside market in order to dispose of their bonds, and thereby compel them to establish beyond question the validity and solvency of the security?

Mr. QUICK. There would be great advantage in having in a State like Nebraska, where the soil is very varied in character, where some of it is good, the best in the world, and some of it is very poor, some of it is blessed with abundant rains, and some of it is very dry—and similar conditions exist in almost every State except Iowa, where everything is good—I think it would be almost necessary for them to get together and have something else besides local organizations to take part in the matter of selling these bonds, but how, I do not know.

Mr. SELDOMRIDGE. That is where some of the committee and some who have appeared before the committee contend that the Government should step in and not make it voluntary cooperation, but a compulsory cooperation; that there should be, in a certain way, a double appraisalment of the securities offered back of the bonds.

Mr. QUICK. I am not prepared to say that I agree with that. I believe that local—I am not opposed to organizations and I think they will have to come—organizations for the purpose of handling these bonds as a whole and exercising some degree of supervision over the placing of these loans. I am not opposed to that.

Mr. WOODS. Mr. QUICK, do you think the bonds issued by a little local unit could find as ready a market as bonds issued by a State organization composed of a federation of these local units?

Mr. QUICK. I do not think it could.

Senator HOLLIS. Would it not be a little better to have the capital in the community locally, where the owners of it would know their associates in the farm-land bank, to invest their money in the capital of the bank, taking stock, and then have the bonds indorsed or pooled by some central authority, so that they could sell to outside capital? Would not that be the ideal combination?

Mr. QUICK. The thing that seems to me—I am putting this forward with a great deal of diffidence—but it seems to me that the ideal thing would be to have an arrangement by which local banks could be created and receive outside aid or not, as they preferred. If for any reason they were too poor to be ready to do it, or too badly managed to be able to do it, or if for any reason they were so rich that they did not need to do it, let them stay out of the federation if they wanted to; but I do not at this time feel that the country would be satisfied with, or that I would care to vote if I were in Congress for a bill setting up a big central agency through which all loans must be handled. But I do believe that if there were some way of enabling these local banks to become accredited, so that their bonds could have some higher certification than that of their own local bank it would be a good thing, but my opinion on that may not be worth anything.

Mr. PLATT. You think that the system ought to be such that they can organize where it is most easy to organize than where—

Mr. QUICK (interposing). It rather seems to me that is likely to be the case. I have become, through observation of such things, suspicious of the great big thing that is going to start all over the country. Such movements do not grow. The successful things are things that grow up from the bottom, like the northwestern fruit associations, like the Citrus Fruit Association of California, like various truck-farm associations.

Mr. SELDOMRIDGE. Among the national and commercial banking organizations there has been a general recognition of the general need of coordination of the banking concerns, and mobilization of capital, banking credit, and commercial credit, in order to furnish the country with a currency that will respond to the needs of the country, and why should there not be a similar coordination of farm credit in order to effect a like mobilization and bring results?

Mr. QUICK. Well, I am not disposed to say that there should not be.

Mr. SELDOMRIDGE. No; and I am not disposed to say that there should be, but the idea has been advanced here by a great many who have appeared before the committee, that that really must constitute the very backbone of such a system as is proposed.

Mr. QUICK. We must not be misled by analogy. The object to be accomplished in the currency bill is very different from what is sought to be accomplished here. A currency necessarily has to be

universal, but it is perfectly proper for certain farm-land banks to fail, to be abortive in their formation, by reason of being allowed to stand on their own feet, but yet the system itself may be good. I personally prefer to see the loans handled with the utmost freedom, so that if the business men of any community say, "Here, we will get back of this bank and buy these loans, that the loans can be kept in the community." Even in the poorer regions there is often no lack of wealth in the community at large. It is the agricultural condition that is low. The community itself may be very rich and the people of that vicinity might regard it as a patriotic duty to get out and take care of those things, just as the bankers have in a great many parts of the country gone out and cooperated with the farmers for the purpose of improving their agricultural operations; in order that the farmers might get on their feet, and they will get out and help market their bonds.

Mr. BULKLEY. Why could they not do that now without any legislation?

Mr. QUICK. It might be possible to build it up by a system of voluntary action, but the thing that we lack now is a standardization of conditions under which the loans are issued.

Mr. BULKLEY. Do you think that mere standardization would wake them up?

Mr. QUICK. A standard form of organization would, I think, help.

Mr. BULKLEY. You think it would wake them up to do things that do not occur to them now? Is that your thought?

Mr. QUICK. They could do things that they can not do now. How can a community practice rural banking now and issue land bonds?

Mr. WOODS. They can organize trust companies, which is practically the same thing.

Mr. QUICK. And issue debenture bonds?

Mr. WOODS. Yes.

Mr. QUICK. Yes; but the Federal sanction back of it and Federal supervision—the fact that there is a fiduciary officer whose duty it is to attend to the amortization; that is something I have not spoken of—to attend to the amortization credits and all that.

Senator HOLLIS. To give them information and block out a way?

Mr. QUICK. Yes; and not only that, but stand as sponsor for the system before the buying public.

Mr. MOSS. Mr. Bulkley asked why it should not be done. Do not the laws of taxation and mortgages and about securities stand as at least a burden in some places?

Mr. QUICK. I think so.

Mr. BULKLEY. Yes; there is no doubt about that, and I had that in mind, but I wanted to get Mr. Quick's views on the other features.

Mr. QUICK. In the matter of amortization, I think there is plenty of experience in this country as well as abroad to show that amortization is a good thing. The building and loan associations plan is simply an amortization scheme. I think that it is important that the amortization should proceed at least as fast as the exhaustion of the fertility of the soil. That is one point I think ought to be borne in mind.

Mr. BULKLEY. Do you think 35 years too long?

Mr. QUICK. I do not think most American farmers would want a loan that long, but they ought to have it if they do. At the same time if there is not such local control and such watch as to prevent them from skinning the land and spoiling it inside of 35 years you would have some losses on it.

Mr. BULKLEY. It has been suggested that the borrower should file an annual report, which should be approved or disapproved by some officer of the bank. What would you think of that?

Mr. QUICK. I do not know. I have not thought of that. I do not believe you will be able to do that. Ordinarily it is pretty hard to get an annual report from a farmer—any kind of a report. I think, as a matter of fact, that a good deal of the condition on the farm is practically incapable of being put into an annual report. You can go onto a farm and see how his clover looks and see how his fences are and you see the general air of the place and you know the farm is all right. On the other hand, you might see everything that would be put into an annual report, but it would not be worth anything. Certainly I do not know but the annual report is all right; it might keep the farmer aware of the fact that there is a God in Israel, but if you rely on your annual reports it will be a bad thing; and it is true that where you have your annual report you will rely on it.

Mr. SELDOMRIDGE. Do you think there is any danger in the matter of appraisal, giving the bank the right to issue bonds on a mortgage of its own appraisalment entirely?

Mr. QUICK. If the fellows who make the appraisalment are financially liable for any errors they make, I think that is the highest safeguard you can get. As soon as you get other people to make the appraisalment you begin to add expense and trouble to your system. That is the way it strikes me at first blush. I am liable to say a lot of things here that I might want to come back to-morrow morning and take back.

Mr. SELDOMRIDGE. Let me ask you as to your views in the matter of short-time credits. Do you think that these banks should undertake, in any way, to extend to the farmers accommodations along the line of short-time loans?

Mr. QUICK. Do you mean personal loans?

Mr. SELDOMRIDGE. Loans on personal security—chattels.

Mr. QUICK. I do not believe so, because just as soon as they begin to mix anything up with mortgage loans they are likely to do something that will destroy the fundamental basis upon which they get their credit.

Mr. SELDOMRIDGE. Some conditions have been presented to us from gentlemen living in sections of the country where the need for short-time credit is even more pressing than even the need for land credit.

Mr. QUICK. Now, gentlemen, as to that, you are dealing here in this matter of mortgage loans with people that need help less than anybody else in the rural-credit business. The people that need help are the tenant farmers that do not own anything whatever; that is, unless they make a loan and buy a farm. Thirty-seven per cent of the farmers of Nebraska are tenant farmers and are homeless the 1st of every March. There are some parts of Texas, Georgia, Alabama, and Mississippi where 90 per cent of them are

tenants; literally peons. almost. They are the folks you have not got to yet.

Mr. SELDOMRIDGE. How are we going to get to them?

Mr. QUICK. You can not get to them in this bill, I am afraid.

Mr. SELDOMRIDGE. Can we get to them at all?

Mr. QUICK. I do not know.

Mr. SELDOMRIDGE. You have studied that question?

Mr. QUICK. It is a question we can not enter into at this time. I would like to deliver a lecture. but it would take me until 8 o'clock in the evening.

Mr. SELDOMRIDGE. We had a meeting the other day where the views were pretty well expressed in less time than that, and we were confronted with a condition which, to my mind, was very serious, in which men were practically in a state of commercial peonage; had mortgaged their subsistence, all that they had on hand and what they hoped to have.

Mr. QUICK. Yes; the condition in certain sections is very bad; and a system of credit, under which a man can capitalize his integrity and his industry, is sorely needed; but it does not seem to me that that is under discussion here.

Mr. PLATT. In certain sections of the country, those you spoke of, for instance, the land is not even for sale to the tenants, is it? And it has been urged before us—I think it has at least been mentioned—as a possible objection to this system that it might encourage tenants to buy farms.

Mr. QUICK. That is true. The American system of landlordism is the most unintelligent and most cruel, and the most utterly without any basis of common sense of any system of landlordism that I know of in the world. It is the same kind of system from one end of the country to the other. A man passes through the pioneer days and proves up on 160 acres of land out in Mr. Woods's district, and goes to Fonda or some other town out there and lives as a retired farmer the rest of his life, entering into an arrangement with some other man which constitutes a criminal conspiracy on the part of both of them to rob the land and their posterity. That is going on all over the country, and any system of farm-land banks will not meet that condition.

Mr. PLATT. It will in some sections of the country.

Mr. QUICK. It may in some sections, I think.

Mr. PLATT. But as a matter of fact, though, isn't it true, according to your observation, that, leaving out the sections of the country in the Southwest, and in the South particularly, tenants are tending to become owners more and more?

Mr. QUICK. No; they are tending to become owners less and less. That is inevitable. It was perfectly feasible, when I was a boy, for a tenant to pay for a farm in Iowa in a few years.

Mr. PLATT. I did not put my question just exactly right. I should not have said more and more. The tenants, as a matter of fact, do purchase farms, and the statistics seem to show that the percentage of tenantry is much higher among the young men than the older men.

Mr. QUICK. Those statistics, however, do not mean very much, in view of the fact that the tenantry in all ages is increasing at a tremendous rate.

Mr. PLATT. Not in the northern part of the United States, is it?

Mr. QUICK. Yes.

Mr. PLATT. How about that, Mr. Coulter?

Mr. COULTER. I think the last census report shows 8 or 10 States where there is a decrease in the tenants, the actual number of tenants in proportion.

Mr. QUICK. What States are those?

Mr. COULTER. From New England down along the line.

Mr. QUICK. Yes; but that is perfectly explainable.

Mr. PLATT. Most of the increase is in the South, especially where large farms have been split up and put out to tenants.

Mr. QUICK. The increase in Iowa, Nebraska, and Illinois is great.

Mr. COULTER. Not great, I think. Some of them show not to exceed over 2 to 5 or 6 per cent.

Mr. QUICK. That means that in 50 years the entire thing is weeded out. We are dealing with long time here.

Mr. COULTER. It is a very small increase.

Mr. PLATT. If you split up a thousand-acre farm into 100 small farms and rent them out, that shows an increase of tenantry, but it might be a mere wedge to ownership to split up those big farms.

Mr. QUICK. On the other hand, where 50,000 city people go out into the Berkshire hills and buy a piece of land to live on in the summer and 50,000 more buy truck patches out in the vicinity of the towns, those operations show an apparent decrease in farm tenantry, but it is not a real decrease at all. What is needed in order to determine that matter is to have a survey made of the agricultural counties. I think if that survey were made it would be found that the farm tenantry is universally increasing. In the East there is a tremendous number of people going out from the cities and buying farms. Then there is nothing to be made by landlordism in the East; there is nothing to be gained from landlordism in Vermont and New Hampshire.

Senator HOLLIS. That is perfectly true. I own a farm and do not operate it at all because I can not get my money back. I am letting it grow up to timber.

Mr. QUICK. I know, but if that farm were in Iowa you would operate it. You would not rent it as if you were looking after the welfare of the country or the welfare of the farm, but you would expect from the man who rented it from you every last cent you could get, and every spring you would change your tenant. You would get dissatisfied with that kind of a man, of course. Anybody would. You would try another man, and finally you would say that the American people are deteriorating; that there are no more good tenants left.

Mr. PLATT. There are a good many big farms that were run by hired help entirely, but now they are run by tenants. It shows an increase in tenantry, but it does not show any going backward.

Mr. QUICK. I think you can get more out of a man as a tenant than you can as a laborer.

Mr. PLATT. That may be all true, but he is more his own master as a tenant than he was as a hired man. He is more on the way to ownership than was the hired man.

Mr. WOODS. I think the hired man would be able to purchase a farm quicker than the tenant.

MR. QUICK. As a matter of fact the records of farms show that in many cases the owners do not get as much return for their labor as the hired men do.

MR. PLATT. That is up in Senator Hollis's neighborhood.

MR. QUICK. No; that is in Wisconsin and Iowa.

MR. PLATT. No; not in Iowa.

MR. QUICK. Yes.

SENATOR HOLLIS. I think that is true to a great extent. That is, you allow a man 5 or 6 per cent on his investment and reckon what he pays his hired man and what he gets out of it at the end of the year the hired man will come out ahead in a great many cases.

MR. QUICK. The fact is that land values are going up, and a man is a loser as a farmer, but as a land speculator he has been a gainer. It reminds me of a man out in Iowa who, in speaking of how a certain man was getting along, said: "Oh, very badly indeed; Bill is bankrupt, but his wife has been prospered wonderfully—wonderfully." In this case as a landowner he has "been prospered wonderfully," but as a farmer he is doing rather badly.

MR. PLATT. That brings us around to a question that we have asked several times of several people. Is the value of farm land based upon productiveness in the United States to-day or is it based upon speculation, or what is it based upon?

MR. QUICK. Well, three or four years ago I got it into my head that farmers ought to have some different arrangements with reference to keeping their accounts. I discovered that a farmer can not keep books, because his books are very much more complex than the average bank books, if he keeps them correctly. It is perfectly absurd to expect a farmer to hire a secretary and bookkeeper to keep his books on a farm, therefore, at a farm club in a Wisconsin neighborhood, I suggested the idea of cooperative farm credit, and the farmers up there, being thoroughly progressive, said, "Start that here; we will go into it. If Farm and Fireside will put in a little money toward it as a research experiment, we will do the rest and get the University of Wisconsin to delegate a man to come down here and keep our statistics: we will keep our farm accounts cooperatively so that we will know which farm makes the money, and will have an absolute demonstration of our operations and their results." I went down to Prof. Taylor, at the University of Wisconsin, and said, "Here, can you find me a good man that will do this, who will get me up a set of books?" He said, "Do you mean to say you have a crowd of farmers that will put up any real money to have their accounts kept?" I said, "Yes." He said, "I will look into that." I went back and after a while I said to him, "How about those books, Professor?" He said, "I have not got them ready." I went back after while and said, "I'll tell you what I'll do; if you do not give me those books for that system of accounts for the farmers, I am going down to Washington and get Dr. Spillman to give them to me." He said, "You need not go to Spillman, because he can't help you any more than I can." He said, "The fact is I don't know how to get up a set of books." He has been working on it, but up to this time he has not yet got up a satisfactory system of farm statistics.

He said, "Here is this problem for one—of course there are plenty of others—if a man can make 80 cents an hour raising corn for his work, and only 65 cents raising tobacco, which had he better raise?

Which is the most profitable, tobacco or corn? Of course a man would say that corn is 15 cents more profitable by the hour, but he can do tobacco work in the winter when other work is slack. There are bigger things than that that have to be worked out. Those are things which we want finally to work out." But he said, "What are you going to do about land values? Land is worth \$125 an acre, we will say, and it will rent for \$3.50 an acre. What are you going to do? In 20 years that would be \$70 an acre. What are you going to do with the difference? That \$125 is the market value or price of the land, and \$70 is what it is worth as a productive proposition. What are you going to charge the surplus to? If you charge it against farming it is unfair to farming." I said, "Why don't you charge it to land speculation; that is what it is."

He said, "Yes; that is exactly what it is." That answers your question.

Mr. PLATT. That brings up the question whether it is going to be safe, in a great many cases, to loan 50 per cent of the value of the land.

Mr. QUICK. I do not mean to say that the speculative value of the land will ever be less, unless it is taxed out, because the pressure for land is getting greater all the time, and if loans are made up to 50 per cent for productive purposes I think it will be safe—you see it is not a matter of a boom, it is a steady pressure. There is no farm land, I believe, in the world that is on a more stable basis than those Prof. Taylor spoke of.

Mr. BULKLEY. Speaking generally, land values have not grown less, but they have gone up in certain instances?

Mr. QUICK. They have gone down in certain places. For instance, in New York City, in certain localities, land values have been all but crushed.

Mr. PLATT. Farm-land values have gone through the same thing in New York State.

Mr. QUICK. That was owing to a condition that never will happen again, I think, Mr. Platt. When the prairies were discovered and developed, and at the same time labor-saving machinery was developed, the tremendous opportunity that existed in robbing virgin soil of its fertility and mining it and shipping it away crushed farming everywhere. It wrecked the European farmer, and it meant many abandoned farms in this part of the country.

Mr. PLATT. I do not know that it is generally known, but that is absolutely true, and that was due to the fact that the Government gave away great tracts of land in the West that ought to have been sold, it seems to me, instead of given away. At least, they ought to stop giving them away now. There is an Indian reservation opened up every once in awhile and lottery tickets given away, and people crowd around by the thousands to get that land free. They had one only a short time ago. It does not do much harm, of course, to the eastern farmers now, because there is not enough of it.

Mr. QUICK. Not now. There is not any trouble about the West. It has already reached the point where the land values are such that they are absolutely crushing to legitimate farming. Land values are so high that it is hard to make anything on them for a man that buys now. But I think it is perfectly safe to count on a steady increase

in the land values even in the East and South and the forestry belts of the North, and I do not believe there is any danger of booms in them, because, in order to have a farm-land boom, you must have some sort of country that you can divide up and sell in township tracts.

Mr. PLATT. You would except such land from that statement as can be used for orchards, for instance, because they are boomed?

Mr. QUICK. Oh, yes; I would except those. But no reasonable local banker would loan money on an orchard proposition, unless it was to some man who was giving his attention to it personally, and then in a reasonably small way that would come under their observation.

Mr. PLATT. Would you limit the amount of loan to be made per acre under this system?

Mr. QUICK. No.

Mr. PLATT. You think the local banks would take care of that?

Mr. QUICK. I think they would have to, if the local people are responsible for them.

Mr. BULKLEY. Would you limit the amount to be loaned any one individual?

Mr. QUICK. I do not know. I have not considered that.

Mr. BULKLEY. There was a question I wanted to ask on another subject, though I did not want to divert you from what you were saying. What do you think would be the desirable par value of shares in these land-mortgage banks?

Mr. QUICK. Well, they ought to be small enough so that people could buy them; and in the cooperative banks I think it ought to be one man, one vote.

Mr. BULKLEY. Would you make the shares \$25 or would you make them as low as \$5?

Mr. QUICK. Why, unless he is required to pay in all cash, I should say that \$25 would be right. When you get down to \$5 shares you get more expense in handling your shares; yet, if there is a man in the community that wants to buy one share at \$5 and become interested in the bank, while it would not be profitable it would be a nice thing to have that fellow encouraged to go in, it seems to me.

Mr. BULKLEY. That is the point suggested, and \$5 shares have been advocated.

Mr. QUICK. Of course, you know that in a lot of mining companies it is quite common to sell \$1 shares. It is generally done, I think.

Mr. BULKLEY. It is very generally done; is it not?

Mr. QUICK. Yes. There is not any reason why the shares should not be made small. I think it would appeal to the farmers generally.

Mr. PLATT. There would be some danger in that. A whole lot of people take mining shares because they are cheap. As some man said, a mine is a hole in the ground out of which nobody ever takes anything.

Mr. QUICK. That is a good definition, I think. That would be true if there is any extraordinary profit to be made out of the farm-land banks. But I do not think there is very much money to be made, as a banking proposition, out of them. I think that they will be very largely banks that will be run for the purpose of paying their clerical help, and they will be operated to a very large degree through the public interest in the matter of farm loans, in developing the coun-

try; and I doubt whether the danger referred to would exist; but it is worth considering.

Mr. PLATT. If that should be true—if they should be operated largely through altruistic motives—would that not have a tendency to considerably increase the value of land?

Mr. QUICK. Not altruistic motives, but motives of public benefit. If there is any good in it it will increase the price of land anyhow. The price of land always absorbs the value of everything good.

Mr. PLATT. That is one thing we have been particularly desirous of prohibiting.

Mr. QUICK. I have thought of that, and I have thought of it very seriously. In this matter you are confronted with the idea of either leaving people who need help unhelped or contributing to a flame that is fed by every public improvement, anyhow. If you are going to quit public improvements because it raises the price of land, you had better quit everything.

Mr. PLATT. That is true, too. But in Europe these banks are, some of them, pretty largely profitable, if I remember Mr. Moss's statement and that of others who have been there, and there seems to be no good reason why they should not be here.

Mr. QUICK. Those building and loan associations in Ohio do business on a margin of 1 per cent and are profitable.

Mr. PLATT. They are purely cooperative?

Mr. QUICK. They are purely cooperative. There are always men connected with them that are making salaries out of them, or else they would not go.

Mr. PLATT. Why could not the building and loan associations handle the farm-loan proposition if they could get people to go into it?

Mr. QUICK. These banks that you are providing for in here will become very largely the same thing. What you are doing, as I see it, gentlemen, is considering the matter of providing the application of the building and loan association idea to the matter of farm loans under Federal supervision. That is about as big a thing as you can do, it seems to me.

Mr. Woods. Under the building and loan association, though, a man needs but very little money to take advantage of it, but under the provisions of this system a man must be reasonably well off; he would need considerable cash to take advantage of it: he would have to have sufficient funds to stock the farm, buy the machinery, and have 50 per cent of its value.

Mr. QUICK. Yes; the benefits will not go to the man who has nothing except his integrity and industry. And that is not what it is for. Yet it will help, Mr. Woods, enormously, a lot of men who are very, very close to the line of bankruptcy in the less developed parts of the country. I am not thinking of Iowa, where I was born and brought up. Folks out there are pretty well off; they are getting along pretty well. I am speaking of the northern part of Michigan, Minnesota, and a whole lot of the country which is pretty good country if it were only on the map financially; and your job is to put it on the map financially, and see that the people, where they have plenty of money, can part with it and let it go down to help these people, with a good prospect that the interest is coming back annually and that their principal is going to be paid.

MR. PLATT. Do you think it would put the extreme northern part of Minnesota on the map financially for the farmers and citizens of some little town of a thousand people to establish a little bank of \$10,000 capital and issue debentures?

MR. QUICK. I think that when there are 100 of these banks in Minnesota under proper Government control that it will.

MR. WOODS. Would they not get more benefit if those loans were known as coming from the State instead of some particular local community?

MR. QUICK. I am inclined to think they would; and I think if they are given permission to get together that way and federate that they will do it. If your law makes it permissive for them to do that, so they can get the name of the State back of them, it will help.

MR. SELDOMRIDGE. Would there not be some danger, Mr. Quick, of any number of farmers getting together in these small towns and forming banks simply for the purpose of making loans, just as they did years ago—make loans and then go away?

MR. QUICK. If your Government inspection allows them to do that. But your bill is no good unless it has an inspection system that will prevent that.

MR. SELDOMRIDGE. I recognize that is something that must be governed.

MR. QUICK. It must be; yes, sir.

MR. SELDOMRIDGE. But the opportunities for doing that, in my judgment, are greater than they would be under a properly constituted system that would compel them all to work up to one plan and be controlled from one central unit.

MR. QUICK. Oh, I don't know. You have not felt very much evil effects from the organization of national banks for any such illegitimate purposes, simply because you have a bank-inspection system.

MR. MOSS. I would like to ask you a question, with the chairman's permission.

Under the terms of any bill, the land-mortgage bank could not be established without the permission of the Federal authorities, just as a national bank, and would you not presume that the National Government would inquire close enough in regard to the character of persons asking for the charter, and the chances for success, to preclude the organizing of any bank purely for speculative purposes, as suggested by Mr. Seldomridge?

MR. QUICK. I should say so, but any system that does not provide for the local units receiving service—I do not mean a blow on the head to prevent them from doing bad things, but they ought to have service from the Government in establishing these banks, so that the people may be helped by experts to see that they are well organized. What we need is not so much inspection as service.

MR. MOSS. That is exactly the idea—that they can not organize the bank under Federal control without permission of the Government itself—and an investigation not only into the character of the men who apply for the charters and their motives, and they also take into consideration, I think, in applications for national-bank charters the chances for success. I think that is true in regard to national banks and would be true in regard to land-mortgage banks.

MR. QUICK. I should think it ought to be true.

Mr. WOODS. That would be true for a year or two, but I do not think it would apply to them 25 or 30 years after their organization, as the conditions will change and the owners of the bank will change. It is an entirely different proposition with a land-mortgage bank than a commercial bank. I should think that would apply with the organization of the bank.

Mr. QUICK. I think if the system is once in operation it will have passed its critical period.

Mr. WOODS. I do not think so. I think the critical period will come in after some 8 or 10 years, when the ownership of the stock will have changed.

Mr. QUICK. I suppose there is some provision in the bill against the monopolizing of stock.

Senator HOLLIS. Yes; it provides that only 10 per cent can be owned by any one individual.

Mr. PLATT. What is the objection to having some large capitalist, for instance, go through the country and organize a chain of these banks?

Mr. QUICK. That would be true of the capitalists' land banks. There would be no objection to that at all in the case of capitalists' land banks, but does not your bill provide for the organization of two kinds of banks?

Mr. PLATT. Yes.

Mr. QUICK. One cooperative? When you come to the cooperative bank I believe it is important that nobody should have a large enough interest so as to go out as a minority stockholder and start injunction proceedings. The stock in a cooperative bank ought to be held in small amounts, but where the bank is not cooperative is there any provision for ownership of the stock?

Senator HOLLIS. No.

Mr. QUICK. I should think one man ought to be able to own all of the stock.

Mr. MOSS. The mere matter of having a limited ownership in the cooperative bank is another idea that would tend to preclude the organization of a cooperative bank unless there was a widespread demand for it.

Mr. QUICK. Yes; that is true.

Mr. MOSS. The idea of cooperation is to get a number of persons actively interested in it. If you limit the ownership it precludes the organization of a cooperative bank except in those localities where there is a large number of people that want it. There is the fundamental proposition. When the question was asked Col. Ousley, of course, I knew the reason, but I did not refer to the section of the bill and I did not give the reason. That is the reason, however.

Mr. BULKLEY. Mr. Quick, the par value of the shares bears some relation to another subject which we have been discussing. Suppose you had shares as low as \$5. how good would your double liability be?

Mr. QUICK. Well, I suspect when you come to organize these banks you will find that the most of the people subscribing stock will have to put up just as much money if the par value of the stock is small as if it is large?

Mr. BULKLEY. What I mean is this: That you might have, theoretically, a double liability of stockholders, but if you find that the

greater portion of your stock was held in \$5 blocks it would cost more than \$5 a trip to collect it.

Mr. QUICK. That is something that I have not thought of. I do not believe it would be so, but that is a point upon which I am not prepared to say.

Mr. SELDOMRIDGE. Would it not be easier to get five people to take five shares of \$5 each, with double liability, than it would be to get one person to take one share of \$25?

Mr. BULKLEY. What I am talking about is, that if you have the double-liability feature at all it ought to be good. If you get into a situation where you can not enforce double liability you might as well admit it and not delude yourself that you have such a thing when it is not there.

Mr. QUICK. The money will all have to be furnished by people in the community that are interested. They will have to put it up or they can not organize.

Mr. SELDOMRIDGE. Do you think the Government of the United States could safely invest any of its funds in land-mortgage bonds?

Mr. QUICK. I do not see why it could not.

Mr. PRATT. You do not think that is necessary, do you? You do not think it will be necessary to the success of the system?

Mr. QUICK. I think, perhaps, cooperative banks might very properly be aided somewhat in the beginning by a deposit of funds or the purchasing of some of the bonds. Of course, it is a dangerous innovation for the Government to start these things, because there will grow up a cry for them to do that everywhere.

Mr. PLATT. You do not think, ordinarily, that these joint-stock banks provided for would be sufficiently attractive for outside capital to come in and organize them?

Mr. QUICK. It would depend upon how much money they can make out of it.

Mr. PLATT. There must be money in doing that kind of business or the Woodward Trust Co. and such concerns would not be in it.

Mr. QUICK. That is the question.

Mr. WOODS. They do a larger business on their capital stock; they are not limited.

Mr. QUICK. You see, here you have a provision for limiting the amount of business to be done on the capital stock such as no other financial organization that I know of is subjected to.

Mr. PLATT. That very limitation is one of the things that we have not absolutely and positively accepted yet, and it is subject to discussion.

Mr. QUICK. Any other bank can loan any quantity of money no matter what its capitalization is, but at the same time this limiting of the volume of business is bound to make the double liability of stockholders actually mean something, which it does not where the operations are too large. It is a movement in the right direction. But it does take away the opportunity of engaging in large operations on a small capital. I have not given the matter enough thought as to be able to say whether, in my opinion, it would or not, but I believe that it would be a good thing. I do not want a rural land bank started in every community in the country all at once under any bill you pass. It would be too fast, too rapid, and absolutely sure to be fatal. I just would like to see some arrangement under which

some communities that are intelligent enough and live enough and are conscious of their needs be able to do something with their farm loans in such a way as to work themselves out of their difficulties, because if they do not work themselves out it is no good to them anyhow.

Mr. PLATT. Speaking of that question of profit, now, if a bank of \$10,000 capital makes loans of \$150,000 and has a margin of 1 per cent, it would make \$1,500, and its overhead charges ought not to be more than \$500, I should think, and that would leave a profit of 10 per cent on its capital.

Mr. WOODS. How are you going to sell your bonds?

Mr. PLATT. I do not say that would be the cost everywhere, but it seems to me that in a great many communities they would make 10 per cent.

Mr. QUICK. I am not a banker, and I can't say; but they might be able to do that. How often could they make their turnover?

Mr. PLATT. As fast as their amortization payments came in they could make new loans; they could keep out that amount, I presume, right along. Of course that contemplates that these banks will be run more like the building and loan associations, and not be open all day, but perhaps only one or two days a week, or something like that.

Mr. QUICK. There is no reason why a bank of this kind should be open all the time.

Mr. PLATT. I do not see why it should.

Mr. QUICK. They ought to be handled very economically.

Mr. PLATT. That brings in another question. The bill allows these banks to take deposits up to 50 per cent of their capital. Do you think that is a good thing or not?

Mr. QUICK. They will naturally have some money on hand at times; people will come in and get a loan and might not want to take it out immediately.

Mr. PLATT. It would be a great convenience in many cases to allow them to take deposits, of course.

Mr. QUICK. It might be all right to allow them to take a limited amount of deposits.

Mr. PLATT. That brings in another question. What are you going to do with these deposits?

Mr. QUICK. I suppose they would have to put the deposits in a bank somewhere.

Mr. PLATT. Would you allow them to loan them out on personal credit—to do any kind of banking business?

Mr. QUICK. I am afraid that would be unsafe. Just as soon as they get into the personal-credit business you have got to hire a man with a horse and buggy to look after that, and it is subject to loss.

Mr. PLATT. Mr. Moss is here to speak for himself, but I believe it is his idea that the present small State banks which are doing a mortgage business and a personal-credit business would reorganize into these banks if they were given the chance to do so.

Mr. QUICK. That they would?

Mr. PLATT. Yes. What do you think of that? Of course there are a great many of these small banks.

Mr. QUICK. I think the present banks are much more likely to organize branch farm banks for the purpose of giving the farmers accommodations, and let their clerks take charge of the books. You will find that a lot of these little banks will be organized if you pass this law, and that not very long hence, and they will be organized in the main around local capital.

Mr. PLATT. Around the present banks?

Mr. QUICK. Around the present banks, where they can get the folks to come into the bank when they come into town in the afternoon and keep on good terms.

Mr. PLATT. That is one thing Mr. Moss expects could be done.

Mr. QUICK. I think that will help. But I do not believe that they will reorganize very much into land banks, because I do not believe they can make as much money as they can doing a commercial business.

Mr. PLATT. Of course, in places where there are other banks, and these banks are organized around them, it would not be necessary to allow them to receive deposits, because they could go into the banks already there; but in places where there is no bank would it not be convenient to allow the banks to receive deposits and handle them in some way that would be profitable?

Mr. QUICK. The man that is in control or manager of one of these land banks out in the country somewhere, who keeps deposits on hand, will be a mark for every yeggman in the United States. They would have each of these chaps marked down and go and blow his little tin safe and take the deposits out.

Mr. PLATT. I think that is so, too.

Mr. QUICK. The best business for the enterprising man to go into would be burglary in that event.

Mr. PLATT. Robbing the post office seems to be pretty profitable.

Senator HOLLIS. Have you completed substantially everything you wanted to say?

Mr. QUICK. I think I have.

Senator HOLLIS. Will you let us have these reports from Wisconsin, if you have them?

Mr. QUICK. They relate merely to the matter of capital on farms. I would suggest that your secretary write to Prof. D. H. Otis, professor of the University of Wisconsin, and ask him for them.

Senator HOLLIS. We are very much obliged to you.

(Whereupon, at 1.05 o'clock p. m., the subcommittees adjourned until Monday, March 16, 1914, at 10 o'clock a. m.)

MONDAY, MARCH 16, 1914.

HOUSE OF REPRESENTATIVES,
Washington, D. C.

The subcommittees assembled in joint session at 10 o'clock a. m., Hon. Robert J. Bulkley presiding.

Present: Senator Hollis and Representatives Stone, Seldomridge, Weaver, Hayes, Woods, and Platt.

ADDITIONAL STATEMENT OF S. D. SCUDDER, OF NEW YORK CITY.

Mr. SCUDDER. Mr. Chairman and gentlemen of the committee, you will recollect that in my testimony of February 24, 1914 (p. 5 of the joint hearings), the two chief reasons I gave for granting "deposit" and "short-term-discount" privileges to these "stock-mortgage companies" or "land banks" were: First, the immediate and really more important need for giving some "personal-credit help" to that largest portion of our agricultural citizenship now entirely outside the pale of any banking facility (and I do not include in this category the shiftless, lazy farmer). Second, the physical impossibility of starting these capital-stock institutions unless made sufficiently profitable to warrant their initial creation. This latter reason can perhaps be met by eliminating deposits entirely and providing some such simple management as possessed by building and loan associations.

I am still of opinion, if placed under the Federal reserve board through a separate State or "regional" system, that sufficient deposit and discount "safeguards" could be effected to make these concerns as solid as "commercial banks," and that, with ample Government backing and supervision, the investor would not mind this "banking feature" if entirely satisfied respecting the bond issues against mortgages on the amortization plan. If later on this committee should be interested in seeing an outline of such conservative rules governing "mortgage and deposit companies" I will be glad to submit same.

In order to meet the evidently strong opposition to such a "combination of banking powers"—which opposition, by the way, emanates from two separate and distinct sources, viz, from those who really believe that a mortgage-bond feature "might be weakened" through a deposit and personal-credit department, and, secondly, from those who look with alarm on that kind of competition which would surely develop from such popular institutions as "national mortgage and deposit companies" could become—and in order to bring together "for some prompt action of relief" all those who have thought on the subject and who earnestly desire a beginning made toward personal-credit aid I submit the following simple remedy in the belief that it will help all people of small means,

whether they be farmers or cattle raisers or artisans or clerks or laborers, etc.

Allow me, first, to say that 50 years ago, when the national-banking system was inaugurated, the theory then prevailing was that "if the commercial and industrial interests of the country could be duly protected and fostered the agricultural interests would take care of themselves." It was a great mistake, but the affairs of the nation were then absolutely in the hands of the commercial and industrial classes—a very small minority—who proceeded to make laws to suit themselves.

At the last election, however, whatever may have been their differences as to methods or plans, all the people, without reference to party lines, agreed that hereafter our governmental credit aid should be extended to all alike. And by "all" was meant not only those subdivisions originally left entirely out of the reckoning, i. e., the farmer and the cattle raiser, but also "the small borrowers of every class," those people sometimes forgotten but who are still very much in evidence, and in fact are absolutely necessary to complete the economic life of a nation, in my opinion the very foundation of this Republic.

Therefore, in pleading for a vital rural-credit bill, allow me to urge avoidance of the error made 50 years ago, when that plan of finance was formulated which never helped the small man in a direct way, if it ever did aid him at all as long as he remained on the lower strata of our economic system. That a comparatively few, even, succeeded by dint of many privations, and through fierce struggles with the money changers, to raise themselves and "to finally reach the higher level of those who could get bank accommodation," has been due to the wonderful resources of a new and remarkable country and constitutes no argument for further continuance of such an unjust and shortsighted policy.

It is well known that the Glass-Owen currency bill purposely omitted any attempt at governmental credit help to the agricultural interests of the country in order that this subject might later on be considered under a separate act. And now, as you are completing this program, it would seem appropriate to pause and consider that after all the new Federal bank act is a financial solution only for those people who during the past 50 years have been, and now are, in the higher levels and therefore "fortunate enough to enjoy the privileges of the larger capitalizations of money." In recent years a slight concession was made by changing the national banking law's restrictions from \$50,000 to \$25,000. But the whole idea and phraseology of these restrictions is monopolistic, because it shuts out the small capitalization entirely from the facilities granted to the others.

This it is which has helped during the past two generations to build up throughout the United States that "system of peonage" referred to by Mr. Quick in his testimony before you last Saturday, preventing people of small means doing their business directly with the banks and compelling them to go there through the "middlemen." In the country districts this middleman is sometimes the farm-supply merchant, whether for money advanced or for clothing or machinery or groceries, etc.; sometimes only a lawyer who stands between the farmer and the bank; but quite and more frequently the very man who owns the land on which his less fortunate brother

lives. In the city this middleman is only known as the "money shark," he who covers and ruins those thousands of respectable people referred to in Mr. Morris's recent testimony here.

It rests with your committee to bring some relief to these worthy millions of our population, irrespective of whether they are of the rural or of the urban class. And if it is done through the simple amendment I am now suggesting, it will add to and not detract from the authority which you have heretofore vested in the Federal Reserve Board. Gentlemen, I do not claim in doing this you will at once settle every question now troubling the country, but you can be certain that a long stride, at least, will have been taken toward the economic freedom of our people. We must build from the bottom up. "Mortgage help" is the second step, "personal credit aid" being the first. It is the absence of the latter which to-day constitutes the chief cause for that momentous movement in the United States, from "occupancy of the farm by ownership" to "occupancy of the farm through the landlord." Then, "after a period of peonage," comes the final abandonment of the farms. Poor souls, they do not realize that in eluding the country usurer they are only running into his prototype of the city.

You may find it wisest, Mr. Chairman, to keep "farm-land credit" entirely separate and distinct in its financial organization from "personal credit." But it does not follow that some beginning toward the latter can not be incorporated here. Bring the Glass-Owen bill "down further to the people," to those who never yet have directly enjoyed that peculiar initial "credit aid" which emanates from the whole people when united; i. e., the Government. There is nothing incongruous in this suggestion. It is easy of accomplishment and can be made safe and sane. Authorize the Federal Reserve Board to establish smaller banks than \$25,000 whenever they see fit to do so. In some cases I would favor capitalization even as low as \$5,000, provided a reasonable surplus is paid in at the start by the sale of stock at a premium. For the country, instead of a population qualification, let formation of these small national banks rest on a rigid requirement for such a number of resident stockholders as shall insure success from the beginning, say, not less than 50 adults, each subscribing for at least one share. This would allow reasonable banking facilities at small places, which, while not necessarily "incorporated," should at least possess ample railroad and telegraph facilities. Doubtless some, if not many of the present small State and private banks, would come into this system, for which the Federal board would define "acceptable farmers' paper" for rediscount at the regional banks. As to the cities, the Federal board should also be authorized to establish smaller national banks than the act now allows, especially for those particular city districts entirely given over to that smaller class of people not sought after by the larger national banks. Here, too, the Federal board would issue rules making loans absolutely safe.

Mr. Chairman, the charge can and should be refuted that "the United States has already gone to its full credit limit, and that consequently there is nothing left for the little fellow." On the other hand, to say that the national banking act as now worded, which allows no institution of less than \$25,000 (and prohibits even these, except in the smallest places), "can materially aid the man of

small means," except in isolated instances, is not borne out by the facts. I can certify from personal observation that it does not do so for the western and southern farmer, excepting at exorbitant and life-taking rates.

The five-year mortgage clause inserted in the Federal reserve act will be practically inoperative, excepting in a few localities or sections, because short-term notes and bills of exchange will be defined as "proper paper for rediscounting purposes." And, even if the Federal board should permit it, how many banks are likely to tie up much of their depositors' funds in five-year mortgages? When long-term mortgages are coupled up with the "amortization plan," they become the basis for bonds, which are recognized the world over as the best and most liquid of assets. I heartily agree with all who have testified here to the only practical way of marketing these bonds, to wit, by federation of some sufficient number of responsible and capitalized units, through either a State or a regional association, itself possessing not less certainly than \$500,000 capital (preferably \$1,000,000). But allow me to say again, with all the emphasis at my command, not so without some kind of Government credit backing. I mean something more than mere governmental "supervision" or "O. King."

The very best kind of credit for the bonds would, of course, be the "Government's guaranty." In this case the people and not the banks would get the benefit of the lower interest rate obtainable; and I can see how such a "guaranty" could be safely arranged and without injuring the Government's credit.

The only other practical and effective plan would be a limited actual purchase of these bonds through the postal savings and other strictly Government moneys now enjoyed by the national banks.

Gentlemen, I thank you for your attention.

Senator HOLLIS. Mr. Scudder, I want to ask you one question. Do you think it would be of any substantial benefit if State banks, those that are not qualified to enter the Federal reserve system, should be permitted the privileges of the system so far as rediscounting their paper with member banks of the system is concerned? That is a suggestion of Mr. Bulkley, I think I ought to state.

Mr. SCUDDER. State banks of \$25,000—

Mr. BULKLEY (interposing). That was Mr. Morris's suggestion.

Mr. SCUDDER (continuing). State banks of \$25,000 capital and complying with the conditions—

Senator HOLLIS (interposing). No; banks of any smaller capital that would not be eligible to join the Federal reserve system; you know that at present they are not allowed to avail themselves of the privileges of the system through other banks. That was done for the purpose of compelling them all to come in that were eligible.

Mr. SCUDDER. Yes.

Senator HOLLIS. But now that so many have come in and the system is bound to be a success, it might not be necessary to keep up the bars. Do you think that it would give these little State banks any substantial help on the commercial side if they were allowed to rediscount through the member banks of the Federal reserve system?

Mr. SCUDDER. I should say it might be helpful if it were really practical. There is a great deal of local jealousy to be considered.

Senator HOLLIS. You think it would be helpful, but how far you are not able to state?

Mr. SCUDDER. No; undoubtedly you would have to put certain safeguards and restrictions and limitations as to the amount, because when a panic comes in a community it hits all the banks alike, and if one State bank, we will say, should be allowed to rediscount with its neighbor across the street—

Senator HOLLIS (interposing). No; that would be with one that was a member of the system.

Mr. SCUDDER. Well, but your suggestion was that any State bank should be allowed "to go to any member of the system," and it might be in the same place.

Senator HOLLIS. Yes.

Mr. SCUDDER. Here is a city or a town, and three banks are national and three banks are State banks, and the three State banks would be allowed under that proposition to "rediscount" with the three national banks of their city.

Senator HOLLIS. Yes.

Mr. SCUDDER. That, if it really did happen at all, might bring about a very serious condition, because panics generally start with local conditions; start in some particular spot and then spread. And that being the history and the course of "panics," it might come about that conditions would be very much aggravated in a given locality by reason of the fact that credit was "overdone," by reason of this proposition. In other words, if those State banks are allowed to inflate their business, for that is what it would be, "inflation" by reason of this privilege, they might inflate to such extent that it would be a very serious matter in that community.

Mr. PLATT. Well, it would simply be giving them the same privilege that the national banks have, would it not?

Mr. SCUDDER. Yes, it would; but without any direct supervision from the Federal reserve board over the State institutions.

Mr. PLATT. The national banks with whom they deal would presumably send their paper right on to the Federal reserve banks; they could do so, at least.

Mr. SCUDDER. Yes; if the present law is amended; but if you had the thing separate, as it is now, there is a check to the national bank's operation.

Mr. PLATT. You mean the State bank's operation.

Mr. SCUDDER. No; the national banks. They would not unduly inflate their business. The Federal Reserve Board would not allow it. Is it not evident, if you have two systems in one city or town, one is a public check against the other? Here are three national banks in a town and three State banks, and if the three State banks are being watched all the time by the three national banks the State banks are certainly not going to inflate their business, i. e., borrow, either directly or through rediscounting, to such an extent as to make their statements appear in an inflated way.

Mr. PLATT. Well, it seems to me that you are arguing against your own position. A few minutes ago you took the ground that these small banks should be allowed to come into the Federal reserve system.

Mr. SCUDDER. Yes; but I am talking about a different proposition now.

Mr. PLATT. What difference does it make whether they are allowed to come in directly or whether they are allowed to come in through the other banks?

Mr. SCUDDER. Because, in one instance, the suggestion that I made was that they all be allowed to come in equally with the others and under direct supervision of the Federal Reserve Board, but the suggestion I understand Mr. Bulkley made was that only for "rediscounting purposes" these State banks be allowed to use the national banks. Is not that it, Mr. Bulkley?

Mr. BULKLEY. That they be permitted to rediscount through the member banks.

Mr. SCUDDER. Yes. Now, I say with proper limitations—

Mr. PLATT (interposing). That is, to send their paper on through the member bank to the Federal reserve bank.

Mr. SCUDDER. Yes; and I do not see why, under proper restrictions and in the absence of local feelings of natural rivalry, that could not be done. But you have got to provide against "too much inflation."

Mr. BULKLEY. What restrictions do you suggest?

Mr. SCUDDER. Well, the suggestion is a new one to me, and I have not thought over it, but I think that could be worked out very easily. There might be restriction as to capitalization, so that there would not be too much inflation of the bank's business by excessive borrowing or rediscounting liability.

Mr. PLATT. I do not suppose there is anything in the Federal reserve act that prevents a State bank from rediscounting with the national bank now, provided the same paper is not sent on to the Federal reserve bank.

Mr. SCUDDER. No; I do not know anything in the present law that would prevent that. But we all know it wouldn't likely happen, unless such paper were made "acceptable" for rediscounting purposes at the regional banks.

Senator HOLLIS. Well, the idea here would be to allow the member bank to issue notes on it and pass it along. We thank you very much, Mr. Scudder, for your statement.

ADDITIONAL STATEMENT OF JOHN LEE COULTER, SECRETARY OF THE UNITED STATES COMMISSION TO INVESTIGATE AND TO STUDY RURAL CREDITS.

Senator HOLLIS. Mr. Coulter, you have attended most of the hearings we have had on this question, and I presume you have some additional suggestion which you can offer, in the light of the statements made by the other witnesses.

Mr. COULTER. There are a few points concerning which I would like to say a few words.

I believe, after considering absolutely everything that has been said before the committee, that there is no need for Congress to provide legislation authorizing or making it necessary for the National Government to lend directly or through local institutions money to farmers on farm mortgages.

I believe that I have personally talked with everyone who appeared before the committee who claimed to be himself a farmer, and in no case could I ascertain that any of them had obtained from the farmers any material sentiment or any definite sentiment at all in favor of having the National Government make direct loans—

Mr. BULKLEY (interposing). Was that true in the case of Mr. Atkeson?

Mr. COULTER. It was true of Mr. Atkeson. I talked with him afterwards, and I joked with him about the fact I had been on the farm 15 years as a hard-laboring boy after he had left the farm, and after he became a college professor, and a college president, and he acknowledged that at the time the resolution was introduced which the grange seems to have accepted as its motto—that is, those who speak on the subject at all seem to have accepted it—not only had no other proposition been advanced, but even the proposition of direct loans had not been extensively studied. One man was chairman of a subcommittee of three and drew up the resolution, and that was about all that has been done.

All the letters I have received seem to indicate that if some sort of an institution is provided which can act as a go-between between the farmer and the investing public that is all that is really necessary.

Senator HOLLIS. Do you refer now to the Manchester (N. H.) resolution?

Mr. COULTER. Yes; and to various local resolutions. I have had a few hundred, and possibly a few thousand, letters in the last 10 or 12 months on this subject, and I can not find any sentiment at all practically for direct Government loans.

The nearest concrete sentiment of any significance at all, outside of once in a long while an occasional letter where some farmer will say, "Would it not be possible for the Government to make some direct loan, just the same as it used to give land away" that seemed to intimate the desirability of Government loans, comes from Oklahoma. The Oklahoma Farm Journal has been on the firing line for a year or two trying to get the State to loan all school funds to the farmers.

Oklahoma has about \$5,000,000 worth of school funds held in trust, and it has loaned about \$4,000,000 directly to the farmers at 5 per cent interest.

But there is about \$1,000,000 in the school fund not loaned to the farmers, but loaned to counties on current-expense bonds, at 5 per cent interest, and this journal frequently has little paragraphs intimating that the State should lend directly to the farmers, and on one occasion I believe it said that it would not be entirely out of place for the State even to borrow money to lend to the farmers.

Well, that is the only illustration that I can get, although I personally wrote a letter to every farm paper in the United States, and have been trying to get their sentiment and their judgment. I think editors of farm papers come as close to knowing the needs and the ideas of the farmers as anybody you can get, because they try to please the farmer as well as the advertiser. And I can not find that they have any idea of Government loans.

The only farm paper that has made any big fuss at all on this subject—I was looking around to see whether Mr. McMurchee was here—is the farm paper for which Mr. McMurchee writes, which has

taken occasion to everlastingly go after the proposition for farm-land banks, but, I believe, only on two grounds; and I fully expect that later numbers of the Farm Magazine of Nebraska, which is the only one out of stacks of papers that I have got that makes any particular point, will have something to say about this.

It makes two suggestions. One of them is that the whole proposition before the committee was the product of Mr. Breitung, of Pine Street, New York; and Mr. Breitung appeared before this committee and said that he had appeared before the United States commission, but that that commission found that it could not use any of his ideas—which seems to be all that is necessary on that point.

The other idea was that exemption from taxation would place a terrible burden on the farmers, while, of course, the idea was to make cheaper money for the farmers by exempting the bonds and the mortgages from taxation. I think, in passing, that I am telling the truth when I say that, if my memory serves me right, I met Mr. Odell, of the Farm Magazine, some years ago, and he is one of the enthusiastic single taxers in the United States, so that his position on taxation would be well known by all who have looked into the question of taxes at all.

In passing that, however, I am passing, so far as I have information, practically all that has been said on the subject of taxation. I want to read the section which the commission wrote originally, but which was later changed, as you will see. The section reads:

The collateral trust bonds or debentures issued by any national farm-land bank organized under this act shall be forever exempt from the imposition of any tax, assessment, or charge [other than income tax], whether national, State, or municipal: *Provided*, That under the laws of the State under which said bank is operating, the mortgages or deeds of trust [or bonds or obligations secured thereunder] deposited as security for these collateral trust bonds or debentures of the said bank are likewise exempt under the laws of the said State from all taxes [other than income tax], assessment, or charges imposed by the said State or by any subdivision thereof or municipality thereunder; but no collateral trust bonds or debentures issued by a national farm-land bank shall have the privileges of such exemption from taxation under this act unless and until the mortgages and deeds of trust [or notes or obligations secured thereunder] which are deposited to secure the said collateral trust bonds or debentures of the said bank are likewise exempted from taxation by the State in which the bank is operating, as herein provided.

In other words, we originally tried to work out a clause providing for exemption of the bonds on condition that the States would exempt the mortgages or deeds of trust. That seemed to be a very roundabout way, and we decided, after a search through the constitutional decision, etc., that it would be possible for the National Government directly, by specific enactment, to exempt all paper held by the institution.

I personally think that it is unnecessary, and possibly even unwise, to exempt the income of the banks from taxation. But I certainly would exempt the mortgages, deeds of trust, or similar instruments—that is, the primary instruments—and I would exempt in the same way the bonds or instruments issued by the institution. And I would do it, not for the sake of the bank or anybody on the outside, but clearly and fairly believing that it would redound to the benefit of the borrower. I have studied enough about matters of that sort to know that that is where the benefit would finally be lodged.

So much for those two points—the matter of direct Government loans and the matter of taxes.

I think that the most important subject of policy really is the matter of whether the institutions provided should be large numbers of small institutions or a small number of large institutions.

I have not heard any ideas brought out on that point, except a conflict of judgment. Several gentlemen have said that if you have a large number of small institutions, literally none of them could sell the bonds.

On that point I would merely say that those gentlemen really did not know anything about that subject. I have told each one of them about that afterwards, because I knew they would not all be here for me to tell them en masse.

The fact is that over 1,000,000 farmers right now have money borrowed on the land as security, giving mortgages or deeds of trust; and those 1,000,000 farmers have borrowed over \$2,000,000,000, according to their replies to the Government inquiry on that subject. Each farmer operating his own farm was asked only two years ago whether he had any mortgage, and, as I say, over 1,000,000 said yes. They were asked, How much is the mortgage? And when the amounts given by them freely and voluntarily, without threat of punishment or anything else—when they voluntarily said how much they had—were added together it was found to total \$2,000,000,000. Now, that money comes to the farmers without any great central institution to place it. I, also, in my home community—

Senator HOLLIS (interposing). Do you not think it is fair to say that a very large part of it comes through the efforts of middle men, who are getting large commissions, and, if you withdraw that, the money is not very likely to come in?

Mr. COULTER. I think that much more than half of it comes from the home community. It does come through the channel you mention, but it comes from the local community. And that, I think, is the foundation of the whole proposition. Much of it comes from the local community. Unfortunately the man who lends it gets a low rate and the man who borrows it pays a high rate; but the big point is that much of it comes from the local communities, and a local institution lending to the farmer could immediately sell the bonds to the local investor.

Even Mr. Jones, from Colorado, who argued most enthusiastically for a central institution, at another time, discussing another point, said that Colorado was just literally full of money; that they were sending it out during the threatened panic of 1907 in carloads to San Francisco, Portland, New York, and Chicago, to help to relieve the situation.

I know that it is literally a fact. I had a letter from an uncle of mine a few days ago, who is a retired farmer and sold his farm for about \$65,000 or \$70,000, and he loans all that out on local mortgages. He averages about 5 per cent, and the farmers pay about 8 per cent—aside from commissions, etc.

My point is that in many sections of the country you do not have to go to Europe or to Japan or to the moon or to any place else that is distant to get the money that the farmers need. What you want most

is an institution which will be the clearing house and which will be an instrument to sell and from which the local investors will buy, which can get the money from the investor to the borrower. The farmer needs the money; he is getting much of it now, but he gets it through such an unfortunate channel that the investor gets little and the borrower pays much.

I believe, therefore, that local institutions would succeed. But I should say, further than that, that we have 3,000 counties in the United States, most of which have some bonded indebtedness, and these counties are able to market their bonds, and they do not have to have one institution as a clearing house.

We have in the United States over 14,000 incorporated cities, towns, and villages. I believe that between 8,000 and 10,000 of them have a small bonded indebtedness. Most of that is sold to the local communities, although in some cases, to be sure, in some parts of the country, they do carry their bonds outside.

The big financial journals of New York which record the standing of municipalities, counties, townships, road districts, etc., that have outstanding debts—in order to have the bonds listed and in order to furnish information to prospective investors—are often presumed to list all of the little cities, counties, etc., that have any debt. In fact, they often have such a small percentage of them that it is insignificant.

SENATOR HOLLIS. Small percentage of what?

MR. COULTER. A small percentage of all local governments that want to borrow—that issue bonds. They have chiefly those that come to the East and North to borrow. The Government is now making a canvass, through one of the departments here, to ascertain the extent to which townships and counties and precincts, and cities, towns, villages, boroughs, and States are in debt, and what sinking-fund assets they have to take care of those debts; and yet we were told that all you had to do was to go up there to New York and take the published journals and you could get a list of all of them, how much debt they had, and what their standing was, etc.—absolutely overlooking the fact that literally hundreds and hundreds, if not several thousands, of counties and townships and little villages issue bonds which never get out of the home community at all; the local investor takes them up.

MR. WOODS. Dr. Coulter, the foundation of the payment of these bonds depends upon taxation, does it not?

MR. COULTER. Of course. My only point is whether you need a central institution to market your bonds, or whether there is local investment money available; and my point is that great amounts of these loans are taken in their home communities by home investors.

MR. WOODS. Where did you get that information?

MR. COULTER. I get it from two facts. First, I have the whole list that is published in New York of cities, counties, townships, and villages that have debts.

MR. WOODS. No; where do you get the information that farm mortgages are taken by the local investors?

MR. COULTER. From all the statistics that I can get hold of as to the amount the big insurance companies loan and the amount that goes through the big loaning companies that have eastern connections.

Mr. WOODS. You have got hold of the wrong statistics then, that is very evident, because anybody that investigates the local conditions knows that the majority of those permanent investments and mortgages go outside of the local community.

Mr. COULTER. I think that may be true in your State.

Mr. WOODS. It is true all over the United States.

Mr. COULTER. No; I am quite confident that is not the case.

Mr. WOODS. You would need to get statistics that were very reliable to make people believe that.

Mr. COULTER. The other fact is that I think the local towns, villages, etc., the great majority of them, never are listed at all in the big bond markets; they do not go there; they find lots of local money. And, as I mentioned a few moments ago, the strongest advocates of the other idea, such as Mr. Jones, come out and say that:

We have got all the money we need in our State; we do not need to go to New York for a cent of it: all we need is an institution to connect the two.

Mr. WOODS. Now, Mr. Chairman, that statement is very unfair. Mr. Jones did not make that statement in the first place, and in the second place he was referring to commercial money, and not money for farm investment.

Mr. COULTER. I believe he afterwards made the same statement with reference to farm investment.

Mr. WOODS. I understood what he said; and his statement should stand as it is in the record, without any——

Mr. COULTER (interposing). I think I understood it; however, what he said is in the record.

Mr. WOODS. It is in the record, and it will show for itself.

Senator HOLLIS. You always have to have the counsel tell the jury in a court case what is in the record. [Laughter.]

Mr. WEAVER. I make the point that the record is the best evidence.

Mr. COULTER. Now, there is an illustration of the point that I do not believe it is necessary in a great part of the country to have great central institutions. I recollect the statement in that connection of Mr. Moss, that Indiana has the best road system in the United States, and they issued millions of dollars' worth of road bonds, and those road bonds are just snapped up at such rates as 4½ per cent, and selling at par or above par in that State, and that they never drift away or seldom drift away to outside districts.

I have a great many concrete illustrations which I would be glad to give if time permitted, but I do not want to take too much time of the committee.

On the other hand, I do know that there are many communities that need outside money, and will have to send their bonds, or whatever instruments are provided for, to outside districts, either to other parts of the same State, or to outside States, and even some to Europe. I am not aware of the extent to which our mortgages, or similar instruments, go to Europe now. I have been over there, and I have examined them concretely on that side, as well as here. I know that the Scottish connections are important, my own folks coming from Scotland and being foreign-born people. I know, in a concrete way, by personal experience, in the actual inspection of them, to what extent we now go out of the country for funds.

I know that there will be many national farm-land banks that will need outside connections, and I would not want to prohibit any big institutions or federation of small institutions; but on the other hand, I know in a large part of the country it is not absolutely necessary, as I suggested; and therefore I am thoroughly in favor of—and continue to be in favor of—a provision for small institutions, letting large ones form themselves where they find that they are needed.

Mr. PLATT. That is, you would not compel a federation at the start?

Mr. COULTER. No; I would not compel a federation. I believe, however, that the suggestion of the commission can be very materially improved upon in the section which provides for selling agencies. I think it would be wise to provide for more than merely selling agencies. I think it would be wise to provide for a voluntary federation of local institutions, and that the federated institution should not only sell the bonds of the locals, but actually issue them, or certify to them. I feel confident that many small institutions, however, would not go into such a system.

Senator HOLLIS. Mr. Coulter, Senator Norris would like to ask you a question.

Mr. COULTER. Certainly.

Senator NORRIS. I wanted to get your judgment, Dr. Coulter, on a suggestion, thrown out by the gentleman who preceded you, about the guarantee of these bonds or other evidences of indebtedness by the Government.

Mr. COULTER. I really do not believe that is necessary. That would place the National Government in the position of having to go out and decide upon the value of farm land. Now, we have had in the Department of Agriculture for several years an Office of Farm Management.

Senator NORRIS. If that was done, would it reduce the rate of interest the farmer has to pay for his loan? In other words, would it enable the bank, or whatever institution was between the farmer and the money, to get money cheaper and to float bonds for a less rate of interest?

Mr. COULTER. I have not the faintest idea what effect it would have, because I can not imagine the Government going into the business of absolutely setting the value of the land. How are they going to decide what the value of the land is? What is land worth? Now, if the Government is going to go into the matter of either lending directly, or guaranteeing loans, they must go into the business of deciding what that land is worth, and, if they go into that, the Government has a bigger job on its hands than it has ever had in the past in any of its dealings in agriculture. Now, I live on a farm of 1,000 acres, over 800 acres of which is in actual cultivation, and has been for from 18 to 25 years, in Minnesota, and literally we can not figure out, as Mr. Quick said here the other day, what that land is worth. We know what we can get for it and what we would have to pay for it when we want to buy; but it is a matter of guesswork—of supply and demand—and it depends upon who wants to sell and who wants to buy, and who has got a little money ahead; it is more of a question of a home than anything else.

Senator NORRIS. This question has to be determined by the people of the bank, or whatever institution makes the loan.

Mr. COULTER. Yes; people must determine their own financial transactions, and working with each other, buying and selling and doing business with each other, rather than for the Government, the political side of the people, going into such a matter and trying to determine the values of land; what income it will produce, and what it will cost to do that, and how thick to plant the trees in order to increase the income, and all that sort of thing. I can not imagine that. I have tried for several years to figure out what really is the value of farm land—

Senator NORRIS (interposing). Well, would your bank have to determine how thick they would have to plant the trees before they would lend the money on the farm?

Mr. COULTER. I think the institution would have to have about the same relationship with the farmer as now exists between the present mortgagor and the mortgagee.

Mr. SCUDDER. Mr. Chairman, I think Dr. Coulter has misunderstood my suggestion of guaranty.

Mr. COULTER. You were speaking of commercial credit, while I am talking now about mortgage credit.

Senator NORRIS. I understood you to be speaking of mortgage credits, Mr. Scudder.

Mr. SCUDDER. I was. Dr. Coulter, however, is arguing from the standpoint of no federation, whereas I was arguing from the standpoint of the same kind of federation that the Federal reserve board covers. In other words, my proposition is that the Government does not find out what the merchant is worth. Why is it necessary for the Government to find out what farm land is worth? It depends on the system.

Senator NORRIS. That is what I understood. Now, I would like to ask Dr. Coulter if that is not what we have done in the banking and currency law. The Government guarantees the currency, all the bank notes that are issued?

Mr. COULTER. They put up \$40 in gold for each \$100 of currency, besides all the rest of the security.

Senator NORRIS. Yes; but it not only guarantees it, but it guarantees payment on demand, and in gold.

Mr. COULTER. Yes; but it does not put out 35-year debentures. does it?

Senator NORRIS. No; it rests on the system; it is guaranteed. It supposes that what the bank has loaned on and what the reserve bank has guaranteed will be good.

Mr. COULTER. For a period of six months and not more than that?

Senator NORRIS. Yes. Now, I am asking for information. Would it be a practical proposition, after this system, whatever system you have, is built up, and after these debenture bonds, or whatever you have in the way of indebtedness, are issued, for the Government to add its guaranty, for the purpose of floating the bonds at a very low rate of interest?

Mr. COULTER. I do not think so. I understood Mr. Scudder to be considering entirely paper that ran for not exceeding six months; commercial paper, which had a big guarantee of gold back of it—\$40 on \$100, if I remember right—in other words, a short-time business where there could be no change.

But here we are going into a matter of valuing real property and issuing instruments, which we are going to guarantee, and which are going to be outstanding for 35 or 40 years, and in some countries for 50, 60, or 70 years; and I do not believe they can be put in the same class at all. I do not believe the same arguments hold.

I think in the case of commercial paper, from that other standpoint, it is all right. I do not object to State guaranty there, or national guaranty; but I do not see how the Government can go into the business of actually valuing land and putting their stamp on the bonds, and saying, "This is the value now, and you can issue bonds on it and let them stand out any place in the world for 35 years, and we will stand back of them and see that they will be taken up at that time." I do not believe that the two things can go together.

Mr. BULKLEY. You think it is better for the small investor to take that risk, do you?

Mr. COULTER. I think it is better for the people themselves to do it; the local institution which knows the conditions there. If property values commence going down, the local institution can take the necessary steps to protect them.

Mr. BULKLEY. You do not understand that the Government guaranty would relieve that liability of the local institution, do you?

Mr. COULTER. No; but still the Government, after all, would be the one you would rely on.

Mr. BULKLEY. Not to the exclusion of the local institution?

Mr. COULTER. No; I mean after the local institutions had failed.

Mr. BULKLEY. The point is that the local institution would have the same motive for safeguarding the loan if the Government guaranteed it, as if the Government did not guarantee it.

Mr. COULTER. Well, but this would bring the Government on top of this and into a field that I really think is not—

Mr. BULKLEY (interposing). You do not think that a local institution would be any less vigilant to protect its own interests just because the Government is behind the bond issue, do you?

Mr. COULTER. Yes; I do.

Mr. BULKLEY. Why? Because they would stand to lose their money anyhow?

Mr. COULTER. Not entirely: because if it were made up of members the people who were borrowers would be to some extent the same people who had money invested.

Mr. BULKLEY. Well, explain how much more they would lose if the Government did not guarantee.

Mr. COULTER. Well, they could clear out of the country, the same as they have done in the past, getting all the money they could out of it, and then getting out of the country.

Mr. BULKLEY. Why could they not do the same thing either way?

Mr. COULTER. I suppose there is a possibility of that.

Mr. PLATT. You think if the Government guarantees a man's obligation he is going to create a few more of them than if they did not guarantee them, do you? Of course, that is what the Government does for the banks.

Mr. COULTER. The thing is that if you guarantee you ought to know what you are guaranteeing, and here you would be guaranteeing the

value of property which I can not see how you could get at. If you take the buying and selling price of property as a basis for that, it is a dangerous thing for the Government to get into.

Senator NORRIS. Right on that point. Dr. Coulter, it would be a dangerous thing, of course, for the Government to guarantee anything that would fail. But take the banking system that we have provided for by law; the Government guarantees that the obligations of those banks shall be paid on demand.

Mr. PLATT. Well, that is a difference—

Senator NORRIS (interposing). It is not as severe an undertaking to guarantee that something shall be paid in 35 years; at the end of 35 years, if it were not paid promptly, it would not interfere with the Government operations or with its credit; but anything that would float as money would have to be kept right up to the top notch all the time.

Senator HOLLIS. I think it is fair to say, in order to straighten this out, that the real reason is that the Federal reserve notes are Federal obligations; they are not guaranteed by the Government; they are all the Government's direct primary obligation, loaned to the banks on what is supposed to be good security.

The real reason for that is that the Democratic Party feels itself pledged for the Government to issue all the money that is issued in the country. Now, they did that, and probably if that had not been so, the banks would have been allowed to issue this reserve note currency without any Government guaranty.

But the point is here, as I understand—I want to clear up Mr. Scudder's position. Mr. Scudder, as I understood it, made his guaranty position apply only to mortgages.

Mr. SCUDDER. Yes; that is correct.

Senator HOLLIS. That is the way I understood him; and we want to set him right on that.

Now, we are on a very important point, because if I understand the views of the committee correctly, they are going to, if they can, find some way by which the Government can assist effectively in getting capital that can be loaned to farmers on farm land; and the guaranty proposition will probably be very carefully considered, as well as the purchase of some of these bonds as an investment by the Government, whereby they can get some revenue, by selling a 4 per cent obligation or a 5 per cent obligation and borrowing money on Government bonds at a less rate.

It is a good thing to get the honest conviction and judgment of everybody who has studied the subject right on this point. We can all differ; but I want to get it clear, and say that I do think there were special reasons for the Government issuing these Federal reserve notes, that were political—

Mr. PLATT (interposing). Do you mean that the Government would never have done that, if it had not been for the language of the Democratic platform—which is true enough I have no doubt?

Senator HOLLIS. I do not mean merely any one Democratic platform; but I mean that all the traditions as well as the platforms of the Democratic Party were on the theory that the Government should issue the money of the country.

Mr. PLATT. It was wrong; but the Democratic Party had to do it.

Senator NORRIS. If the Democratic Party thought it was right, that was the thing to do. But I do not believe we should legislate on a certain theory if we do not believe it is right.

Senator HOLLIS. All of us who are Democrats believe that is was right, and not only that, but that we are committed to it.

Mr. SELDOMRIDGE. Our party has definitely taken a position of opposition to the national bank currency, and any legislation that countenances that issue we regard as improper.

Mr. PHELAN. May I ask the witness a question?

Senator HOLLIS. Yes.

Mr. PHELAN. In the Federal reserve act the guaranty of notes applies to only a small portion of the assets of the Federal reserve bank. That is necessarily so, if for no other reason, because of the 40 per cent reserve. Now, in this case, if the Government guarantees, will they not be guaranteeing practically all of the funds, or all of the investments of the banks which are proposed to be created? You see the differences between the two cases, do you not?

Mr. COULTER. Yes. I think it would be going way beyond the other situation; I think it is an entirely different field. So far as the political side is concerned, it is absolutely nothing to me; I have not any politics with me when considering this question.

Mr. PHELAN. Here is the Government guaranteeing these Federal reserve notes—

Mr. BULKLEY (interposing). I deny that there is any guaranty about that. The Federal reserve notes are the direct obligations of the Government.

Mr. PHELAN. Well, I am taking it the way it works out. As a final liability, the Government can go back upon the Federal reserve banks, which will have assets far beyond what the Government is guaranteeing in the Government notes. Now, tell me what the difference will be in that respect with reference to the guaranteeing of these bonds in this new system of rural credits?

Mr. COULTER. That is what was in my mind. If the Government guarantees at all, it guarantees—let us say, that the bank may issue bonds equal to fifteen times its paid-up capital; it would have to be allowed to issue at least fifteen times its capital and surplus.

Senator HOLLIS. We can place it nearer than that. If the Government guarantees these loans, undoubtedly the rate of interest will be so small that they will take up practically all the farm loans in the country; a very large proportion of them, at least.

Mr. COULTER. Yes.

Senator HOLLIS. So that we have got to face the idea of the Government guaranteeing some billions of these loans; I think we can be sure of that.

Mr. COULTER. Yes; it will be sure to go up to three or four billions of these bonds that would be issued, because the farm property subject to mortgage is worth about \$35,000,000,000, according to going market prices—exchange prices—and the present outstanding indebtedness with mortgages as the security shows clearly that it would be that amount.

Senator HOLLIS. There is evidence somewhere in the record, although I have forgotten by whom it was given, that one of the large mortgage houses in the West, out of all the loans they have placed, had only had to foreclose a very limited number, and in every case

except one they had worked out the entire debt, and in that one case they had not lost the whole amount. So that the testimony is that loans on farm land, carefully looked after, are as safe as any loan you can make.

Mr. COULTER. I think that is true; and I will go on further to say that for that reason I believe that it would be unnecessary to provide Government guaranty. First, it would be unwise; and, further, I contend that it would be absolutely unnecessary. It is like jumping into the water when you might just as well step across the puddle.

Farmers in the last Government report available were asked how much their mortgaged property was worth; what they considered it was worth, if it was mortgaged—just the land and the fixtures, not the personal property. And the values reported by them showed that the average debt was only 27 per cent of the value of the property mortgaged.

Well, now, I think that lenders generally, taking the country as a whole, are sufficiently close to the farmers and the farmers are sufficiently acquainted with their business, to know that it is not wise to go to too high a percentage. I realize that some of the members of the subcommittees are from districts where land is quite commonly mortgaged up to one-half of its value, but in the whole country the farmers' obligations are only 27 per cent of the value of their mortgagable property.

Farmers living on their property and operating the same as going concerns, the same as a merchant operating his store, are a good risk, if they can make their security available; and I think you can get to the investor without any Government guaranty. I think you can do that by creating an institution or set of institutions with power to issue a proper instrument, such as mortgage bonds, and giving those mortgage bonds a standing.

It seems to me that it might be possible to add to the privileges suggested by the commission in section 34 of the bill, which has been more or less referred to, H. R. 12585. But I think even if you did not go further than that you would have given those bonds such standing that the investors throughout the country would grab at them and at a low rate of interest. I have only heard one suggested idea to that section which appealed to me. That section now reads as follows:

SEC. 34. That the national land-bank bonds of any national farm-land bank shall be available for the following purposes:

First. As security for the deposit of postal savings funds in such national farm-land banks and all other banks authorized to receive such deposits.

Right there you could take care of all the postal savings deposits, because not only could these banks, if created, use their bonds as security, but national banking associations could buy these bonds and use these bonds as security with the Government for the deposit of postal savings funds. In that way you practically say that those mortgage bonds are absolutely as good as anything can be made; otherwise, the National Government would not take them as the foundation for the postal savings of the country, which should be absolutely safe.

Second. As a legal investment for time deposits of national banking associations—

Senator HOLLIS (interposing). Well, it is my understanding that the Government is under direct obligation to repay its postal savings, whether they have invested them wisely or not.

Mr. COULTER. Yes. I think I would go with the committee right to the point of using any such funds available, just the same as in the States; I would use any trust funds, such as school funds, to lend on mortgages. I think that is a good proposition, a good revenue for the schools and good for the trust funds and also a good thing for the farmers of the States as borrowers. But I certainly would not go into the business of having the State issue bonds, borrow money, and lend it out directly again to the citizens. I think there is a very decided difference there, between attempting to use to the very best advantage the trust funds or obligations of that sort, including postal savings, and going into the business of borrowing money to lend to somebody else.

Second. As a legal investment for time deposits of national banking associations, as provided in the Federal reserve act, and for funds accumulated in savings banks organized and doing business in the District of Columbia.

I think that would be a demonstration of the feeling of the Government of the security of the instruments.

Third. As a legal investment for trust funds and estates under the charge of or administered by any of the courts of the United States.

Fourth. As a security for loans from national banking associations to national farm-land banks or to individuals, for not exceeding five years, to an amount aggregating not over 25 per cent of the capital and surplus or to one-third of the time deposits of the national banking association making such loan.

The idea was that the national banking associations themselves probably would not go into the business of lending on mortgages to farmers. It is a fact that practically every State bank in the United States now could legally lend with real estate as security. I have got the banking laws of every State and have studied them to see to what extent the State banks and private banks could lend with real estate as security, and there is almost no limitation.

But at the same time the State banks and private banks do not lend to a very large extent to the farmers. What is the reason for that? Because they are in the same system with the national banking associations and have to do the same sort of business, in order to keep in the same class and get their paper discounted, for instance. They imitate the national bank because the national bank is the standard; that is the style; that is the method of doing business. They have constant intercourse and follow the lead of the national banks. Now, I do not believe that the national banking associations, in spite of the Federal reserve act, will materially extend their loans, as they are authorized to do. However, they could, if this suggestion were carried through, do it indirectly, because they could purchase these farm-mortgage bonds, which would be the same thing as lending to the farmers, because they get the same sort of paper and get the same sort of result. Mr. Jones said—

Mr. SMITH of Minnesota (interposing). Right there, do you think that the principal reason the State banks do not loan on farm mortgages is that the national banks do not do it, and they imitate what the national banks do?

Mr. COULTER. They are accustomed to that sort of business. I have talked with a number of State-bank officers, and although they

do lend to some extent (all told, only about 18 per cent of their resources are in securities with mortgages of some sort back of them.) They have told me over and over the reason they did not go into it further—

Mr. SMITH of Minnesota (interposing). Do you not think that the real reason is that a State bank is a bank of discount and deposit, and that a farm mortgage represents investment money, and they are an entirely different kind of security—

Mr. COULTER (interposing). Oh, yes; there is a difference between the two; and I think they ought to be kept entirely apart.

Mr. PLATT. What the State bank does is to loan money for short terms with mortgages as collateral, which national banks could not do?

Mr. COULTER. Well, only up to five years; under the Federal reserve act the national banks are now allowed to do that.

Mr. PLATT. Yes.

Mr. COULTER. Up to the extent of 25 per cent of the capital and surplus, or one-third of the time deposit. Now, I say this provision would make it possible for the national bank to accept these bonds, instead of having to go out themselves and supervise the mortgage business.

Mr. Jones suggested this: That these bonds should be accepted by the Secretary of the Treasury as security for the deposit of funds of whatever character in national banks.

Our recommendation here was that they be accepted as security for the deposit of postal savings funds in national banks. That will be a considerable extension, since that would practically make them acceptable as good security for every possible purpose; that would be the final limit.

Now, I am not a practical banker, although I have been pretty close to a small country bank, and know its workings, and I do not know whether that would be a good thing or not. But that would be going in the direction of further Government recognition, and would probably have its effect in the standing of the bonds in the investing market.

Senator HOLLIS. It would not have any practical effect under the present law, because the Secretary of the Treasury will now put the Government funds in the Federal reserve banks, where no security is required, and he can not put any in the member banks.

Mr. COULTER. No.

Senator HOLLIS. They could be put in the regional reserve banks, but not in the member banks; so that that would not be very practicable to use these bonds as security for the deposit of Government funds in member banks.

Mr. COULTER. That is true. Probably I should not have tried to discuss those subjects that I have discussed, because they are matters more of broad, general policy than of detailed questions of the mortgage business, but—

Senator HOLLIS (interposing). I think you have discussed exactly the point the committee wanted to hear you discuss, Dr. Coulter. That is where we are going to have our argument, on those points you have discussed.

Mr. COULTER. There are some other points on which I have a very strong feeling, and some little information, I think, particularly with

reference to the small mortgage banks. A question has been raised as to whether small institutions would pay. In that connection it has been said a great many times that we are unlike Europe; that there is nobody in the country districts, and in the thousands and thousands of communities of this country—we have about 45,000 townships—that there is nobody that either has the capacity or the willingness to serve free, or for small compensation, to help in the operation of these small institutions if they were launched.

In the first place, we are not so very different from Europe. We are merely the same people, a little bit removed, and when we go back there we find that there is not much difference after all. We may speak a little different language, or one thing or another, but there is not so much difference after all.

MR. WEAVER. What do you mean by Europe—what part of it?

MR. COULTER. Oh, practically all of Europe, from the heart of Russia to my own old home up in Scotland, and the north of Ireland. I walked into a home 900 miles from the boundary of Russia, on the nearest side, and a little girl about that size [indicating], came rushing out and said, "Oh, that is the American that was coming." She said that in good English. I was amazed at the incident. It was merely a Russian planter's daughter, who had had an English governess, and she said, "Why, he looks just like dad." Her father did not look very different from me. He wore a little beard; but I could raise one if I wanted to. They hoed potatoes in the same way, and they went out and weeded beets in the same way. There is a difference in the wages to be sure. They make sugar in the same way—in the factories. The bulls have to have rings in their noses or they will horn you just the same. Most things are alike, we differ in secondary ways. The difference between the countries is not great. However, I do not make anything particular of that. But I do want to mention these facts concerning our own country. We do have in our local communities people of the very character needed for this sort of thing as they do in Europe. We know that in a large part of this country the grange is strong, in thousands of little communities the prosperous farmers are masters of the grange or hold some other office, and they go through all the forms and hear all the talk that you will hear anywhere else. The master of the grange is not a fool. He is an intelligent citizen. He may not have many aspirations outside of that community, but he is likely to be a successful, progressive, prosperous farmer, and I am speaking of thousands of them. In other parts of the country the Society of Equity is the thing; in still others it is the Farmers' Union; in others it is the Gleaners. Every part of the United States, at the present time, has some type of farmers' organization of that general class. There is scarcely a part of the United States that is not pretty well covered, and some of them have all of these organizations.

MR. BATHRICK. I understood that Mr. Moss said in his testimony that the farmers are not organized. You do not agree with that, do you?

MR. COULTER. No; I very strongly disagree with that, unless he means something different from what I am going to show you here as to the extent to which they are organized. I am speaking of hundreds of communities here, because I have wandered around over every State in the country. I am from Minnesota; my wife is from

Texas; and my youngest child was born here. So we are all scattered in that way. I have lived in country districts all my life, except the few months that I have been here in Washington. I know that the farmers are organized in that way first. I know, second, that the telephone companies—the farmers' telephone companies, owned by the farmers—are operating in hundreds of districts now. Then, there are the mutual insurance companies. The farmers have gone into the insurance business in many States.

Senator HOLLIS. Anything besides fire insurance?

Mr. COULTER. Yes; live-stock insurance. Recently I was at a farmers' meeting where they were talking about crop insurance, and they talked as learnedly about it as Mr. Jones would talk about forming a central bank for mortgage business. They said, for instance:

Now, for fear that the hail comes across Huntsville Township, and ruins the crops of 15 or 20 farmers, had we not better put off organizing our mutual crop-insurance company, until all parts of the State come in, so that we can spread the possible losses, and there will not be any very heavy premiums or assessments upon one little locality.

They were all farmers who were present. But they have their building insurance, and their live stock and equipment insurance. In Minnesota there are 152 of these farmers' mutuals reporting regularly every year to the State insurance commissioner; and they have cut the cost of insurance in half. That is merely one State; I have data for other States, if the committee should desire them.

Then we have possibly 2,000 farmers' elevator companies which the farmers operate. Mr. Woods, of Iowa, is from the center of them, and knows the conditions under which they operate out there. But we have them in a very large part of the country.

Then another thing is that we have this country divided up into townships, very largely, or precincts, or similar communities, and the township officers are reasonably intelligent people, I think. I know, for instance, that a brother of mine never did anything else but farm work practically; yet before he actively took up farming he took a course in bookkeeping at a local business college; and I think he makes a successful town clerk or treasurer; and similarly I think if he can operate a farm worth \$50,000 and do it successfully, all that shows that he is a man of considerable capacity and competency—and he is merely one of a type, because I know of thousands of others like him.

Our township officers, our county officers, our school-district officers—you take a clerk of a school board, and he handles as much money as would come in in the annual interest payments in a small banking institution of this sort. He handles that amount of money in a year.

Then our drainage districts, irrigation districts, and road districts are operated by competent men. Further than that, every community has its churches. In Europe, to be sure, there is only one church generally in a community; but here we are so prolific in management and directing power and individuality, that we want half a dozen churches in a community; we want half a dozen sets of officers.

Instead of being less able, we are better equipped than they are over in Europe from that standpoint.

I personally met a number of the priests in Europe, whom I have already referred to, and the local priest is frequently, in Europe, the officer of a local institution of some kind. We have preachers in this country who might be used.

Then there are the farmers' clubs of all sorts, which are not connected with the grange or the society of equity of those other societies; they are just farmers' clubs. There are scads of them in the country. You hear of them all the time.

MR. SELDOMRIDGE. To what extent have the secret orders been extended in the country?

MR. COULTER. I was just going to mention them. In my particular part of the country if you are not a Woodman, you are not in it; all the dances and everything of that sort are conducted under the Woodmen or the Workmen.

MR. WEAVER. That is not a farmers' organization.

MR. COULTER. No; but farmers belong in large numbers.

MR. WEAVER. It is not so in Oklahoma; they are not all farmers there.

MR. COULTER. Yes; but the farmers are in them.

MR. WEAVER. Of course there is no prohibition against the farmers joining any of them.

MR. COULTER. The point I was making is that the farmers can form their own institutions, and have their own schemes and put them through, and that they do not need outside assistance in many matters.

MR. SELDOMRIDGE. Do they operate the public-school system in those districts?

MR. COULTER. Yes; there is the public-school system. And then we have hundreds of creameries owned and operated by the farmers with \$10,000 capital each. In Minnesota they each have about \$10,000 capital; in that State there are about 700 cooperative creameries; they are absolutely owned and managed by the farmers. They hire their butter maker and send their butter to New York by carloads, and instead of getting 12 or 15 cents a pound for the butter, as they used to, they now get from 34 cents to 35 cents in the New York market; and they handle it on such a close margin that I often wonder how they can do it. And they are not hiring outsiders to come in and manage it for them.

MR. WOODS. Do your creameries in Minnesota have a limited liability?

MR. COULTER. Yes; a limited liability; and I am in favor of a limited liability. They are, I think, uniformly limited-liability societies.

SENATOR HOLLIS. They are corporations, are they not?

MR. COULTER. Yes; they are small corporations organized, however, under a cooperative law. Instead of each share having a vote each member has a vote, and instead of distributing all profits to the capital it is distributed back in proportion to the milk supply; they have the cooperative features.

SENATOR HOLLIS. Are you able to tell us how far the cooperative-store plan is in effect in this country, among farmers, or elsewhere?

MR. COULTER. Now, the store has developed much less rapidly than these other cooperative plans, because they started off back in grange days, with a number of defective features; it was before the cooper-

ative store had really succeeded in Europe, too. In fact, the Rochdale stores had barely started in Europe when we tried it and made a failure of the system in this country, and then it practically died out, all except 15 or 20 scattered stores, like at Olathe, Kans., or some others of that kind, where there will be a dozen in a group.

Now, however, the cooperative stores are starting up again; and I have in my list in the office something over 100, and possibly 125, that have started within the last 15 years. One of them has a \$35,000 plant now, and about 500 members: it is about 7 years old. So that they are starting now, in a comparatively small way, in several parts of the country.

Senator HOLLIS. Is not the thing that wrecks those cooperative stores that are not successful, the making of bad debts to members?

Mr. COULTER. Yes. And the new rule is absolutely cash, or your note for a short time, and the note when it gets to a certain point must be protected by mortgage. So that they are absolutely protecting themselves against the weak principles that they had at first.

Senator HOLLIS. Yes; I understand.

Mr. COULTER. I might go on and name the fairs and the live-stock associations, and so on; but I find that the Senate called on the Secretary of Commerce to compile a list of farmers' associations, so far as it was available, and even the Government, which has paid no attention to the farmers' organizations, practically, in the past, got up a list of over 1,000 farmers' organizations.

Senator HOLLIS. Will you give the number of that document?

Mr. COULTER. It is Senate Document 1107, Sixty-second Congress, third session.

Senator HOLLIS. Will you give the title?

Mr. COULTER. The title is Commercial and Agricultural Organizations of the United States. This lists the Live-Stock Breeders' Association, and all that class of organization.

I wanted to bring that point up only in order to refute so many things that have been said. Farmers are not, as a matter of fact, in such a terribly bad condition after all, outside of the frontier settler who has just got started, the cropper or tenant class in the Southern States, etc.

The farmer is, however, generally speaking, throughout the country, unfortunate in having to pay pretty high rates for what he gets. I know that from hundreds of illustrations.

You would think, for instance, that a man like my father, who runs a farm of 1,000 acres, and lives out there on it could get money easily up in Minnesota; he has been on the same farm for about 40 years.

And yet he sometimes sends to me to get him \$1,000, because I can get it 2 or 3 per cent cheaper; and yet I have not got one-hundredth part of what he is worth; but his property is in lands and the farm and its equipment there, and he has got to go through all the process of mortgaging it and tying things up, and paying big commissions, and so forth; and the farm has been in his hands almost since it left the Indians; and yet he has got to have the title inspected, and pay the fees, etc. I cite that because it would seem that he would be in the best position to borrow.

Mr. SMITH of Minnesota. Yet there is no doubt that there is plenty of money right in the State for that sort of business?

Mr. COULTER. Yes; there is no doubt about that; because I happen to know that when my father spoke about borrowing some money to buy a farm for one of my brothers he was looking around about borrowing the money, and I said to him how about so-and-so—I named a neighbor of ours. He said “I do not know.” I said “I understood that he had sold all of his land and that he is lending his money out.” We went around there and found that you could get money 3 per cent cheaper, because we were dealing directly with the investors. The big job is to get the investor and the borrower together for legitimate purposes. I believe that is the biggest problem we have. I think there are plenty of investors, and plenty of funds available. It is just a matter of getting the two together on the most advantageous terms.

The question has come up and has been discussed, I think, as much as anything else before the committee, as to the purpose of the loan, whether it should be absolutely limited in the law, or specified in the law; for instance that the loan shall be made only for a partial payment on the farm or for improvement and equipment of the farm, or for refunding outstanding debt.

I went through a number of European laws that I have available to see what their rules were, and it seems to be the experience, on the Continent at least, that the purpose of the loan is not specified in the laws; but I did find all the way through reference to the fact that details or conditions under which loans shall be granted were prescribed by the institution in its by-laws.

That is true in Germany; it is true in Denmark and in other countries. The general German mortgage-bank act says further:

That mortgages on land which does not yield a permanent return are excluded as cover for mortgage bonds.

That is to say, they have that limitation. Lands which are not actually producing lands are not available for loans. So far as I can find, however, that is the only specific limitation.

On the matter of the value of the land there is a clause that hits on that point. It says:

Such as the land might continue to give an owner under ordinary husbandry.

That is to say, in deciding upon the value—the producing capacity of the land—they say an income such as might be expected “under ordinary husbandry” shall be the standard.

There is a feature of some of these various laws which might be practical here: I do not know whether it would or not. That is to say, the German law, for instance—and, if I remember right, the law of Denmark is the same—specifies a maximum loan. The loan must not exceed three-fifths of the value of the land, under the German law; and that law continues:

The central authority of a Federal State may permit the mortgage of agricultural land within the area of such State, or partially within such area, up to 66 per cent of its value.

The Danish law, which I thought was the best one I found in any place in Europe, and which I had translated and printed, has many similar provisions. The law is national: it sets a level, and then leaves it to any Province or State to change for that area the rules which might apply. The Danish law on cooperative mortgage banks will be found on page 580 of Senate Document 214. Agricultural

Cooperation and Rural Credit in Europe; and the law as translated there has as an appendix, a copy of the application, the form of the mortgage bond, and the form of the mortgage made out by the farmer, and in that mortgage made out by the farmer you will find that same proposition, "We submit herewith to the by-laws of the company at present in force." And the matter of by-laws of the company, then, are left to the local institutions to prescribe all sorts of things, such as the purposes and, as near as I can find now, although that point did not occur to me as strongly then as it has since, the experience varies greatly. In some places there are limitations and in some there are not.

Before taking up this subject, I have been interested in buying land or trying to buy land in two or three States, and I have assembled and find in my files many mortgages used in this country, and I find that it is a common thing for the mortgage to specify many things which, if you thought of it and made a point of it, would seem like a pretty severe restriction—that is, that the farming must be done in a certain way and the farm must be kept up in a certain way, otherwise the mortgage could be foreclosed.

We got through the Minnesota Legislature a few years ago a new law providing for the sale of school land; and in the law they required that the purchaser must either fence 25 per cent of the land or pasture it—convert it into pasture, etc.—or he must cultivate at least 5 acres on each tract, or he must build him home on it and actually reside upon it, or the land reverts to the school fund again. In other words, they refuse to sell unless the purchasers are actually going to become farmers and settle upon the land.

I also find as extreme a case as this, which probably is not extreme, because it is the form of instrument used by the largest loan agency on farm mortgages in two or three counties, John Burkholz, of Grand Forks, N. Dak. He makes a very strict provision—

That he (the party of the second part) will properly sow and plant during each and every year of the continuance of this contract as much of said land as can be profitably sowed and planted, and will have in crop during the year not less than 160 acres of wheat—

And so on. It goes on down and tells how the buildings shall be kept up and the farm shall be worked, and the farmer must "in all respects farm and cultivate said premises in a careful and husbandlike manner." Failure to do these things results in foreclosure.

Mr. PLATT. Do you know of any case of foreclosure having taken place under such restrictions?

Mr. COULTER. Yes. In fact, I made a little study of that. I was interested in loans made in the neighborhood with which I was first acquainted, where I lived, and I warned one company against making a loan to a certain farmer, and said that he was a slovenly farmer and I doubted whether it would be a good loan; and I gave as evidence of that that we had thrashed for him two or three years before and had not been able to collect from him for that thrashing. But the company went ahead and loaned the money to him, and within two years they foreclosed the mortgage; and I thought that they did it deliberately in order to get his property. I remember that people around there said that it was very bad property, because the manure was piled up 15 or 20 feet around the back of the stable

and the weeds grew 15 or 20 feet high. But in talking with the manager of that company I reminded him of what the old Roman said when he advised the man to go out into the country. You know we are not much further ahead than they were in those days in this respect.

The old Roman said:

Go up and down the country roads; go up and down every countryside before you decide on a farm to buy; and then pick out the farm where the weeds are highest and the manure piles are biggest around the stables; because that farmer has not exhausted his farm; he has not even used the fertilizers that are most easily available, and probably he will need to sell his farm more than other farmers, and for that reason will probably sell cheaper; and you will get the best farm at the best price.

Now, I think this loan agency made the loan in that case for that purpose. But I do know of other cases in that countryside where a few foreclosures have taken place.

Mr. PLATT. These foreclosures were made before the mortgages fell due, were they?

Mr. COULTER. Yes; on account of failure to keep up all the requirements.

Mr. PLATT. Yes.

Mr. COULTER. And I felt that it was done because the companies wanted to get the property, and they had good reasons; the farmer had not lived up to the contract.

Mr. PLATT. Will the courts enforce a contract of that kind before a mortgage is due?

Mr. COULTER. I think so.

Mr. WEAVER. You will find a great many cases in the law reports where the courts have refused to enforce that kind of contract.

Mr. PLATT. Yes; I think so.

Senator HOLLIS. That kind of contract will not be enforced unless it provides with great particularity that, in case of default in any of these conditions, it shall be foreclosed?

Mr. COULTER. Well, these contracts were all carefully worded and put on record.

Senator HOLLIS. That is as far as my observation goes. I will not say that that is absolutely the case.

Mr. WEAVER. You will generally find that the men in those cases are also in default on the interest, or fail to pay up the interest, or something of that kind.

Senator HOLLIS. Yes.

Mr. COULTER. Yes; I believe that is the case.

What I have in mind by giving these few illustrations is this: I think it is very doubtful if there are many farmers, except in certain sections of the country where there are farmers of considerable prominence and standing and with considerable property, who would take offense at this provision calling for special purposes for which the loans should be made, etc. I should yield, however, on that, to Mr. Quick, whose judgment you have. He has probably observed more keenly on that particular point, and I think he would go much farther than I would, because he thinks that the institution loaning money should render a very specific service in the way of specifying many things to the farmer which could be done to advantage, and probably going into all of the details of the farmers' plans before actually making the loan, prob-

ably advising with the farmer and pointing out what he should do and what he should not do. I do not really know whether that is practicable or not. I have thought of the necessity being largely for a financial institution which would do only the things which such an institution would do as such, and not go into the matter of running the farm as a farm business.

Mr. PLATT. None of these illustrations that you speak of in mortgages already made specify what disposition shall be made of the money loaned on the mortgage, but simply that the farm should be kept up?

Mr. COULTER. Yes.

Mr. PLATT. But they do not anyone of them attempt to say what the farmers should do with the money?

Mr. COULTER. No.

Mr. PLATT. Do you think that is practicable?

Mr. COULTER. I would personally prefer to see it left to the regulation of the institutions themselves, but I do not think it is a hardship to lay down certain general rules. Personally I think the local institutions would look after that on their own account, and I have not thought that it was extremely important to put it in here.

There are two or three other points on which I want to say just a word.

The commission has recommended that these institutions be limited to agricultural loans and not be allowed to handle city loans. I believe they will not handle them on the same basis, and I have a letter here which I would like to read, and I think there will be no objection on the part of either the sender or the receiver as to having it given as a sample of their judgment on the subject. It is from Mr. J. R. Cahill, who is an English student of this subject, and interested in the subject very greatly. He was sent by the English Government to travel and study for a year or so on the Continent of Europe, to give his judgment.

Mr. WEAVER. His report is a Senate document?

Mr. COULTER. Yes; he is the author of this Cahill report, Senate Document 17, Sixty-third Congress, first session. He wrote this letter to Mr. Gill, of either Vermont or New Hampshire, and Mr. Gill handed it to me. He says:

As to your query respecting the relative merits of joint-stock mortgage banks and mortgage credit associations of the landschaft type, I myself consider that the merits of the latter far outweigh those of the former as far as agricultural mortgage or long-term credit is concerned. Let me give a few of my reasons: In the first place the credit of the landschaft tends to be cheaper.

I wanted to explain this as I went along.

That is true, so far as the landschaft itself is concerned, but at the same time you must remember that the landschaft does not do all of the lending business; that is to say, it just carries the business up to the point where it issues the bonds, and then the business from there is turned over to the landschaft bank, which looks after the investment part of it: and if you add together the cost of the business of the landschaft and the landschaft bank it comes up not far from the same as the mortgage banks.

Ordinary joint-stock mortgage banks are, of course, commercial undertakings with share capital and are therefore out for securing as high profits as possible.

Thus look at the *Crédit Foncier*; as well as I recollect it has paid dividends within the last 20 years or 25 years which have ranged from 20 to 30 per cent.

I wanted these facts to be sure to be brought in, because the *Crédit Foncier*, according to the law of France, is prohibited from having a larger margin between the mortgage and bonds than six-tenths of 1 per cent.

The two German mortgage banks doing 90 per cent of all the rural mortgage business done by all German mortgage joint-stock banks have paid—one of them an average of over 9 per cent for the 43 years of its existence and the other has never paid less than 12 per cent since 1890.

That is 23 years.

The joint-stock mortgage banks show a distinct tendency to sacrifice rural mortgage business to urban mortgage business. I need only refer you to the *Crédit Foncier*; to the German joint-stock mortgage banks (only 6 per cent of their total mortgage business is rural), and if you take the German banks (*Prussian Central Land Credit Joint Stock Co.*, on pages 36 to 38 of my report, you will find its history), which set out to specialize as a joint-stock bank for rural mortgages and with special privileges given it by the State, you will observe (pp. 37, 38) that the proportion of rural to urban business has steadily declined since the year of its formation in 1873, when the rural mortgages were £2,447,000, the urban £585,000, down to 1911, when the rural were £12,806,000 and the urban £28,138,000.

Which shows that although they still do some rural business, that the urban business has gone forward by leaps and bounds, being 56 times what it was at the earlier stage, while the rural business is only 6 times.

He refers to the Belgian joint-stock mortgage banks:

To the Belgian joint-stock mortgage banks (there are four of them, and the percentage of the rural mortgage loans is practically negligible); to the Dutch (that is, Holland) joint-stock mortgage banks (there are over 70, and I was told this summer by several persons with special knowledge of the subject, that extremely little business is done by them); to the Swiss mortgage banks, and so on.

The different witnesses who have appeared before you have all referred to the one German bank as being the model, assuming that the commission had only seen one bank. As a matter of fact, the Danish banks and the Dutch banks and the Belgian banks and Swiss banks are equally good and, I think, better illustrations, because they do more business with the farmers than the German banks, which do not pretend to do practically anything; only 6 per cent of all of their business is with the farmers, and they depend on the *Landschaft*, the savings banks, etc., very largely to do the business with the farmers. I think in this country we want these institutions for farm-mortgage business, and we ought to specify in any law enacted that they should be limited to farm-land mortgage business.

I shall ask to have the rest of the letter copied in the record. I think it is worth while.

Senator HOLLIS. That may be done.

(The portion of the letter referred to is as follows:)

The reasons for this preference are not far to seek. The organization of commercial joint-stock banks is not capable of sufficient decentralization consistent with adequate returns upon the outlay incurred, by means of maintenance of local representatives or offices for such business. A commercial mortgage bank operating, for instance, over Illinois, and with its head office at Chicago, makes 4,000 loans over this area on 4,000 separate farms. How is it going to exercise regular supervision, as it must, unless it wants to court

disaster, over these 4,000 perhaps isolated properties, very many of them doubtlessly many miles from urban centers? All this supervision must, remember, be paid for. Well, I imagine this proposition becomes so difficult in practice that such banks quickly recognize that they must confine their loans chiefly to urban properties—to rural properties close to centers where their other business is important enough to justify the upkeep of an office or to lending only on large rural properties. Not only the expense of supervision, but the expense of valuation, or realization in case of default, etc., would not otherwise permit of profitable transactions.

Moreover, such banks tend to be permeated with the urban atmosphere, to be directed by men who have been town bred and who do not understand or appreciate the conditions of the agricultural industry or of agricultural properties generally. When proposals for rural mortgages are made they are inclined to look askance at them, and should they be taken into consideration they must rely in the main on other people's judgment and valuations. Another drawback from the commercial bank point of view, in addition to difficulty of supervision, difficulty of realization in case of default, and the initial difficulty of valuation, is the relative inferiority of regular returns from agricultural property which depresses the rate of interest it can count upon and will receive as a matter of course. A further point is also worthy of recollection. In the case of the joint-stock mortgage bank there is inevitably an antagonism of interest as between mortgagor and mortgagee which is not present in the case of the *Landschaft*, when, all borrowers being mutually concerned in the stability, efficiency, and inexpensive government of their association, there is a certain community interest.

While, therefore, for these and other reasons I consider that the ordinary joint-stock profit-seeking mortgage bank is not capable of being permanently serviceable to farmers (although their utility to urban property owners is far less to be questioned), there is much to be said for the establishment of joint-stock mortgage institutions which would limit their dividends to a moderate return in capital (say, 5 per cent) and whose organization would permit of decentralization and the adequate representation of landowners in its councils. It may be that in many parts of the States the time is ripe for bringing into being associations of the *Landschaft* type, and such nonprofit-seeking joint-stock companies might prepare the ground, and transformation might afterwards take place more easily and perfectly in due course. We have recently seen in the continent examples of such institutions being formed, though perhaps no intention of such later transformation exists.

As to the special advantage of *Landschaften*—many of their merits I have already indicated by implication—they provide cheap and efficient administration, localization, and therefore efficient agents for valuation and supervision; they insure every landowner within their particular areas credit to that amount for which his property, after valuation mainly or entirely by landowners, offers security in accordance with their regulations at reasonable interest, not subject to recall, while necessarily reducible by regular installments or payable in full on short notice or by sending in bonds of value equivalent to the debt. They can serve small as well as large landowners; they benefit their members by making them acquainted in a minute way with their own and their neighbors' estates; and, last but certainly not least, by treating them to regular reduction of any capital indebtedness incurred and by familiarizing them generally with current banking and business practices, and bind landowners large and small into firmly knitted self-help associations of responsibility and power.

There is just one other point, and that is that Mr. Cahill's report is preferable to the local banks, because he thinks that they result in a closer relationship among the people interested and that they do supervise each other more or less; at least, each knows what the other is doing, and it is safer in that way. It is not any cheaper if you combine it with the *Landschaft* bank, which does the other part of the business. I may say that my idea here is that a cooperative bank of some sort chartered by the Federal Government, with foundation capital and handling the whole mortgage business, is just a combination of the *Landschaft* and the *Landschaft* bank. You make it cooperative and let it do business only with its members; it would be identical then, and it would be an American institution or

something we are easily accustomed to and at the same time carry the principles known all over the world.

I wanted to refer just a moment to the Wisconsin banking laws. Before going on the United States commission I made a study for the Wisconsin farmers, and reported at the farmers' conference over a year ago, and at that time recommended that steps be taken to form land mortgage associations under State laws, and also credit unions or cooperative credit associations under State laws. I do not know that my recommendation had anything to do with the fact that two laws were passed at the next session of the Legislature of Wisconsin, because the farmers of that State had been studying it for years, many of them being recently from Europe and acquainted with European experiences and practices. The Wisconsin land mortgage association law brings in two or three variations from what the commission has suggested as a Federal law, but only two or three. It provides for \$10,000 institutions, but these institutions must leave the mortgages with the proper State officials before issuing the bonds and selling them. They are allowed to issue bonds amounting to 20 times the capital, while our suggestion here is 15. I believe that to be safer, and the tendency of the European institutions is downward, and some of them are even only 10 times, when large deposits are taken. It is barely possible that in an individual State, under close State supervision, and where the mortgages are actually turned over to the State to hold, that it is practicable to issue bonds 20 times the amount of the capital stock. I think it would be somewhat doubtful as to a national act. In the first place, the country is so large that you can not provide anything like bringing mortgages from California or Texas up here for deposit in any bureau that might be established, and it is impossible to carry out the same scheme in any large nation.

Second, the Wisconsin act allows such loans as shall not exceed 65 per cent of the value of such real estate so conveyed if the same is improved.

Mr. Cunningham, from Ohio, thought that 50 per cent was too low for his State, and I think North Central States, probably, where land values have probably become more stable and more established, that that might be a reasonable provision; but if you are legislating for the whole country and have in mind the uncertainties of vast areas in the country, I doubt the desirability of allowing any loan to be more than 50 per cent of the appraised value of a productive property and 40 per cent in case of nonproductive, which is similar to the Wisconsin law in that particular respect.

The Wisconsin law provides, if I remember rightly, that no loan shall exceed 15 per cent of the paid-up capital. In other words, \$1,500 in the case of a small bank. The commission suggested 20 per cent, and that is purely an arbitrary proposition, it seems to me. I do think, however, that the discussion which has been brought out established, at least in my mind, the belief that it would be wise to limit the maximum loan to any one individual; but I would limit it, I think, in a little different way. I would not absolutely compel land-mortgage banks in any State to join a system or federate. I would make it optional with them, and then I would permit any one institution or member of the same federation or central institution to loan not more than \$10,000 to any one farmer, and I think \$10,000

would be a good maximum. So that if any farmer had two or three farms and there were two or three competing institutions in the same general area, it seems to me it would be reasonable for him to borrow from two different institutions on two different pieces of property in the same State. I have in mind in that connection the Russian experience—and we have many Russians in this country—and we may consider it for that reason rather than because of experience across the water, if we are afraid of foreign precedent, but the Russian law prohibits competing in a way. I think the difficulty in competing banks is overdoing.

The Russian law prohibits the competing of joint stock banks, or mortgage banks, in this: It provides that if a loan has been negotiated by one institution no other institutions in less, if I remember rightly, than 5 years may reappraise the property and take over the loan outstanding on a higher appraised valuation. That would make it impossible for institutions that had gotten good connections in competition with each other overappraising and building up of values in a community in order to get loans in order to sell them out to outside districts.

Mr. Moss. Is that condition not precisely reached in the provision of this bill that a loan can not be paid off without the consent of the bank?

Mr. COULTER. I was just coming to that. That was put in there with malice aforethought, as some have suggested that he ought to be allowed to pay it off at any time, and I was going to suggest that if you change such a provision as that, in case such institutions are provided for at all, that there should be a prohibition of a complete reappraisal and constant reappraising and changing of values in order to refund and take out an increased loan on a basis which would be improper. I think the Russian law is very specific and says that reappraisal can only be had in case it is established to the ministry that the farm has been completely changed in the meantime, such as better equipped, or a railroad has passed by it, or new sets of buildings or drainage facilities established, or some good reason why it should be reappraised and a new loan granted in a shorter period than five years in order to make possible a continuation of the enterprise on the plan outlined.

There is one other point I wanted to mention: In studying over the recommendations of the commission under "Specific powers" I am fearful that the suggestion there concerning refunding in case interest rates go down is not clear. I have been trying to figure out how a farmer would actually pay off his loan at the end of five years in case interest rates had gone down and it was going to be practicable for him to change onto a new basis, and I think that that section is fundamental, if you are going to provide for all institutions, because if an institution, for instance, started, let us say, in the northern part of Minnesota, possibly the first series of bonds or the first two or three series would have to be, we will say, at 6 per cent actual interest on the bond itself, aside from the amortization feature and carrying charges, because the country has not established itself and it is not well known, but in five years these bonds getting out and being understood and the investing public becoming accustomed to them, I see no reason why such a district should not get its money at $5\frac{1}{2}$ or 5 per cent, as compared with the present con-

ditions, depending, of course, on what the general movement of money was. How would the farmers pay off their old debt and refund on a $5\frac{1}{2}$ per cent basis? I am inclined to think that the provision we have would not make it possible for them to actually accomplish that purpose. He would probably have to go elsewhere and borrow some money to buy some bonds and pay off his old debt before he could negotiate the new one on the new basis with the first mortgage, because the bank already had his first mortgage, unless specific provision was made to make clearer than I believe it is, that the same institution, after five years, if its bonds were then being placed upon the market at a lower rate of interest than during the earlier periods, could refund on its own account for any farmer, could call in the outstanding bonds, the earlier 6 per cent series at par, and issue new bonds in their place, and change the loan. I believe that there is a weak spot there.

The only other point that I care to speak on at all is the matter of appraisement. Appraisal at best is a very uncertain thing. Assessed value would be absolutely fatal as a basis for loans, because in this country every State and county and community has its own assessment basis, and in some places it is 10 per cent of the common exchange value, and in some places it is 100 per cent; it is almost everything. Appraised value in this country is almost impossible to place on the actual earning capacity of the property, because the farmers do not keep books, and you would immediately weed out 90 per cent of the business of these institutions if you put it on any such book account, because they could not furnish it, and they would just go on in their present channels and do their business as they are doing it now, because they could not furnish the other.

About the only basis we have is exchange value, what property buys and sells for, and that can sometimes be misleading. For that reason I am inclined to recommend some sort of a provision like this: That no institution shall issue a series of bonds less than \$10,000 (or some specified amount), and at the time of issuing the same shall call for an appraiser or inspector from the bureau, if one is created, or an agent provided for by the Department of Agriculture, or some similar officer, who shall personally visit the area where the loans are made and give his judgment as to the value of the appraisements which have been made, and if in his judgment the appraisals have been too high, let the institution be prohibited from issuing that series of bonds, unless such additional collateral as may be prescribed is added, or until such time as certain of the mortgages have been paid off or reduced to a point where they come within the limit prescribed.

I think that the effect of that would be, first, to absolutely make sure that no local appraisers or officers would overappraise, because they would be wanting to issue their bonds, and would be afraid that they would overdo it; and the appraisals would be more conservative and the loans safer, and it would be a great protection to the investor, and would result in cheaper money to the borrower. I am inclined to think that the National Government might go so far in its assistance there as to provide such appraisers or inspectors at Government expense, except traveling and the actual expenses of the appraiser; that is, pay their salaries, provide them as a part of the Government force of employees, and let the local institution pay the cost of the

immediate inspection. However, this is just thrown out as a suggestion. I believe that a very thorough appraisal or conservative guard is necessary there. I know, for instance, in my home county there has been a decrease of 500 farms in 10 years. That is in Minnesota, and not in a part of the country where we too frequently hear about deserted farms. I think that careful appraisal is necessary in many such cases. I know of some farms that were oversold even in that well-settled district. I believe that this covers all points which I wished to lay before you.

Senator HOLLIS. We thank you very much.

Mr. BULKLEY. May I ask one question there before Mr. Bathrick begins? Mr. Bathrick was not here when you began. Would you mind repeating for his benefit the statement you made that the farmers do not want any Government help?

Mr. COULTER. Yes; I was saying that I do not believe the farmers wanted the National Government to make direct loans (if you really consulted the minds of the farmers) as such—that is, the great mass of farmers, who would be the patrons of any institution created. So far as I have been able to ascertain the only demand for such Government loans comes from a few leaders in farmers' organizations, and so far as I can ascertain from consulting with those leaders, they are not specialists in this subject of rural credits, either. They believe that that would be a thing which would appeal to the farmers. I have tried for over a year, I think, since my early correspondence with you, Mr. Bathrick, last February or March, to get some idea of the farmers' sentiment on that point. I have heard so many of them express themselves either orally or otherwise (I think I have been at 50 or 75 farmers' meetings since I returned from Europe) that it would get into politics, that a man would get a loan, and some one else would try to get a loan, and if there was some complication in it all they would have to do would be to write to their Congressman to go to somebody, who would go to somebody else, and that somebody else would go to somebody else and put in the necessary good word anyhow. They did not know how it would be done, but farmers, particularly those who are not now large borrowers, expressed themselves that way.

Mr. BATHRICK. In other words, the farmers who do not borrow the money do not want Government loans?

Mr. COULTER. They said that would be a dangerous thing—to get the Government in it—and, besides, that what was needed was an institution which would make it possible to get the investor and the borrower together and not to get the Government into it.

Mr. BATHRICK. Have you consulted any man who was paying 10 to 12 per cent interest on mortgages on the matter?

Mr. COULTER. Yes; I have a number of letters, and I have also consulted a number personally. I come from a corner in Minnesota—way up in the northwestern corner (Polk County), almost the last county in the corner—where there has been a decrease in the number of farms in the last 10 years, in some cases because of the inability to make both ends meet, in parts of the county where mortgaging is pretty extensive, and I took occasion to go out in that section where I knew all the farmers pretty well—within the last few months—and to a number of the farmers I said, "Is it Government loans you want, or a chance to get in touch with the investor?" and

they said, "What I want is a more reasonable method of borrowing, and that is about all." A more reasonable method of borrowing is what they want.

Mr. Woods. Dr. Coulter, as I understand you, you feel that these people who have been here assuming to speak for the farmers have not been in touch with the farmers as to their actual wants to the extent that you have?

Mr. COULTER. Well, I do not know of anyone who has appeared here who has asked for Government loans, but one, and he is a professor of animal husbandry, and I know he has not been working on this subject, and I do not think he is an authority on it at all.

Mr. Woods. To whom do you refer?

Mr. COULTER. That is Mr. Atkeson. I think he is the only one who has expressed himself in any such way. Mr. Alexander is about the only other one who hinted at any such thing.

Mr. PLATT. Mr. Doak did, I think, the farmer who came here from Virginia. He asked for direct Government loans, did he not?

Mr. COULTER. I did not so understand him. I should like to have the record stand on that, too.

Mr. PLATT. I think it was another one of the witnesses who asked for Government loans—came here and advocated direct Government loans.

Mr. STONE. That was the gentleman that came from Arkansas.

STATEMENT OF HON. E. R. BATHRICK, REPRESENTATIVE IN CONGRESS FROM OHIO.

Senator HOLLIS. Mr. Bathrick, before you begin, please state for the record what bill you propose to discuss.

Mr. BATHRICK. I shall discuss particularly the bill I introduced, which is H. R. 11897. I shall speak also of the Moss-Fletcher bill.

Mr. Chairman, I had intended to take up this question of who is supporting Government loans later on under a separate head, but I think I might as well take it up now, inasmuch as the question has been raised, and Dr. Coulter has implied that the organized farmers are not supporting Government loans.

I believe some of those who are opposed to Government loans are very anxious to have it appear that the farmers of this country are not interested in it. There was a rumor—I do not propose to substantiate any rumors or to say that the rumors are correct, but there was a rumor which went around the House, which came to my ears, that there was really no official indorsement by the grange; that the majority of the members were against it. That is not true. One farmer came to the House, whose name I have no authority to mention, and who interviewed Mr. Bulkley, and I think it was said that he stated that he was opposed to the Government loan plan.

I have in my possession a letter from that gentleman stating that he is for Government loans. He is a very prominent member of the grange in the State of Pennsylvania.

It was also rumored that Washington State has disagreed with the grange in the matter of Government loans. I have a letter from Mr. C. B. Kegley, master of the Washington Grange, in which he supports the plan of Government loans to farmers.

I will read Mr. Kegley's letter to me:

HON. ELLSWORTH R. BATHRICK,

Washington, D. C.

DEAR MR. BATHRICK: I have been reading your speech "Farm credits—the profit for the people, not for private aggrandizement," and want to say that it is the very first thing that I have seen that meets my approval as to how we are to solve the "farm-mortgage question" ever offered in Congress.

That speech deals entirely with the question of Government loans. Here Mr. Kegley states very strongly a fact which I would like to have more generally understood in this country, namely:

No banker should oppose this plan, and I can see but one class who will, and that is the loan companies who have been sucking the life's blood from the farmers of this Nation until there is left no hope that the mortgage indebtedness will ever be paid off under the present plans of borrowing.

Other nations and countries have seen the wisdom of this plan, and I can not for the life of me see why our great Nation should not give the debt-ridden farmer a show, and the young man who wants a home an opportunity to acquire one and pay for it without wearing his life out paying interest, which means slavery for him and his family through their working years and a debt scarcely reduced when incapacitated old age overtakes them.

Give us a measure like this, with a reasonable rate of interest not to exceed $4\frac{1}{2}$ or even 5 per cent, with $1\frac{1}{2}$ per cent amortizing the loan, and we would see the farmer prosper, and that would mean the prosperity of the Nation.

I shall not attempt to discuss this in a letter, but I want to assure you that it is question of vital importance to the agricultural people and one when understood will receive united support. I am asking our secretary, Mr. George P. Hampton, Washington, D. C., to provide you with our mailing list that your speech may go to all subordinate granges.

Very truly,

C. B. KEGLEY.

I have from Nebraska a statement that the State grange had indorsed H. R. 11897. There is no use reading all these letters; I have about 100 here which would clog the record, but they are open to inspection by any member of this committee at any time. They indorse H. R. 11897, and are from leading farmers and from their official organizations. I have many hundreds more similar, some from the officials of farm organizations and some from persons speaking for themselves.

Mr. Moss says, on page 23 in his hearings, that he has taken particular pains to secure the editorial comments of the agricultural press. He says:

I have done that, because it is a difficult matter to get a correct expression of the agricultural thought because the farmers are not organized.

I believe the Farmers' Union has a membership of something like 1,500,000 to 2,000,000. The grange has a membership of about the same—I do not know the exact figures. There are several other well-known farm organizations in the country, and I know that Mr. Moss is mistaken as to the farmers not being organized.

I will refer next to the hearings or to the official doings of the National Grange, at Manchester, N. H. It appears that there were three resolutions introduced, and the one that was finally carried—and in this report statements are given as to who was for and against and what amendments were made—was, in part, as follows:

Resolved, That we, the members of the National Grange, believe that the Government of the United States should borrow money by the issue of bonds at a rate of interest not to exceed 3 per cent or $3\frac{1}{2}$ per cent, and lend the money at a rate not in excess of $4\frac{1}{2}$ per cent to the farmers upon the security of farm-

land mortgages, the profit to the Government to be used for some object that will benefit the whole people.

That was the official pronouncement of the National Grange; and proceeding to carry out that resolution, the National Grange issued a letter, which I believe Mr. Moss refers to on page 23, do you not, when you say:

I came into possession of a letter which I presume had been widely sent out, suggesting that the farmers begin writing letters to their Representatives.

Mr. MOSS. No, sir; I have no reference to that.

Mr. BATHRICK. Was not that the one?

Mr. MOSS. No, sir. I never have seen the grange letters. I referred to the letter which was printed in the hearings.

Mr. BATHRICK. Well, then, I stand corrected; but I desire to have placed in the record this letter.

Senator HOLLIS. That will be done.

(The letter referred to is as follows:)

To the members of State, Pomona, and subordinate granges:

Just at this time the most important and urgent subject before Congress, so far as the farmers are concerned, is that of "farm credit." Recognizing its paramount and immediate importance, the National Grange at its last session, and many State granges meeting since that time, have given it careful consideration. Many bills have been introduced in the Senate and House of Representatives, and many more are likely to be.

Your legislative committee, after careful consideration of the "farm credit" bills pending in Congress, find that the bill which most nearly conforms to the resolutions adopted by the National Grange is the Bathrick bill (H. R. 11897) and have unanimously agreed to support that bill.

The bill provides that the Government shall borrow money at a rate of interest not in excess of $3\frac{1}{2}$ per cent and lend on farm first mortgages at a rate not in excess of $4\frac{1}{2}$ per cent.

The mortgage contracts are payable in small annual installments. The debtor, however, can pay all or any part of the mortgage at any interest-paying period.

Loans can be made direct to farmers or to farmers through farmers' farm-credit associations. The rapid organization of these self-help associations will be encouraged by employing and paying them to attend to the work of appraising and inspecting mortgage loans, leaving their capital free to care for local short-time loans. This program is in conformity with the best European experience, where self-help and government aid go hand in hand.

Limitations and restrictions on loans will encourage the ownership of farm homes, but discourage unwholesome land speculation and tenantry. The cost of investigation, appraisal, and inspection in making a loan will be confined to actual expenses. The bonds issued to secure the loan fund will be in small as well as large denominations and their total will at no time exceed the amount of mortgages held to secure them. The money borrowed must be used for the discharge of obligations, purchase price, or the improvement of the property offered as security. The applicant must be thrifty and of good character and no loans shall exceed 60 per cent of the value of the farm. All applications must be sworn to and a heavy penalty is provided for misrepresentation.

Postmasters and other Government officials will be employed to assist in administering its provisions. Without detailing the administrative features, it can be said that they seem well designed to carry out the provisions of the bill. Profits, if any, are to be expended in building and maintenance of good roads.

This bill comprehends the best plan of bettering the conditions of both long-time mortgage and short-time loans, and is devoid of any taint of private profit. By it those now struggling with a hopeless mortgage would be shown a way out. Those out of debt would be awakened to the advantage of a safe credit, and those who wish to own a home on the farm would be given substantial opportunities. All this can be done expeditiously by Government loans, but by private banks or by any unaided self-help plan the benefits will drag slowly through a generation.

All the leading nations of the earth are doing as much as is intended by this bill. England and Germany lead in Government and State aid. The bill

does not express a new proposition. It is not even new to the United States. Loans to banks, gifts and guaranties to railroads, loans to Philippine farmers, irrigation appropriation, and many laws give color of practice to it.

There is no chance of loss to the Government, but rather a sure chance of gain for all the people. This seems preferable to a new system of private mortgage banks gathering profit for a few.

If this bill is class legislation, so is it class legislation to lend money to the banks. The success of agriculture is as important to the whole people as the banks.

Government bonds issued for this purpose could not invade the public purse or the taxing power; hence could not affect the Government credit or cost the people a penny. Nine of our States now lend their school funds to farmers and lose nothing.

The Bathrick bill at once removes the obstacle of taxation on mortgages and the debentures; a vitally necessary thing to do before interest rates on farms can be reduced. This is done in the interest of food producers and consumers, and therefore is for all the people. It is for all and not for a few.

Some bills attempt to cover this phase by exempting private profit-seeking banks from taxation. These are distinctly class measures, without the slightest warrant of Government beneficence for their special privileges.

Of this class are the Moss bill in the House and the Fletcher bill in the Senate. These are distinctly private profit-sharing measures, which, in our opinion, will do little to aid farm credit, but will build up a new class of national banks, interfering with the operation of the new banking and currency bill, and strengthen the hold of the money power upon the people. These bills are in utter opposition to the resolutions passed at the last National Grange meeting.

They leave the important question of interest rates uncertain and delegate the great national policy of conservation of agriculture to individuals, who can be actuated only by a desire to make as much money as possible out of the operation.

If it is constitutional to give exemption from taxation to the stock, surplus profits, bonds, notes, and other securities of these individuals, and thereby add to their profits, who will raise a question of the right of the people's Government to lend money on farm securities, free from taxation?

Copies of the Bathrick bill may be secured by writing Hon. E. R. Bathrick, Washington, D. C.

Every subordinate grange officer who receives a copy of this circular is urgently requested to take it to the next meeting of his grange and have it read and fully discussed, and then forward to Members of Congress and Senate from your State carefully prepared resolutions indorsing direct Government loans, as set forth in the Bathrick bill. In the meantime, and immediately upon receipt of this circular, send an individual letter or telegram to your Congressmen and Senators indorsing the proposition as set forth in this circular and follow it up with petitions to the same effect signed by your farmer neighbors.

Prompt action is imperatively demanded if any substantial benefit is to be secured to the farmers by the pending farm-credit legislation.

Fraternally submitted.

OLIVER WILSON,
T. C. ATKESON,
H. J. PATTERSON.

Legislative Committee of the National Grange.

That letter is signed by Oliver Wilson, Peoria, Ill., president of the grange; Mr. T. C. Atkeson, Morgantown, W. Va., and Mr. Henry J. Patterson, College Park, Md., prominent men in the grange, occupying some office which I can not name now. Mr. Atkeson came before the Bulkley subcommittee of the Banking and Currency Committee officially representing the grange, and was unalterably in favor of Government loans. The farmers' union sent Mr. Hobbs here also and Mr. Kennett. Mr. Hobbs is chairman of their legislative committee; and they came before the committee and made their statements supporting Government loans.

I am speaking about the people's support now of Government loans, and I desire the gentlemen here to know that I do not care only for my bill; I am mainly interested in the principle involved therein. I have never thought that there was a possibility of my being immortalized by passing my bill in this House, but I have put in many, many weary hours in the last two years trying to do some good to the people of this country, and I conceive that this could be best worked out by the plan I have proposed.

Here is a letter dated under the caption "Granite Cutters' International Association of America," part of which says:

And our executive council appreciates your efforts, and by unanimous vote indorsed your bill and your activity in endeavoring to pass it into law.

I refer to these labor indorsements particularly because somebody has made a vicious effort to show that it is a drastic class-legislation proposition, to loan money to farmers and not to loan money to the men in the cities. This association is a part of the American Federation of Labor

Mr. Hobbs, representing the farmers' union, was before the American Federation of Labor last January and put the matter up to them, with the result that they passed resolutions conforming to that which the national grange passed and which Mr. Hobbs, as representative of the farmers' union, supported.

I have here a copy of the American Federation of Labor resolution and the letter sent to Mr. Hobbs by Mr. Frank Morrison, secretary of the American Federation of Labor. I will read the letter to Mr. Hobbs by Secretary Morrison:

Mr. S. H. HOBBS,
National Hotel, Washington, D. C.

MY DEAR MR. HOBBS: Inclosed please find copy of letter which was sent to Mr. A. C. Davis, secretary-treasurer of the Farmers' Educational and Cooperative Union of America, transmitting to him the action of the executive council in indorsing the Bathrick bill.

Very truly, yours,

FRANK MORRISON,
Secretary American Federation of Labor.

This is the letter which Mr. Morrison sent to Mr. A. C. Davis:

WASHINGTON, D. C., *February 2, 1914.*

Mr. A. C. DAVIS,
*Secretary-Treasurer Farmers' Educational and
Cooperative Union of America, Rogers, Ark.*

DEAR SIR AND BROTHER: At the meeting of the executive council of the American Federation of Labor, held at headquarters January 19-24, the representatives of your organization, Messrs. S. H. Hobbs and J. C. Kennett, appeared before the council requesting the cooperation of the American Federation of Labor to secure the rural-credit system, as outlined in the resolution they presented, as follows:

"*Resolved*, That it is the opinion of the national grange that any legislation for the purpose of bettering farm credit is a part of the great national policy of conservation of food supply, and as such it can not properly be delegated to private capital for general exploitation and profit.

"*Resolved*, That any farm-credit plan which does not include a direct reduction of the 'prevailing rates' of interest as well as a long term of small annual payments upon farm mortgages will not meet agricultural credit requirements.

"*Resolved*, That the Government of the United States should borrow money at a rate of interest not to exceed $3\frac{1}{2}$ per cent and lend the money at a rate not to exceed $4\frac{1}{2}$ per cent to the farmers upon long-time farm-land mortgages, with such restrictions as may be necessary to make the Government perfectly secure;

and the profit to the Government to be expended in road improvement or for some other object that will benefit the whole people."

The executive council gave much discussion and careful consideration to the matter, and indorsed the farm-credit bill which was introduced in the House of Representatives by Congressman Bathrick of Ohio. Copy of that bill is inclosed herein.

Assuring you of the desire of the American Federation of Labor to cooperate with your organization in every possible way for the advancement of the best interests of the organized farmers and the organized wage earners, and hoping to hear from you at your convenience, I am,

Fraternally, yours,

SAMUEL GOMPERS,

President American Federation of Labor.

Speaking further of the support, Mr. Moss, on page 23 of his hearing, submits a list of 14 farm papers, three of which are owned or dominated by the same man. Mr. Moss offers these and a few editorials from them as representing the farmers of this country. He would like to have us believe that this is a better representation than the three or four million members of the Farmers' Union and the National Grange.

None of these papers represent the farmers in any official capacity.

As better evidence and a more authentic conception of the opinion of the farmers of this country, I ask to be printed the two following editorials. They are clipped from the National Grange Monthly, the official organ of the grange, and from the National Field, the official organ of the Farmers' Union. To fully establish the official status of these two farm papers, I will state that Mr. Oliver Wilson, president of the grange, and Mr. C. S. Barrett, president of the Farmers' Union, are editors in chief of their respective papers. I submit these editorials with the assurance that every thoughtful person will accept them as representative of the organized farmer's thought more than the individual free-lance expression of a few editors whose papers are not allied with farm organization in this country.

[From the National Grange Monthly, official organ of the national grange.]

A GREAT ISSUE.

Never in its history has the national grange faced at once so wonderful an opportunity and so tremendous a responsibility as now looms up before it in the proposition to establish some stable and sensible system of rural credit for the farmers of this country. Its clear-cut declaration for rural credits, and its aggressive purpose to accomplish it, has already won for the grange the approval and backing of thousands of farmers, heretofore not particularly interested in the order, but who know that some system of properly financing agricultural development and extension is the present supreme need of the American farmer. The grange has therefore put its hand to the plow at exactly the vital spot.

Out of the demand for a system of rural credit it is apparent that the financial interests of the country propose to exercise a dominating influence, while the clever politician is also promptly on hand to help shape things to his own ends. Recognizing that rural credit is going to be a live issue, at a time when a live issue is in demand, both the bankers and the politicians are eagerly trying to capitalize the situation to their own respective advantage. The need is the farmer's, but so far as the bankers and the politicians can prevent it, he will have little to say how that need shall be met. It is history repeated in legislation, but this is the most serious aspect of the present issue. Already the Moss-Fletcher bill has appeared in Congress, and there will be a score of others, some clever, all good appearing, and perhaps none sincerely in the interests of the farmer.

[Editorial from the National Field, official organ of the Farmers' Union.]

The farmer must be saved by the public which he serves in order that the public itself may be saved. Who is the public? All the people. Who is the Government? All the people. We come, therefore, to the fact that the Government, which is nothing but a corporate name for all the people, shall discharge the obligation of the whole public to the farmer, who is one-half of that public; and the only power on earth that can move with strength and rapidity enough to meet the demands of the situation is the Government. We are not proposing any untried experiment. New Zealand, which is to-day the most prosperous farming country in the world, and resulting therefrom, the most prosperous country altogether in the world, has long ago thrown overboard all precedents and all prejudices and gone to the relief of its farmers. To the landless man, it will sell land, and furnishes working capital to the farmer already established. It will furnish working capital, whether it be to make a new farmer or to help an old farmer; it will furnish that money upon any time desired—many of the loans running 36½ years.

We may as well face the situation frankly as to dodge around a few years longer until we are in worse condition than to-day. We have got to face it. There is not enough liquid capital in the United States to meet the needs of the farmer at the rate of interest which he must have to live and prosper. What liquid capital we have is not content with what is a living rate of interest for the farmer. Only the Government, which is not concerned with profits, can afford, under present-day conditions, to furnish the farmer money at proper rates. If the farmer is to be helped adequately and promptly, that help must come from the Government.

C. S. BARRETT,
President of the Farmers' Union.

I submit, that as far as support is concerned, that the plan of Government loans has the united support of the two biggest farm organizations of this country and of the American Federation of Labor, and that support should be concurred in by every member of those organizations with just the same loyalty that we are supposed to give to the platforms of our political parties.

Now, I understand, also, that at the time the resolution was passed by the grange there were delegations there from nearly 40 States of this country.

Nobody who knows denies that the farmers are organized, and if you will give the people of this country time to crystallize their opinions and show what they are for and not be in too much of a hurry in getting a bill out, we will learn what people we are representing in this matter and whom we are not representing; but if you do not give this time maybe you will not find it out until it is too late.

Mr. PLATT. I am getting letters from the grange in my district that are pressing me to vote against the Panama tolls exemption bill.

Mr. BATHRICK. They are probably organized up in your district.

Mr. PLATT. How much do you think they know about that question?

Mr. BATHRICK. Well, now, I want to say on that point, Dr. Coulter has just said that the farmers are "reasonably intelligent" and he has named a few classes that he claims are "reasonably intelligent." I want to say to you that I have met 50 farmers in this country that knew as much about this farm-credit subject as I do. I do not know that they know as much about the subject as some of the rest of you know. I can not say about that, but I say to you this, that when I first went into this subject and began to work upon it I found

there were farmers all over this country that had been studying before I struck it, and I have been working on it for two or three years; and it is a misconception to think that the farmers of this country do not know their business, that they are not organized, and that they are not mighty well posted on these subjects that we are hoping to legislate upon.

Mr. PLATT. Would you think that any subordinate grange that indorses the Moss bill is disloyal to the organization? Some of them have done that.

Mr. BATHRICK. I guess very few have done that. The only thing I would say about that is that I would not think they were educated both ways; they have not had an opportunity to study both sides of the question. That's why I say, don't hurry. I will admit that Mr. Moss may go down to his district and talk to a local grange without opposition, and not put up the other side of the proposition, the Government loans proposition, and get them to indorse his banker's bill.

Mr. STONE. Is not the converse true?

Mr. BATHRICK. Oh, I suppose so, but wherever I have spoken I have had opposition. Gentlemen of great prominence and accredited importance have preceded me and spoken against Government loans, and the people discussed this proposition pro and con.

Gentlemen, when I first struck the idea of Government loans I looked at it slantwise. I said to myself that it might be drastic, that it might be foreign to the exact, ancient, and moss-grown principles of free government as enumerated by our forbears. I backed off a little. But the more I got into the subject and began to think of the great good it would be to every class of people, both urban and rural, the more I kept coming back and considering the proposition. Then I discovered that I had not invented a thing. I thought at first I had. I found that every nation on earth was doing the same thing, and doing it also to a larger extent than I now propose.

I want to submit to this committee a couple of propositions:

First. The conservation of agriculture, and, as a legitimate corollary, the perpetuation of the food supply is a vitally important national policy, and so considered by all nations. I think we can agree on that.

Second. That this important national policy, so vital to all our people, should not be relegated to a few private people for exploitation and profit.

This much being agreed upon, I contend that the safest and best way to carry out this policy for and on behalf of the people of the Nation is for the Nation to do itself. Private persons do not act with patriotic deference to public needs in the conduct of business where their investments and livelihood are at stake. No exigency could be greater than the failure of agriculture, and no greater danger to the existence of government could arise than a short food supply. No tenet of free government can quiet a hungry people, and, in the face of such a contingency, the true government philosophies would avail nothing. We do not stand close to such a condition now, but we face the steadily rising price of food, whereby many of our people are confined to a pitiful selection of edibles. The condition as it applies to production and consumption of food

is bad enough, and we will not fulfill our best functions as legislators if we fail to choose the speediest and most efficacious remedy. Every leading nation on earth is lending money procured by the sale of its bonds, or appropriations from its tax funds to farmers, either directly to the borrower or through mutual credit associations. Many of the nations, either by Federal Government or by provincial or State government are guaranteeing bonds or debentures issued against farm mortgages. From my research of authentic public documents and official reports I have compiled a total of expenditures of this character wherein the "faith and credit" of these Governments were pledged to the extent of nearly \$5,000,000,000.

I do not believe that that represents, by any means, the total, because the information I secured was based on the outstanding loans at the time I got it from these public documents, and that did not include the money that had been loaned prior to that.

Germany, Russia, and England lead in the sum of such expenditures. Such loans were not made at a loss to the Government in any instance, but agriculture was wonderfully benefited. The countries so doing are Germany, England, France, Russia, Austria, Hungary, Switzerland, Denmark, Canada, New Zealand, Australia, South Africa, the Philippine Islands, and nine States of the United States which are lending their school funds.

I want to add to that something else for which I am indebted to Mr. Moss, which I think is a very important addition to the data respecting government loans.

On page 18 of Mr. Moss's hearings, he says:

France will loan \$2,000 to any French subject for the purpose of acquiring a homestead, providing he does not own a homestead. The same Government will give a man a pension, providing he lives on that farm until he is 65 years of age. And when I asked the reason for such provisions of law, it was said France considered it was worth \$2,000 to have a new farm home established because of the large decrease in her farm population.

The same conditions prevail here; it will be worth just as much to us as it is to France.

The interest rate and cost to the farmer is lower, and the debentures or bonds issued against mortgages and so supported by the "faith and credit" of these Governments sell for a higher price at a lower rate than bank-mortgage debentures; the interest rates are steadier and more uniform because of this Government aid. There is a very important point. That the cost of money and expenses of appraisal and searching titles, collections, etc., is lower than by a private-bank plan, where investors conduct the business solely for profit.

It is true that upon a rate of interest of 4½ per cent, and in some cases lower, lending as high as 75 per cent, none of these Governments have lost money, but, on the contrary, have made large sums in cash profits on the very small margin between the rate of interest on farms and the rate of interest the borrower paid, and have used this profit for various public works or the reduction of taxation: that in carrying out this work, postmasters, revenue collectors, and other public officials have been utilized by the Governments, and by so doing large sums of money in detail cost, commisions, etc., have been saved to the borrowers that they would have paid had their loans been made to them by any plan of private-bank farm credits.

The loaning of Government credit in various forms to the farmers in other countries has proven to be sound and practical in its every aspect and of great economic value to the whole people because of its immense value to agriculture. In support of this statement I quote from some gentlemen whose active interest in the subject of farm credit is internationally known, and who have been put in print and often quoted as authority on other phases of this subject by the gentlemen who are active now in opposing Government loans.

Maurice Dufourmantelle, who has written articles upon this subject, speaking of Government aid, says:

Its action runs parallel with that of private initiative, each mutually complementing the other.

Dr. Moritz Weeden, of Austria, which nation has loaned nearly \$2,000,000,000 of its credit and cash, says:

The cooperative movement for the Government aid, which has been rendered to it, has, in turn, rendered abundant cooperative aid to the Government.

Sir Horace Plunkett, the well-known English student of international agriculture, says:

The policy of strict abstention from any interference by any Government with the business of the people is withholding the kind of assistance which every other European Government is giving to its farmers.

Baron von Hermen-Schorn, former agriculture expert of the German embassy here, says:

The cooperative rural-credit systems in Germany were not carried on as effectively as they are now under Government assistance.

He also says:

The system started by bankers and run by bankers could in no sense be a cooperative system and probably would not help the interest of farmers for any length of time.

Mr. Reusch, of Weisbaden, Germany, speaking of the land bank of Weisbaden which is distinctly a Government bank, having 28 branches, says:

The taxes upon the population are low on account of the profits made in lending money in this way.

Sir Arthur Hawks, Canadian commissioner of immigration, in speaking on Government loans called attention to what the Government had done for railroads and other enterprises which is quite applicable to much legislation in this country, says:

The financing of a settlement as a function of Government seems now to be inevitable. It contains nothing revolutionary in principle. It would be difficult for those whose dividends are founded on Government guarantees and subsidies to oppose application in Canada of a principle that is operated in the United Kingdom, Australia, and New Zealand, and is about to be applied in South Africa. The Government factor in the use of public credit is an object to be achieved and not the incidental advantage that may alight on any individual here and there.

In addition to the authorities I have thus far named I will quote from the report of the United States commission which is behind the Moss-Fletcher bill, which is distinctly a banker's plan of farm credit. These gentlemen oppose Government loans, but in their report they say:

In every instance in Europe where Government capital has been granted to establish mortgage credit the results have been favorable to the agricultural interests of the nation.

That is what the United States commission says. Mr. Moss and Mr. Fletcher, the authors of this bank farm-credit bill, were members of this commission. And this must have been their opinion respecting Government loans. This commission pretends to be a superior authority on all other matters, particularly respecting their own creation, the Moss-Fletcher bill. Then why do they report a bank bill where greed is mixed up, strangely, with altruism?

I can not answer this question and do not insinuate any wrongdoing, but will state plainly the exact fact, namely:

The first official information promulgated in this country during the last administration came from a noted banker and ex-president of the American Bankers' Association, who, in his official report, gave no facts respecting the operation or success of Government loans in Europe, but, on the contrary, quoted from a noted antigovernment aid writer in a palpable effort to head off Government loans in this country.

That may or not mean anything. I am confident that this committee can understand and discriminate to the end that their bill as it finally comes out will not be molded to help a few profit seekers to make money out of this extremely important Government policy.

It is an undeniable fact that Government loans to farmers on farm first mortgages is practical, profitable in both cash and economic advantages, and beneficent to every man, woman, and child in the United States.

(Whereupon, at 1 o'clock p. m., the committee took a recess to 2 o'clock p. m.)

AFTER RECESS.

The subcommittees reassembled at 2 o'clock p. m., Hon. Robert J. Bulkley presiding.

STATEMENT OF HON. E. R. BATHRICK—Continued.

Mr. BATHRICK. Mr. Chairman, I desire to give a very brief review of the purposes and operation of my bill, that it may appear in this so-called summing-up hearing.

My proposition is that the Government borrow money at not to exceed $3\frac{1}{2}$ per cent and lend it to farmers direct or through farmers' farm-credit associations, and not through capitalists' farm-credit associations.

Mr. BULKLEY. How do you draw the distinction?

Mr. BATHRICK. I draw the distinction this way, that with organizations made up of farmers the Government can encourage self-help and cooperation among farmers. But the capitalists can help themselves, and in a farm-credit bill it is not the province of Government to encourage capitalists and assist them to make money out of agriculture. By my bill we could force or rather assist the farmers in helping themselves on both long and short time credit.

We would have mutual organizations for the purpose of carrying out the national policy, but when you have an organization that is gotten together solely for the purpose of making profits for city investors we can neither carry out the national policy nor have warrant for doing anything for that kind of an institution.

Mr. BULKLEY. Can you explain how we would confine them to farmers? What provisions could we put into a law to do that?

Mr. BATHRICK. I would not ask a law preventing anybody from lending money to the farmers. I do not desire to confine lending to farmers; but if we will pass a bill which is a combination of farmers' self-help and Government aid the capitalist lender will follow our terms and interest rates without any law made for him at all. It is the experience all over the world that joint-stock-mortgage banks will go into the business at the lower rate. No country on earth does for joint-stock banks what the Moss-Fletcher bill proposes to do. There are two or three concerns in the United States now doing what the European joint-stock banks are doing, only on a higher interest rate. We need no national laws for them. What we need to do is for the Government to hammer down the interest rate, and these fellows will all follow without law, or under their State laws.

If we would do as I want to do in my bill, say to a farmers' farm organization, "You can perform all the duties necessary in order to assist the Government in making loans on first mortgages, and we can reward you as farm-credit organizations and make it worth your while to do this work. We will take up the farm first mortgages in your county and will pay you a commission not to exceed one-half of 1 per cent for doing the work. That commission will be incentive enough, as I see it, to make these farmers' farm-credit organizations spring up all over the country, and once they are sprung up and accept the benefits which this will give to them it will be a sufficient reward, so that the Government can direct the operation of farmers' farm-credit associations without the intervention of the repeal or revision and making of new laws, that all the States must surely make if the Moss-Fletcher bill is passed.

Mr. BULKLEY. Is it your idea that these farmers' organizations shall indorse the mortgages?

Mr. BATHRICK. Yes; we will make them in that respect responsible. Their responsibility will not amount to very much, but at the same time the probable loss would amount to practically nothing, and we can put that responsibility upon them. Then, by giving them the benefits such as I propose, we can, if we need to, say to them at any time: "Here, you are not operating a cooperative organization; you are robbing your neighbors; you are running the business strictly for profit; you are trying to get the highest rate in your community from your people, while we are giving you this benefit. Now, stop, or we will take these benefits from you, and we will have a real farmers' farm-credit organization organized in that county. We will do this and insist upon the conservation of our food supply, our national policy, being carried out through them."

That would carry out our national purpose.

The prevailing rate is a powerful influence working against the national policy. Unless some outside more powerful influence is brought to bear, greed is pretty hard to go up against, as has been evidenced by every condition we have had put before the committee.

In my hearings, in part No. 8, before the Bulkley subcommittee, I have gone into the details in regard to some of these matters, and I would request those who are interested to look them over, that they might understand my proposition more in detail. It has been stated that the Government would have to loan too large a sum of money.

In my bill the probable amount the Government would loan is limited by certain requirements for agriculture. Those requirements would be lived up to, and if it be put into the contract that if they were not lived up to the mortgage will become due and payable instantly, it would be a powerful influence to force them to comply. Besides that, my bill limits the sum of the loan. I say the maximum sum loaned to anybody shall be \$15,000. There is some question about this amount. It is a purely arbitrary amount and is for the committee to consider.

So that with these and the other limits I think that the amount that the Government would loan would be very much less than some people have assumed.

I want to take up some objections that have been raised to the proposition of Government loans. That is a matter that I have not touched upon before: that is, not to any great extent. One of the objections is that Government loans would increase the cost of land. So would a low interest rate procured in any other way, if low rates would do it at all. But if low rates of interest will increase the cost of land so that it will be prohibitive to people who wish to buy farms, reverse the proposition and say we will raise the rate of interest so that land will be cheaper. You could make it cheap enough in that way. In my estimation there are many reasons why the increased cost of land will not be very much, and one of them is this, that the tenantry proposition is going to enter here as an element of the cost of land, if we reduce the rate of interest. There are 37 per cent of our farms operated by tenants. Most of them are not the class of farm tenants that are satisfactory to the owners of the land.

The thrifty and best tenants, if we offer them these opportunities, will want to own a farm themselves. They would rather have a small farm that they own themselves than to operate a larger farm, as a tenant, well rented for the owner. They will have the 40 per cent that is necessary under my bill, and they can buy a farm, and it will gradually help out the thrifty tenants, who will be owners of farms, with the result that there will become left only the shiftless and thriftless farm tenants. Then the owner who is operating by tenants will find the operation unprofitable, and will be perfectly willing to put his farm on the market for sale, and when you put many tenant farms on the market for sale it will hold the price right. But suppose low interest does increase the price; it is not going to increase the price so much but what buyers would get the benefits, the same benefits, that accrue to a man in the city that buys a home on installments. A wealthy man, having money to build a house upon a lot, can say to the poor man, "Pay so much per month to cover amortization payments as well as the interest on the loan and by and by you will have paid for the home, and you can not get it in any other way." That is true, and the same thing will be true as to the securing of these farm homes by my process of reducing the rates of interest, and increasing the time within which they can pay.

Now, another question that is brought up is the fear that Government bonds will not sell. Nobody need have any fear that the Government bonds will not sell, if they believe that these proposed private-bank bonds will sell. This would be the best bond in the world. It would not only be based upon mortgages but based upon the taxing

power of the Government of the United States without in any sense hazarding the taxing power. The experience of the whole world has proven practically that there is no loss on these mortgages, and therefore why should it in any sense strain the taxing power. France has \$6,000,000,000 of bonds, I believe. We have a little over \$1,000,000,000. Is there any reason why we could not issue as many bonds as France? Our resources are larger, and the country is greater, and we are better able to sell our bonds in the markets of the world to-day at a less price than some of these foreign countries are.

I do not believe that the operation of my bill would require over \$100,000,000 per year, and as we went on, that \$100,000,000 per year dropping into the localities of this country where the rate is high, would force the rate on private loans down; and that has been proven by every practice I have heard of, and the good of that would be very great.

Senator HOLLIS. Do you not imagine that if the Government should do this that it would have to take over substantially all the farm loans of the country?

Mr. BATHRICK. Why, Senator, no. The Government is in the same position that every other lender is, and there is no law, moral or human, that will compel a man to loan money if he does not want to.

Senator HOLLIS. No; not compel, but if you are going to make the rate $4\frac{1}{2}$ per cent, that is lower than pretty near all the mortgage loans that I know of, and I understand the tendency would be that when a man came to make a new loan he would apply to the Government.

Mr. BATHRICK. If we took over every loan that would be satisfactory to us after investigation, we would take not more than half, perhaps.

We would not lend on every application. We would only lend upon those who are willing to comply with our regulations respecting the use of the money for agricultural purposes and for the purpose in other ways to carry out the national policy. We, as a Government, would not go into the loaning business to make money, although it would be very profitable to all the people. It is the history of all countries that if we were to do this thing that I ask to be done, in the way I propose, that joint-stock companies would, without our intervention and without any law of our making, follow our rates of interest, and the whole mortgage problem would soon be solved. If we were to stop, the rates would immediately rise, but we would need only to keep the Government plan alive to hold rates steady all over the country.

New Zealand, for instance, does not loan on one-half of its applications, and there is no reason why we should be compelled to loan except to carry out the national policy, and that tends to limit it so that the loans would not be so great. The idea of taking over these \$6,000,000,000 of mortgages all at once is not a fair estimate of the possibilities at all; in fact, it is not at all true.

They say we can not borrow at 3 or $3\frac{1}{2}$ per cent. I talked with a gentleman who has been through several administrations of the United States Treasury, and he says that while he believes a Government bond as an investment proposition should be put upon a $3\frac{1}{2}$ per cent basis to hold them at par or over, the facts are that we have

frequently sold bonds at 3 per cent. We have sold Panama Canal bonds at 3 per cent, and they asked one hundred and a fraction, and ninety-nine and a fraction was offered on these 3 per cent bonds the other day. It is not as good a bond as I propose.

The President of the United States, if he is truly the father of the Alaska bill, assumes that we could loan \$35,000,000 or \$40,000,000 at 3 per cent, as set forth in that bill. There is another thing that has a wonderful bearing in connection with this proposition, and that is the congestion in our cities. I will say to you that in the last two or three years I have come in contact with very rich men, who are thoroughly and sincerely alarmed about the congestion of population in the cities. For year after year, in the best of times, there are many, many men in the city who can not get a job, because there are so many that are looking for jobs.

They want to put these people on the farms. The whole economic fabric of the country is endangered by having this conglomerate element congested in our cities. I say to you that I believe if my bill, H. R. 11897, is put into operation—I believe I could raise \$500,000,000 at 3 per cent to put into it to assist in bettering that one situation alone. I do not say that off-hand, but I was told so by a gentleman said to be worth \$50,000,000, who has been identified with philanthropic work for several years.

Mr. BULKLEY. If men would invest in Government bonds for philanthropic reasons, they would invest equally in bonds of private institutions, would they not?

Mr. BATHRICK. Oh, no; because the security is immensely different. They are willing to loan their money for philanthropic purposes at a very low rate of interest, believing that the security of the United States Government would be sufficient to guarantee that they would not lose any of the principal, and would be satisfied with a small rate of interest. Lack of public confidence is one thing you are sure to be up against with private bank bonds or debentures.

Liquidity and size of the bonds is still another proposition. Issue these Government farm bonds in small and large denominations to catch every class of people in this country, including the man that wants to buy for a short-time savings, and the bonds will be liquid for the reason that the Government bond can be sold to-morrow for what it could be sold last month when the man got it, in more cases than those of any private banking proposition. When the interest period came around we would be paying our money back to ourselves to go into other farm loans, to every section of the country, just the same as pension money gets down into those sections now and helps everybody and stimulates business.

It was said, as an argument against Government loans, that Austria could not sell her bonds at less than 6 per cent. Who compares Austria with the leading nations of the world as a matter of credit of the nations? It is nonsense to compare her with the United States.

Now, here is an objection that has been raised just recently. To tell you the truth I never heard it from any other quarter on earth, and I have delved and read and dug into this subject. That is, the national crisis fallacy, and the repudiation of their mortgage debts at such a time by the farmers. To accuse the farmers of this country of organized repudiation during a national crisis is a rank,

unfair way of putting it up to the farmers. It is an insult to our most honorable class of citizens. The farmers of this country have furnished our men that went to war. Go out upon our farms to-day and you will find them, the old soldiers, there. They are not all in the city; they went back to the places they came from. The farmers that fought our wars have broken our prairies and hewn down our forests, and they have been the pioneers in every direction. And to say that there would be an organized repudiation of debt by the farmers at a time of national crisis is a serious and truthless charge. I want to ask you this, if there would be a repudiation of debts during a national crisis when the farmer is away fighting our wars, what would happen if the bankers had all the mortgages? Would the bankers be at home selling out the farms, foreclosing mortgages, while our farmers are away fighting our battles?

Where does this so-called objection emanate? I refer to page 24 of Mr. Moss's hearings, and I say to you I never heard the objection raised from any other source. Mr. Moss says:

The minister of France said to me privately—he would not put it in the record, but yet he said this in the presence of other gentlemen.

Well, I don't blame him, in the face of what France has done for the farmers, and what Mr. Moss says they are doing; I don't blame him for not putting it into the record, and if I had been Mr. Moss I would not have put that in the record either—but the minister of France said to him privately—

that while the loans were legal, the obligation became purely a moral one; that the Government held the debts of its own people, and it could not go and distraint the property of its own people in time of distress.

I suppose, as I said, that the bankers would be distraining the people. There is more danger that they would if there is anything in this at all:

And I am satisfied [so the minister of France says, in this private conversation] that you would find in our own country if a war were to break out and the Government should call a million men into the field, that we could not call the men away from their own farms and thus destroy their only means of discharging these loans.

To pass my bill, or one similar, would be doing something for the most substantial, loyal people in this country, and there is nothing which is so great and important an asset to any government as the loyalty of its people; and if you do something for them you will increase that loyalty. I say that no other proposition has been raised against Government loans that is more absurd than that, and it is not supported by the history of any nation that has been doing it for many years. Conserve our farms and they will be a tower of strength to us in time of adversity, in men, food, and money.

It is said there is nothing sure but death and taxes. That is true, isn't it? Do not the people pay taxes during the war? Of course, they pay taxes then just as they pay taxes at any other time, and more. Our Nation is a big family. When a family happens to get into trouble everybody helps the best he can, if he is a good patriot. You know that the people of this country believe, when one owes the Government something, that he must pay. That is the frame of mind in this country, and we have got the best machinery to make them

pay, and the best reason in the world for making them pay anyhow is that it is for the good of all, and every man, woman, and child receives benefit. They consider that it is for the good of all, and they would pay, and every government on earth has made them pay, and there is no reason why they should not. Further, they will be better able to pay under the Government loan plan.

Reverting to the question of the Government having to make all the loans. In every country, wherever they have instituted Government loans, private bankers come down just as close to the rate as they can, and where they have stood by and cried to beat the band and said it was going to ruin them, when a rate was established by the Government they have gone into the business and gone to loaning at the rate made by the Government. They found out that it did not ruin them; that it helped them. There is no better example that I know of than right here in the Philippine Islands where all the bankers had cornered all the money, and the Government agreed to guarantee them 4 per cent for the purpose of starting a bank to make loans at reasonable rates to farmers, and they laughed at it. They laughed at it just as much as the men in the State of Washington or these other high-rate interest sections will laugh at this Moss-Fletcher bill when they ask them to start it. They said they could not do anything at 4 per cent. What was the use? They were getting 15 and 20 per cent. So the Government started a bank and began loaning money at reasonable rates. Afterwards these same bankers came before the Philippine Legislature and almost passed, and did pass, I might say, a law that had a joker in it that could put even the Government out of business, but the Governor General refused to sanction it. They were willing to loan then at that low rate, and it will be the same all over this country.

Another subject that has been brought up, and that is the talk about socialism. I do not need to say anything about this except my bill helps people to get homes. A farm is not only a home but it is a business. That is an ideal home—a place to live and a business that will support the home in connection with it. Now, when a man has a home and a business he is not going to lie awake nights trying to invent some other kind of government. He is satisfied with his government, and my plan is the antithesis, the very reverse, of socialism. It is individualism to its highest extent; in its extreme. You make that man satisfied and you will make his neighbors satisfied, although they are not the recipients of the benefit, because they see the Government is doing something substantial for them.

We have been too long refraining from doing substantial, material things for the people. Too long, when the people needed help, have we been figuratively pointing to a page of the speeches or theories of Jefferson or some other great exponent of popular government and saying: "Here is the thing that you need. Read this. Listen to the tenets of the gospel of free government."

There is a new order of things sweeping over all the nations of the world. It means something different than simply permitting the helpless to help themselves. It is first-hand benefit instead of second and third hand benefit from Government to the people. When we carry this program out it will increase loyalty and destroy socialism. To cling to the old plan means to continue to build up

wealth for the few and offer a premium for more members of the socialistic parties.

Why do these things, always by indirection, and reach the people that you are trying to benefit in the second or third degree? It seems to be the sole purpose of some legislators to do something for a few people who have more than they need now, and trust them to hand the benefits down to somebody else. That seems to be their whole purpose, when these problems can be better solved by direction than by indirection.

I want to touch upon this question of constitutionality. I am not a lawyer, but I know plenty of lawyers and judges that differ, so I do not feel so lonesome on that proposition. I will call your attention to the fact that when this Philippine Island bank was established Attorney General Bonaparte referred to all the precedents, referring, also, to the case of *McCullough v. Maryland*, wherein Chief Justice John Marshall, I believe, unquestionably settled the proposition that it was constitutional for this Government to start a bank.

Now, what is this bureau which, I propose, will carry out this plan of Government loans? It is a bureau for the purpose of getting money and loaning it to farmers. Banks lend money, and that is one function of the banking business. As it appears to me now, I was not very smart when I drew that bill, or I would have called it a bank instead of a bureau. That would have sounded so much better to some gentlemen, who, when they speak of lending money, seem not to be able to think of anything but a bank. This bureau, which I propose to create would lend money and make collections. Would it not, then, be doing what is the principal business of any bank? If the question of whether such a bureau or such a bank is an instrumentality of Government or not, I think no one will deny that this bureau will be an important instrumentality of Government. All the paternalism, all the class legislation and special privilege proposed for this new crop of Moss-Fletcher banks can not make them as good instrumentalities of Government as this bureau would be.

I am not against banks generally. They perform a very useful public function, and we can't very well get along without them. Besides, I owe them too much money to be against them. But we can go too far in a banking proposition, just the same as we went too far when we gave too much tariff benefit to manufacturers and the people revolted.

I want to call your attention to a very serious matter. That is the tax-exemption provision in the Moss-Fletcher bill, section 18, which is undoubtedly special legislation, drastic paternalism, and yet I have never heard the proponents of this bank-farm credit scheme question the constitutionality of that. Banks are given many powers on the shadowy plea that they are instrumentalities of Government, and I believe that is the kernel of this matter. If I am wrong, I would be glad to be corrected. But my proposed bureau that would carry on the business of getting money and loaning it to farmers would be an instrumentality of Government also, in the highest sense, and as such it should be entitled to all of the privileges that an ordinary banking organization, privately owned, is entitled to.

I want to touch upon the question of operation of Government loans. I went through it more thoroughly in my other hearings, but I said then, as now, that numerous insurance companies are lending through agencies. Why can't Government do as much as they? They are lending through the kind of agencies that get all they can, and are getting very much more than they are entitled to, and more than the farmers can stand. I want to humanize the western loan agent. I want the Government to be a guarantor and trustee between the borrower and the lender, and without loss to it, and not only without loss to the Government but with profit to it in cash and with enormous benefit to all the people. I do not see why the people, who own the Government, theoretically at least, can not borrow and lend money to themselves. In every country in the world the postmasters, the revenue collectors, and other officers are employed as agencies, and we have them by the tens of thousands, scattered all over this country to-day, that can perform every detail of the operation of Government lending to farmers better than these insurance agencies.

As to appraisers, we have superior advantages over any private institution, because we can penalize for fraud in a way that no corporation or other institution can. Suppose, if we had this bill passed, we write to every postmaster in every county—and there are 26 or 27 postmasters in my county—and ask them to pick out a dozen first-class freeholders, men of prominence in the community, men whose records and character are beyond reproach, and we have that dozen men to draw our appraisers from. In the first place, there is the application for the loan. The borrower goes to the post office and gets the blank questions to answer, and he swears to that application and sends it to the bureau. Then we put our appraisers on the work and then check them up and decide whether we should make the loan or not—whether the applicants want the loan for speculative purposes or not, which they rarely do, because farmers do not bet on horse races, or whether they want the money borrowed for raising stock or raising produce and increasing the production of the farm and providing our food.

Respecting the uniformity of rates of interest, Government loans are the only means by which you can get a uniform rate of interest in this country. Mr. Moss admits his bill will not do it. I want somebody to tell me why a mortgage down in Texas, where they ask 8 per cent, which has sufficient security for the money at 8 per cent; why a mortgage in Washington, where they ask 10 and 15 per cent, which has sufficient security for the 15 per cent, is not just as much entitled to a uniform low rate of interest as a mortgage in Pennsylvania or Ohio or anywhere else? The security is good and that is the primary thing to consider. No one would lend at any per cent on bad security. You can not produce uniform rates and carry the national policy out all over the country by any other process than Government loans. That has been shown in this committee, fully confirming my preconception of the proposition, that the rates by any bank plan will be carried out according to the prevailing rate in the community, and you will not help anybody by that proposition. In those localities where the prevailing rate is high their bonds will sell at 6 and 7 per cent at least; some think higher. Then you want to put 1 per cent in the Fletcher-Moss bill onto that, and

I will tell you there is not 1 farmer out of 500 in this country that can carry an annual burden of 7 per cent. Still, upon top of that we would add an amortization sum, which adds to his annual burden, notwithstanding it is paying off his debt. He must carry it until the debt is discharged, and the farmers can not carry that burden.

Mr. PLATT. Are there not more than 500,000 of them doing it now?

Mr. BATHRICK. Yes; and their backs are bent and broken doing it, and that burden is breaking hearts and breaking up families and wrecking agriculture. That is the one strong reason why tenant farms are increasing and the boys are going to town. Yes: they are doing it. There is no question about that, but they are overloaded, and hundreds of thousands of our overburdened, thrifty, honest farmers come now to plead for our help against the avaricious money lenders and the mortgage that is eating the very life out of them.

It is admitted before this committee that you can not unify the rates by this Fletcher-Moss bank bill, and if you can not unify the interest rates you can not carry out the Government policy all over this country.

The Government can unify the interest rate. It can borrow money in New York or any other place at 3 per cent or $3\frac{1}{2}$ per cent, and there is no reason why it should not loan it on good security in Washington or Texas or in any other State where the rates are high, or in States where the rates are lower. There is no question about that. They can do it, and do it now, all over the country, without waiting for a few banks to start, which would do it in only a part of the country, and that very poorly.

Who objects to Government loans? Surely it is not the men that are going to run this kind of new-crop banks, because they are asking for Government loans themselves. It is in the Moss-Fletcher bill. Their bankers want Government loans. They want us to take our postal-savings deposits and other Government-controlled money and hand them over to them at $2\frac{1}{2}$ per cent, and let them go out and loan them to the farmers at from 6 to 10 per cent, whatever the rate in any particular locality may be.

There is no limitation of 1 per cent for management expense on loans made from these $2\frac{1}{2}$ per cent postal-savings deposits in your bill, Mr. Moss. Your banks can loan that money and other Government deposits on short-time loans and short-time mortgages, and you have made no pretense or effort to limit the interest rates on this class of loans. These banks can loan their capital on this class of loans with a rate of interest as high as they can make the people pay. You are asking for Government loans in your bill, yet you are condemning Government loans. What else? You provide in your bill that these banks will receive Government deposits which in ordinary cases now go at no per cent or at 2 per cent.

You want the Government money for your bankers which the taxpayers have paid into the Treasury. Then, on five-year mortgages or short-time loans, you are willing that these bankers shall loan the people back their own money at any old rate of interest. That bill asks for Government loans for bankers, and at the same time you are condemning them for farmers. In other words, by your bill you are asking for more privileges for bankers, on the new plea that they are going to help the farmers. These new-style bankers

ask for more privileges through your bill. Bankers have often asked for more privileges.

Mr. PLATT. They got it, too, didn't they, in this last bill?

Mr. BATHRICK. I think the new currency bill is a good bill; but there are few money bills passed through Congress wherein the bankers did not get more privileges. They have been put in the sacred class of instrumentalities of Government; but the farmer is a more important instrumentality of Government than the banker. Now, Mr. Moss and Mr. Fletcher want another string of banks, to keep coming back after more privileges. I do not believe the people of this country will stand for it.

Last fall the Secretary of the Treasury, Mr. McAdoo, made a very commendable effort to do a big thing. He took \$50,000,000 out of the Treasury and put it into the banks of the Southwest to move the crops—to get the food to the people of the cities who were paying high prices for it and who were confined to a pitiable selection because of those high prices. The bankers borrowed this money at 2 per cent and loaned it to the farmers at 6 and 8 per cent; and at that to only a few farmers, for it was mostly loaned to the crop speculators who were trying to “bear” the prices of the farmers' products.

And still Mr. Moss and Senator Fletcher produce a bill for the purpose of assisting banks to borrow money from the Government to loan to the farmers. And, worse, they ask, on behalf of the bankers, for exemption from taxation—some more privileges. Furthermore, they ask the Government to take their bonds—these land-mortgage bonds issued by these banks—as security for postal savings-deposits and other Government deposits. That is paramount to going into a bank to-day and telling them to give us their stock for security for these deposits. It does not make any difference if these bonds are based upon mortgages; they are the bank's securities.

Now, as to loans versus deposits, the Supreme Court of the United States has declared time and time again that a banker, when he takes another man's money on deposit, assumes all the responsibility of a debtor, and owes that money; yet, some people are trying to make us think that a deposit in a bank is not a loan; that we can hand Government money to the banker at 2½ per cent, and that is not a loan, but is a “deposit.” When you talk about handing it to the farmer, on better security, at 4½ per cent, that is a loan.

As I say, in addition to these privileges proposed for the Moss-Fletcher banks, they are exempted from all taxation. The farmers are not only to pay interest profits to these banks when they are organized, but are also to pay the bankers' taxes. You may look for all the other bankers to ask for “equal rights.”

Gentlemen, I tell you that the people of this country will not take kindly to any such plan. If you do not go too fast I am sure you will find this to be true. If you will just wait a little while I will guarantee you, who are representing the people, that you will learn whether the farmers are organized or not.

About this interest rate. In the Fletcher-Moss bill they make it 1 per cent more than the “cost” of the money. The very core of the whole proposition is, What is the interest going to be? In their bill it is 1 per cent more than the cost of money. The best testimony we have got is that under this bill you can not get money on these

bonds under 5 per cent. That was from Mr. Breitung, of New York, the best all-around financier that came before the committee, and he knows the rates; he has been in this business and knows. You can not sell this class of bond at 4 per cent. Mr. Morris says there will have to be practically an underwriting proposition; that if you have several hundred thousand dollars that they would want as much as 5 per cent commission to sell them. He did think that if you have several billion or several million dollars, I do not know which, that he thought you could get them underwritten for 1 per cent. When you add that to the cost of your money and put on top of that 1 per cent for management, and then whatever is necessary as an amortization payment on top of that, see what your burden to the farmer is. The annual burden of the farmer is one great thing in this proposition. You want it so it is easy for him to carry it. Leave him each year something that will help to keep the family up and keep the boys from running away to the city.

These banks have no incentive to sell bonds low. You talk about their competing in order to get the cost of money down. I know that is not what they will do at all.

If one bank is selling a 6 per cent debenture out West and it is good, nobody will buy a 5 per cent debenture until the other is sold. The bank with the lower rate bond will raise the rate in order to get a market. No matter what the bonds sell for these banks are to be allowed to charge the borrower 1 per cent more. They get that 1 per cent anyway and will care little what the bond sells for.

These banks will not compete, therefore, in lowering the interest rate, but will compete in selling bonds. That means that they will give their customers who buy the bonds as good a thing as possible. They are in the business for profit. They do not care about our national policy or what the rate of interest is on the bonds, because there is no incentive to make them care.

This American commission, or the United States commission—they are about one and the same, I think—show a very palpable fear of this question of centralization of the money power. They say, "We do not centralize them—the banks—because the people will not stand for it." They know the people will not stand for it. We just got through with one such condition, which centralized money in this country for years, and they propose to follow that up with another, and they say, in substance, "We won't compel them to centralize." You and I know they will centralize themselves. What is the history of everything of that kind in this country? The old system of banking centralized money in New York and other large cities. It was centralization voluntary. They did not need any law to centralize them, and we do not need any law to centralize these new banks. Talk about leaving that clause in or out of your bill, about centralization—I can not see anything to it. They will centralize and the result will be collusion for their benefit in every respect, and the result of that will be for high interest rates, more profit.

I have stated already that the banks will be allowed to loan their capital and surplus and this $2\frac{1}{2}$ per cent Government money on five-year mortgages. In this bill no limit of interest rate is fixed on these loans. These banks would use their capital and surplus and the money the Government loans them for this class of loans. They

will place as much on them as they can, because they get a higher interest rate. That will be an incentive to them to keep rates high on their long-time loans; otherwise they will be working against their own interest, and they are not liable to do that.

If there is any one thing in the bill that is provocative of mirth, it is that \$10,000-bank feature. Who, in heaven's name, speaking of these new bank bonds, is going to give any credit or authority to any little, jerk-water bank of this size as a serious responsibility behind such a bond? Who is going to buy it? It won't have any responsibility to it, and they won't be able to sell their bonds. The result will be, just as Mr. Badow said, a \$25,000,000 corporation in Chicago, and that will mean a centralization of money, and that is the way it will work all the way through, and they will have numerous agencies. They will have western loan agents. Who will they get to take these agencies? The very men that have been harassing the farmers, who know the game underground and overground in all its tricks.

They will be the loan agents for these \$25,000,000 corporations. When a farmer walks up to this new and "wonderful" bank he will find the same old faces of the money lenders smiling at him—the same men especially authorized and trade-marked with a new brand of Government virtue.

Mr. WEAVER. You must be against Mr. Moss's bill.

Mr. BATHURCK. No; I am not against it; of course not.

Another beautiful thing in this bill is the fiduciary agent. He is going to be the capsheaf inspector for the Government. He is going to be the man that assures the public that these bonds are all right; that is, he will give the public confidence in these bonds so they will buy them. Let us glance at him. He is paid his salary by the bank, by one of these \$25,000,000 corporations or by one of the \$10,000 corporations. If some people were conducting that big bank they could afford to pay him a very large salary to wink at the deceptions that may be practiced under this bill.

The Government selects this fiduciary agent. Yes; but the bill very naively says he must be "satisfactory to the directors" of the bank. I do not know who made that wonderful invention, but it is there in the bill. It is an incentive and a temptation to crookedness. We had 150 of these institutions fail between 1886 and 1894 because of bad management and fraud, and word comes that some of them have gone broken in Europe. These facts gradually filter in. I tell you that if one of these banks goes broke in the United States the whole fabric of this system will go down, and every man who has a bond will say, "What? A bank out in the West broke? I wonder if my bond is good." That is sure to happen, and it will knock the whole bond market all over the United States, and other banks will break. This kind of inspection can not amount to much. This agent is expected to sign his name on the ledger where the accounts are kept. Is he going to keep the books of one of these \$25,000,000 corporations? No. He will walk up and sign his name on the ledger wherever the bookkeeper tells him to sign and will know very little about it.

Take the small corporation. If it is one of these \$10,000 kind, if one is ever organized the fiduciary agent will be the whole thing. He will be the only officer drawing a salary, and he will run the

whole business about as he pleases, and the result will be, all told, that nobody will have any confidence in the bonds of these small banks, and fraud will creep into most of them.

Notice how they try to bolster up these bonds by passing laws to make them legal investments for court and trust funds, for insurance reserve funds in the States. What does that mean? You can not pass any law that will make these bonds good; you have inspected the national banks and they have failed, and then you have had dozens of laws, but they have failed, and the public generally has no extraordinary confidence in all the banks to-day, when you come right down to the truth of it; but when you pass a law that says a guardian can take one of these new-fangled private banker's bonds and make it represent the trust funds in his hands for widows and orphans, you are taking the risk of committing a very serious wrong; and when you say that these bonds can be put up in a State as legal reserve funds for insurance companies you are running a long chance, in the light of all reason and past experience, of robbing millions of policyholders. The Government can buy these bonds, but that will not make them right. Nothing but actual value will do that. It just gives them an artificial and fictitious value, which can be only temporary, until some exigencies arise in the general mix-up and breakdown, which will disclose their real value.

Mr. PLATT. Do you say that there is something in this bill about the Government buying the bonds?

Mr. BATHRICK. No; I say that point was talked about. You give any guardian the right to take these bonds and mortgages for his ward, and you will hear of cases of where wards have lost money all over the United States. That is my guess, and I think it is a good strong guess. And this exemption from taxation again—the most drastic possible, special, class legislation. Some people have the nerve to say that Government loans to farmers is class legislation, when they themselves, ask a privilege that no other class in the country has. They point in their review of the Moss-Fletcher bill to some little thing that is done in the Government bank, and these Federal reserve banks are practically Government banks, yet they want to follow that by going the whole length of tax exemption in their bill. They exempt the income from stock. That invalidates the law of Ohio, which taxes all corporation stock. They exempt the bonds of whatever character from taxation. Why not exempt bonds of national banks? This clause will bring every national bank in the country in here, asking us, as I have said, to give them equal rights. They will all be in here, every one of them, if they do not go into this plan, and some of them can not get in. They will say, "What are you doing there? You are giving that new-fangled bank a privilege to take deposits, you give them the privilege to compete with us for deposits, and they bid for them higher than we can, and why? Because they are exempt from taxation. Give us equal rights."

Mr. PLATT. Would it not be a good thing if we did?

Mr. BATHRICK. I suppose it would be a good thing to give everybody equal rights, not excepting my friend from New York. But why not exempt farmers from taxation as well?

After you have done this, what have you accomplished? I am sure that you have accomplished no general good. I tell you you have simply made a bill or law and figuratively have thrown it up in the air on the hope or belief that something beneficial will happen. You have made a law, which, if it works to any extent whatever, will be manned and operated by the same old crowd of 10 per centers and pound of fleshers who have created, through their unbridled greed, the very condition which you are attempting to cure now.

Besides this, the Moss-Fletcher bill is the very essence of delay. By its action must wait for the revision or repeal of different laws of every State; and we have 48 States, with from 75 to over 100 legislators in each State, and all of them with different minds.

Depending on these laws in various States being changed, you will find this change opposed by the most powerful interests of those States for various reasons, and one of these reasons is the fear by those who are now making money by high-interest rates that the rate will be lower.

MR. PLATT. Do the farmers have something to do with those legislators?

MR. BATHRICK. Oh, yes; they might; but they might have the same lack of influence they seem to have with some of the legislators down here.

There will be a long wait for action, and the evil outrunning the remedy, and, above all things, absolutely, the Government policy languishing in all parts of the country. Farmers raise produce to feed people in Washington; they raise produce to feed people in Pennsylvania. While the rate is low in Pennsylvania, as well as in Wisconsin, there are plenty of people in those sections that need help, and they are raising food to distribute all over the country, and that is all our policy is for, to assist agriculture and perpetuate our food supply. If these banks do not make good in these sections and in some other sections, the policy will fail there. Some will say we do not need it, most of the farmers are prosperous. But there are plenty of farmers in all sections that do need help, and the plan will not get into all sections to do anything for them. And what have you to wait for? Laws of registry, debtor exemption laws, homestead laws, taxation of capital stock. You can not go into those States and say you shall do so and so. They will at once propound the theory of State rights. Registration of titles, conveyances, foreclosures, State laws accepting debentures as legal investments. Those are a few of the laws you must have fixed in all of these States before you get under way at all. In six months, with a Government-loan plan, you can be doing things and have the great work progressing in every State.

I made an estimate, based upon 28 banks, for the State of Ohio, which is to the effect that if this Moss-Fletcher bill becomes a law and these banks were to accept its provisions there would be a loss of about \$70,000 to the State of Ohio which the taxpayers would have to make good on the capital stock tax loss.

To begin with, the Moss-Fletcher bill is not agricultural. It is all financial. When we passed the new currency bill we were told to "Hold on, don't be in a hurry now; we will give you a farm-credit bill after this is done." After they got through with that and began talking about the farm-credit bill, the first people they saw were the

bankers, the money lenders. Where have you asked one leader of a farm organization in this country to come and help prepare that bill before you brought it into the committee? I would like to have you answer that question, Mr. Moss. What one leader of any big farm organization have you asked to help make this bill?

Mr. Moss. I would like to say, Mr. Bathrick, you see I did not have quite the confidence in the leaders of the farm organizations. I considered that I am rather a representative farmer myself.

Mr. BATHRICK. But have you asked a leader of any farm organization to help make that bill before you brought it into the committee?

Mr. Moss. Then, I should like to say that I have had communications from a few organized farmers, for instance, the Farmers' Union in my own State and the Farmers' Congress in my own State, and have had quite a wide correspondence with farmers, any of which would be representative farmers.

Mr. BATHRICK. I do not raise that question, Mr. Moss; I simply asked this question, Did you ask any leader of any large farm organization to come in and help you prepare your bill before it was brought to the committee?

Mr. Moss. Mr. Bathrick, in answering that I will say that the commission only suggested this thing, and we reported back to Congress, as we were ordered to do under the resolution of Congress; but we had spent at least three months in Europe with farmers, as we thought, and then we left and went home, each one of us consulting in our own individual capacities, and we came back here and made our report to Congress, and I think, myself, I took rather a wide effort to get in touch with the agricultural sentiment.

Mr. BATHRICK. I have said that this bill is not agricultural, but is financial. It is put entirely in charge of the Secretary of the Treasury of the United States. I have the utmost respect and highest regard for the present Secretary of the Treasury of the United States, but you know and I know that other Secretaries of the Treasury have found jobs in some financial institution and some big banks, and you know that some Secretaries have been recommended to the office by the big banking and financial interests of this country.

We talk about being afraid of centralization of these banks, and we know they will centralize themselves. Why, then, put the Secretary of the Treasury in the position to make and put in force every rule and regulation that will operate and govern them? That is what you are going to do if you pass this bill. You will have a centralization of these banks, and people are afraid of that sort of thing, and I tell you again that I do not believe they will stand for it if you give them a chance to find out before you act. The Secretary of the Treasury under the terms of the Moss-Fletcher bill is in full power; he would make every regulation that would govern these banks and can unmake them and make new ones. One man—the administration of the whole system put in the hands of one man. Even the Secretary of Agriculture has no voice in the administration of the law. It is not proposed that any farm organization should be represented upon that organization board in the bill. No leader of any farm organization was asked to help make the bill.

The rules and regulations of the Secretary of the Treasury are absolute law in regard to everything. He is given power to run

these banks just as he wishes; and it is a bankers' bill from start to finish and there is no question about that.

Cooperative land banks? Why, we organize a bunch of land banks under this bill and then, in order to give it some kind of turn that makes it look as if it might be for farmers, we talk about cooperation. Let us look into that cooperative feature a moment. These \$10,000 banks may, if they want to, do certain things if they are farm-land banks, "cooperative." First, they have to be cooperative. Let us speak of what these cooperators get.

I will read on page 9 of the bill which outlines the dividend feature of this so-called cooperative farm-land bank:

To each owner of stock of such corporation may first be paid a dividend in the form of interest upon the par value of the shares of stock owned by such owner of stock, computed at the rate of interest generally prevailing in the community where such bank is located, but not exceeding the legal rate of interest in the State where such banking corporation is situated, if said earnings are sufficient for that purpose; otherwise, to be paid to each owner of such stock pro rata computed upon the par value of such stock. The balance of such net earnings, "if any," shall be distributed among the patrons of such banking corporation in proportion to the amount of business transacted with such bank: *Provided, however,* That in such distribution the share-owning patrons may, if approved by two-thirds vote, take dividends at a rate of twice as great as that paid to the nonshare-owning patrons.

The authors of the bill seem not to be able to get away from the idea of the "prevailing interest rate," which is the bane of the farmers' existence. It is the very sore we want to cure.

Many of our States have a legal minimum and maximum interest rate, and some of the States have no maximum rate at all, leaving it open to any rate that is contracted for. The lid is taken off and the dividend referred to in this part of the Moss-Fletcher bill to be paid by the stockholders of this cooperative bank to themselves may be as high as the house or all they can make. That is not cooperation.

Here are men who have gone into this bank business to make money for themselves, and they care nothing for the borrower. The borrower borrows, but he has made no investment, and those who have made investments will find plenty of ways to keep the borrower from getting any of the stockholders' profits.

Note the words "if any." Those were well put in. They are superfluous in the bill and must have been put there as a revelation of the authors' expectation of what the borrowers would get. Read again the proviso. It says that if the stockholders wish to take twice as much as the borrowers they can do so, if two-thirds of the stockholders vote to keep this money. Is it not absurd to think that there would not be a unanimous vote of these stockholders to give themselves twice as much as the nonshare-owning patrons get?

They call that cooperation! It reminds me of the boy that asked his brother, "Give me a piece of that apple." The brother said, "No, I won't." The other said, "Give me the core." The answer was, "There ain't going to be any core." And there won't be any core to the borrower in this proposition. Talk about getting several shareholders together and have them vote to give somebody money and think you are protecting the other fellows! Another simple proposition in finance!

Mr. PLATT. I think you will have qualified as a financier rather than as a farmer before you get through.

Mr. BATHRICK. It seems in all the construction of this bill it is strange that nobody happened to think of the word "mutual" where the borrower as well as lender cooperate. All over the world there is no animal ever discovered, by Theodore Roosevelt or anybody else, that looks like it and bears the name of "Cooperation."

This co-called cooperative bank is nothing but an ordinary stock company composed of investors who put in their money for the same reason which actuate investors in any other kind of a stock company. They are not in any sense cooperative, but are essentially corporative. They are as much corporation as the Steel Trust or the Standard Oil Co. It is possible that it may come to pass, if some of these \$25,000,000 land-mortgage banks were in control of an enormous amount of such credit and a very large number of mortgages that the influence over their debtors would result in the use of this power for political purposes. Those of us, of whatever party, who remember the campaign of 1896, will not forget the effect of a subtle coercion practiced by creditors at that time. I believe that phase of this question is worthy of serious consideration in connection with the proposal to build up a new system of banks.

If a hoard of these smaller banks should go into operation, I believe they would have to clear through the larger banks and their credit, and the credit of their patrons would practically be controlled by the big banks. If this conception of a condition should materialize, it will lead the tentacles of financial influence into every corner of the land and elaborate the power of finance beyond the wildest dream that ever touched the fancies of any J. Pierpont Morgan.

I made a memorandum just before I went to lunch. I do not know whether I can find it or not. It was on this subject.

Mr. PLATT. Under your bill, would it take the Government as long to make a loan to a farmer as it does to decide on a post-office site?

Mr. BATHRICK. I do not know how long it takes to select a site, and, therefore, I can not answer that question. I got one for my district with reasonable expedition. It would not take long for the bureau to decide on a loan.

Gentlemen, I think Mr. Moss has gone far afield and he is fearfully wrong, but I believe he is trying the best he can to settle this question right. But when you are doing this thing, think of that word "mutual," and try to consider it. Consider "mutuality" in any of these plans. If you are going to do this work right, and if you are to give any assistance, give it to mutual, real, not fake cooperative institutions, where self-help and Government aid of the best cooperation on earth shall go hand in hand. Our Government is that kind of cooperation. Do not lend Government aid in any shape to, or permit the use of the Government's credit by any private bankers who are merely out for the purpose of personal gain. They care nothing for our national policy. To do that for them would be adding insult to injury.

One gentleman of the committee said something about guaranteeing bonds, I believe. Of course, I did not understand what he meant, and I had not any idea that any one would propose to guarantee the bonds of the private banks. Such a proposition would be the limit, and I would know of nothing more absurd or foolish that could be

done to incur the displeasure of the people of this country. Any one who would make such a proposition and still object to Government loans would be frightfully in error. If we are ever called upon to guarantee bonds for these private profit-seeking bankers, and thus have the Government take the risk, then no sane man could say that the Government should not do the lending itself and take the profit.

There are two or three ways to help farm credit better than the Moss-Fletcher bill. The best way is Government loans.

I want to make some short comparisons here, just as a summing up.

Government loans will carry the national policy everywhere; the bank plan will carry it out in very few places.

The Government loans could make the interest uniform everywhere; bank-plan loans would have a different rate of interest almost everywhere. Government loans need not wait for State action, but will work where help is most needed; the bank plan must wait for State laws and will help least where most needed.

Government loans would make a profit in two ways for all the people. One way would be a cash profit from the margin on loans. I have shown in previous hearings that the cash profit would be sufficient annually without taxing the people a penny to pay the entire cost of maintaining and constructing good roads under the Shackelford good-roads bill. The other profit would be also for all the people and expressed in a widespread beneficence affecting not only agriculture but everybody in the city as well. It would be giving these profits first hand and direct by the quickest and best way it can be done and not by the slow indirection of relegating our great national policy to the mercies of profit-seeking banks.

The bank plan will make a profit for a few people, mostly for those who have been lending money to farmers at high rates and who have created these very conditions we are trying now to cure.

Mr. PLATT. Could we not get the automobile manufacturers interested in that bill?

Mr. BATHRICK. No. I will tell you what we can do, though: Put through your bank plan: let the farmers pay interest to the banks instead of the Government, and let the bankers buy the automobiles, and then tax the farmer to build roads for him to run his automobile over. That is what we can do.

Government loans give a much lower annual burden and cost to the farmer. On bank loans no one can tell what the cost will be. It will be as high as profit seekers can make it, because they are there for the purpose of making a profit.

Government loans will secure money for all sections, and enough of it. The bank plan bids fair not to secure enough in most sections at any interest rate.

Government bonds based on mortgages and the Government credit will sell at the lowest possible rate. Bank-plan debentures may not sell at all at a low rate.

Government loans will encourage agriculture, encourage loyalty of the people of this country, and make them believe that the Government is doing something for them instead of for the banks. Bank-plan loans will scarcely afford proof that we are doing something for the whole people.

Government loans will not build up another centralized money power. Bank-plan loans will increase centralization of money and will create a new dragon to harass us. These banks will centralize and they will come back into this House time and again and say: "We want some more legislation and help in this and that." They will say: "See what we are doing for the farmers." They will bring the full power of that "farmer talk" before Congress. If you organize this system of banks and you do not do anything for them now in the way of Government aid, it will not be five years before they will come here and ask for more Government aid to help them help the farmer. That is what will happen. They will want just what they now profess to condemn.

Government loans will make profit for all the people. Bank-plan loans will make profit for a few people.

Government loans without further law settles the question of tax on mortgages without giving special privilege to a few bankers. The mortgages would belong to the United States, and would not be taxable. The bonds are not taxed, and that settles that vexatious question at one stroke.

Bank loans require this drastic special privilege of exemption from tax, with much more profit from it to the bankers than to the people.

Government loans will do the great thing we need to do in a wholesome and beneficent way, and the policy of conservation of agriculture will be in the hands of those who care for the policy and want it carried out. Bank loans will leave the policy in the hands of those who have their eye on the dollar and do not care anything about the conservation of agriculture.

Government loans is cooperation of the people for mutual benefit in the greatest sense. Talk about cooperation; we believe in cooperation in the highest sense and in every sense and in every function of it. We apply that in this Government itself—the people own it and run it; and, as I said before, there is no reason why the people can not borrow money from themselves and loan it back to themselves.

The Moss-Fletcher bill bank plan of loans has no element of cooperation—is, instead, pure "corporation," with all the elements of corporate greed and all the functions required to prey upon the people that any other corporation possesses.

Now, gentlemen, I am going to speak of one more rumor. I have heard it said you are going to jam this Moss-Fletcher bill through. I do not believe it. I would not infer that that was going to be done in any way, shape, or manner; but wait for your time. This thing does not have to be done all in a week. Take time and develop sentiment. Sentiment is crystalizing. We should represent the sentiment of the people. Let us find out what the sentiment of the people is. I believe my proposition is the best, but let us find out what the people want. I believe it will work. It is right, and the best thing for the people of this country, and it has no possible greed or avarice in it. We should not talk altruism and national policy and then turn it over to private profit seekers to work out of it as much money as they can. This legislation is altruism; it is phi-

lanthropy; it is for all the people of the country instead of a few bankers. I believe if you will study this question a little further and not be in too great a hurry, this committee will have the credit of doing the biggest thing ever done in any American Congress. I will say to you that our new banking and currency bill, and our tariff bill, and all the bills that have been considered, so far as they affect every man, woman, and child in this country, are nothing in their beneficent effect on the people as will be a good bill coming from this committee, such as I know you are earnestly striving to bring out. If you do it right you will get the credit.

Mr. WEAVER. How much time do you think we ought to take to do it?

Mr. BATHRICK. I think you need some time yet.

Mr. WEAVER. Do you think we ought to do it this Congress?

Mr. BATHRICK. Well, I do not know. I am inclined to think that a little later on, perhaps the next session, we will be in a good deal better shape to do it than now.

STATEMENT OF HON. RALPH W. MOSS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA.

Mr. Moss. Gentlemen of the committee, before I commence what I want to say, I shall take up Senator Norris's question to Dr. Coulter, if he will permit me to answer it, namely, Will Government guaranty give a lower rate of interest? My judgment is, gentlemen, it will at the start, but I do not believe it will after the system is in successful operation.

Government bonds in Europe do not sell at a higher price nor do they bear a lower rate of interest than do land bonds; and I think we will agree that the final rate at which money can be borrowed will be determined upon that basis; and unless it can be shown that Government bonds will bear a lower rate of interest or command a higher price in the market than will land bonds where they are selling in competition, as they have sold for from 50 to 100 years, it will be admitted that Government guaranty can not affect favorably the rate.

Senator NORRIS. In your judgment, how long would it be before the rate of interest on these bonds would be as low?

Mr. Moss. I believe, Senator, in such States as Illinois, Indiana, Ohio, and Iowa that just as soon as mortgage debt is relieved of taxation and bonds, based upon the best of security—real estate—are permitted to go upon the market free, that in those sections of the country the interest rate would drop practically as low as the Government rate.

In concluding my discussion of this subject, I want to answer, in a short way, some of the objections which have been brought in against this bill by those who have discussed it. I do not wish to argue any question upon which, having equal information, men might honestly differ. Such questions are for the committee to decide. I shall refer only for a minute to Mr. Bathrick's bill, and I would not discuss Mr. Bathrick's bill at all of it were not for the fact that both in the record before the committee and in a speech in the House he has referred directly to the Fletcher-Moss bill as a scheme by which

banks can make a profit. In his speech, which he delivered on the floor of the House, he states under his bill the annual profit to the Government would be \$25,000,000. The profit to the Government is limited under the terms of his bill to 1 per cent; half of that can be paid to farm organizations which guarantee the loans. Therefore, the farm organizations in this country would also make an annual profit of \$25,000,000 under his bill, which is precisely the criticism he makes of the Moss-Fletcher bill.

Mr. BATHRICK. Will the gentleman yield?

Mr. MOSS. I shall be glad to if it is not taken out of my time.

Mr. BATHRICK. I wish to state that my table of profits is predicated on a 3 per cent basis.

Mr. MOSS. Then he shows how this works out by saying:

In my county there are about \$800,000 of farm first mortgages upon farm homes. In this indirect lending on these mortgages the Government would provide that the farmers of this country should organize a farm-credit association with a capital of, say, \$10,000. This association, conforming to certain rules and regulations, would act as the agent of the Government in appraising, inspecting, and, perhaps, making collections on these mortgages. The association would indorse the mortgage notes. For this service the Government would pay it annually not to exceed one-half of 1 per cent on the sum of the loans. This would assure the success of the local farm-credit association at once, and would leave it to employ its own capital in making short-time loans.

Here is a proposition from Mr. Bathrick that \$1 of capital put up by the farmers should guarantee \$80 of loans taken by the Government; under our bill, \$1 in capital can only guarantee \$15 in loans. Ten thousand dollars should guarantee \$800,000. For this guaranty these farm organizations shall be paid by the Government \$4,000, which is one-half of 1 per cent upon \$800,000. This payment amounts to 4 per cent per year upon the capital of the organization, and yet they would have their own money free to loan out on short-time loans. That is what he says constitutes self-help with Government aid.

Mr. BATHRICK. I do not want to interrupt the gentleman, and I will say here that he did not interrupt me at all, did not ask me a question.

Mr. MOSS. I am perfectly will that you should do so, only I do not want it taken out of my time.

Mr. BULKLEY. As far as taking it out of your time is concerned, we are not going to limit you; but the point is that as the afternoon goes by you will find some of the gentlemen slipping away.

Mr. MOSS. I am not presenting this as a criticism on Mr. Bathrick's idea or his plan. I do not want it so understood. I think Mr. Bathrick has certainly the right to present any view that he chooses before this committee, but what I do insist upon is that Mr. Bathrick does not stand very consistent in criticising the commission's bill because it is possible for a bank to make some profit under its terms, and yet present his own bill containing a proposition that at least guarantees private corporations these very handsome profits; and using his own illustration to the people of his own county, it would be possible for farm organizations of \$10,000 capital to come to the Government and receive 4 per cent annual dividends without any guaranty, and yet would have their capital free to loan out at interest to members of their organization.

Mr. Bathrick repeatedly criticizes a capital of \$10,000 in the Moss-Fletcher bill, but desires to encourage the organization of banks of the same capital under the terms of this bill. He criticizes a bank of \$10,000 capital in the Moss-Fletcher bill being permitted to appraise real estate for the purpose of loaning money for which its capital is pledged at the ratio of \$1 to \$15, but desires to permit organizations of \$10,000 capital to appraise real estate for Government loans with a pledge of only \$1 to \$80. He criticizes profit to private organizations under the Moss-Fletcher bill where such organizations give complete service, but desires to obligate the Government to pay 4 per cent profit on capital of private corporation for incidental service only.

Gentlemen, with that I am going to dismiss the Bathrick bill, excepting one other general observation.

It is rather remarkable to me that bonds which would be issued and mortgages based upon real estate under the banking plan would have such doubtful value as Mr. Bathrick would seem to indicate, and yet if these mortgages were held direct by the United States, they would be so good that the Government could not lose a penny, the system of appraisement being practically the same, the local banks doing the appraisement.

Before I pass it, and while it is fresh in my mind, I desire to call attention to the principles of the cooperative bank. Mr. Bathrick criticized the provision that one part of the profits could be distributed to those who were not patrons. The reason for that is quite apparent, and I had expected Dr. Coulter to present it or I should have presented it before. The par value of the cooperative banks was placed at \$25, to make it possible for any farmer to purchase a share and as an incentive for all people to take out founders' shares the bank was permitted to distribute the profits largely among stockholders. That is the only reason we provided that stockholders should have a higher rate of dividend than outside persons who may patronize the bank.

The next question I want to take up, with your permission, is the minority report.

That there may be no misunderstanding about the minority report, I will say that it is not a minority report of the United States commission. The American commission did submit a minority report. There was a difference of opinion between their membership and not that of the United States commission. The United States commission gave them a confidential copy of its report, which is a unanimous report, and in which the American commission was not asked either to join or to dissent, recognizing that they had the same privilege to present criticisms as any other interested citizens. But to speak of it as a minority report in the sense that it emanates from or expresses the views of every member of the United States commission, of course, is not correct, and is not so intended by the authors of it.

I want to call your attention to the fact that when this report was written, which was in December last, it presented a proposition for State banks and compulsory federation of State banks: that is, one central bank in a State, with all other banks in that State holding a membership in such central bank. Later on additional legislation

to unite these State banks would be desirable on part of the Federal Government under some similar plan as originally proposed by Senator Fletcher.

Senator HOLLIS. Which report are you reading from?

Mr. MOSS. I am reading now from the minority report:

The subscribers hereto are inclined toward State organization and regulation until a sufficient number of States have built up such a system to a point of successful conclusion, and then to advocate Federal legislation looking toward federating the State centrals, somewhat after the plan proposed by Senator Duncan U. Fletcher, the chairman of the American and the United States commissions under the certain terms and conditions to be then determined. This might be highly necessary at that time, in order to find a cheaper and world-wide market.

Now, when Mr. von Engelken, for whom I have a very high regard, came before the committee, he argued for precisely that system; but when Mr. Jones came before the committee, having at that time changed his mind—and I shall quote from his record—he advocated that the question of a federation should not be compulsory but should be voluntary. I want to call your attention to the fact that Mr. Jones's testimony before the committee does not bear out in any degree the minority report as originally written. I will read Mr. Jones's testimony to you upon that point. You will find it on page 52, part 13, of hearings:

Mr. PLATT. Would you fix the number of central banks that would be allowed to federate?

Mr. JONES. No, sir.

Mr. MOSS. Then your idea is to provide for voluntary federation?

Mr. JONES. So far as I am personally concerned, yes.

So that Mr. von Engelken and Mr. Jones, who are both signers of this minority report, differed radically before your committee in their testimony. We ought to have some little fun out of these hearings, and I shall call attention to Mr. Jones's testimony in regard to these little \$10,000 banks.

Probably I had better read from the original record. On page 19, part 13, is the following:

Now, the Fletcher-Moss bill has built up a vast number of little units. Every community which can raise \$10,000 can have its own little mortgage bank.

After talking on awhile (p. 25), he says:

Under this Fletcher-Moss bill, gentlemen, I do not believe we will have any small banks, or if so, that they could long survive. There is no maximum limitation, mind you, as to capital. It would result, therefore, in the establishment of a number of large banks.

On page 35 is the following:

Therefore, I am confident in my mind that the law would be a dead letter, so far as rendering any relief to our agricultural interests, if these little banks should be permitted to organize without federating.

In the same paragraph, on the same page, he says:

I am assuming there would be no small banks under the Fletcher-Moss bill, and I feel confident in that assumption.

And then, on page 49, he says:

I have no doubt whatever, gentlemen of the committee, from my knowledge of promoters, but what there would be a great many small banks organized under the Fletcher-Moss bill for the express purpose of floating a lot of bonds and then getting out from under.

Now, I have always understood that in arguing a proposition a lawyer may change his position as often as the interests of his client demands it, but a banker, of necessity, was confined to the facts in the case, so I am calling your attention to the very rapid change of opinion in regard to Mr. Jones's testimony relative to the success of the \$10,000 banks.

In this connection, there is one question which I consider important, because it constitutes a very serious charge against the bill, and if it is true, the bill ought to go into the wastebasket. Mr. Jones said:

I have no doubt whatever, gentlemen of the committee, from my knowledge of promoters, but what there would be a great many small unit banks organized under the Fletcher-Moss bill for the express purpose of floating a lot of bonds and then getting out from under.

He used the word "wildcatting" a little bit later in connection with the same criticism on the bill.

I received through a banking concern in New York a copy of the letter repeating this charge. I have it here, and probably I had better read from it for the record to show the similarity of the charge and how widely spread that idea is. This is dated March 5, 1914. It is a copy sent me from New York, stating it was received from a western capitalist. In it are these words:

In other words, the possibility of loss under this cooperating farm-land bank provision are such as to compare favorably with the possible loss under the get-rich-quick schemes which have been put out in the past.

Naturally 15 men owning land in a certain district could get together, organize a cooperating bank, appraise one another's land at several times its actual value, execute loans to the bank for 50 per cent of their appraisal, issue bonds against those mortgages, sell the bonds, and leave the bondholder to hold the sack. Yet the bonds would be offered under such advertising as would convince the unsophisticated that they were practically guaranteed by the United States Government. It seems to us that there is great possibility of fraud in this provision of the bill.

The bill they are criticizing limits the loan to any one individual to 20 per cent of the capital stock. I am going to take this illustration of 15 men in organizing a bank of \$10,000 capital. Fifteen men in organizing a bank could borrow out of it \$30,000 under the terms of the bill. This sum is the maximum sum they could secure, and in order to do this, first, there must be \$10,000 in cash paid into the bank, and then there must be \$10,000 of liability assumed under the terms of the bill, making a combined asset of \$20,000. A bank loaning \$10,000 of its capital would receive as security \$10,000 worth of mortgages, which is supposed under the system of appraisement to represent \$20,000 in value of real estate. The bank would then have to sell \$10,000 in bonds before they could loan the second \$10,000. They would have then \$20,000 in cash loaned and would hold \$20,000 in mortgages; the bank would also be liable for \$10,000 in bonds. Now, if they loaned out the other \$10,000, making \$30,000, they would receive \$10,000 more in mortgages and would sell \$10,000 more of bonds. They would then have \$30,000 in mortgages, which would represent \$60,000 worth of real estate, and they would have \$20,000 worth of bonds outstanding. Now, the question is, Is the \$60,000 of real estate plus the \$10,000 in liability of the shareholders worth the \$20,000 of bonds? That would be the question. To maintain the criticism it must be shown that the liability of the shareholders plus

the full value of the mortgaged security would not redeem the bonds outstanding. There would have to be at least two issues of bonds, and the entire issues would have to be sold; these bonds would have to be passed upon by the United States bank examiner and by the purchasers of the securities. Does any member of the committee believe that wildcatting would be possible under such restrictions?

Mr. von Engelken presented a different proposition. He said that 10 men could organize a bank, mutually over appraise their own lands and successfully defraud the bondholders. Under this system each man would have to pay in \$1,000 in cash and assume \$1,000 in liability before he could borrow \$2,000 out of the bank. In order to loan \$20,000 the bank would have to issue and to sell \$10,000 in bonds and would hold \$20,000 in first mortgages, representing \$40,000 in value of appraised real estate. The bank, then, to redeem \$10,000 in bonds outstanding, which would be the entire amount of bond issue, would have the liability of shareholders amounting to \$10,000, and \$20,000 of first mortgages, representing \$40,000 of real estate. The case presented is preposterous. I submit that no sane man would pay in \$1,000 cash, assume \$1,000 in liability, mortgage \$2,000 of real estate, in order to get a loan of \$2,000 with a view of swindling a bank. The character of the shareholders, their responsibility, and the granting of a charter are all to be passed upon by the Treasury Department. Charters may be granted or refused. The comptroller is given the right to force a liquidation at any time, and repayments must begin within six months from the granting of the first loan.

Now, Mr. Jones's idea, when he spoke about "getting out from under," brings up this fact, that no officer or shareholder can take any moneys, excepting the administration charge of the bank, without committing embezzlement and larceny. As soon as any money is paid into the bank it must be paid directly to the bondholder, either on the principle or the interest of his bond. Therefore, there is not any possibility of looting the bank in the manner suggested by his language.

The only possibility would be to cheat in the appraisement. I shall come to that again; but I call particular attention to the fact that it would be impossible under the terms of the bill to use the money of the bank in wildcatting or promoting schemes of any character whatsoever.

I have some reason to complain that the gentlemen who have presumed to discuss this bill have not studied it long enough to become acquainted with its provisions; and I am sure that if Mr. Bathrick had read this bill as carefully as he has read some other literature many of the criticisms which he has made upon the bill would not have been made.

Mr. von Engelken said that he took this bill with him to prayer: that was his expression to show how earnestly he had studied it; and yet, after having studied it in that prayerful manner, he said that he could not find any provision under which a bank could be liquidated; and yet in section 10 of the bill ample power is given to the commissioner of land banks to liquidate it. And Mr. von Engelken seemed to think that he had carefully studied its provisions.

Now, Mr. Bathrick studied it carefully, he said, and he could not find any way in which a bank could be organized and go into operation in a State until all the laws of that State was changed. What he was reading about was that the bonds could not be used as investment for certain trust funds until certain changes in some State laws were made, and yet the bank could be organized and operated in any State in the Union the moment this bill became a law, under the terms of it as it is now written.

Mr. BATHRICK. Will the gentleman yield for a moment?

Mr. MOSS. Yes; certainly.

Mr. BATHRICK. You do not expect to sell your bonds under the bill until these provisions for legalizing them are put in force, do you?

Mr. MOSS. If anybody wants to buy them, yes.

Mr. BATHRICK. You do not expect that they will sell well until you do that, do you?

Mr. MOSS. It may be said as to that provision that there will be greater opportunity for the disposal of the bonds if the State laws were made more favorable and more nearly uniform, but that does not prevent the bill itself from going into operation and may not materially affect the market value, as it does not in any manner affect the security on which the bond is issued.

Now, Mr. Jones is a banker, and there is absolutely no difference between his testimony and the Moss-Fletcher bill, excepting that he is in favor of a central bank, which can have as many branches as it chooses. Under the Moss-Fletcher bill, as written, the bank could have as many agencies as it chooses.

In the Jones bill the small banks would be units, voluntarily federated; in the Moss-Fletcher bill the small banks would be called agencies. In both bills the minimum capital would be the same, viz, \$10,000 capital, and their bond liability would be the same, viz, 15 to 1.

Now, there is one other point that I might mention. Mr. Jones undoubtedly knows that there are no small banks in this country under national law. And there is no provision by which Congress can compel these land-mortgage banks or any other Federal banks to federate with an existing bank under State law. They can voluntarily federate; but they can do so just as freely under one bill as under the other. Yet in this report here [indicating] the minority says that one of the advantages of its system is that they will have the moral support of existing State banks.

Now, Mr. Jones knows as a legal proposition, and this committee knows as a legal proposition, that you can not organize a joint-stock bank under United States law and compel any State banks to enter into any relation with it, except such as may voluntarily be assumed. It would be just the same under one system as under the other. I admire his ingenious reasoning on that proposition, but whatever may be the value of this relation between State and Federal banks, it is just as great under one bill as under the other, and Mr. Jones himself admitted it, as you will find on page 28 of his testimony.

Mr. PLATT asked him the question:

Mr. PLATT. That idea is not entirely foreign to the report of the authority of the United States commission, is it? I understand that they have the idea

that banks would organize: savings banks, perhaps small country banks, would organize these farm-land banks in connection with their own business.

Mr. JONES. I have not heard them express themselves on that. I think it would be the natural result.

Naturally they would have the same power under one bill as under the other. Mr. von Engelken attempted to argue that under a federation it would be possible in some mysterious way for a small federated bank to incur losses that would not fall on its own stockholders. Then, in answer to a question from Senator Hollis, he admitted the fact that the small federated bank would have to come back on its own stockholders to retrieve any losses; and I can not conceive of any federation where independent units are gained, but what the capital of each bank must stand good for the losses which that bank incurs; and whether you have a federation of banks or an independent bank, if there are losses incurred, and any bank impairs its capital by so doing, then the guaranty of the individual stockholders must be resorted to to repay that loss, and no degree of federation would make it possible for them to get out from under that.

I can not conceive that any greater damage to the system will obtain if an independent bank is liquidated and its stockholders suffer the loss incurred in the business than would happen if a small bank in a federated system were to be liquidated at the expense of its shareholders: and under his voluntary system of federation, that would be the result if losses were sustained.

Now, referring to Mr. Hill's argument, Mr. Hill stated correctly, I think, before the committee, that credit is a matter of organization—his statement being as follows:

Mr. STONE. Then it is simply a matter of organization?

Mr. HILL. Yes; a matter of organization.

Then, in answer to a further question by Mr. Stone in regard to \$10,000 banks, he said:

It is quite possible that some large banks would be organized. That is only an opinion. In my judgment they should not be encouraged to organize. We have enough banks in this country exploiting farmers; we have enough money lenders in this country now.

According to that statement, then, we have the position of Mr. Hill that credit is a matter of organization, but there ought to be no new banks organized in the country to perfect further organization. I submit that that would be the logical result of the position he has taken.

However, he stated that he had no objection to the present joint-stock banks organized for profit becoming mortgage banks. On page 42 of his testimony he says:

There can be no objection to the legal provision whereby the joint stock companies of ordinary type, organized for profit, may be permitted to go into the land-mortgage business.

Now, I submit to the committee, as Mr. Hill has criticised this plan probably more severely than any other person who came before the committee, that I can not quite conceive the position of the man who says that credit is a matter of organization, who believes that these new functions can be safely given to the ordinary joint-stock bank organized for profit, and yet that they ought not to be given to a joint-stock bank organized expressly for land-mortgage business.

Mr. Hill's criticisms regarding restriction of State laws and the duties of the fiduciary agent fall into the same error that Mr. Bathrick did, and show at once conclusively that he had not studied the bill sufficiently to understand the terms of it.

His main criticism of the bill was that it would not have any effect for many years, and therefore ought not to be passed, because we wanted immediate relief. He said:

All of these restriction are, in my judgment, reasonable and good; but they are submitted and dwelt upon by me to show that there can be no immediate relief for a great number of years under this bill; hence the real facts, in my judgment, will show that any present or immediate relief is not based on the facts.

Then he submitted his own provisions, and I want to call particular attention to them. You will find them on pages 47 and 48 of the report. I quote:

The first is, in brief, the simple plan of a proposed bill for the Congress of the United States to appropriate out of the Treasury, to be deposited, an amount not to exceed \$20,000,000 upon some general conditions. The conditions have been largely outlined in detail, but may be briefly summed up as follows:

First, that the deposit or loan from the United States bear 3 per cent interest; second, that the amount be granted on condition that each State contribute a like amount for a like purpose, except that the State fund shall draw 4 per cent.

Then here is a proposition submitted by Mr. Hill that could not go into effect in a single State in the Union until affirmative legislation, including an appropriation of a large sum of money, in conjunction with the United States. The two conditions precedent would be an appropriation out of the United States Treasury and an appropriation out of the State treasury, in order to put into effect Mr. Hill's system. And then he goes on a little further and says:

Upon further condition that the founders' shares of said institution shall be nontaxable for all purposes, both State and National; and that the collateral trust bonds shall be made nontaxable by State and National Governments.

Thus he takes in one of the very provisions that he criticized in our bill. In his criticism of this provision in the Moss-Fletcher bill, he said it would require 10 years of education to secure such changes in the constitutions of our States. Now, I am not mentioning this to criticize Mr. Hill's idea at all; I am simply showing that the criticism which he brought against our bill is very much more vital if urged against the plan which he presented to the committee. That is the point I want to make.

I will again say that, while anyone has a right to criticize the bill which the committee submitted, it is not very consistent to criticize a certain plan or system and then bring forth another proposition which has the same features in it to an even greater degree.

Mr. Hill further says that we have taken as a model one of the giant banks of Europe. Here is his language:

Yet the gentlemen take this bank as a model and hand to the American farmers a bill proposing relief on a joint-stock profit-making plan.

He also says:

Why, therefore, should the members of any commission pick as its model this giant stock bank, with its millions of capital, with its special privileges, with its special officers all over Germany.

Now, I might have felt somewhat offended about that, if he had not previously said in reply to Mr. Bulkley:

MR. BULKLEY. Is not that very thing done in Europe by banks without any capital stock at all?

MR. HILL. No, sir. I shall show you by the evidence I will come to that the bond-issuing institutions in Europe are tremendous institutions. There is no authority whatever for this trifling \$10,000 bank. It is one of the worst provisions I have ever seen. I can not conceive how any man could think of a \$10,000 bank who has studied conditions in Europe.

Yet, having said in one moment that our plan is not conceivably like anything he has found in Europe, he was willing to say a moment later that we had taken our model from one of the great banks in Europe.

Again, I am only calling attention to this language to demonstrate that his criticisms are not consistent.

Mr. Hill also spoke about the question of deposits, and made quite an elaborate argument in favor of unlimited time deposits. I do not wish to argue the question of deposits at all. I stated that the commission decided the question of deposits by an arbitrary limit; they must be either limited or unlimited. I have found but a single mortgage institution in the world that has a right to take unlimited deposits, and that is the old type of *Landschaften* institution, where the entire private fortune of every member of the *Landschaften* is absolutely bound for any or all of its obligations. I might say that the very institution that Mr. Hill presented to the committee as his model—that of the Hungarian mortgage institution—can only accept deposits to five times the amount of its surplus, therefore showing that it has limited deposits.

There are only two or three objections to the receiving of deposits from my standpoint, and I will present them, now as I am on that subject.

The first is that savings banks throughout Europe, and I think throughout America, only make recallable loans. This bill proposes unrecallable loans.

Now, if you are going to permit them to take an unlimited line of savings deposits, the committee will have to provide, just as Mr. Van Cordlandt stated, an investment for them. That is the first proposition, and it is quite clear that they could not make it in long-time unrecallable loans.

The second proposition is that deposits in a land-mortgage bank necessarily can only have a secondary security. The capital of the bank is for the security of the bond; that is its first purpose. And everywhere in Europe the provision is met with that the bondholder has the first claim upon the assets of the bank, and its depositor only has a secondary claim.

I do not believe that in this country there could be any long line of deposits secured without special security. The capital of the bank is necessarily small, and it is made that way because it deals only in the safest kind of investment loans.

The third objection to a long line of deposits is that savings deposits of any country ought to be available alike for loans on both urban and rural real estate. This bill is strictly a bill under the plan of the commission to provide loans upon rural real estate; and we prohibit them from loaning upon urban real estate, because every

institution that has the right to loan upon both places the great part of its loans upon urban real estate; and if you gave it the right to unlimited savings deposits that came from all classes of people, to be invested under the terms of this bill, you would limit savings deposits to investment upon rural real estate alone, which I believe is not according to good public policy.

Now, I want to come to the question of organized opposition from the farmer. Mr. Hill stated, and it has also been stated by Mr. Bathrick, that the Moss-Fletcher bill has the opposition of organized farmers over the country. If I believed that to be true I would be among the very first to want to get out from under its provision.

In order that I may be set right in the record I want to call attention to the meaning in which I used the expression that "farmers are not organized." I said it would be difficult to get farmers' opinions, because they are not organized, meaning by that that there is no way in which you could get a referendum vote by farmers upon any proposition. President Gompers can order a representative vote in the American Federation of Labor that will reach down to every member, and 95 per cent of the men in the trades are organized; thus a referendum vote can be secured from them. You can not do that from the millions of farmers in this country. Now, as to the testimony about the opposition of organized farmers.

Mr. Atkeson came before the committee, and I hold a copy of his testimony in my hand. In speaking about the resolutions of the grange, he was asked when it was that the National Grange held its meetings.

When were those resolutions published?

About the middle of November; I do not remember the date. It was during the session of the grange at Manchester, N. H.; about the middle of the month.

He was asked then:

Who was the committee that wrote those resolutions?

Now, Mr. Atkeson is the only person that I have heard before this committee who, in speaking about the commission's bill, used language that he asked not to be placed in the record, in characterizing his feelings toward the bill.

And yet when he was asked to name who was the committee on resolutions at the National Grange, he absolutely could not call the names of those who were on the committee on resolutions as his associates. I have his language here, and I will read:

I will say this, that the committee who have that matter under consideration was a committee known as the legislative committee. At that particular session I happened to be chairman of that committee. Mr. Stetson, Mr. Sherwood, master of the Rhode Island State Grange, and myself, as master of the West Virginia State Grange, were three members. There were also three ladies; I do not remember who the ladies were. One of them was the wife of the master of the New Jersey State Grange.

Here is a question to which this committee will have to give the most careful consideration, the question of loans—a vital question of great national policy. Resolutions were said to be considered carefully, both pro and con, and adopted unanimously; and yet when the mover of those resolutions came here before this committee he could not remember the persons who sat around the table with him and took part in that deliberation.

Mr. BATHRICK. Would the gentleman like to know the names?

Mr. MOSS. I do not care about the names. The importance lies in the degree of consideration accorded this question by the National Grange. I was just calling the attention of the committee to Mr. Atkeson's reply, showing that he could not name the members of his committee on resolutions. Now, then, on page 59, you will find that Mr. Atkeson admits a division among the members on the proposition. In a colloquy between Mr. Butler and Mr. Atkeson, Mr. Butler asked Mr. Atkeson this question:

Would you advocate going any further than that? Would you advocate the Government depositing funds with agricultural banks?

That is a suggested compromise among some of us who do not agree that the Government should deposit money in these banks, holding the banks responsible, and that the Government fix the rate of interest--

thus admitting that he knew their membership is not united on this question.

I have some letters that I shall read here on the proposition of the grange. I happen to have in my district the oldest active grange that is now in the United States; I do not mean by that that it was the first one that was organized, but I do mean to say that it is the oldest one organized that has never lost its charter. I received a letter from this grange unanimously indorsing the Bathrick bill. I will put it in the record.

Mr. HAYES. The Bathrick bill?

Mr. MOSS. Yes. It is dated March 2, 1914, and is as follows (reading):

R. R. 3.

Terre Haute, Ind., March 2, 1914.

HON. RALPH H. MOSS,
Washington, D. C.

DEAR SIR: At a regular meeting of Honey Creek Grange, February 27, 1914, the following resolution was unanimously adopted:

Whereas the legislative committee of the National Grange has recommended the passage of the Bathrick bill (11897) as being the one which most nearly conforms to the grange idea of rural credits: Be it

Resolved, That this grange asks its Senators and Representatives to vote for the Bathrick bill.

A. A. REYNOLDS,

Master Honey Creek Grange No. 1.

LAURA E. RIGNEY,

Secretary Honey Creek Grange No. 1.

As I was very well acquainted with the members of the grange and having had the honor of appearing before them and discussing public questions with them several times, I wrote to one of the members of the grange asking him upon what information they had acted, and I will read you, in part, his reply (reading):

MY DEAR FRIEND MOSS: Your letter to hand.

Our master, A. A. Reynolds, of Terre Haute R. R. 1, had received a circular from the legislative committee of the National Grange boosting the Bathrick bill, saying that it more nearly conformed to the idea of the grange along the lines of rural credits, and we having seen no copy of any bill and thinking the committee understood the matter, passed the resolution.

Now, that is the information they had before them at the time that resolution was passed. They had seen no bill and acted solely at the request of the circular.

I have another letter which I will read into the record, except that, as this came to me in my private correspondence, I shall not give

the name of the writer; but any member of the committee can read the letter in full if he cares to do so. It is in part as follows (reading):

WESTERVILLE, OHIO, *March 10, 1914.*

Representative Moss,

Washington, D. C.

DEAR SIR: Will you please send to my legislative committee copies of the Moss and the Fletcher bills relating to farm credits and all literature discussing these measures that you are sending out?

We are in receipt of a circular from the National Grange urging support of the Bathrick measure, and we have sent for copies of same. I am inclined to think that our subordinate lodge will oppose any scheme that will deprive private enterprise of the largest possible participation in any legitimate business. We have taken this stand on matters of public ownership and business: "That we oppose Government ownership or business that will interfere in any way with the private conduct of such business as can be carried on at a reasonable cost to the public and at a reasonable profit to the citizen."

Thanking you in advance for any information and courtesy you may extend to us,

I am, very truly, yours.

I have other letters, that I do not care to encumber the record with, showing that, as a matter of fact, the members of the grange are studying this question and are not unanimous upon the proposition by any manner or means. They may become so after they have studied it further, but I mean to say that the resolutions of the general officers do not bind the membership, and it is a fiction to say that organized farmers are opposed to or are in favor of any particular bill on this subject.

I happen to have in my congressional district the largest number of miners belonging to the United Mine Workers of America of any one district in Indiana, and I presume I have as many members of the American Federation of Labor as any Member of Congress has in his district; and I would not think about supporting, or even introducing, a bill if I believed that the rank and file of these men were opposed to the proposition. And I will venture to say that 99 per cent of the members of the United Mine Workers of America or of the American Federation of Labor in my own district have never read either one of these bills.

That is enough on that proposition.

I would like now to take up some suggestions that I want to make, which may improve my own bill.

Before I do that, however, I want to ask permission to put in the record some editorials that have appeared in various publications since the time I first called attention to the editorials of farm journals. The one editorial that I have seen, clearly condemning this proposition, is from the *Farm Magazine*, published in Omaha, Nebr. On the first page you will see the letters "Cdq, Come Quick! Danger." Then below, on the first page, it also says:

Under the guise of beneficent legislation for your relief, the powerful banking combination of Wall Street is making a desperate effort to fasten financial slavery on you and your children.

I received a letter from my own district, in which the writer told me that I had better feather my nest well during this term in Congress, as I would never come back again, after having voted for this bill. I wrote to the writer of that letter—and I can supply the committee with the correspondence, if the committee wants it. I wrote

him a courteous letter and said that I was a farmer myself and that I have made a study of this subject, and that I would particularly like to know his objection to the bill, and also asked him to kindly send me a copy of the newspaper in which he had seen the bill published. I knew he had not seen the bill, but had received his inspiration from some publication. And in reply he tore the outside sheet of this magazine off and sent it to me.

Now, I shall call your attention to an article which Mr. Murchy wrote, and I want to say, as Mr. McMurchy is present, that, in the main, this is a fair interpretation of the bill. I want to read this particularly, because I understand that some of the Members of Congress from Nebraska, and also the Senators from Nebraska, have spoken about getting letters in opposition to this bill, and I am quite confident that that opposition emanated from this source.

Mr. BATHRICK. Will the gentleman yield for a question?

Mr. Moss. Surely.

Mr. BATHRICK. I have a letter here from the master of the State Grange in Nebraska, stating that the State Grange has passed a resolution opposing that bill.

Mr. Moss. Here is the extract that I have called special attention to.

Take, for example, the State of Nebraska, with a farm-mortgage indebtedness of \$62,373,472. This debt, by virtue of the tax-exemption privilege, will almost immediately be transferred by existing creditors to one of the new land banks. The 4 per cent bond may not pay the creditor quite as high a rate of interest as now, but when he takes into account his tax exemption and long-time security it will be easy enough to reorganize the farm debt on the new basis. On the 15-to-1 basis, proposed by the commission, this will require a capital and surplus of less than \$4,200.

Of course, the latter statement is a misprint.

With that, the Nebraska land banks can collect an expense charge of 1 per cent on the whole \$62,000,000, or \$623,472, about 15 per cent of their capitalization annually.

The figures are correct, excepting that they have taken the gross income as being net profit. There is that one difference in it; but few men would care to sign an article stating that the gross income of any business was the net profits of that business.

But here are the facts that I want to put into the record:

Present mortgage debt, \$62,373,472.

Present average interest rate, $6\frac{1}{2}$ per cent; that is, taken from Prof. Thompson's figures in Hearings No. 1, before your committee.

The present annual interest charge on Nebraska farm mortgages under present conditions is \$4,064,275.

Taking the computation that Mr. McMurchy made, with an interest charge at 4 per cent, the sum would be \$2,494,938.

The administration charge of 1 per cent would be \$623,734.

The total charge under the bill, as interpreted by Mr. McMurchy, would be $\$2,494,938 + \$623,734 = \$3,118,672$. This would show an annual saving in interest to the farmers of Nebraska of \$945,603.

And yet that is the proposition as to which this call goes out from that magazine to save the farmers from the slavery of Wall Street—a system which would reduce their interest charge nearly \$1,000,000 per year.

Mr. Hill presented the idea of Government aid in founder's shares. That provision does not produce any additional safety to the bond

unless it is that the ratio between capital and bond issue is reduced below 15 to 1.

As to the Hungarian Institute, where the Government does furnish part of the capital, the officers of the institutes admit that the rate is not lower than that of joint-stock banks, which are in open competition with them.

I had the pleasure of having interviews with the presidents of both of those institutes, and I will read you an extract from the interviews with the small-mortgage institute.

Q. I understand there are some joint-stock companies in Hungary that will make the same loan. What are the relative rates of your institution and theirs? Is the rate of joint-stock companies or banks higher or lower?—A. They may be a little lower or a little higher, but there is not, as a rule, much difference.

Senator NORRIS. Will you let me ask you a question there?

Mr. Moss. Yes, Senator.

Senator NORRIS. Did you make any inquiry as to whether these rates of the joint-stock companies were as low as the rates were prior to the time that the Government went into the business?

Mr. Moss. I will be glad to take up that question in a moment with you. Taking the other institute—that is, I mean the older Government institution, I will read you an extract from the interview:

Q. Does the Hungarian Land Credit Institution receive favors from the State?—A. Yes.

Q. Do these favors enable you to make a lower rate to the borrower than you could if they were withdrawn?—A. No. This State favor chiefly consists in the fact that if the borrower does not pay his yearly annuity our institution has the right to sell the property by auction by a summary protest.

Now, Senator Norris, the condition in Hungary at the time that this institution was organized by the State was very peculiar. They had the revolution of 1848, which gave them their independence, and this war had very much impoverished them. At the same time, the serfs were set free; that further impoverished the landowners. Then, at that time, and under those conditions, competition in agricultural products had begun to come in from our own country, and agricultural prices fell over there.

Money was said to loan from 18 to 20 per cent interest, and this institution was then organized. And from that time on the rates have fallen; and I can give you the successive rates, if you would like to have them.

Senator NORRIS. I would like very much to have them, Mr. Moss.

Mr. Moss. Yes; I will read them to you. I inquired into that quite particularly.

When the bank began work, the rate was $5\frac{1}{2}$ per cent [this is the small holder's bank] and the period $33\frac{1}{2}$ years.

Later the rate was 5 per cent and the period 15 years, or $33\frac{1}{2}$ years. Still later the rate was $4\frac{1}{2}$ per cent, the period 17, 25, 40, or 50 years, and afterwards 4 per cent, with periods 20, 30, 40, 50, 65 years. The administration expenses at the beginning were 1 per cent, but soon fell to one-half per cent, and later successively to 0.35, 0.30, 0.25, 0.21, 0.19, and 0.16. The amortization varies according to the rate of interest and the period. At present, price of money being high, the rate of interest is 5 per cent.

But, now, remember that there are 1,846 joint-stock banks competing, making loans at the same time, along with this institution, and

under the competition of State and national the rates have fallen. Competition in mortgage banking in Hungary is of the severest character:

It has also been mentioned before the committee that founders' shares are an ideal method of raising money. There are some defects in this organization, and I would like to call attention to what they stated.

Mr. WEAVER. What organization is that you are speaking of?

Mr. MOSS. I was referring to the National Institute, organized by the Hungarian Government, by State favor and founders' shares. Here is what the report of the American commission says about them, and I want to call your attention to the fact that this part of the report is made by the Hungarian Government itself, which, of course, is friendly to those institutions. At the time that we were in Hungary no mortgage institution had any invitation to appear before the American commission except these two. I personally, representing the United States commission, solicited interviews with the joint-stock companies, or else we should not have got in touch with those institutions.

From the point of view of conservative management (which is certainly very desirable), this system is an extremely practical one; but there is no denying the fact that it has defects, too. The enthusiasm excited by the foundation of such institutes in course of time dies away, and then the further increase of the foundation capital becomes a matter of great difficulty. In this respect the Hungarian Land Mortgage Institute (that is, the older one) is remarkably fortunate; for five decades it has been in a position to amass considerable reserves, and its sphere of activity has not widened, as a result of economic progress, to the same extent as that of the National Small Holdings Land Mortgage Institute. The latter, however, undoubtedly experiences grave difficulty in acquiring new foundation capital to meet the requirements of such development. Nor is there any denying the fact that, even if the two land-mortgage institutes do possess the character of cooperative societies, that character has in essence become a mere form. The owners of founders' shares for the most part regard their foundations as merely so many patriotic gifts which are in good hands and, from their point of view, are not worth thinking any more about. And it is scarcely to be expected that even those landowners who are in undisturbed possession of amortization loans not recallable, foreclosable) for 50 years should display any greater interest.

That is an effort to bring about the cooperation of the Government, patriotic citizens, and the borrowers in control of the organization resulted in a bureaucratic form of organization.

Senator NORRIS. Of these European countries, which ones make direct loans to the farmers?

Mr. MOSS. I know of no European Government that makes direct loans to the farmers of that nation, except for special national purposes. France makes loans for homestead purposes; but the great business of the *Crédit Foncier* is a purely private loan business, with only foundation capital in part from—

Senator NORRIS (interposing). Well, let us take France, for instance.

Mr. MOSS. Yes.

Senator NORRIS. Can you give us the rate of interest there?

Mr. MOSS. Yes; 2 per cent on national loans; but only to the extent—

Senator NORRIS (interposing). To what amount?

Mr. Moss. Only to the extent of \$2,000 and for homestead purposes. That law has been on the statute books only two or three years.

Senator NORRIS. What has been the result of that law? Can you give the amount of loans that have been made?

Mr. Moss. No; I can not. I can get that information, but I have not it with me. The minister of agriculture stated that that was not a financial law; it was a sociological law, and one of three such laws that must be interpreted together. He stated that France had lost 40 per cent of its rural population, and that these laws were intended to rebuild the farming population. He said he noticed that when there was an estate being broken up by auction sales there was generally a young man standing by that had just married a girl. The young man would have liked to become a farmer, but he could not get enough capital to purchase land, and the Government decided to loan money to such farmers at 2 per cent interest, not to exceed \$2,000 in any one case, so that the young man might secure a small holding and become an independent farmer. Then, in order to induce him to stay on the farm, they promised him a pension if he should live on the farm until he was 65 years of age.

The third was a law by which, when the crops were destroyed by hail, the loss should be repaid to the farmer by the Government without a premium fee. He said that those three laws were sociological, must be separated from their general system of land mortgage and must be interpreted together.

Senator NORRIS. Has that law been taken advantage of to any great extent?

Mr. Moss. These laws are too recent to predicate positive statements as to their ultimate results. Their author, the minister of agriculture, was quite enthusiastic.

One of the States in the archipelago—I think it is Sweden—provides that anyone who lives on a farm for five years as a farm laborer can borrow money from the Government. In Germany, if a German is about to lose his land to an alien, for instance, to a Pole, the German can go to his Government and get assistance, in order to keep the land in the hands of the German citizen. That, however, is only a question of nationality.

Mr. HAYES. Does not Russia make direct loans?

Mr. Moss. Yes; Russia makes direct loans; principally, however, to assist the serfs who were formerly attached to the estates to become landowners; that is all in the record.

Senator NORRIS. At what rate are these loans made?

Mr. Moss. I will state that I have not studied the Russian system particularly, and Dr. Coulter is better informed as to that.

Mr. BATHRICK. It is $3\frac{1}{2}$ per cent in Russia.

Mr. Moss. Dr. Coulter studied Russia; I took in Germany; and he discussed that question before the committee, and I prefer that you should get his testimony about the Russian system.

Senator NORRIS. All right.

Mr. Moss. In regard to capital there has been much discussion of \$10,000 capital for these banks. The European banks are all old banks, most of them many years old, and they have obtained the growth which results from years of operation. These large banks are located in very large centers of population.

Our American national banks in the large cities are large institutions, but successful banks of smaller capital are found in the smaller cities. I found in nearly all European cities very large institutions, and the banks did more than loan upon rural real estate; they loaned also upon urban property, and they also handled municipal bonds. They have a very much wider business and a larger capital; but you must consider that 50 or more years of successful operation makes a great difference in the business. But if you go into the country, especially in Hungary, you will find a vast number of small banks that are loaning money on land which are said also to have benefited the farmer.

The commission's bill described the minimum capital, not as an advantage to the joint-stock banks particularly, but as an advantage to the organization of cooperative banks. We believe that this provision should stand, and that if the capital should be required in a large amount to begin with that cooperative banks can not be organized. If you will consider the history of our national banks you will find that there has been a gradual reduction in the capital to correspond with the size of the cities. In fact, as it is now, the large cities have banks with large capital and smaller cities have banks with small capital; and yet the national bank has the right to take an unlimited line of deposits. We can find national banks large enough to have \$150,000,000 of deposits and you can find national banks without only \$25,000 of deposits.

Yet even with that organization there are as many banks in the United States below \$25,000 of capital under State charter as there are of national banks in the United States all put together. There are more than 8,000 banks in the United States with a capitalization below \$25,000, showing that even the national bank, with its variation in capital, could not take care of our commercial banking business in this country. We have both the large banks and the small banks; and the tendency is to demand that national banks be authorized with smaller capital than now permitted by law.

Now, just a few words in regard to the shares. I want to say that the \$25 share was written in the bill to enable the cooperative bank to build up a larger clientele. But you must remember that if you make a \$5 share, or a very small share, you nullify the protection to the bondholder so far as the liability of the shareholder is concerned. It would cost as much to collect a \$5 share as the value of the \$5 share comes to after it is collected. And if you write into this bill a very small share capital you will have nullified the protection which the liability of the shareholder would afford. That is the first objection.

Secondly, the idea of holding shares in cooperative banks as a saving feature; and I do not believe there is a farmer in the United States, if he wants to own stock in a bank, who can not pay \$25. Personally I would rather see the cooperative shares at \$100 instead of \$25, for the reason that any man who wants to join a bank ought to be willing to put up his capital, and assume some substantial liability.

There is only one other feature that I am going to dwell upon at any length, and that is the question of a market for the bonds.

I have not referred to European history, and I will only call attention for a moment to it. You will find that on page 40 of Mr. Cahill's report, "Agricultural credit and cooperation in Germany," Senate Document No. 17, Sixty-third Congress, first session. The *Landschaften* Association did form two central associations for the precise purpose of getting a better market for their bonds. I quote:

The object in view in establishing the central association was to open a wider market for the bonds of the provincial associations. It was expected that bonds issued by a central institution would find a better market, not only in Germany but also in foreign countries, than bonds associated with merely provincial institutions. The bonds were to be printed in several languages. By obtaining a wider market they would be less exposed to fluctuations, as had harvests and other possible evils are usually only local, and their occurrence, while it might affect seriously bonds of provincial associations, would not affect those resting upon a broader basis.

I think the committee will recognize that that has been put in argument before the committee heretofore. But here is the result:

About the period 1870-1875, when the central association was founded, the market prices of the bonds of several associations were low and unstable.

That is those panic times; you will recognize that.

For some time after the establishment of that association prices improved; but the association has not met with the success anticipated. The prices for its bonds did not finally maintain superiority over those of the provincial associations, and the value of central bonds in circulation (1911) does not exceed that of those of either the Silesian or east Prussian organizations.

I will say that, so far as my study has shown, this is the only instance I have been able to find where central associations have been formed for exactly the purpose that has been argued before this committee, and the result of that action, I submit, is shown by the extract I have just read.

The reason is perfectly plain that in a mortgage bond, if you permit an issue of 15 to 1, a capital of \$1,000,000 does not put a dollar greater guaranty behind the bond than if it was a small \$10,000 institute. If the bond is once sold, if the appraisement is the same, it is just as good in one case as it is in the other.

For the benefit of Senator Hollis, if he will pardon me for a moment, I have heard him make the suggestion several times in regard to having the regionals just as big as the present regional territory in the Federal reserve system. I am going to make this one suggestion upon that: Even if that be done, the bonds will not then sell at the same rate of interest. I mean that the rate of interest will not be uniform throughout the United States. The regional banks could not be established under the new law until there was Government guaranty behind the securities. And just as surely as you establish districts under this law to coincide with those of the currency law, and the rate of interest on land bonds is not uniform in the several districts, then will come the demand for Government guaranty of the bonds, in order, if possible, to make it uniform. I do not think there will be any escape from that conclusion. Now, I see quite a distinction between the case, where under the Constitution of the United States the Government has the monopoly of issuing currency, and where it is expressly charged with the duty to issue currency to the people and a system of banks by which bonds may be issued by banks and sold to voluntary investors.

MR. BULKLEY. Mr. MOSS, I do not quite understand your suggestion about a uniform rate of interest. You do not think there would be a uniform rate under your bill, do you?

MR. MOSS. No, sir; I do not.

MR. BULKLEY. Then what is the force of your suggestion?

MR. MOSS. Here is the theory; here is a currency issued in this particular district, and it circulates in that district just precisely at the same level that similar bills do in the district of New York, for instance, because the Government secures the note issues upon exactly the same terms. But now, under this system, if you organize a Government bank in coterminous territory, just as you have the regional bank, and it issues bonds, and yet the bonds will not sell at the same price at the same interest rate issued in one region as if they were issued in some other region. That is what I mean.

MR. BULKLEY. Well, suppose they do not?

MR. MOSS. Well, if it does, your plan has worked out all right.

MR. BULKLEY. I say, suppose they do not?

MR. MOSS. Well, my judgment is that then the people in that district where the bonds do not bring as high a price will say, "If the Government will guarantee this bond, as it does the currency issued by the regional bank in the Federal reserve system, we will have the same rate"; and I say that in my judgment that would bring the question up, and you would have a demand from different sections of the country for a Government guaranty.

SENATOR HOLLIS. You mean that, as a result of that difference, there would be pressure brought upon the Government for it to guarantee the bonds, in order that there might be a uniform rate of interest throughout the country?

MR. MOSS. That is my contention.

SENATOR HOLLIS. Would you have a similar objection to a federation limited to a single State?

MR. MOSS. Do you mean a compulsory federation or a voluntary federation?

SENATOR HOLLIS. Either one.

MR. MOSS. The suggestion for Government guarantee would not be so ready in the case of a State as of precisely similar districts in the Federal reserve system. I have no objection to a voluntary federation, but I will give you a reason for my objection to a compulsory federation. That is, that I do not believe banks will readily organize under it. I went among the bankers of my district, and they objected to this regional system, because you were assessing them to contribute to the capital of the regional banks, and the proposed assessment was dropped from 10 per cent to 6 per cent, and the rate of dividend was increased in order to make the system more attractive.

The national banking act was 50 years old, and it had become very profitable, and it was well established before we undertook to unite them into a federation. It was admitted by everybody that commercial institutions ought to be joined together, and that a federated system was a better system for commercial banks than an independent system. And at the end of 50 years we are able to federate national banks successfully under direction of law; but I do not believe you could have organized the national-bank system at the beginning in this

manner under a compulsory provision. I might be mistaken about that. But I believe that banks under this system will be organized more quickly as independent units than if you assess their capital and try to compel them to federate. If they want to unite voluntarily, I have no objection; because if that is the better system it will prevail, and if it is not the better it will not prevail.

It is just like it was in Germany; you have the same proposition; certain associations combined and some of them afterwards withdrew because they got no benefit out of it.

Now, I will state to Mr. Bathrick what I said privately to him, that he ought not to object to this system going into operation. If it is successful there is no necessity for adopting his system. On the other hand, if it fails, his system can be given a trial.

Mr. BATHRICK. Will you permit an interruption?

Mr. MOSS. Certainly.

Mr. BATHRICK. By the time your system has proved unsuccessful, that will be after these bankers have come in here and asked for the same thing that I want to put in operation now, namely, Government guarantee, or Government ownership.

Mr. MOSS. Mr. Bathrick's system provides that all the people shall come together under the Government and borrow the money, and ours is that a part of them shall come together under private initiative and borrow the money. That is the difference. And if our system is successful, not even Mr. Bathrick would want his system to go into operation. But he does not believe it would be successful.

If I were the author of his bill and were as confident as he is that this system will fail, I would feel that I could safely afford to sit back and let it have a trial, because when its failure was proven, my bill would surely be adopted. But I believe it will be successful.

Mr. HAYES. Is it not true that the voluntary associations in Europe, especially in Germany, float their bonds at a less rate of interest, or at a higher percentage above par than Government loans float at the same rate?

Mr. MOSS. I was just calling attention to the fact that they float possibly at par at this time; but there are times when they are floated at higher prices.

Senator NORRIS. Under your bill, suppose it were enacted, what, in your judgment, would be the prevailing rate of interest that the farmers would have to pay?

Mr. MOSS. I am just coming to that.

Senator NORRIS. All right.

Mr. MOSS. I want to put in the record an article taken from the Brazil Daily News, of Wednesday, February 25, 1914.

Mr. WEAVER. What State?

Mr. MOSS. Brazil, Ind. I will read you the whole article, heading and all.

BRAZIL TRUST CO. BUYS ISSUE OF ROAD BONDS.

W. E. Carpenter highest bidder for issue of \$7,000 for construction of Loudermilk Road in Sugar Ridge Township.

Now, Sugar Ridge Township is the township in which I live. It is a very small township, and has an assessed value of only about \$600,000. It is not in any sense of the word, I am sorry to say, located

in the best farming section of Indiana. I will read the rest of the article:

Secretary W. E. Carpenter, of the Brazil Trust Co., was the successful bidder—

You will notice the word “successful”—

for the issue of \$7,000 of improvement bonds, issued for the construction of the Loundermilk Road in Sugar Ridge Township. Mr. Carpenter's bid was par, accrued interest, and premium of \$76.96. Other bids were as follows: Wild & Co., Indianapolis, par, accrued interest, and \$50 premium; E. F. Parr & Co., Chicago, par, accrued interest, and \$41.80 premium; Reed, Elliott & Harrison, Indianapolis, par, accrued interest, and \$25 premium; Fletcher National Bank, of Indianapolis, par, accrued interest, and \$10 premium.

Mr. BATHRICK. What was the interest?

Mr. MOSS. It was a $4\frac{1}{2}$ per cent tax-free bond.

Mr. BATHRICK. That was a State-guaranteed bond, was it not?

Mr. MOSS. No; a township bond.

Mr. BATHRICK. Well, that was a State government guaranteed bond, was it not?

Mr. MOSS. No; it was not. It was one issued by Sugar Ridge Township, and repaid by the taxation of the people. Those bonds run 10 years, and are payable in installments every six months. There are just 20 installments.

That was under a law enacted by our State legislature, the constitutionality of which was attacked in the courts. When those bonds were first circulated, the big banks would not buy them readily, and the only way they could be floated was for the communities that wanted the improvements for the roads, to buy them. They first sold for 6 per cent interest, and then gradually dropped to $4\frac{1}{2}$ per cent. And those bonds over nearly the entire State have been bought by local capital.

At one time, as I say, the law was declared unconstitutional by the supreme court, when there was a vast amount of these bonds, some millions of dollars of them, in circulation. The people created such a furor about it that the Supreme Court of Indiana had the case re-argued, and in less than 30 days they declared the law constitutional. There was a change of mind on the part of the supreme court in less than 30 days. And there has never been a single one of those bonds offered that has not been bought; and there has not been a single one that has been defaulted; and I will say that 95 per cent of all the road bonds in Indiana are bought by local capital.

Mr. BULKLEY. How long ago was it that they started to issue those bonds and the law under which they were issued was declared unconstitutional?

Mr. MOSS. It was less than two years ago that the Supreme Court of Indiana declared that law to be unconstitutional, and in less than 30 days they declared it be constitutional. The bank that bought these bonds referred to has a capitalization of \$80,000 derived from local sources. In all essential features of the Indiana law it is precisely similar to the plan of the Moss-Fletcher bill.

Mr. BATHRICK. I understood you to say that bond was based upon the taxing power of the township?

Mr. MOSS. Surely.

Mr. BATHRICK. Well, how does that compare with the Moss-Fletcher bill?

Mr. Moss. Precisely so. First, the people come together and decide upon the question of improving their roads or draining their farms.

Then an estimate is made as to how much the proposed improvement will cost. Bonds are issued to be sold to the highest bidder. The farmer every six months pays one-twentieth of his bond to the county treasurer, and if he default the county treasurer simply sells his land to any man who will buy it for the default upon the taxes, just as you would get a judgment in a court against the man who had a mortgage and sell him out under the ordinary law. That is all there is about it. The only difference is that you would have no right of exemption in the case of the tax payable to the State; it is a summary proceeding. They have the summary right of going in and either buying or seizing your property.

Senator NORRIS. Do you think that under your bill the farmer would be able to borrow money at 4 per cent interest?

Mr. Moss. I will make this prediction, that in my section of the country, if this bill goes into effect, real estate bonds will sell lower than these bonds, simply because they will be a preferable bond.

Mr. BULKLEY. Why would they be preferable?

Mr. Moss. They would be preferable because they run longer. That would be the only reason. These only run for 10 years and they are paid off so rapidly. That is the main reason.

Mr. HAYES. And there is less danger of default?

Mr. Moss. Yes; at the present time in Clay County, where this purchase was made, on the very best real estate in the county it will cost you 6 per cent to get money. I know a person who has as good real estate as there is in Clay County, and his reputation as a borrower is as good as that of any other man in the country. He wanted \$10,000, and it was offered to him without commission at 6 per cent interest. That rate is as low as you can borrow it at under present conditions; but at the same time these road bonds were selling at $4\frac{1}{2}$ per cent in exactly the same community because they were tax free.

Mr. BATHRICK. But they were issued under a law of the State and the State guaranteed them.

Mr. HAYES. No.

Mr. Moss. No. Issued under the law of the State, but the only guarantee is that the State will sell the man's property in order to pay them, if necessary, just as under the law of the State the sheriff will sell property to pay a judgment given by a court of record. Now, I am taxed on those bonds; if I do not go and pay my tax and no other man pays it nor is assessed for it my property is sold, and the bond is paid out of the sum realized at the sale.

Senator NORRIS. The same as any other tax?

Mr. Moss. Yes; and the same as any other obligation; it is my debt.

Mr. BATHRICK. But that is not the only security. Is not the State behind those bonds?

Mr. Moss. In no sense of the word. There is a limitation that we can not go into debt beyond a certain amount; but we have that in this proposed law; but there is no other source to realize money to pay the bond except from those who are obligated to pay it.

Mr. Woods. Mr. Moss, if you had a bank under the provisions of this bill in operation in Indiana and loaned money to a farmer and took a mortgage upon his land, which would be the first lien, the mortgage taken by this bank or the bonds to which you are referring, the road bonds or drainage bonds?

Mr. Moss. The road bonds will be the first lien.

I want to call your attention now to a thing I have spoken about before. I made reference to the fact that in Austria the local banks by a combination had a uniform rate of interest that had no relation whatever to the Government rate of interest; but it was stated that the uniform rate there maintained for a community—that the incident I spoke about was due to the Balkan War.

I have here a chart for Hungary showing the commercial rate and the Government bank rate and the rate at which the cooperative societies furnish credit; and you will see that from 1897 to 1912 there was absolutely no change whatever in the rate of interest maintained by the farmers' banks in Hungary. I do not care to have the chart in the record, but it will be an interesting thing for the members of the committee to look over; I mention it to call attention to how stable conditions will hold the interest rates. [Showing chart to members of the committee.]

Mr. HAYES. The red line represents real estate loans, does it?

Mr. Moss. No; this chart represents personal loans. This is where the banks come together for personal credit. This is in Hungary [indicating]. This [indicating] shows the rate in the cooperative association loan, to persons other than members.

Mr. HAYES. But this is short-time credit, is it not?

Mr. Moss. Yes; short-time credit. This [indicating] represents the Imperial Bank rate, and so on.

Senator HOLLIS. What does the green line represent?

Mr. Moss. The green line is the Austro-Hungarian bank; and this line [indicating] is central association of the agricultural corporation; and this [indicating] shows the raiffeisen banks. Those are the three systems.

Now, I want to devote a few moments to the consideration of the bill. The main principles of the bill are as follows:

It rests on the liberty and private initiative of the citizen.

The Government by regulation assists and encourages the free development of organization resulting from private initiative.

The system is specialized and can serve only legitimate needs of actual farmers.

It is extreme only in its simplicity.

It is decentralized, democratic, and independent.

It permits mutual aid and active solidarity among the farmers of any community, thereby lending its influence toward social betterment and educational growth.

In this latter regard, it is essentially a progressive system whose full benefits can not be measured except by computing the indirect as well as the direct benefits. It is easily possible that in many instances the former may prove to be the greater.

Here are some suggested improvements to the bill:

The bonds should be issued in series. That has been suggested by other gentlemen who have appeared before the committee; and it was one of the matters that we had in mind, but omitted to place in the bill.

I would suggest that any series should not be less than 50 per cent of the capital of the bank issuing the bonds.

The administration charge might be changed so as to be computed on the par value of the loan, rather than the par value remaining unpaid at any time. I have come to that opinion on the ground that I believe that the profits of the bank ought to be increased to that extent. In a great many other mortgage-bank systems that is the case.

Mr. HAYES. I did not quite understand that.

Mr. Moss. The administration charge, or whatever the difference in interest on mortgage and bond is, may be computed wholly upon the par value of the loan, whereas in the way the bill is now drawn it is computed on the amount remaining unpaid.

Mr. HAYES. Yes; that would make quite a difference.

Mr. Moss. Second, the commissioner of farm-land banks should have the power, in his discretion, to make an independent appraisal of the mortgaged lands, at the cost of the Government, before giving consent to a bond issue based on such mortgages.

We are making now a physical appraisal of the railroads of the country at the cost of the Government, in order to determine the question as to what rates should be charged. Our meat inspection is also at the cost of the Government. Now, I believe that as a general principle any industry ought to pay the cost of its own inspection, but we have departed from that principle in those two instances.

I want to say to the committee that, in my judgment, after the Government of the United States gives its own sanction to the issue of bonds by the public service corporations, you will find that they will compete more seriously in the money-borrowing market than they do now. Their securities will have a better borrowing rate.

No banks should have the right to raise a valuation made by the Government within a term of years without the consent of the commissioner of farm-land banks. I think that is pretty well covered in this bill by the five-year provision; but it could be strengthened.

A limit per acre of not less than \$200 in valuation could be fixed.

Mr. HAYES. Not less than \$200?

Mr. Moss. I mean not more than \$200. A provision might be inserted compelling loans on orchards and other similar property to be largely based on land values, irrespective of the values of the trees and vineyards. That is a very common restriction in Europe, and it ought to be put in this bill.

I am going to suggest a condition that is in the Austrian law. They permit two rates of interest, a difference of one-half per cent. If the interest is paid promptly, the bank makes the rate one-half per cent lower than if it runs over so many days. It appears to work very well in Austria, and it might work well here. We have nearly a similar provision in the payment of taxes.

I think that sections 29 and 30 of the Federal reserve act might very well be incorporated in this bill. I do not think they are necessary. That simply means the right of amendment and some other things that come in here.

Mr. HAYES. Do you mean the right to amend the act?

Mr. Moss. Yes. And the banks should be given the right in certain cases to foreclose, in order to prevent dissipation of resources. I have studied over that matter carefully. There might be floods or fires or a great many other disasters that might lessen the bank's

security, and it seems to me in such instances that the bank, if they thought there was danger of ultimate loss, might have the right in certain instances to foreclose in order to prevent the disposition of other property which could be legally held by the bank to repay the loan.

Mr. HAYES. To provide that the whole sum shall become due?

Mr. MOSS. I think so, in certain contingencies only. Section 10 should be amended so as so clearly give the commissioner, with the approval of the Secretary of the Treasury, the right to refuse to approve the charter of a bank. I think that is in the bill now; but I want to make it plain that one of the protections is that the incorporators ought to come before the commissioner and make out a good case before they could secure a charter; and if that is not in section 10, it ought to be put in.

Now, that is as far as I have any suggestions to offer. From my correspondence I think that you will find that many banks will suggest that they be given the right to retain the money when repaid by the borrower instead of calling in their bonds, and to make new loans with this money. I feel that that would be a mistake, because it makes it impossible, practically, to organize these banks in some communities where it would be easy enough to do so as the bill now reads. Besides it will build up immense amounts of money in the control of the banks. I look for a federation between the banks, if this bill is enacted into law, and building and loan associations in a great many instances. I do not mean actual federation, but between the same group and the same working force. It is practically the same working system; and if it were so that the banks could not retain a large sum of money in the sinking-fund proposition, I think you will find that the small banks would work a good deal better; and while I have received a good deal of correspondence from bankers saying that it ought to be amended in that way, I trust that the committee will consider that point.

I want to thank the committee very much for its courtesy.

Mr. HAYES. Do you want to leave this chart with us? I think it is quite valuable.

Mr. MOSS. Yes. All that I shall ask, gentlemen, is that you do not overlook the great wealth that resides in the individual person and in the communities. I have found that in my section, where we wanted public improvements, the money was forthcoming to purchase sound securities, and thus finance the undertaking. Any bill that overlooks the fact that in most sections of the United States there is such a large reserve of capital that where the people want these improvements the public spirit of the people themselves will cause them to purchase sound securities will be a mistake. Of course there are sections of the country where capital must be imported. In those sections it can be done if the land has not sufficient value by underwriting, or if it becomes necessary by some form of State guaranty that would enable those undeveloped sections to be benefited if their land was not good security for loans. That is the only suggestion I have to make.

I have here the editorials of some 30 newspapers. There is in the Department of Agriculture, as you know, a very large exchange of agricultural periodicals, and I asked permission to make an ex-

tract of everything from the file of agricultural papers at the Department of Agriculture, favorable and unfavorable, and present them. These extracts are the results.

I have also a large number of extracts from articles in the agricultural papers from individual correspondents giving their views; but I do not think they ought to be published. But these are the editorials from farm papers, without any attempt to edit them to favor any bill before the committee. I have not compiled these, but I would like permission to incorporate the editorials in the record; they are simply editorials of the farm papers in the United States, giving their opinions on this subject.

Mr. BULKLEY. I think that would be very instructive to have that in the record.

Mr. Moss. And if the committee desires, I can leave these extracts with it. I do not care to have them printed; but I would like to have the editorials printed.

Mr. Woods. Mr. Chairman, are you not opening the gate pretty widely when you start in to publish editorial comments on a proposition of this kind?

Mr. Moss. That is just as the committee pleases; they can omit them if they desire.

Mr. BATHRICK. Mr. Chairman, I think if Mr. Moss desires to do that I should like to insert in the record a great many letters also.

Mr. BULKLEY. To insert what?

Mr. BATHRICK. I would like to insert as a part of my testimony a good many statements from newspapers, and from farm papers, and a good many personal letters. I have about 500 personal letters.

Mr. BULKLEY. We do not want to print 500 personal letters in the record. If you will submit what you want to have printed we will go over it. These [examining papers] are editorials, and they are all reasonably brief; and there are not too many of them; and I think an editorial of an agricultural paper is on a little different basis from a personal letter from an individual. If you have anything, Mr. Bathrick, in the shape of editorials to submit we will be glad to give them the same treatment; but I do not regard personal letters as being matter of the same class.

Mr. BATHRICK. I think I have at least 100 out of many hundreds of letters from men who are prominent in farm organization work, who have expressed an opinion respecting this legislation, that will be instructive to those who may read these hearings; and those letters are the opinions of men who represent and are active in farm organization. They are none the less, however, the opinions mostly of one man, although I have many indorsements from local granges that could well go in as representing a great many people. But these one-man letters express the opinion of the writer, and these editorials express only the opinion of the writer, and they are not indicative of the opinion of the readers of those papers. An editorial written by one man at a desk expresses only his own opinion.

Mr. BULKLEY. I think the public may be presumed to understand just how far an editorial expresses the opinion of an individual. As to your letters from individuals, if you will bring them to the committee we will look them over and see whether they are within the limits that could be appropriately printed in the record.

(Thereupon, at 4.55 o'clock p. m., the subcommittee adjourned until Wednesday, March 18, 1914, at 10.30 o'clock a. m.)

WEDNESDAY, MARCH 18, 1914.

UNITED STATES SENATE,
Washington, D. C.

The subcommittees assembled at 10.30 o'clock a. m., Hon. Henry F. Hollis presiding.

Present: Representatives Bulkley, Stone, Seldomridge, Weaver, Hayes, Woods, and Platt.

Senator HOLLIS. Senator Norris, you may proceed with your statement.

STATEMENT OF HON. GEORGE W. NORRIS, A SENATOR FROM THE STATE OF NEBRASKA.

Senator NORRIS. Mr. Chairman and gentlemen, on the question of rural credits I feel as though I am one of the pioneers of Congress. I believe that I introduced one of the first, if not the first, resolution that was ever introduced in Congress providing for a commission to be appointed by the President to go abroad and study the question of farm loans and rural credits in Europe.

To the extent of my ability and the time that I could devote to it, I have studied the question for quite a number of years.

I do not believe I care to go into the question this morning of how the resolution was sidetracked which I favored, and one which Senator Gronna introduced that I also favored; but it is sufficient to know that out of the agitation came the legislation by which this so-called commission studied the question in Europe.

In my judgment, it was not the best course to pursue—that is, the course that was taken—and yet I want to testify now that I have the greatest faith and confidence in those members of that commission whom I know, at least. I am perfectly confident that Mr. Moss gave to it the very earnest and patriotic service of which he is capable, and that the report which has been made is an honest one, and that they were honestly trying to do the best they could under all the circumstances.

I do not agree entirely with their recommendations, and yet I am ready to concede that they are just as earnest in trying to bring about good legislation as I am.

So that I appear before you in no critical sense. I intend to support and vote for any legislation that, in my judgment, will improve present conditions.

I began to study the question because I was impressed with the fact, which I think will be admitted by all men, that the farmer pays the highest rate of interest paid by anybody and he has the best security to offer that is or can be offered by anybody. It seemed to me then, and it seems to me now, that on the face of it that shows us there is

something wrong. The farmer ought to be able to get money at a less rate than a man in any other line of business. And perhaps I ought to pause right here to go into one objection, the first one, that is always offered to the plan that I am going to propose, and that is that the legislation I propose is class legislation. I have heard that said in the hearings here, and I have met that objection in correspondence from men who are honestly trying to do what they believe to be the best thing that can be done. They say: "We must not legislate for the farmer by providing for Government loans, because it is class legislation."

If the benefit would be derived only by the farmer I would be ready to admit the charge, and if that were true I would not be here to advocate it.

But, gentlemen, this is a greater question than the farmer. In my judgment you are considering the greatest subject of legislation that can be considered by any legislative body on earth. All over the world the tendency has been, and that is particularly true of this country, to leave the farm and go to the city. Until now we have reached a time when the men in the city—unless they are very wealthy—when the ordinary citizen, the laborer, or the man who is a clerk getting a salary that a few years ago would have been considered enormous—all these classes of people are up against the proposition that the expense of living is so great that they can not make both ends meet.

I am not here advocating a measure now that is only for the benefit of the farmer, but one that will, in my judgment, benefit all the people, the farmer no more than the man who lives in the city, unless, as I said, he is a very wealthy man, a millionaire, to whom the cost of living is nothing at all.

We have seen people going from the farm into the city, and not only ceasing to be producers but becoming consumers, taking them off from one side of the equation and putting them on the other. The last census report of the United States shows that in some of the best farming communities the population has decreased in the country and increased in the already overcrowded cities. It is a lamentable condition. If it goes on indefinitely it means ruin; it means destruction. Something must be done to bring relief. So if we can do something that will put more people on the farms and take them out of the cities we are benefiting all of the people and no class. You can not help the farmer by increasing the number of farmers and improving the method of farming and the raising of crops without helping everybody, because the farmer is at the foundation of all prosperity.

Senator HOLLIS. On the other hand, if you make it easier for more farmers to go into the business, do you not increase competition among farmers and thereby tend to injure those who are already in the business?

Senator NORRIS. No. In a limited field that would be true, but the agricultural possibilities are unlimited. The farmer now is not getting, in my judgment, all that he should get for his produce. I will go into that a little further on. I am going to advocate a plan that, in my judgment, puts the farmer, who is the producer, and the consumer nearer together.

Mr. SELDOMRIDGE. Senator Norris, would you mind answering a question here?

Senator NORRIS. Certainly not, if I can.

Mr. SELDOMRIDGE. Well, the question in my mind is this: Considering this matter of the depopulation of the farms and the movement into the cities, whether that is not largely a social rather than an economic condition?

Senator NORRIS. To a great extent I think it is.

Mr. SELDOMRIDGE. Yes.

Senator NORRIS. Yes; I think the remedy for it is this: We must make life on the farm more comfortable, more enjoyable, and more profitable.

Mr. SELDOMRIDGE. That is my conclusion in reference to the solution of that question.

Senator NORRIS. Yes. I agree with you; and I am not claiming for what I am going to propose here that it will be a cure for all ills. It will be one step; it is not the only one that must be taken and that will be taken.

You will remember that Mr. Moss, one of the members of the commission that went abroad, the other day told us, in answer to a question which I asked him, that over in France they have provided for a Government loan to the farmers at 2 per cent. and a provision was also made in the law that if the farmer stayed on the farm until he was 65 years of age they would give him a pension for the balance of his life; and there was also a provision in the law to tide him over a bad year, when he had lost his crop by hail or drought, or any other natural cause—all tending to show that men are beginning to realize that it is necessary for the protection of society and the salvation of humanity that we must get more men on farms and make their business more profitable. So that when some one says, "You are legislating here for the farmer," I say, "There is nothing in it." Why we legislated in the banking and currency bill—and I am not speaking of it in a critical sense; I voted for it; I wanted a good many changes in it that I did not get, but I thought it was an improvement, and I cast my vote for it—that primarily helps the banker. Now I would not say that because it helps the banker it does not help anybody else. The banker was the instrumentality. Perhaps he will get more benefit out of it than he ought to, but it is through the banker that we reach down and help the business man, and through the business man the farmer. Assuming that we are all honest, all classes of people are honest and patriotic, then it follows that we are all in the same boat, and we can not help one without helping all. This is particularly true when we get down to the foundation of all prosperity—the farm.

I have listened with a great deal of interest to some of the hearings that have taken place here, and while I do not expect—I will say frankly—that the bill which I advocate and which I have introduced will become a law at this time, and therefore I appear before you gentlemen somewhat discouraged along that line, I am confident that some time, and I believe it will be within the lifetime of some of those who are now listening to me, we will have something of this kind. I know that agitation, discussion, consideration is necessary in order to take a step in advance at any time; and in ad-

vocating the step that I want Congress to take, I think I feel that Congress will not take it now. But I want to sow the seed, at the risk of my own reputation, that I believe will eventually bring forth valuable fruit.

I started out in the study of this subject opposed to the proposition that I am going to advocate. I have not reached it because I was trying to reach it, but I reached it because, in the study that I was able to make of it, it seemed to me to be the best practical solution of the proposition.

I understand that the President of the United States is opposed to anything like what is contained in the bill I am advocating. The Secretary of Agriculture is opposed to it. Most of the leaders and Members of Congress, perhaps now, are opposed to it. But a few years ago there were none that favored it; and I know that by the so-called experts, the men like me who favor it are held up to ridicule and denounced as unsafe legislators, and all such things as that. Realizing as I do that I do not expect to be successful now in this legislation, and that I am going to be criticized from a great many sources, it is with a feeling of some discouragement that I take up the subject.

Perhaps I can best explain my views by reviewing the bill that I have introduced and which I advocate.

Mr. Chairman, this bill (S. 4061) provides for the loaning of money on farms directly by the Government. It provides, to begin with, for the establishment in the Department of Agriculture of a bureau of farm loans. The first section dwells entirely upon that, and provides for the establishment of such a bureau, with a director and an assistant director and other assistants. In that section, and in subsequent sections, I have endeavored to take this bureau entirely out of politics.

That, by the way, is another objection to the plan I propose and one that went a long way toward controlling me in my opposition in the years that are past. It is said that it will get into politics. I believe in this bill I have removed the system entirely from politics. I have provided, for instance, that the director and the assistant director provided for shall be appointed by the President and confirmed by the Senate for a term of 10 years, and that they shall be removed from office during the term only for cause, and that in case of neglect of duty or violation of law by either one or both of these officers, in order to bring about their removal charges must be made and a trial must be had, and the trial must be public; and after such hearing the Secretary of Agriculture shall have the right to remove either one of them, but only then with the consent in writing of the President of the United States.

I think those provisions, together with some others that I will mention later, will remove this bureau entirely from politics as completely, and, in fact, more completely, than the Interstate Commerce Commission is now removed from politics. I am ready to admit that if this became a political machine it would not be worthy of consideration, and I would be the last man in the world to support a proposition of this kind if I thought it ever could be used as a political or partisan agency.

In section 2 of the bill I provide for making farm loans on farm lands located anywhere in the United States, secured by mortgage. I provide that the debt shall bear interest at the rate of 4 per cent per annum, the interest payable semiannually, and that no loans shall be made on a less amount of land than 10 acres nor for a larger amount than \$2,000.

These figures are tentative, of course. I have placed them as they are because I wanted to provide for the small farmer. I do not believe that we are called upon to provide a method by which men who own several thousand acres of land and are very wealthy should be able to borrow money from the Government, although that might be one of the changes advisable, making the loan larger; personally I would make the maximum amount smaller rather than larger. I want to induce men who are not already farmers to go on farms; to induce men who are tenants to become landowners. I think the model condition of any country would be one where the men who tilled the soil were the owners of the soil they tilled.

I provide that one-fifth of this mortgage shall become due in five years, and that thereafter one-fifth shall become due in each year, so that the entire mortgage will mature in 10 years, and also provide that at the time of the maturity of any interest payment the farmer can pay \$100 or any multiple of \$100 and clear up his entire loan if he desires to, and that in making such payments the interest thereon shall afterwards cease.

In section 3 I make provision for the borrower and define who the borrower can be. He can make application before a postmaster anywhere in the United States, which application must be made under oath. He must establish that he is a man of good moral character, and has a good reputation in the neighborhood where he resides; and it provides that no loan shall be made to any person who is not an actual resident, and engaged in the cultivation of the land offered as security, with the exception that where he is purchasing the land, or borrowing money for the purpose of building on it, under proper rules and regulations made by the bureau, the money can be advanced. And this section provides that the loan shall not exceed one-half of the value of the land.

This section also provides for what purposes the loan can be had. There are just three purposes allowed in the bill: First, to make payment of part of the purchase money of the land mortgaged; second, to pay off an indebtedness existing against the land; third, to build improvements on the land, and then there is a proviso that under proper rules and regulations the bureau can permit 50 per cent of the loan to be used for the purchase of stock and farming implements.

These are details; something of the kind I think ought to be in the bill. It may be that changes could be made to advantage.

Section 4 of the bill provides for confidential reports to be made by postmasters whenever they are asked to make them. Now, gentlemen, there is not a place in the United States, with the machinery we now have, where the Government at Washington could not get confidential information with regard to any man who is making application for a loan. There is not a place that is not within a reasonable distance of a postmaster, who is occupying a position of

trust under the United States. There would not be one time in a thousand where an application would be made where the postmaster in the vicinity would not know the man personally, and not only know him personally but know all about him. He would know his reputation; he would know whether he was honest or dishonest; he would know whether he was a man of good character or otherwise. So that we are in shape now, with the machinery we have and without additional expense, to get practically all the information we would want in order to make a safe loan.

Section 5 provides for an abstract of title, and the appraisers, etc., going into some detail as to just what shall be done in order to make a prima facie showing to get a loan.

Section 6 provides that the United States district attorney of the district where the land is situated shall pass on the abstract. Again, here we have the machinery, the legal machinery, to put this into operation. It provides also that, in case of foreclosure, such district attorney shall represent the bureau.

Section 7 provides that post-office inspectors, deputy United States marshals, and other officials of the United States Government shall make investigations, when called upon by this bureau, and to make confidential reports.

Section 8 provides for forfeitures in certain cases, so that if, after taking all of the safeguards provided by law, the Government should be deceived, as occasionally it would be, without any doubt, they could take advantage under the law of facts that would enable them to immediately foreclose the mortgage.

This section provides that if the owner of the land shall permit the taxes to become delinquent, if he has not applied the money as he promised he would, or if he has made any false statement in his application, or if he neglects to properly care for the improvements on the land, or does any other act that materially injures the value of the security either by overt act or by neglect or inattention, the Government can foreclose the mortgage, declare it all due and payable, and thereafter the loan shall draw interest at the rate of 6 per cent.

Section 9 provides for the making of interest payments. I have endeavored all the way through to make it just as cheap and as easy as possible for the man who borrows the money—in the first place, to get the money, and in the next place, to pay the debt—and this provides that he can pay to the postmaster, and that the postmaster shall remit it, and provides that the funds that this bureau has on hand shall be kept on deposit in one or more of the Federal reserve banks that are already provided for by law.

I have made provision in section 11 that the Government can take up a prior lien which has escaped their attention and pay the tax or any prior lien. It can purchase the land at a foreclosure sale, and after having purchased the land can sell it again without getting consent of Congress. Now, in brief, that is the method provided in this bill for the loaning of money.

We now come to the proposition of the Government getting the money for the purpose of making the loans, and, briefly stated, in section 12 it is provided that this bureau shall issue the bonds of the United States, payable in 10 years, drawing $3\frac{1}{2}$ per cent interest.

That is one-half per cent interest less than they get for the farm loan, and it provides that the bonds shall be issued in denominations of \$100 or any multiple thereof.

It is my belief that, if this were enacted, the money coming into this bureau would come from the small investor, often from children who are saving their pennies, and when they get \$100 they would invest it in these Government bonds drawing $3\frac{1}{2}$ per cent interest. Money would come out of the community in which the land was located upon which the loans were made.

In other words, it would provide for a clearing house where the man who has the money and wants to loan it on security guaranteed by the Government could take his money and where the man who wants to borrow it on the security provided for in the bill could come in and get it.

It might be compared to a bank, although it has not the functions of an ordinary bank. It would be a bank, if you called it such, where only one kind of deposits are received—deposits due in 10 years; time deposits due in 10 years—and one that would loan money only on land, as provided for in the bill.

One of the reasons why an ordinary bank can not loan money on farms is because the bank's obligations are demand obligations, mostly. And if they are not demand obligations they are at least short-time obligations, and they must make loans that are usually called "liquid," so they can realize on them without delay.

If we get such a thing as a bank that would receive money on deposit and issue certificates on it payable in 10 years, these conditions would not exist; and this would be a bank, if you called it a bank, that received deposits only from those who are willing to allow their deposits to rest for 10 years.

My judgment is that this bureau would get money from every hamlet, and from every post office, and from every locality in the United States. It is not putting the Government in debt, except in the most technical sense, because I think anyone will concede that if this bureau were properly managed it would be the safest business that the Government has ever undertaken. There would be no danger of there coming a time when they could not meet their obligations.

I have also provided in this section—or in some other section, I think it is this one—that after the act has been in force one year this bureau will have the right to lower the rate of interest charged on the loans made thereafter if the business will warrant it.

My own judgment is that we will find one-half of 1 per cent will be much more of a margin than will ever be necessary, and that there will be a large profit accruing to the Government on account of it; and I have stipulated in the bill that the intention of the law is that the bureau shall loan the money, charging as low a price as it can, and as experience shows it can be done, to meet the obligations the Government assumes when it issues the 10-year bonds.

So, in my judgment, after this bill has been in force for a while, we will find the farmer getting money at less than 4 per cent.

I had a talk yesterday with Senator Dillingham, of Vermont, who is connected with one of the large insurance companies. I can not recall the name of it just now. Senator Hollis, do you know the name?

Senator HOLLIS. Perhaps it is the National Union, I am not sure.

Senator NORRIS. No; I do not think that is it.

Senator HOLLIS. This is a Vermont company?

Senator NORRIS. Yes. It is not material, however, what the name of the company is. They have been lending money for several years on farm loans. Senator Dillingham told me yesterday that they had to charge off on their books—they invest in railroad bonds and all kinds of securities in addition to farm loans—that they had to charge off on their books several million dollars last year on account of the depreciation in the value of a great many of their securities; but not \$1 was charged off on account of farm loans; and that taking their business all together, taking it in the aggregate, the profit on the farm loans was sufficient to give them a profit on the entire business, although they had charged off a great deal of money on account of other securities.

He told me that with \$28,000,000 of farm loans on the 1st day of January this year there was not—now, it might have been a small amount, but I think he said there was not a dollar of unpaid interest, no foreclosures pending, and nothing of that kind. If carefully done, it is the safest business in the world.

Referring again to the question of this getting into politics, in addition to those provisions that I have referred to in regard to the bureau itself, and keeping it out of politics, I have provided in section 17—but first let me say that it was argued here the other day by the expert of this committee, in answer to a question, I think, that I asked myself, that if the Government would go into the business of making loans direct it would become a great political machine, and that Senators and Representatives would be daily going after that bureau, and saying, "Here is this man, or that man, who wants a loan, and I want you to give it to him."

Senator HOLLIS. To whom do you refer, Senator Norris, when you say "the expert of this committee"? I ask that, because the record ought not to create an impression that we have had any expert here to testify.

Senator NORRIS. Well, I may be mistaken; I have not been here to many of your hearings. It was Dr. Coulter to whom I referred.

Senator HOLLIS. Oh, yes; but he is not the expert of the committee.

Senator NORRIS. He is not?

Senator HOLLIS. No; he is a member of the commission, and he testified before this committee in just the same way that the other witnesses did; he was, however, one of the joint authors of the Fletcher-Moss bill.

Senator NORRIS. Well, perhaps it would be right to say that he is "an expert."

Senator HOLLIS. Yes.

Senator NORRIS. I think he is. I am speaking of him with a great deal of respect, because I think he has given this matter a great deal of study.

Mr. WEAVER. Would you pardon a suggestion in the way of a criticism of section 13, Senator Norris?

Senator NORRIS. Certainly.

Mr. WEAVER. I think your provision is exactly right, to the effect that Senators and Representatives ought to be prohibited from exerting any political influence of any kind in securing these loans; but you go further and provide for the forfeiture of the office of the Senator or Representative who violates that provision, I suppose by a judgment of a court, and that could not be done, I think. Under the Constitution each House is the exclusive judge of the election and qualifications of its own Members; and the only way you can get rid of a Senator or Representative is by expulsion by the body of which he is a Member.

Senator NORRIS. Yes; I agree with you. I will say that if this were the law it would be the duty of the Senate or the House of Representatives to take that action.

Mr. WEAVER. Yes.

Senator NORRIS. Of course, there is no way to compel them to do it.

Senator HOLLIS. This could be made a legal cause if the Senate or the House should choose to apply it.

Senator NORRIS. Yes. But it is provided in section 13—

that it shall be unlawful for any Senator or Member of the House of Representatives or any other official of the Government of the United States to use or attempt to use any political or other influence to induce the bureau to make or refuse to make any loan or loans. Any person found guilty of the conduct in this section prohibited, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be fined in any sum not exceeding \$2,000, and in addition thereto shall be removed from office.

Even if the provision was excluded, which Mr. Weaver referred to, no Congressman would take that risk.

Mr. WEAVER. Of course, the theory of it was that the legislature should be independent of the judiciary, and vice versa.

Senator NORRIS. Yes.

Mr. WEAVER. Otherwise some judge might depopulate both Houses of Congress if he got angry with them.

Senator NORRIS. Oh, yes; I agree with you on that. Of course, this penalty would never be applied, because all of you know that if this bill were passed you would want to be relieved from that very business. You would know if you were patriotic and honest that you ought to be relieved from it, and that it was entirely outside of your business, and there would not be a Member of Congress who would ever be guilty of it, because he would take advantage of a law made for his protection as much as the protection of the Government.

Section 14 of my bill provides a penalty for other officials. It provides:

“It shall be unlawful for any official or any officer or member of any political committee,” and so forth; it goes down even to the committees and provides a penalty there.

In order to go a little further, section 15 of the bill provides for publicity and makes it the duty of this bureau, which is a bureau that is removed from the control of Members of Congress and other officials of the Government—it provides that this bureau shall give publicity to any attempt that is made by anybody to influence its actions.

Section 16 is a general provision that provides for punishment for false representation.

That any person who shall make any false representation to said bureau in connection with the making or the investigation of any application for a loan shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be fined in any sum not exceeding \$1,000 or be imprisoned for a term not exceeding one year, or both such fine and imprisonment, in the discretion of the court.

Now, I think, gentlemen, if that were put into effect, every man in every community would have an interest in it, and it would be practically an impossibility for a disreputable man to come anywhere near getting along. Men who live in a community where there might be a reckless disreputable character, who was trying to get a loan from the Government, would be interested in notifying the Government, and after a proper investigation was made by the proper officers, the Government would be fully informed as to just what they ought to do.

There are some other objections that I do not believe I care to take the time of this committee to discuss now, that are made to this principle, and as I said at the beginning of my study of this question I was opposed to the principle. I did not believe (for I was taught that kind of politics) that it would be wise for the Government to engage in anything of this kind.

I have now reached the conclusion that it is proper, because, first, I think that, properly safeguarded, there is absolutely no risks to run; and secondly, because it would be a great step toward relieving a situation that not only hurts us now but will continue to hurt us until it is remedied.

The method that I have briefly outlined would, in my judgment, bring the borrower and money lender together; it would remove the middlemen; it would remove the men who, following an honorable occupation—I am not complaining against anybody—by making a living and making fortunes, making millions of dollars by simply taking the money on the one hand of people having it to lend and giving it to the fellow on the other hand who wants to borrow it. If we can relieve the man who borrows the money from the payment of these commissions that are necessary to keep a vast army of men in luxury we will have done a great thing.

The bill proposed by the commission provides for a good deal of machinery. That machinery must all be oiled, and the ultimate consumer always pays all the expenses, which, in this case, means the man who borrows the money.

We have passed a banking and currency law providing for a new kind of currency that the Government issues, and that the Government is obligated—and again I want to say that I am not speaking of it in a critical sense at all. I am only using it as an illustration—that the Government is obligated to redeem; it is the obligation of the Government primarily, and it must be redeemed by the Government, as everybody knows, on demand, and in gold; in my judgment we are not taking a greater step in the way of governmental assistance to the activities of the citizenship, if we pass a bill providing for a bureau of farm loans, than we have already taken in the banking and currency act. And, in my judgment, we would do a great deal more good to our citizens and to humanity by taking this step than in the one we have already taken.

Senator HOLLIS. We thank you very much, Senator Norris, for your remarks.

Senator NORRIS. I wanted to ask permission, Mr. Chairman, to have printed as a part of my remarks the bill that I was discussing, which was introduced by me (S. 4061).

Senator HOLLIS. If there is no objection that will be done.
(The bill referred to is as follows:)

[S. 4061, 63d Cong., 2d sess.]

A BILL Providing for the establishment of a Bureau of Farm Loans in the Department of Agriculture.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby established in the Department of Agriculture a bureau to be called the Bureau of Farm Loans. There shall be appointed a director of said bureau, who shall receive a salary of \$6,000 per annum, and an assistant director, who shall receive a salary of \$4,500 per annum. The assistant director shall perform the duties of the director of said bureau in case of the death, resignation, removal from office, or absence of the director, and he shall also perform such other duties as may be assigned to him by the Secretary of Agriculture, by the director, or by law. There shall also be in said bureau a chief clerk and such other agents, clerks, inspectors, and employes as are provided for in this act or as may hereafter be authorized by law, or as may be authorized by the Secretary of Agriculture. The director and assistant director shall hold their respective offices for a term of ten years and shall be removed from office during such term only for cause. The Secretary of Agriculture can remove either of said officers for a violation of law or neglect of duty, but only after a public trial upon charges duly made, of which the accused official shall have reasonable notice, and then only upon the approval in writing of the President of the United States. The director and assistant director shall be appointed by the President, by and with the advice and consent of the Senate, and in case there is a vacancy in either of said offices the appointment to fill the same shall be made for the full term.

SEC. 2. That under the rules and regulations made by the director of said bureau and approved by the Secretary of Agriculture, and in accordance with the provisions hereinafter provided, the said bureau shall make loans on farm lands located in any of the States of the Union or in the District of Columbia. Said loans shall be secured by mortgage made payable to said bureau, and shall bear interest at the rate of four per centum per annum, payable semiannually. No loan shall be made upon any tract of land less than ten acres in area. Loans shall be made only for \$100 or any multiple of \$100 up to and including \$2,000. The mortgage securing any such loan shall provide that at the end of five years one-fifth of said loan shall become due, and that thereafter one-fifth of said loan shall become due each year until the entire loan matures. Said mortgage shall also provide that whenever any interest is due the mortgagor or his grantee shall have the right to pay the entire loan or to make a payment of \$100 or any multiple thereof on the principal thereof, and upon such payment being made the interest on the amount so paid shall thereupon cease. Said mortgage shall also provide that both principal and interest shall draw interest at the rate of six per centum per annum from maturity.

SEC. 3. That no person shall be entitled to a loan of money from said bureau until he has made application therefor under oath upon blanks to be furnished by said bureau. Such application can be sworn to before any person authorized to administer an oath, and all postmasters and their deputies in the United States are hereby authorized to administer oaths to applicants making application for loans under this act and to administer oaths to such applicants or other persons to any other affidavit made necessary by the rules and regulations of said bureau. Whenever any oath is administered by a postmaster or deputy postmaster no charge shall be made therefor. No person shall be entitled to a loan under this act who is not of good moral character and who does not establish to the satisfaction of said bureau that he is honest and bears a good reputation in the neighborhood where he resides. No loan shall be made to any person who is not an actual resident and engaged in the culti-

vation of the land offered as security: *Provided*, That where the applicant for the loan is endeavoring to secure the money for the purpose of building a house upon the land or for the purpose of making part payment upon the purchase price thereof, the bureau can waive this stipulation if convinced that it is the intention of applicant as soon as possible to reside upon the land and to cultivate the same, the intention of this act being to provide money only for persons who intend to reside upon and cultivate the land which they offer as security. No loan shall be made for more than one-half of the value of the land offered as security and only for one or more of the following purposes:

First. To make payment of part of the purchase money of the land to be mortgaged.

Second. To pay off an indebtedness already existing against said land.

Third. To build a house, barn, or other building or buildings upon said land: *Provided*, That said bureau, under proper rule and regulation, can provide that not to exceed fifty per centum of any loan may be used for the purchase of stock and farm implements. Any applicant or other person testifying falsely to any material fact in any application or other affidavit connected with any loan under this act shall, upon conviction thereof, be deemed guilty of perjury and punished accordingly.

SEC. 4. That it shall be the duty of every postmaster, deputy postmaster, or other employee or official of the Government, without fee or pay therefor, to make confidential reports to said bureau upon request therefor, upon anything pertaining to any loan and upon the character or standing of any applicant or witness. Such postmaster, deputy postmaster, or other officer shall also, when requested by said bureau, appoint appraisers to appraise the land offered for security under the regulations of and upon the blanks furnished by said bureau.

SEC. 5. That any person applying for a loan shall furnish to said bureau an abstract of title to the land offered as security and shall pay all the necessary expenses connected with the making of said loan. Such applicant shall furnish conveyance for the appraisers appointed to fix a value upon land offered for the loan, or shall pay for the transportation of said appraisers to and from the land, and if required by said appraisers, he shall pay a fee to each of them, not exceeding two in all, which fee shall be ascertained in advance and fixed by the official appointing said appraisers. It shall be the duty of said bureau and the officials appointing said appraisers to select efficient, qualified, and unbiased persons, but, at the same time, to regulate any fee that they may charge for such service so as to make the same as small as possible. Said appraisers shall make return upon blanks provided by the bureau and shall swear to the same before some person qualified under this act to administer an oath.

SEC. 6. That it shall be the duty of every United States district attorney or deputy district attorney, upon request from said bureau, to examine the abstract of title to any land offered as security under this act and to make return thereof to the said bureau. It shall likewise be the duty of any district attorney or deputy district attorney, when requested by the bureau, to foreclose any mortgage taken as security for a loan under this act and to prosecute the same to final judgment. All such services so rendered by an attorney connected with the Department of Justice shall be a part of his official duty and shall be rendered without pay, but said bureau shall pay in all cases the actual expenses of any such attorney in connection with such litigation.

SEC. 7. That it shall be the duty of any post-office inspector, United States marshal, deputy United States marshal, or other employee or inspector of any other department, when engaged in official business in the vicinity of any land mortgaged to said bureau, upon request of said bureau, to make a personal inspection of the same and to report thereon to said bureau. Such inspection shall be made without charge, but said bureau shall pay the actual expenses, if any, made necessary thereby. It shall likewise be the duty of any postmaster, deputy postmaster, or other governmental official residing or doing business in the vicinity of any land that has been mortgaged to said bureau, upon request of said bureau, to make a report upon said loan or as to whether the money borrowed upon said land has been expended or is being expended in accordance with the purposes for which the same was loaned; and in making any loan under this act the said bureau can withhold, under such rules and regulations as it may prescribe, any part of the same for the purpose of insuring the application of said loan to the purposes for which the same was made.

SEC. 8. That should the owner of any land mortgaged to said bureau fail or neglect to pay the interest thereon at or before the time when the same is due, or permit the taxes on the land to become delinquent, or neglect or refuse, with-

out the consent of said bureau, to apply the money borrowed in accordance with the statements made in the application for the loan, or if he has made any false statement as to any material matter in said application, or if he neglects to properly care for the improvements on said land, or if he do any other act that materially injures the value of the security, either by overt act or by neglect and inattention, or should said land, without the consent of the bureau, cease to be farmed and cultivated, then the said bureau shall have the right, at its election and without notice, to declare the entire amount secured by said mortgage due and payable, and may take any steps necessary for the foreclosure of said mortgage and the collection of said loan; and from and after said election so made by the bureau the amount secured by said mortgage shall bear interest at the rate of six per centum per annum.

SEC. 9. That in making any payment of interest or payment of the principal, or part payment of the same, upon any loan made under this act the person making such payment can pay the same to any postmaster designated by said bureau, and the same shall be transmitted by said postmaster either directly to the bureau or to such Federal reserve bank as may be designated by the bureau, and such postmaster shall immediately notify the bureau of such payment and the transmission of the money so paid, and thereupon credit shall be given for the payment of such money as of the date the same was paid to the postmaster. The said bureau shall notify each person to whom a loan has been made as to the post office where payments upon his loan can be made. The bureau may make such designation by general circular or by specific notice in writing, and can designate by such notice a post office within a county or other district to which all payments within such district can be made.

SEC. 10. The bureau shall deposit all money it receives in the Federal reserve banks provided for in the act of December twenty-third, nineteen hundred and thirteen, and in making disbursements of money it shall do so by check upon such banks. Any Federal reserve bank organized under the said Federal reserve act is hereby authorized and instructed to receive such deposits and to pay checks or drafts drawn by said bureau upon said deposits, the same as other accounts authorized to be held by said banks under said act.

SEC. 11. That the bureau shall have power to sue and to be sued, to complain and defend in any court of law or equity having jurisdiction of the subject matter in litigation. To protect any loan it may pay the taxes or any other prior lien due and unpaid against the land securing said loan, and in such case the amount paid in liquidation of such taxes or lien shall be added to and become a part of its mortgage on said real estate and from the date of such payment shall bear interest at the rate of 6 per cent per annum. It shall have the right and authority to purchase at sale under judgments or decrees, of court rendered in foreclosure proceedings of any mortgage it owns the land so mortgaged, but in such case it shall not bid a greater amount for such land at such sale than the amount due in such proceedings, together with costs and expenses expended in relation to said loan. In case the bureau obtains title as set forth in this section to any real estate, it shall have authority to sell the same at such price as may be for the best interests of said bureau in the judgment of the director and to convey title to the purchaser thereof by deed signed and acknowledged by the director. In making such sale it shall be authorized to take a return mortgage from the purchaser for part of the purchase price thereof in accordance with the provisions of this act.

SEC. 12. That in order to secure money for the purpose of making loans as hereinbefore provided the said bureau shall issue bonds which shall be the obligation both as to principal and interest of the United States. Said bonds shall be issued in denominations of \$100 or any multiple thereof and shall bear interest at the rate of 3½ per centum per annum, payable semiannually. Said bonds, together with the interest thereon, and also all notes and mortgages taken by said bureau upon farm lands, shall be entirely free from all taxation of every kind, National, State, and municipal. When in need of money for the purpose of making loans as provided in this act, the bureau shall give notice of its intention to issue bonds and invite from the public generally subscriptions to said bonds. If the amount of subscriptions shall exceed the then demand of the bureau, it shall give preference in accepting money for said bonds to those offered in the smallest amounts, the intention being to give as wide circulation and distribution to said bonds throughout the country as is possible. Said bonds shall be issued for the term of ten years, with the privilege on the part of said bureau of paying the same upon the date of maturity of any interest payment after five years. After this act shall have been in active operation

for one year said bureau shall have authority to change the rate of interest charged for farm loans thereafter made and to also change the rate of interest upon the bonds herein provided for thereafter issued, it being the object of this act to pay as low a rate of interest upon said bonds as will float said bonds at par and to charge as low a rate of interest upon the farm loans herein provided for as will bring in sufficient revenue to pay said bonds, the interest thereon, the expenses connected with the making of said loans, and any losses, if any, incurred therein.

SEC. 13. That it shall be unlawful for any Senator, Member of the House of Representatives, or any other official of the Government of the United States to use or attempt to use any political or other influence to induce said bureau to make or refuse to make any loan or loans. Any person found guilty of the conduct in this section prohibited shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined in any sum not exceeding \$2,000 and in addition thereto shall be removed from office.

SEC. 14. That it shall be unlawful for any official of any State or any officer or member of any political committee to use or attempt to use any political or other influence to induce said bureau to make or refuse to make any loan or loans. Any person found guilty of the conduct in this section prohibited shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined in any sum not exceeding \$1,000.

SEC. 15. That it shall be the duty of the officials of said bureau to give publicity to any letter or communication from any of the persons named in the above two sections, requesting or urging said bureau to make or to refuse to make and loan and to give to the Department of Justice the names of any of said mentioned persons attempting to influence the action of said bureau in allowing or refusing any application for a loan, together with the evidence connected with said attempt, whether the same be in writing or otherwise.

SEC. 16. That any person who shall make any false representation to said bureau in connection with the making or the investigation of any application for a loan shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined in any sum not exceeding \$1,000 or be imprisoned for a term not exceeding one year, or both such fine and imprisonment, in the discretion of the court.

Senator HOLLIS. Gentlemen, Senator Lane, of Oregon, wants to bring to our attention a local condition that exists in his part of the country concerning land that is still owned by the Government, but is in the hands of men who may want to borrow money; and Senator Lane has some other gentlemen here who know about that situation, and without objection he will take charge of the matter of presenting this situation to the committee.

STATEMENT OF HON. HARRY LANE, A SENATOR FROM THE STATE OF OREGON.

Senator LANE. Mr. Chairman and gentlemen of the committee, I want to call attention, if you please, to a condition in relation to the pending bill which I think should be provided for, a condition which relates not so much to the bill as it does to a large number of people unprovided for in the bill.

As I understand it, the bill is so drafted that no money can be loaned except where it will be a first lien. And that will exclude a large number of people who need money more than anyone else and who are the people who are doing the pioneer work in this country.

I refer to people on the Government reclamation projects. They are poor people, as a rule; they are almost invariably men with families, and they go out in the West and they undertake the reclamation of land which, until it receives the benefit of their labor and the benefit of the water which the Government puts upon it, is a desert.

They transform that desert into a garden; they transform it into an oasis. Any of you who have been on the Snake River in Idaho in the old days and remember that sagebrush and jack-rabbit country and go through there now and see it the most beautiful and cultivated land in America will wonder at it, as you see the sagebrush at one side and the first cut of the furrow giving 40 bushels of wheat to the acre in places, and alfalfa cutting three crops a year, and the most beautiful fruit, and fine homes, and the happy, thriving little communities—you can see what they are doing. They are doing a great pioneer work, and a work that is going to put this country into the possession of resources worth hundreds of millions of dollars.

Here is the condition that confronts those people. That land is arid land. It has never had water on it, probably, in thousands of years. So that when you put water on it, it takes several years to establish a level upon which you can cultivate the soil, and then it brings to the surface the crops, and for the first three or four years it is really not very productive. A great many of those people—I should say nearly one-half of them—have gone broke on the proposition for the reason that the Reclamation Service, not understanding it, crowds them on their payments. They would sell their last hog, they would sell their last horse to hold on to the land, and yet they fail for the reason that they do not have the money to pay for it in time.

Now, after four or five years that land becomes valuable, and then it is worth \$100 an acre. When they took hold of it it was not worth a cent for any human use.

Now, those people are the ones who need to be helped along for the first few years. They are a class of people who want to live there, to make homes there, and to build up that community. They are not sharpers, they are not the class of people that would take advantage of anyone, and they are the identical ones that, if you can provide for them safely—and I want to say that I do not wish the Government to take a particle of chance in the matter—should be provided for and have the use of this money. Under your bill as it is at present this can not be done.

I called the attention of Secretary Lane, of the Interior Department, to this matter, and he knows how vitally important it is to his department, and he has written me a letter here, and he has sent Mr. W. A. Ryan, of the department, and Judge King, a representative of the department, to make a statement before the committee. Mr. F. H. Newell, as head of the Reclamation Service, as well as Mr. Ryan and Judge King, have written a letter in which they offer an amendment to the bill which they think will make the Government safe and at the same time put us in a position where we can give these people the real help that they actually need. I do not want you to take any chances. I would not ask you to have the Government take any chances.

Before leaving the subject I want to suggest to the committee that this is no new matter, and it is not an untried proposition. In New Zealand they have been doing this for 25 years. I do not know how much attention you have paid in these hearings to New Zealand, but they have been doing it there, as I say.

Senator HOLLIS. Doing what?

Senator LANE. Loaning money to the farmers to open new land.

Senator HOLLIS. Yes.

Senator LANE. In New Zealand a man goes to the Government and wants a piece of land, and they sell him land on time, and they also loan him money to make improvements with.

Senator HOLLIS. Well, is that Government land, Senator Lane?

Senator LANE. Yes; Government land—land which they buy and furnish free to him.

Senator HOLLIS. The same as we do in the West, only they charge him more?

Senator LANE. They charge him 6 per cent. They borrow the money in England at 4 per cent and they put 1 per cent into a sinking fund. They have never lost a cent. In fact, they are making a profit.

Now, there is another difference between the two countries. Just see the difference between the people in our country, whom we just sit down upon and oppress until they are rather discouraged from ever getting out from under, and the people in that country, where the Government stands by the farm operator, who, as Senator Norris said, is the real basis of the prosperity of a country; and there they help him along and see that he has a chance to pull through. In fact, they give him a chance to pay the money and see that he does pull through. They give him, for instance, three days' work on the roads at \$2 a day, working eight hours a day. And anybody can get that road work at \$2 a day.

Here is one thing it has done. It has given them very good roads. It has given the farmer a chance to get on his feet.

Another thing it has done is that it has put the hobo out of business. There is not a hobo in the country, and there would not be a hobo in this country if we had such a law as that. The hobo costs this country \$2 a day for his support. He does not earn that \$2 a day, but he steals it. He steals chickens; he steals corn; he is a parasite and lives off the community, but he does actually cost us \$2 a day to support him.

Over in New Zealand they take that fellow and make him work eight hours a day, and make him support himself. The result has been that they have just eradicated the hobo in that country; and, in fact, the rankest old hobo they ever had, the slickest old fellow in the bunch, he had to go down and do his work on the roads, and to get a little ranch and settle down, and to-day he is a member of their parliament. He is one of the ablest fellows down there now. [Laughter.]

Mr. SELDOMRIDGE. He might be a United States Senator if he were here in the United States. [Laughter.]

Senator LANE. I have no doubt he would, and, perhaps, he would be an improvement on some of us. But, seriously, they make valuable citizens out of those hoboes. And so this plan has merit in it, and it has been tried before, and it will not fail if you have proper safeguards around it.

I wish to submit this letter from Secretary Lane, of the Interior Department, and ask your consideration of it. I hope you will put some clause to this effect in the bill. If you do not, those people are going to be hard pressed. The fact is, that they are going to be discriminated against. There are many farmers all through the country, as we all know, quite a percentage of them, who let their

fences run down and are lazy, and do not do much good; but the man who goes out on the sage-brush country and stacks up against that proposition has got to have it in his heart and his soul to succeed, or he would not be there; he would be out hoboing somewhere. That fellow has tackled a very hard proposition, and he ought to be allowed an opportunity to get along and work himself through.

Mr. PLATT. Your point is that he is already obligated for the purchase price of the land?

Senator LANE. Certainly. The Government holds him on that reclamation project for 20 years; that is the period it runs now under our recent bill before he pays it. But that is a first lien, and under this bill, as it is drawn, they could not lend him a cent of money on that land.

Mr. PLATT. Could not that indebtedness on the reclamation project be transferred into a long-time loan?

Senator LANE. I think so. I had a rather vague and hazy idea—for I am not a lawyer; I am a physician by profession—that we could fix it so that the Interior Department could take that as a part of the claim on that land and stand between the Government and any loss and hold him on that loan.

When the water is put on the land the value of the land takes a considerable jump. Judge King, who is here, can tell you that the price of that land has jumped from \$4 or \$5 an acre before the water was put on to \$100 an acre after the water was put on. It is a perfectly safe proposition if this bill can be so amended as to protect the Government legally.

As I say, Secretary Lane is heartily in favor of such an amendment. He urged me to come here before the committee and beg of you that you would take this into consideration for the purpose of affording the necessary relief. I will read you the letter from the Reclamation Service, which was approved by Secretary Lane, suggesting an amendment which, in their opinion, would meet this situation:

DEPARTMENT OF THE INTERIOR,
UNITED STATES RECLAMATION SERVICE,
Washington, D. C., March 14, 1914.

HON. HARRY LANE,
United States Senate, Washington, D. C.

DEAR SENATOR LANE: The reclamation commission this afternoon unanimously agreed to ask you to procure the amendment of the rural-credits bill so that lands upon irrigation projects constructed under the act of June 17, 1902, and acts amendatory thereof or supplementary thereto shall be exempted from the inhibition to make loans upon other than first-mortgage securities. In order to do this it would be necessary, as we understand the matter, to introduce a clause to the following intent: "Except that a prior lien held by the United States to pay the charges under the reclamation act of June 17, 1902 (32 Stat., 388), and acts amendatory thereof or supplementary thereto shall not be held as a bar to loans to be made under this act."

Cordially, yours,

F. H. NEWELL.
WILL R. KING.
W. A. RYAN.

Approved, March 14, 1914.

FRANKLIN K. LANE.

Now, Mr. Chairman, I would like to ask Mr. Ryan, of the Interior Department, to indorse what I have said and to give you any further information you may desire.

Mr. SELDOMRIDGE. Before you leave, Senator Lane, I would like to ask you this question: Does not that same condition exist relative to what we call the homesteader on Government land not under the Reclamation Service? Does not his claim for financial relief appeal to you just the same as that of the man who is under a reclamation project?

Senator LANE. Not to quite the same degree, for the reason that this man under the reclamation project is tied to pretty heavy payments, and he is on land which is absolutely sterile and a desert proposition, whereas the other man, the homesteader, usually picks out the best and fattest piece of land along the creek bottom, and has a chance to come out all right. Still, I am in favor of letting him in also.

Mr. SELDOMRIDGE. I am also; if you are going to let in the man under the reclamation project, I say also, take in the dry farmer.

Senator LANE. I think so; but this is the most pressing condition, and I wanted to call attention to it, because here is a class of people who are in the most pressing need. The other should also be helped. I am in favor of going on the New Zealand plan, so far as I am concerned personally; but I do not know how that fits in with your idea; but that is another proposition. These people under the reclamation projects absolutely need this relief.

**STATEMENT OF WILLIAM A. RYAN, COMPTROLLER OF THE
RECLAMATION SERVICE, WASHINGTON, D. C.**

Senator HOLLIS. If you will, give your full name to the stenographer and your position.

Mr. RYAN. William A. Ryan, comptroller of the Reclamation Service.

I just want to say, on behalf of the proposed amendment, that it seems to be necessary if the people on the Government's reclamation projects are to have the advantage of the proposed bill, the Government lien upon the land ranges from a charge of \$22 per acre—

Senator HOLLIS (interposing). Excuse me, Mr. Ryan, I wish you would assume that we do not know anything about that, so as to get the record complete. Tell us just who owns this land and on what terms it was given and what the idea is.

Mr. RYAN. The land under the reclamation projects is chiefly public land which has been entered by homestead entrymen, subject to the charges of the reclamation fund for the expense of constructing reclamation projects. The charge upon the land varies from \$22 to \$110 per acre. Under the present law repayments to the reclamation fund are divided into 10 annual payments, usually about 10 per cent each, although under some projects they are graduated to make the payments lighter in the earlier years and heavier in the latter years. There is a bill now in Congress proposing to extend the time to 20 years. To the new settlers upon Government lands, the bill provides for a payment of 5 per cent down at the time of entry, then there is a period of four years thereafter in which no repayments are made, and then a period of five years during which the annual payments are 5 per cent per annum, and for the remaining 10 years 7 per cent per annum.

Now, it is believed that in order that these settlers may have the benefit of this bill an exemption should be made of these lands which are covered by a prior lien to the United States from the provisions of this bill which make it possible to loan money only on first mortgage security.

Senator HOLLIS. Let us see what the effect of that would be. A man on a reclamation tract would get a loan from one of these farm land banks and that would be a second lien or a second mortgage. In case the mortgagor did not pay the Government his 5 or 7 per cent when due, the farm land bank, in order to protect itself, would have to step into his shoes, take the land and pay the Government. That is the way it will work out, is it not?

Mr. RYAN. I should fancy that would be the only thing that could be done.

Under the terms of this bill, as I read it, it would be possible for the land bank to loan the farmer enough money to take up all the charges due the Government, but it is hardly possible in the early years of the development that any bank would loan a very great margin over and above these charges, so that the benefit to the farmer would be nil.

Senator HOLLIS. That is, the fair appraisal value of the land at that time would not come up to the requisites of the bill?

Mr. RYAN. It would not, but as each year goes on, and the farmer adds improvements, especially if he has the means whereby to make these improvements, the value of this land will rapidly increase and become, very soon, very much greater than the lien of the Government. It would take from five to seven years to subdue this land properly.

The land is desert land, it has from the beginning of time been devoid of vegetation, it has never been cultivated, it is rich in the mineral elements which go to make up fertility, but it is absolutely devoid of the vegetable content—the humus so vital to successful farming. It is necessary for the farmer not only to live upon the land, but to prepare it for cultivation by leveling the soil and digging the ditches necessary to conduct water to all parts of the land, and to cultivate those crops which restore the missing elements to the soil. This is done chiefly by the cultivation of alfalfa, which plant has the capacity not only to live and flourish amid these desert conditions, but to restore to the soil the missing elements, the humus and the nitrogenous qualities.

Mr. BULKLEY. When you speak of an amendment to the bill, which bill are you talking of?

Mr. RYAN. I have not the bill in my hand.

Mr. PLATT. He is talking about the Moss bill, is he not?

Mr. BULKLEY. I do not know.

Mr. PLATT. You are referring to the Moss bill, are you not?

Mr. RYAN. House bill 12585.

Mr. HAYES. That is the Moss bill.

Mr. BULKLEY. Let me ask you what you are going to do about this situation? If you make a part of these mortgages second liens, that will have its effect on the market price of the bonds, will it not?

Mr. RYAN. I fancy not. It is a good deal like bonded indebtedness of a State, a tax assessed by the States on the land. It is a

very small charge per annum. In the case of those who are now upon the projects prior to the passage of the act that has been recently introduced, their payments will amount to 2 per cent per annum for the first four years, 4 per cent each for the next two years, and 6 per cent per annum for the next 14 years.

Mr. BULKLEY. Do the banks generally regard that as good as a first mortgage?

Mr. RYAN. They do not now, because of the circumstances that I have recited to you, of the necessity of subduing the land first. After the land has been subdued, then they make the loans.

Senator LANE. They have that feeling out there in that country, some of the banks, I am informed, that it helps them to help the farmer along on these lands, and they are beginning to do it now with profit to both the bank and the settler.

Mr. BULKLEY. Do they regard them as good as first mortgages?

Senator LANE. I do not know as they do that, but they regard them as safe investments.

Mr. SELDOMRIDGE. What interest do they charge?

Senator LANE. They charge from 8 to 10 per cent, I think.

Mr. RYAN. Eight, ten, and twelve per cent.

Mr. BULKLEY. I do not quite see why investors should take the bonds, particularly if they saw they were second liens.

Senator LANE. They will take them, I think, for the reason that the property increases in value faster, in proportion to the improvements that are made, than any other land that we have in America, do they not?

Mr. RYAN. I think that is true.

Mr. BULKLEY. If we are going to enact the Moss-Fletcher bill we have got to sell bonds at what they will sell for on the market, and it does not make any difference how poor we make the security by permitting the loans to be made on second or third liens, we will have to pay for it by decreasing the bidding on the bonds.

Senator LANE. I do not think so. I think they will be bought by these western banks which are familiar with the situation, that fully understand on their part that they are absolutely good securities. The banks themselves that form into associations will help take care of that matter.

Mr. PLATT. How certain is the increase of these values? These banks, under the Moss-Fletcher bill, are local institutions. Would a local bank organized in the neighborhood of one of these reclamation projects be justified in appraising this land in accordance with what is known of its certainty of increase: that is, is it certain to increase or certain to decrease? If it is certain to increase I should think that it might be justified in appraising it high enough so that the farmer could pay his money right down.

Mr. RYAN. I was just going to address myself to this thought, that under the provisions of this bill there is a cooperative land bank provided for. Under this bill as it stands there would be no cooperative farm banks under this law on our reclamation projects. They could not loan under the circumstances. But if that provision permitting such banks to loan on land under an existing lien is in the law, you will find they will be organizing these cooperative banks on our reclamation projects.

Mr. SELDOMRIDGE. Do these people need money on their land, that own it, in view of the fact that the Government proposes now to extend the time for the payment to 20 years? Do they not need accommodations for short-time credit rather than for mortgage loans?

Mr. RYAN. They certainly need the accommodations for short-time credit. There is no doubt about that.

Mr. SELDOMRIDGE. Is not that the need that exists rather than the other?

Mr. RYAN. That is a vital need at the present time.

Mr. SELDOMRIDGE. That is, short-time loans?

Mr. RYAN. Yes; for stocking their farms with cattle, etc.

Mr. BULKLEY. Why would it not be better to allow these mortgages to go ahead of the Government lien and let the Government take a second lien?

Mr. RYAN. I do not know how that could be done.

Mr. BULKLEY. It would be easy enough to do if it is advisable.

Senator HOLLIS. We could provide that in the law just as well as we can anything else.

Mr. WOODS. Do these people pay the Government \$22 an acre? Is that the average?

Mr. RYAN. From \$22 up to as high as \$110 per acre, according to the cost of the project.

Mr. WOODS. Do they pay interest on the deferred payments?

Mr. RYAN. No; there is no interest at all.

Mr. SELDOMRIDGE. Are the projects completed?

Mr. RYAN. Many of them are.

Mr. SELDOMRIDGE. So that the actual cost per acre is determined?

Mr. RYAN. There are 17 completed units.

Mr. SELDOMRIDGE. You can determine the actual cost per acre then, can you not?

Mr. RYAN. As to those 17, yes; as to the others, we can not.

Senator HOLLIS. Has the history been such and have the results been so consistent that you can lay a sure basis for prophecy as to what will result in these different sections? Do you feel that there is enough history to be sure as to what will happen hereafter?

Mr. RYAN. With relation to the increase of the value of the land do you mean?

Senator HOLLIS. Yes; its productivity after you get it established.

Mr. RYAN. With the great majority of the acreage, yes. Of course, there is a feature in connection with the reclamation projects—the water-logging of the lands and the lack of drainage system. Some of the lands will not be enhanced in value.

Senator HOLLIS. We had a Mr. Ady here, who came from that part of the country, and he testified, and I understood, he was here on behalf of some settlers who were in a similar situation, and asking to have the time extended. I do not know whether it was on the payments to the Government under the reclamation project or not. Do you know about that?

Mr. RYAN. Yes, sir; it was.

Senator HOLLIS. Evidently the results there were not as good as they figured on or he would not have had to have that extension.

Mr. RYAN. That is true with regard to a considerable area of the Klamath project, which he represents. The reclamation law, as

passed by Congress, provided for a return to the reclamation fund in 10 years. That was too optimistic a view of what these lands were capable of doing. But the history of irrigation in the West is one of almost unbroken prosperity, where people have had the proper time in which to make their payments.

Mr. PLATT. As a rule, do people pay the Government more than half of the value of the land itself after it comes under full cultivation?

Mr. RYAN. Very much less than half, I should say. You take the Boise project, which is on the Snake River. It was simply raw land, bare of improvements, with merely the prospect of irrigation, and they sold as high as \$250 an acre, and the total cost of reclaiming that land is only about \$62 an acre—raw lands, before there was any water on them at all. I do not mean to say by that that that represents the true or average value of the lands under that project, but I think the Senator's estimate of \$100 an acre is very reasonable, and that the lands there after the water is put on them—after they are subdued—are worth very much more than \$100 an acre.

Mr. PLATT. It would not be safe for banks, such as the Moss bill provides for, to loan double the purchase price of the land in the start, on long time, would it?

Mr. RYAN. Double the purchase price?

Mr. PLATT. Double the Government purchase price.

Mr. RYAN. The water-right price? Oh, yes; the water right is always worth its cost and perhaps a great deal more. I think Judge King can tell you more about that than I, because he is more familiar with the history of that country. I heard him tell yesterday of shares in a water company which he bought—a share for each acre, I understand, for which he paid \$5—he afterwards sold for \$50.

Mr. HAYES. You would regard, for instance, in Colorado, where they have private irrigation systems, \$20 per acre as a very moderate price for a water right, would you not?

Mr. RYAN. Very moderate, indeed.

Mr. PLATT. I do not know enough about the subject. When you speak of water rights, you mean all that the purchaser is paying for the land, or not?

Mr. RYAN. Oh, no; merely what he pays for the water. He pays the Government annually simply for the water. It does not represent the value of the land. He merely pays the Government or returns to the reclamation fund the cost of building the ditches, storing and distributing the water.

Mr. PLATT. Land acquired by him under the homestead act?

Mr. RYAN. Land acquired by him under the homestead act, or which is purchased by him from some one who has obtained it under the public-land laws.

Mr. HAYES. In order that the committee may have knowledge of just what the situation is, let me say that I am very familiar with irrigation projects in Colorado, and I should regard \$40 an acre as a reasonable price for such a water right as the Government gives us in all its irrigation projects.

Mr. PLATT. Then, would you say it would be reasonable to appraise such lands at \$80 an acre?

Mr. HAYES. You mean to appraise the land at \$80 an acre right at the start?

Mr. PLATT. Yes.

Mr. HAYES. Oh, certainly not; but the water right is independent of the land, absolutely.

Mr. PLATT. What I was trying to get at was whether there was sufficient certainty in the value of these lands to justify one of these banks in loaning enough to take up the water right at once and have something left over for the purchase of his land?

Mr. HAYES. If the land is fertile and rich and worthy of developing, I should say it would be perfectly safe to make a loan on the land without any regard to the water right at all. It is worth that money at any time.

Mr. RYAN. There is just this point: No man would borrow money and pay interest on it to take up an obligation that ran for a period of 10 or 20 years as to which he paid no interest at all.

It does not seem to me by the terms of the bill you would ever make any loans on reclamation projects, and that is the one crying necessity of our reclamation projects—that is, procuring money wherewith the farmer may make his improvements. That would not be true of private projects where they select the settlers to go on this land with a view to their financial ability to make those improvements. But the Government has gone forward with the idea of enabling the poor man to go out and make a home, but we have surrounded them with conditions that make it almost impossible for him to carve out a home on that desert.

Mr. BULKLEY. What would you think of allowing these settlers to borrow some reasonably small amount and let it be a lien ahead of the Government lien?

Mr. RYAN. I do not see any particular objection to that. I had not given thought to that subject. However, the reclamation law provides that it shall be a prior lien. The idea of making the reclamation charges a subsidiary lien to that of the bank had not occurred to me. But, now that you speak of it, it suggests itself to me that this might happen, that if you make the Government's a subsidiary lien, the settler might simply discharge that land of that second lien by borrowing money under the first lien and then allowing the land to be sold at mortgage sale.

Mr. HAYES. Let me suggest another thing: The land would be valueless to anybody without the water right, would it not?

Mr. RYAN. Without the water right?

Mr. HAYES. Therefore, the Government would be perfectly safe, would it not, but the man could not do a thing with it unless they discharged the obligation to the Government. That would be in the nature of a water right, it would be absolutely valueless without that right.

Mr. RYAN. I think the suggestion of the gentleman from Ohio is all right. It seems to me so. I do not see how the Government could take any risk.

Senator HOLLIS. Still the bank's lien would not come ahead of the Government if the Government should foreclose.

Mr. HAYES. It might, strictly and legally, but not as a matter of fact, because the land that would be taken by foreclosure would be valueless without the water right.

Mr. BULKLEY. That would not carry out the suggestion I made. The suggestion was that we could find some way to require these banks to accept such loans under proper security, but if the mortgaged lands were independent of the water right that would be a different proposition. Of course I had in mind that the water was appurtenant to the land.

Mr. HAYES. I am not so sure of that, Mr. Bulkley. The water right runs for 20 years, and that would mean \$1 an acre per year in order to pay it off. That would be a very reasonable charge for it. I do not know of any place where you can get it for that. It has to be in the nature of a yearly expense. That is all it amounts to.

Mr. RYAN. That is the way it presented itself to my mind, as a tax. If this, instead of being a Government project, were an irrigation district and issued bonds and there was an annual tax upon that irrigation district to the same amount that our charges now constitute, there would be no hesitancy about loaning the money on those lands, because that would then fall in the form of a tax upon the land; but in our situation we have a prior lien, and under the terms of your act it is impossible to loan this money except on first mortgage.

Mr. BULKLEY. Much depends on what is behind that. If the land is free and the only value there is is in the water right, you have not got much left to mortgage. If you have some value behind it, then there might be something left.

Mr. RYAN. As I understand the terms of this act, all that came into my mind was as to the cooperative bank provided for, a local institution, as to which the directors and members were the persons who were loaning the money, and who were borrowing, and that they, having a full knowledge of the value and the prospective value of these lands, would be perfectly willing to make loans on second-lien security—that is, mortgage subsidiary to the Government lien.

Mr. BULKLEY. Do you mean to say that there are people right in the community that have money to buy the bonds?

Mr. RYAN. Yes; I think there are. There are some people who are talking about organizing. This idea has been suggested to them all through the projects. Secretary Land, on his visit to the projects last summer, counseled them all to organize cooperative banks. There are some rich men in these communities, and if the cooperative banks were organized they would then issue their bonds, as provided by this law, and procure the money necessary to make the improvements.

Mr. BULKLEY. The bonds could be sold right in that community?

Mr. RYAN. I think they could be sold there, and to persons who could be induced to make investments in the West. It would not necessarily be confined to the people of that community, but the people of the United States.

Senator HOLLIS. Mr. Ryan, you have not submitted your amendment. Is Judge King going to do that?

Mr. RYAN. The amendment was included in the letter which was presented to the committee.

Senator HOLLIS. Then it is already in?

Mr. RYAN. Yes, sir.

Mr. SELDOMRIDGE. I would like to ask you a question in connection with this matter which you have presented. What is the purpose that would be subserved by a loan to a person living upon a reclamation project; in other words, what would they do with the money?

Mr. RYAN. I am very glad you raised that, because I have in mind a particular instance where such an opportunity would have been of great advantage to a man who has abandoned one of our reclamation projects because of his inability to earn sufficient money out of the soil—to make that soil produce enough—to meet the payments to the Government, and he has gone down here to Jersey City and entered the employ of a private institution in order that he may earn money enough to carry out the requirements of the law with respect to the reclamation and cultivation of that tract of land and his repayments to the Government. That is a man who is earnestly desirous of subduing the land and bringing it under cultivation and making for himself a home; and yet, because he had not saved enough money to invest in the buildings and the cultivation of that land, in the putting in of trees, orchards, and cattle, he has been obliged to seek private employment to earn money with which to do those things. In many of our projects it is necessary for them to invest in stock in order to utilize the products of the land. In other projects they have to put in orchards and trees, that are a long time in coming to the bearing stage.

Mr. SELDOMRIDGE. The need, then, is for money to be expended for a productive purpose?

Mr. RYAN. For a productive purpose; yes.

Mr. SELDOMRIDGE. It would not be used in the mere matter of expenditure for food and clothing and the necessities?

Mr. RYAN. Oh, no; for productive purposes on the land. I think the provisions of the bill are ample to cover that; that the directors of this cooperative bank would not loan money to one of their members who was not worthy and was not entitled to it, and who was not going to use it for a beneficial purpose. That, to my mind, is cared for in this bill, and is the great feature of this bill.

Mr. SELDOMRIDGE. I am not familiar with the provisions of the reclamation act. Does the Government require residence on the project in order that its provisions may be availed of?

Mr. RYAN. Yes, sir; residence and cultivation.

Mr. SELDOMRIDGE. Could not some amendment be made to the act in the matter of relieving that stringency of residence that would enable many to complete their payments?

Mr. RYAN. It would result in speculative holdings, with lack of proper cultivation and lack of proper effort to make the lands productive. As a matter of fact, wherever it has been made possible for them to leave the land, they leave it and go away and not cultivate it, but come back and get the benefit of the increased values due to the other man's efforts. We want to keep them there.

Mr. SELDOMRIDGE. How would you do that if you permitted them to make loans? Would not that danger exist also?

Mr. RYAN. I think in the terms of this act you have thrown so many safeguards around the lending of money that it is not possible

for a man to get enough money on his land to make it advantageous for him to desert it.

Senator HOLLIS. How do the actual settlers on the land pay for their subsistence during those four or five lean years, until the land is properly productive?

Mr. RYAN. Those who have not brought sufficient money with them work out amongst their neighbors and get the money in that way. I have talked with a great many of them who have taken small contracts with the Reclamation Service who have worked on the roads, who have hired out to their neighbors, or who have gone into the little villages and worked as carpenters and blacksmiths, and at various other operations, and spent the most of their time on their land, but with outside labor to earn just enough money to make a living.

Mr. HAYES. Is it not true in certain reclamation projects, as, for example, the Salt River project, that the cost per acre of water sometimes ranges as high as \$60?

Mr. RYAN. Oh, yes; I have testified that it runs from \$22 to \$110 an acre. The average is about \$50. The Salt River Valley actual cost has not yet been fixed, but it will probably go as high as \$70 an acre.

Mr. HAYES. \$70?

Mr. RYAN. The land is very productive and that will be a very small percentage of the actual value of the land.

Mr. HAYES. And at present the owner must pay one-tenth of that every year?

Mr. RYAN. Yes, sir.

Mr. HAYES. Of course that is almost out of the question unless he has money?

STATEMENT OF WILL R. KING, CHIEF COUNSEL RECLAMATION SERVICE, WASHINGTON, D. C.

Senator LANE. I will say that that Judge King used to be on our supreme bench, and was one of the best members we ever had. He is a very well-known citizen of Oregon.

Mr. KING. Do not tell all you know about me.

Senator HOLLIS. What is your position with the Government here?

Mr. KING. I am chief counsel of the Reclamation Service, and also one of the reclamation commissioners.

This matter has been pretty well gone over, but there are some features of it that I want to call your attention to. In the first place, we should keep in mind that this first lien is a lien held by the Government, and that both liens will be held by the Government, as I understand it, under the act; that is, the loans are to be made by the Government.

Senator HOLLIS. No.

Mr. KING. They will be held by the bank?

Senator HOLLIS. Yes.

Mr. KING. Well, I have not read the bill carefully. The Government is behind the loan, is it not, in the way of selling the bonds?

Senator HOLLIS. Not under this bill.

Mr. KING. The Government holds the first lien, varying from \$22 to \$110 per acre, depending on the project, where it is constructed, etc. I might say, on investigation, that, as a rule, where the lien is the largest in that respect the lands are better able to pay than where the price per acre or cost of the project is less, and that is due largely to the fact that it may be in an altitude or locality where they can raise all kinds of crops, like in the Salt River Valley, Ariz. There are some places in Arizona where they can raise, as I understand it, oranges and various kinds of crops, while in other sections, like in Klamath County, Oreg., the altitude is very high, and the farmers are limited to the growing of but few things.

The Government holding these first liens, it occurs to me, should not be considered in a matter of this kind, for this reason: It is this lien, which places a value upon the land, which makes the land valuable. Take, for example, an irrigated farm in Oregon that might be worth \$200 per acre, and that is not an unusual price in eastern Oregon for irrigated lands. Take the same kind of soil in the western part of the State, where they do not irrigate, and they would do very well to get \$100 per acre for same character of land. The Government under this bill would loan money on that \$100 land without this lien, but under this bill would not loan on the \$200 per acre land having this lien, which lien, being the bill for irrigation, gives the real value to the land. In fact, the long-time payments suggested leaves the lien in a similar position in that respect to the taxes which are paid upon the land, which are always a first lien. For example, in irrigation districts, where the districts are bonded, the bonds are first lien, yet the bankers, as I understand it, loan on the lands everywhere, regardless of that first lien.

Senator HOLLIS. That is true of a great variety of liens on lands that are in the shape of taxes. For instance, the county wants to build a bridge and issues bonds to raise the money, the payments of these bonds come to the owner of the land in the shape of taxes which have to be paid before anything that he puts on in the shape of a mortgage is paid.

Mr. KING. That has to be met, and the fact that he has to pay these taxes—the fact that the taxes are imposed upon him—makes his land many times more valuable than it would otherwise have been. For example, for the building of a bridge in his community, he will have to pay his part for the cost of that bridge, yet it enhances the value of his land probably 20 per cent by reason of the convenience.

Senator HOLLIS. If you take care of what you want it might be provided for the purposes of this act that the payments to the reclamation fund shall be considered the same as taxes.

Mr. KING. Yes; placed on the same basis as taxes. That would take care of it, and, as suggested by the gentleman here a few moments ago, whoever purchases that land without the water right gets practically nothing. I think it would be safe to say that in eastern Oregon, where the land is worth \$100 to \$200 per acre, that the same land without water rights would not exceed \$10 per acre in value, and it would not be unreasonable to say \$5 per acre. I know, for example, in the Snake River Valley near Ontario, Oreg.—and I have lived in that section of the country since 1878—that the best lands in that section were valued at about \$10 per acre before water was

placed upon them, and that value was largely due to the fact that they expected to get water on the lands from the canals to be constructed, yet lands above the canal, where they never expected to get any water, equally as good lands, were practically worthless. There are a good many people there now who have paid very high prices for the same land in the same locality, yet would not, before water was furnished, pay the \$1.25 an acre required by law in order to prove up on the land, because they never expected to get any water. But now they have a "high-line" canal, put in by private enterprise, and the value of those lands ranges as high as \$250 per acre. I know of a man from Milwaukee who purchased, I think he said, something like 400 acres, and I have forgotten the exact price paid, but he paid what might appear as an enormous price for it, something like \$200 or \$250 an acre, before having been cultivated, and he has now placed an orchard valued at \$500 per acre and upward.

Mr. SELDOMRIDGE. He has no trouble getting any money?

Mr. KING. He has no trouble getting money, yet the price he had to pay for this water was a first lien on this land. The same way in Willow Creek Valley in the same county. Water rights there, under private enterprise, cost in the neighborhood of \$100 per acre, yet the banks loan money on the land because the very thing that created the lien is what gives the land its value. What would be the difference between taking a farm on this side of the road that has no water right, if such a thing could be possible and would produce good crops without it, that is worth \$100 per acre, and taking another one on the other side of the valley or in another part of the State, to be more accurate, in which they have a water right that is worth \$200 per acre by reason of having that water right? You would loan on the \$100 per acre land, but you would not loan on the \$200 per acre land, having \$100 value independent of cost of water right, assuming the water right cost \$100 per acre, you still have the value of the land (\$100 per acre) independent of the water right, to say nothing of figuring it from the standpoint of its present worth. When you take into consideration that this is paid in equal annual installments—I do not know that it is exactly equal, but they have a long time in which to pay it, without interest—if you will estimate the present worth of that you will find, in place of being \$100 per acre perhaps it would cost about \$50; for that reason you will not find anyone borrowing money to pay off the noninterest-bearing indebtedness. Of course, as some one suggested, the fact that he pays no interest places him in better condition, perhaps, than some others who do not have water rights on this land; but in this connection let us take into consideration that the man who is getting this money without the interest has burdens thrust upon him which the other man who does not have to rely upon the water right does not have.

Mr. SELDOMRIDGE. I want to ask you a question there about the title. Can a settler on a reclamation project transfer his title after he has lived on it, say, for one or two years?

Mr. KING. After he has lived long enough to make final proof.

Mr. SELDOMRIDGE. What do you mean by making final proof?

Mr. KING. After he has cultivated a certain amount of the land and reclaimed a certain quantity of the land, etc. Is not that right, Mr. Ryan?

Mr. RYAN. It is not more than half. He simply has to pay up all that is due at the time he makes his final proof, at the end of a period of four years, or at the time of making final proof if he has paid all charges to the reclamation fund, he can make final proof, but title would not issue to him.

Mr. SELDOMRIDGE. Suppose he resides on a project, then after having lived on it three years, finding he can not make the payments and is absolutely compelled to make a second lien, issue a second mortgage on his property, the person holding that second mortgage, in the event of foreclosure, would receive all of the rights which the other person had obtained?

Mr. KING. He would step into his shoes and take it where he leaves off.

Mr. SELDOMRIDGE. The Government would recognize that?

Mr. KING. And he continues and makes the payments thereon, but if he should abandon the property back to the Government, then the Government would not recognize a subsequent settler to the extent of giving the second man credit for the first settler's payments.

Mr. SELDOMRIDGE. I understood you to say a minute ago that a settler under a reclamation project could not transfer his rights until he had complied with certain conditions.

Mr. KING. Well, that is true.

Mr. HAYES. He would have to make final proof.

Mr. KING. He must make final proof. That is, he must live on the land a certain period of time, and cultivate the land in accordance with the requirements of the reclamation rules and regulations.

Mr. PLATT. How would it be if we should amend this bill so that we simply provide that loans could be made upon that kind of land with the prior liens of the Government, but that the bonds should be issued in a series showing that they were issued with that prior lien existing. It seems to me we might safely do that, provided the local banks did not mix up its bonds, and have back of them some mortgages which were first liens and some which were second liens, so that the investor would know just what he was buying.

Mr. KING. I think that could be done; and it would make a very little difference in the sale of the bonds, because they would be purchased by people who understood the conditions.

Mr. PLATT. It would seem, if you put it that way, that there would be no objection.

Mr. WEAVER. I was going to ask you if you thought there would be a market for second-mortgage bonds.

Mr. KING. Yes, sir; of that class.

Mr. PLATT. It seems to me it is more in the nature of a tax than a mortgage.

Mr. KING. This is not really a mortgage, it is a lien. It is true in one sense it is a mortgage, but it is what you might call *sui generis*, peculiar to itself.

Mr. WEAVER. It is an encumbrance that has to be paid, no matter what you call it.

Mr. KING. Assume, for example, that all the taxes to be paid upon land for the next 20 years could be estimated, and provision made for the payment of the taxes as they came due, we would have

exactly the same conditions as here presented. In fact that system was attempted in my State at one time; it was estimated for three or four years, I believe, and they had a fixed amount, but the Supreme Court held it was unconstitutional.

Mr. HAYES. What is the usual amount for a man that goes into one of these projects and takes up the land? What is the usual amount that is allotted to him?

Mr. KING. The usual amount of land?

Mr. HAYES. Yes.

Mr. KING. Well, the limit has been 160 acres under the reclamation act, but thus far but few of the units have been definitely fixed; but in some localities we expect to fix them at 40 acres.

Mr. HAYES. That is, at the outside?

Mr. KING. It will be in some localities; but take it throughout the United States, I think it will be safe to say the average will not be over possibly 80 acres; don't you think so, Mr. Ryan?

Mr. RYAN. No; I think it will be less than that. The limit of the largest farm now that has been established by the Reclamation Service is 80 acres.

Under the reclamation act 160 acres is permissible, but 80 acres of irrigable land, I believe, is the largest unit, with very few exceptions. There are a lot of entries for 160 acres, and the amended reclamation bill which is now before Congress provides that the holders of those 160-acre entries will be permitted to relinquish the excess over and above the area of the farm unit as established by the reclamation act. Most farm units that have been made fix the irrigable area at 80 acres or less, so that the average will be down to about 40 acres. There are some of them as low as 10—10 and 20 acre units.

Mr. HAYES. Now, in the Salt River project, what is the usual unit?

Mr. KING. The limit contemplated there is 40 acres.

Mr. HAYES. Forty acres? That is what I thought.

Mr. KING. Yes. And take the West Umatilla extension, in Oregon, that has not been fixed; but I think we expect to reduce it to a lower acreage than that.

Mr. HAYES. So that we might have it in the record, let us take the Salt River as probably an average project. The expense there we have been advised was \$70 an acre, the cost of the project. Now, if we give them 20 years' time in which to make payments that would amount to \$1.40 an acre per year for 40 acres. That is \$140 for each tract of 40 acres. It is \$140 for a 40-acre tract per year, which is \$2,800 all together. That would be the tax.

Mr. KING. I do not quite catch that point.

Mr. HAYES. \$70 an acre for 40 acres is \$2,800, and divided into 20 annual payments would be \$140 each.

Mr. KING. For 40 acres?

Mr. HAYES. For 40 acres, so that the tax on a 40-acre tract would be \$140 a year.

Mr. KING. This man would pay \$140 a year in addition to his State and county tax, but along with that he has the advantages of several crops each year; the productiveness of his farm is increased about tenfold as compared to some other man's land who is without water, and who does not have to pay that extra tax. We call it a

tax. Hence, considering it from that standpoint, he is a safer man to loan the money to, even if you make a second loan, than the other.

Mr. PLATT. Does he have to pay any more for his water, or does he get his water free?

Mr. KING. He only pays the actual cost of maintenance of keeping up the reclamation project. The lands are assessed pro rata, and each man pays his share. That, of course, will continue.

Mr. Woods. Does the Government keep on operating the project for 20 years?

Mr. KING. It keeps it up until the project is turned over to the landowners, which may be done, under the reclamation act, after one-half has been paid; then it turns it over to them, subject to the supervision of the Government in a way to see that they carry out their contracts, and the settlers themselves will handle the project, collect the fees, and pay the Government.

It occurs to me that unless this exception is placed in the bill that it will be in fact, and for all practical purposes, a discrimination against those who have lands requiring irrigation under Government projects, because you practically say to them that money may not be loaned to them notwithstanding they offer as good security and their lands are more productive, with better opportunity in the end to repay the loan, than the man without irrigation; that is to say, that loans will be made to people who do not have the advantage of irrigation. Now, a man who has never been in an irrigated country, and has not considered this very much, is not inclined to take that view of it. But in an irrigation district, on the irrigation sections in the arid and semiarid States, there will be but little difficulty in understanding it. In fact that is the view which will be taken of it; that is to say, it is a discrimination against the farmer who may purchase a water right for his land. Unless I am mistaken, the bankers in Malheur County, Oreg., which is one of the principal irrigation sections of the State, loan money on lands without questioning the lien placed upon them for water rights. The State of Oregon thus loans its State school money. I was agent for the State there for several years. No question was asked about the prior liens that might exist by reason of water-rights contracts. The fact that a person owns stock in some company and was not able to pay for his water right and might eventually lose his water right did not occasion any worry at all, except that the stock was assigned over to the State.

Mr. SELDOMRIDGE. Do you think that the Government could properly appraise these lands out there for their real value and validate that appraisement?

Mr. KING. Well, not any more than we appraise lands in levying assessments for municipal, county, and State purposes. They never assess them for their real value. They claim they do, but they never do.

Mr. SELDOMRIDGE. It seems to me that, taking into consideration the fact that the water right resides in the Government, it will be necessary to have a very strict appraisement of land to be offered for mortgage, under official direction.

Mr. KING. Well, it might be, but I fail to see where there would be any difference, as a matter of practice, because, as has been suggested, the lands are absolutely worthless without the water, and whenever the lands are sold under the mortgage the purchaser under the mortgage foreclosure must, for his own protection, pay for these water rights under the first lien. There is no escape from it. Otherwise he gets nothing. You will find plenty of them ready to purchase, and I think it is safe to predict that if this suggested amendment is made there will not only be money loaned by people who are in the money-lending business, as second mortgages, but they will take it as a third lien, even if you can call the water-right contract a first lien. For example, in States where we loan school funds, as in my State, a man can borrow money to the extent of one-third of the value of the land, independent of the improvements, at 6 per cent. It is nothing unusual for a man to put another mortgage on the land, and the banks and people in the money-lending business are glad to get it. Of course they keep it within reasonable bounds. I think that this would work out in the same manner. I think you will find that in all the States where money is loaned by the State, as it is in Oregon, it will be loaned notwithstanding this will be a first lien upon the land. I have reference to the water right. That question will never be asked, because in those States the matter is so well understood that it is seen that no chances are being taken on that account.

Is there anything further, gentlemen?

Mr. Woods. Judge Kings, I understood you to say that some of these settlers or owners did not get title for four years. Is that title to the land?

Mr. KING. Not all of them. They can not get the title until they have lived on the land for four years.

Mr. Woods. Some of them have private titles?

Mr. KING. Yes, sir. I am speaking of Government lands. As far as private lands are concerned, of course, they have their title.

Mr. Woods. How would the owner transfer title to the bank as security for the loan?

Mr. KING. You mean under the private lands? The private lands would give a mortgage.

Mr. Woods. Under the Government land, prior to the first four years.

Mr. KING. He can not transfer the title.

Mr. Woods. How would the bank make the loan?

Mr. KING. The bank does not make the loan.

Mr. Woods. What security would they have?

Mr. KING. I do not think they would have any until after final proof is made.

Mr. Woods. Is that not the time that they need assistance most?

Mr. KING. Well, the situation is this, there are thousand of them who already have been living upon their lands the required time who would apply. I am glad you brought that question up, because I have heard it asked here as to why the same privileges should not be extended to every man who was not depending on irrigation, so that he could improve his land the first four or five years. The fact is that you can not loan to a man before he makes final proof. You could loan, but, of course, the mortgage would be worthless. But after final proof has been made upon a homestead, whether it

is under a Government project or not, then it is in position so that a loan may be made upon it and become a first mortgage. The same condition exists with reference to reclamation projects.

Mr. Woods. You are speaking of real estate loans?

Mr. King. Yes; real estate loans. So they are in the same position until they make the final proof. But on practically all of these projects now that have been under construction, there is a very large percentage, I think, who have lived there during the required length of time, and who could make their final proof and borrow the money if that is permitted.

Senator Hollis. We thank you very much.

STATEMENT OF HON. WILLIS J. HULINGS, REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA.

Mr. Hulings. The Senate committee has been good enough to listen to me, and I have not anything much to add to that except to emphasize two or three particulars. I have presented a bill (H. R. 9988), and perhaps it might be well to suggest at the start that if the mind of this committee is made up not to report any bill that has not for its foundation Government aid, it would be of little use for me to say anything, because I believe that that is the true basis of the relief that is sought in this agricultural credit matter.

Senator Hollis. I should hesitate to be responsible for forecasting what this committee might do.

Mr. Hulings. But if they are open-minded on this question, then I wish to suggest this, that the bills that I see have been presented for your consideration, all of them involve a great machine of Government control. One of them, at least, provides for the inevitable drift of the great volume of agricultural credit into the control of the banking class. They build up a political machine; they involve an enormous unnecessary expense and make the whole system intricate and expensive, which I think is easily avoidable. The theme or concept of my bill is a building and loan association turned just the other way around. The ordinary building and loan association, which has been such a great benefaction to the people of the country, provides for payments of small stipends monthly for a period of 30, 40, or 50 months, at the end of which time the contributor gets a paid-up share of \$200, paid in cash. Such a system is not possible, I think, in a farming community, for the reason that in the towns the wage earners or men who have a stated and a certain income, can cut their cloth according to their means, and they can make these contributions, but the farmer only has an income once a year, and that is not certain. He must wait for the year to see whether he is going to get anything. So the plan of organizing a number of banks, country banks, farmers' banks, that will find their capital through contributions of farmers, I think is impracticable.

So I have drafted this bill that has for its basis the formation of organizations of not less than 25 farmers that can organize a cooperative association, with a capital stock of not less than \$25,000. Their subscriptions to this stock are paid in by giving their note through a trustee for the use of the United States, these notes to be secured by mortgage on approved real estate. I need not go into

that. If everything is found to be correct they take these notes, together with the note of the organization or association, for a similar amount—\$25,000. These individual notes and mortgages are put back of that association note as a collateral security. The association note is payable in amortized payments, bearing 3 per cent. If everything is all right the Secretary of the Treasury hands the association \$25,000 in currency. Where the Treasury gets that is not set out in the bill, but presumably it is found by selling the 3 per cent bonds. The term of this law is 25 years. Being then extinguished by these amortized payments the Secretary of the Treasury hands back to the trustee, who is an appointed officer, these individual notes and mortgages, which are payable according to the rate of interest, presumably 6 per cent, so that it will not interfere with bank rates in the neighborhood—presumably 6 per cent. The maker of that note knows that by the payment of that 6 per cent during the time his debt and interest is extinguished. He can do that and also provide an adequate sum for organization expenses.

These organization expenses naturally will not be so great as in the ordinary building and loan association, which is found to be less than three-quarters of 1 per cent per annum, because the building and loan association meets monthly. This association need not meet more than once every six months, at the times when the installments come due. These installments would be paid to the trustee, the trustee sends to the Government the amount necessary to meet the amortized payment of the association note, and the balance is put into the treasury of the association and there it remains and forms a fund, which, by gradual appreciation, becomes large enough to afford the short-time loan to such of its members as may require it.

Now, then, these associations have no Government control; there is no banking paraphernalia or expense of employees or clerks or Government controller; everything of that sort is avoided, and these associations in time will encourage cooperative operation even for marketing the products of the farm or for receiving the contributions from farmers or other persons in the neighborhood which they loan out on short-time loans, and it does not make any difference what kind of business they go into. It does not make any difference whether their business is successful or not, it can not in any wise affect the security of the Government and it can not affect the integrity of the loan which is made.

Now, I have looked at the Bathrick bill, and that seems to be very greatly commended and approved by some of these farmers' associations and bankers.

Mr. WEAVER. What do you think of the Bathrick bill?

Mr. HULINGS. Well, I think if Mr. Bathrick's bill could just be stripped of the expense and machinery which is altogether unnecessary—in other words, if Mr. Bathrick should adopt my bill he would have a good bill. [Laughter.]

I think Mr. Bathrick's bill is a better bill than the Moss-Fletcher bill, because those bills do not go to the heart of the subject and provide funds to make the thing work.

Mr. WEAVER. Do you not think Mr. Doolittle's bill is better than any of them? He provides the easiest way of getting money—just print it on the printing press.

Mr. HULINGS. Oh, well, I do not hold to such views at all. It is a mere question whether this agricultural industry is of enough importance to be worthy of Government aid. The enormous amount of farm indebtedness, the beggarly pittance which the average farmer has in the United States is driving men away from the farm, and they are going to the superior attractions of the city, and we wail and bemoan their leaving the farm. They are bound to leave the farm and are going to keep on leaving the farm unless we do something; and I believe one of the best things in the world is to give the farmer—the farmer who needs it—the best tool in his trade that you can give him, and that is cheap credit.

Mr. Chairman, I have said all that I want to say. I believe most of these gentlemen have heard me before. But if you are going to take into consideration at all the question of Government aid, I believe this bill that I have presented here, or a modification of it—for I have no private pride in the bill—provides the most direct way to reach the farmer.

Senator HOLLIS. So that we may have it in the record, will you please state what is the number of your bill?

Mr. HULINGS. H. R. 9988.

Mr. PLATT. Your bill provides for the issue of bonds to enable the Government to get the money, does it not?

Mr. HULINGS. No. I may say it originally did, and Speaker Clark, for that very reason referred the bill to the Ways and Means Committee, and when I found that that had been done I went to the Speaker and asked him to refer it to this committee, which he declined to do for that reason, and then I introduced the bill again without that provision authorizing the Treasurer to sell 2 per cent bonds, and then there was no reason why it should not be referred to this committee, and it was so referred.

Senator HOLLIS. How do you provide in your bill that the Government should raise the money?

Mr. HULINGS. It only provides that the Treasurer shall pay the money, and I presume that if the committee should adopt that scheme they would simply put in the section that I dropped out.

Senator HOLLIS. That is, we get around the honorable Speaker by adopting that amendment?

Mr. HULINGS. Yes, sir.

Senator HOLLIS. I see.

(Whereupon the subcommittees took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

The subcommittees reassembled after the expiration of the recess.

STATEMENT OF H. MARTIN WILLIAMS, OF WASHINGTON, D. C.

Mr. WILLIAMS. Mr. Chairman and gentlemen of the committee, I have hesitated considerably about coming here and making some observations upon a subject which I regard as very important. I did not know whether it was proper for me to do it or not, holding a

position in Congress, as I do; but at the risk of doing something that may be regarded as improper, I want to make one or two suggestions with regard to this farm credit matter.

As I understand it, your committee is charged with the duty of providing for a system of farm credit or loans to the farmers of this country. Am I right about that?

Mr. BULKLEY. That is correct.

Mr. WILLIAMS. And from what I have seen in the public press I assume that the proposed scheme is to provide for the loaning of money to the farmers upon their land as security, taking mortgages upon them. Is that the scheme?

Mr. BULKLEY. Yes; we have been working along those lines. Of course, the question of short-term credit has also been under consideration.

Mr. WILLIAMS. Well, that being true, and knowing that this committee and the Congress as well are trying to devise and hope to devise legislation along lines that would benefit the farming classes of this country, I want to suggest that the scheme of farm loans upon farm property or landed farm property will never reach the object that is sought to be obtained. It will never reach—it will never benefit the tenant farmers of this country, the men who have no land, and who number in round numbers about 2,000,000 of farmers in this country.

Take the State of Illinois, for instance, and there are 130,000 tenant farmers, men who do not own enough of land in which to bury a little dead baby two hours old. They are living upon land owned by other people, either big landowners or land farmers or land monopolists.

For instance, in one county, the County of Logan, Ill., one foreign estate owns 80,000 acres of the best land in the State, and the same estate owns enough land in the surrounding counties to bring the total up to 150,000 acres.

The State of Missouri has about 120,000 tenant farmers. The State of Georgia has more than either one of those States, and I submit that any legislation that does not make some provision for the tenant farmer, for the man down at the bottom, will fail to secure the end sought to be attained by any legislation of this sort.

I would regard the enactment of a mortgage-loan system to farmers, to be secured by mortgages upon their lands, as the very worst thing that could possibly happen for the small farmer and the tenant farmer. The effect would be to enable farmers who owned considerable bodies of land, especially those farmers who farm the farmers instead of farming the farms, to acquire more land. The effect would be to increase land values and make it more impossible, or more difficult, I should say, for the small farmer, for the tenant farmer, the man that we ought to manage in some way or another to enable to get a little bit of land that he could call his own, instead of being a benefit, it would be a detriment to him.

I have an extract from an agricultural paper published in Georgia. It is called the Home and Farmstead. It is just a brief extract; it says:

Senator Fletcher's bill creating Federal land banks provides cheap money for the farmers who have land to offer as security. Well and good, so far. But there is in it no provision and no hope for the tenant farmer, however indus-

trious, thrifty, honest, and aspiring he may be; no hope for the white tenant farmers of Georgia, who, with their families, represent a population of 450,000 people; and no hope for the white tenant farmers of the South, who number with their families 4,500,000. The negro tenant farmers, with lower standards of living, fare better; they are rising into farm ownership faster than the white, at the rate ranging all the way from 2 to 5 to 1 in the different States.

Mr. Chairman, that is all I care to submit to the committee—just the thought that any legislation that fails to take into account the tenant farmers, the men who are struggling against adverse circumstances, who live from hand to mouth, year in and year out, will be a fraud upon them; it will be worse than no legislation at all; and I am sure that this committee and Congress really desire to do that which will benefit the people who need the fostering care of the Government most.

I am not one of those, however, who believe in the Government being a parent. With my old-fashioned Democratic ideas I have thought, some how or other, that all that was necessary in this Government, or in this world, was to give every man an equal free opportunity in the race for life, and then let him take care of himself.

But we have not got free opportunities. To my mind, the way to correct this evil, the way to dissipate these enormous landed estates and these enormous farms is to reform our system of taxation; take taxes off of improvements; take taxes off of farm stock and farm machinery, and off of personal property, and put them upon the selling value of the land, and in that way you will break up the large farms and either compel the owners to dispose of them or to let them go at a reasonable rental. I can see no other way out of that difficulty.

Mr. Chairman, I want to thank you very much for giving me the opportunity to submit these observations; and if anyone desires to ask any question I will try to answer it if possible.

Senator HOLLIS. Do you believe in the single tax, Mr. Williams?

Mr. WILLIAMS. Absolutely. I believe it is the only salvation for industrial and financial depression.

Senator HOLLIS. And that is what you meant when you said to take the tax off all implements, stock, and so on, and put it on the land, is it?

Mr. WILLIAMS. That is what I meant exactly; to tax land values instead of taxing labor and thrift and industry.

Senator HOLLIS. Do you think that would diminish the price of real estate in farming localities?

Mr. WILLIAMS. Certainly, it would have that effect.

Senator HOLLIS. And that it would tend to place the land in the hands of owners instead of tenants?

Mr. WILLIAMS. Yes; I think that would be the ultimate end.

Senator HOLLIS. Yes. Now, can you make for the benefit of the committee some practical suggestions as to how we can help the tenant farmers in this legislation we have under consideration? Of course we all want to help them, but we know it is a very difficult thing.

Mr. WILLIAMS. I know that; but I can not make a suggestion along that line. I have not given it sufficient thought, and I am sure I could not submit anything that would be of value to the committee along that line. I think it is going to be a long way out. I do not

think it is going to be done by legislation by this Congress. I think it is going to take some time to devise legislation which will give relief to this large body of the American people who need it the most.

Senator HOLLIS. Do not be discouraged, Mr. Williams, if we do not do it in this bill.

Mr. WILLIAMS. Oh, no.

Senator HOLLIS. But I think eventually we will work out some system of personal credit that will be of great help.

Mr. WILLIAMS. I think so. I think that is true. I know that my acquaintance with the men who compose the American Congress justifies my belief in their absolute sincerity and their ability, when once they bring their thoughts to bear upon these questions, to work them out finally.

Mr. BULKLEY. We thank you very much for your attendance, Mr. Williams.

STATEMENT OF HON. PATRICK D. NORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA.

Mr. NORTON. Mr. Chairman and gentlemen of the committee, I appreciate very much the opportunity afforded me to make a few remarks on this important subject of rural credits.

I have lived in North Dakota, the State which I in part represent in Congress, for something more than 31 years. During all that time I have been interested in and engaged in farming. I am very well acquainted with conditions in that State affecting credits which farmers require to carry on their business.

I believe that I am very safe in saying that I have witnessed as much suffering and as much hardship on the part of farmers on account of exorbitant interest charges as has been witnessed by any man who has appeared before your committee. The subject of high interest rates on rural credits has been a live subject, an all-absorbing subject in my home State for many years.

During the past seven years I have lived in the western part of North Dakota, or, more accurately speaking, in the southwestern part of that State. This section of the State has only recently been developed for farming purposes. Prior to 1907 that particular section of the State was given over chiefly to stock raising and grazing.

Before moving to my present location at Hettinger, Adams County, I lived in the eastern part of the State, at Devils Lake.

At the present time the interest rate on farm loans—that is, first-mortgage farm loans, secured by first mortgage on farm lands—in the eastern part of our State is about 7 per cent, whereas in the western part of the State the rates range from 8 to 12 per cent. The maximum legal rate of interest in North Dakota is 12 per cent.

In discussing this subject, and the bills which are now before the committee and which are being given your consideration, it might be well for us to state to you how farm loans are handled at the present time in our State.

I may say that I am very well acquainted with the manner of making farm loans secured by first mortgages on farm lands, as I have negotiated many such loans for farmers, and have also made such loans on my own account. I have been paid high interest rates and

have myself paid a great amount of interest at the very high interest rates that exist in my State.

To-day we have in North Dakota something over 600 banks, including State banks and national banks. In the western part of the State, when a farmer desires to make a loan upon his land to-day, the usual practice is for him to go to one of the State banks doing business near his farm. These banks are, for the most part, institutions with a capital stock ranging from \$10,000 to \$20,000.

Mr. Woods. Mr. Norton, what is the minimum capital permitted in your State under the law?

Mr. Norton. The minimum capital under the existing law is \$10,000.

As I was about to say, a farmer goes to his local State or National bank and asks to make a loan. He makes out an application for the loan, giving the description of his land, the improvements on it, and the description of other property that he may have; a statement as to his indebtedness; a statement of the purpose for which the loan is to be made, and a statement as to the amount of loan he desires to make; and he authorizes the bank to which this statement is made to arrange for a loan on his land.

The loan is granted to him at the prevailing rate of interest charged by the bank.

Now, I want to say that in a very few cases do the banks carry these loans. Either before the loan is made to the farmer, or very soon thereafter, this loan is sold to some commission mortgage loan agent, in an Eastern State, or to some affiliated bank in an Eastern State. The greater part of the loans made in North Dakota are sold to banks or loan agents in the States of Minnesota, Iowa, Wisconsin, Illinois, and Indiana.

The local bank making the loan direct to the farmer calculates, in the course of its regular business, to sell this mortgage to its eastern correspondent, so as to net it a rate of at least 2 per cent for each year the loan has to run. That is, if the loan is made to the farmer at 12 per cent it is sold to its eastern correspondent at a rate not greater than 10 per cent.

In some cases—in many cases—when these loans are made direct to the farmers by local banks at 12 per cent they are sold to eastern loan agents or eastern banks at a rate to net the purchaser 8 per cent, and sometimes as low as 6 per cent per annum.

In the sale of the mortgage that is executed by the farmer, very frequently this mortgage passes through the hands of several loan agents or mortgage loan brokers, and in each case there is a commission of about 1 per cent per annum for handling the loan which goes to the loan agent.

So that the one who ultimately carries the loan receives but a small part of the rate of interest that is charged to the farmer.

The farmers of my State, under existing laws and under existing economic conditions, are not able and have not been able to protect themselves from these exorbitant commissions and high interest rates.

I have been very much interested for several years in the subject of rural credits, and I have carefully read the bills that have been introduced in the Congress and that are being considered by your

committee. I have in particular carefully read the bill introduced by Senator Fletcher in the Senate and Representative Moss in the House, the bill commonly spoken of as "the Moss-Fletcher bill," which proposes to provide for the establishment of national farm-land banks.

I want to say to the chairman of this committee and to the committee that from a reading and study of this bill I have been unable to discover how the system outlined in the bill, when put into practical operation, is going to prevent excessive commission charges on farm loans or give relief to the farmers of the country from the high interest rates they are now obliged to pay. I have been unable to see how the system that is now being carried on by the banks and loan agencies of the country is not going to be carried on in practically the same manner under the system outlined in this bill.

As I understand the bill, it provides for the establishment of banks having a minimum capital of \$10,000, these banks to loan direct to the farmers at a rate of interest not to exceed by more than 1 per cent the rate at which they may issue farm-mortgage bonds or bonds issued by the bank. They are called in the bill "land-mortgage bonds," I believe.

Mr. Woods. Yes; land-mortgage bonds.

Mr. Norrox. Land-mortgage bonds; that is the designation given in the bill. In North Dakota at the present time a great many of our State banks are affiliated with banks in adjoining States; that is, the stockholders of the North Dakota banks are stockholders in banks in adjoining States, and stockholders in banks that handle to-day as brokers a large amount of farm mortgages made by the farmers of my State.

It occurs to me, under the system outlined in the Moss-Fletcher bill—and this is not an idea alone of my own, but it has been brought to my attention by many letters from farmers in my State—that there is no particular inducement to cause the officers of the farm-land banks to sell farm-land bonds at the lowest possible rate of interest. That is, a farm-land bank established in western North Dakota could sell its farm-land bonds to some correspondent in Iowa at a rate of 9 per cent and then under the terms of the proposed law make a loan to the local farmer at the rate of 10 per cent.

As far as many of those who have written to me are able to determine, there is no certain guaranty under the provisions of this bill, in its practical operation, that the farmers whom it seeks to aid will be given loans at any reasonable rate of interest.

It occurs to me that, whatever Federal legislation is enacted by Congress on the subject, it should aim in a practical way to prevent the imposition upon the farmers of the country of the many commission charges that they are now subjected to on the loans that they are obliged to make. I think that is one of the greatest evils of present methods. In fact, I know this is true in my own State.

I might say to the committee, regarding the sentiment that exists among the farmers of my State on this subject, that while they are not in favor of a socialistic or paternalistic form of government, they do not believe the Government would be extending its proper functions too far if it gave some direct assistance to those actually engaged in farming, so as to guarantee to them credits that they must necessarily have to carry on the business of farming at a rate of

interest that would not be greater in any case than the rate of interest required to be paid by men engaged in commercial pursuits.

For the past 24 or 25 years the State of North Dakota has made loans from its university and school land funds direct to the farmers of the State. Before being elected as a Member of Congress, I occupied the position of secretary of state of North Dakota. As secretary of state I was ex officio member of the board of university and school lands. This board had, among its other multifarious duties, the duty of making loans on farm lands from the university and school land fund of the State. The loans were made at the rate of 5 per cent per annum, and were made for periods of 12 years, with the option of paying the principal on any interest-due date after 5 years.

I want to say that the experience that the State has had along this line has been a most successful one from the point of view of the State, and from the point of view of the borrower.

Mr. WOODS. Mr. Norton, would it bother you to be interrupted now?

Mr. NORTON. Not at all.

Mr. WOODS. Were there ever any losses in those loans so far as you knew?

Mr. NORTON. I do not recall that there ever was any loss. My best information and best recollection is that the State never lost a dollar in all the time it has been in the business of making loans direct to the farmers of my State.

Mr. WOODS. I assume there were quite a number of applications always on file.

Mr. NORTON. Yes; a great many applications on file; a great many more than we could supply loans to with the limited funds available for this purpose.

Mr. WOODS. Did you ever know of a case where political influence was used in order to secure advantage by the borrowers?

Mr. NORTON. No; I do not know of such a case. I am sure that nothing of that kind ever took place while I was on the board. The men who were on the board did not feel that it was a matter that could be looked at in that way. There was so much money apportioned to each county, and then the applications were examined in the order in which they were filed, and as they were approved, they were allowed in the order in which they were filed, accordingly as the money was available for that county. I have never heard any complaints that there was any undue political influence brought to bear in the making or granting of these loans. There was never any feeling like that throughout the State as far as I can now recall. I never heard of any such complaints, and I have been in political contests more or less there ever since I left school. If there had been any charges of that kind I would have been sure to hear of them during my administration.

I want to say to the committee further that the section of the State which I represent is made up of a considerable number of foreigners and descendants of foreign-born citizens. We have among our population a great many farmers who are surprisingly well informed on the subject of rural credits. I have received some very interesting letters from them. I have myself been surprised to discover the

information that farmers in my district have on this subject. They seem to be particularly well acquainted with rural-credit conditions in Norway, Sweden, and Denmark. A large percentage of the farmers in the southwestern part of the State are Russians, and many of these farmers are a very intelligent class of people. They are familiar with the rural-credit conditions in Russia. Others, judging from their letters, are acquainted with rural-credit conditions in France.

They frequently write me that they are surprised that this country, which boasts so much of its enlightened conditions and its progressive ideas, is so far behind the countries from which they came in the matter of a practical system to provide credits for those engaged in agricultural pursuits. I must confess that I have been somewhat humiliated, as a rather thorough and patriotic American, in reading some letters I have received from Russian farmers, who declare that even in that benighted country an industrious farmer is enabled to secure credits necessary to carry on the business of farming at fairer and more reasonable rates of interest than are obtained in western North Dakota.

I have introduced in the House a bill (H. R. 12755), which I shall have inserted in the record.

(The bill referred to will be found at the conclusion of Mr. Norton's statement.)

Mr. NORTON (continuing). This bill which I introduced aims to provide a practical system of credits for farmers, and aims to guarantee a reasonable rate of interest—a certain definite rate of not to exceed 4 per cent per annum on long-time loans. I am confident that the legislation outlined in this bill is practical and will effect real relief from existing exorbitant interest rates on rural credits. As you already have a great deal of testimony on both sides of this question before your committee, I am not going to go into the subject in detail, as I otherwise should. All that I wish to say at this time is that many business men, as well as a large majority of the farmers in my State, are in favor of direct Government aid to farmers and to farm-credit associations in the solution of this question of Federal rural-credit legislation.

It seems to me that it is essential that the greatest possible encouragement should be given in this country to the ownership of farm homes. I believe in any legislation that is enacted on this subject that should be the principal aim in view, and that the aid to be extended by the Federal Government should be extended primarily to those who make their homes on the land and to those who actually bring into existence by their efforts the products of the farm.

Senator HOLLIS. Mr. Norton, have you examined the bill that has been introduced by Senator Norris? Did you hear his testimony this morning?

Mr. NORTON. No; I did not hear the Senator's testimony.

Senator HOLLIS. It seems to me, looking the bills over, that the two bills are quite similar.

Mr. NORTON. Yes; I have read Senator Norris's bill; and I think the fundamental principles of the two bills are practically the same.

Senator HOLLIS. He explained his bill, section by section, this morning.

Mr. NORTON. I am pleased to know that the Senator did this.

Senator HOLLIS. And with that remark in the record, it will show how much they are alike. I wondered if they were drawn in collaboration.

Mr. NORTON. No; they were not.

Mr. BULKLEY. Is there any important difference between them?

Mr. NORTON. In my bill provision is made for branch bureaus of the farm credit board, and there are many different administrative features in the two bills. I believe that the practical working of a system of rural credits will disclose the fact that the administrative features of the system proposed can be best handled in each State; that is, the work in connection with making the loans in each State can be better handled in each State than it can be handled from one central point, such as Washington. My bill further emphasizes encouragement to rural credit associations. I am of the opinion that, just as rapidly as possible, all loans should be made through rural credit associations composed of actual farmers, and then that these loans to be made by rural credit associations should be carried by the loan fund provided by the Federal Government.

Now, I might say that some loan firms are doing practically this to-day, but instead of granting low rates of interest to farmers, they are reaping the profits of the system themselves.

The Wells-Dickey Co., operating in the eastern part of North Dakota and in Minnesota, makes loans throughout North Dakota at rates of interest of 8 to 10 per cent, sometimes as high as 12 per cent. This company is incorporated for a large amount. They issue a bond, a Wells-Dickey Co. bond, which they have no great difficulty, I am informed, in selling to net the purchaser 5 per cent per annum. The bonds they issue are secured by the farm-mortgage loans that they make.

This system carried out to-day does not, however, redound to the benefit of the farmer who makes the loan and who has to pay the interest and all the loan charges.

I think that is all I desire to say to the committee at this time. I wish to again assure you of my appreciation of your courtesy in giving me this hearing, and I trust that the legislation which will be enacted by this Congress will be practical legislation, legislation that will in effect guarantee and make certain that the farmers of this country will be able to secure the credits that are necessary for carrying on their business at fair and reasonable rates of interest.

Mr. PLATT. Does your bill provide that the Government shall raise the money for the loans by issuing bonds?

Mr. NORTON. By issuing bonds; yes; at $3\frac{1}{2}$ per cent; the bonds payable in 20 years. If there are any particular questions concerning my bill which any member of the committee desires to ask I will be very glad to answer them, and I shall be very glad to answer any questions concerning conditions in my State or concerning this general subject of rural credits in so far as I may be able.

Mr. PLATT. I thought your statement about the letters which you had from farmers in your State was interesting. Do any of those letters from Russian farmers tell about the credit systems in Russia?

Mr. NORTON. They do not go into detail or into particulars, but they state that loans can be made from the Government, as they express it, at very low rates of interest.

Mr. BULKLEY. That has been stated by Dr. Coulter, who traveled in Russia.

Mr. NORTON. Yes; I have also gone over the question somewhat with Dr. Coulter. Since this question has been generally discussed the past six months I have been surprised to learn the amount of information that these Russian farmers have on the subject and the manner in which they look upon our Nation's backwardness in this respect.

Mr. PLATT. Those loans in Russia, however, are made rather from sociological or political reasons than for the purpose of promoting agriculture.

Mr. NORTON. For political reasons? I do not so understand.

Mr. PLATT. For the purpose of enabling the people to settle on land which has been held in large tracts before, very much as the Government of Great Britain helps the Irish peasants to settle on land on which they have been living for the past 500 years, perhaps.

Mr. NORTON. Well, as I understand it, they are made to encourage the ownership of farm homes, to encourage the citizens of that country to engage in farming; and I take it that that will be the primary object of any legislation that this Congress may enact, will it not?

Mr. PLATT. Well, I suppose so. We have not the same problems to meet at all that Russia has or the same that Ireland has. We have not a class of tenants who have been living in one place for a long time and whom it is very desirable to enable to own the land.

Mr. NORTON. But we do have in this country the same problem to meet that they have there, the problem being to keep our people in this country upon the farms and to protect them from being impoverished by exorbitant interest charges.

Mr. PLATT. That is the problem there, I suppose, as well as here, to some extent. But in your territory it is a part of the problem to keep the people from going to Canada, is it not?

Mr. NORTON. Well, the problem is to keep our farms occupied. Yes; that is one of the problems.

Mr. PLATT. What do they get in Canada? They get Government loans there?

Mr. NORTON. No; at the present time and for the past few years, they get free Government lands there. That is the attraction in western Canada—free Government land, homestead land.

Mr. PLATT. Is there any tendency among the farmers of North Dakota of foreign parentage to organize the same sort of cooperative associations that prevail in their home countries—their native countries?

Mr. NORTON. Yes; there have been some few attempts along that line; I am not very familiar with that; but some of the Jewish settlements have made attempts along that line, and I think some of the Russian settlements in the southern part of the State have done so.

Mr. PLATT. The Russian farmers are not Jews as a rule, are they?

Mr. NORTON. Well, some of the Russians are Jews, but not as a general rule.

Mr. PLATT. Are they settled in colonies according to religion, or anything of that sort?

Mr. NORTON. No, I do not think so; not so far as I know. They are of different religious denominations.

Mr. BULKLEY. Mr. Norton, is it constitutional for the Government to borrow money on bonds for the purpose of lending it to farmers?

Mr. NORTON. Is it constitutional?

Mr. BULKLEY. Yes.

Mr. NORTON. As far as the Federal question is concerned?

Mr. BULKLEY. Yes.

Mr. NORTON. Well, I certainly consider that it is.

Mr. BULKLEY. What do you rest that on in the Constitution?

Mr. PLATT. The general welfare clause?

Mr. NORTON. On what sections of the Constitution, do you mean?

Mr. BULKLEY. Yes; what provision in the Constitution?

Mr. NORTON. Well, I am not prepared to say as to just what sections of the Constitution this authority may be found, or to discuss this phase of the subject at length now.

Mr. BULKLEY. It will be seriously urged, you know, that it is not constitutional for Congress to do this thing; and I have not looked it up carefully yet, and would like to have any authority that you may have on it.

Mr. NORTON. Well, I shall be very glad to submit authorities on that, but I have not considered that this was a question that would be very seriously raised. Of course, I have not had any doubt that it could be raised; any question might be raised.

Mr. BULKLEY. Well, it is pretty seriously urged, and if it is true, there is no use for use to talk about doing that.

Mr. NORTON. Oh, certainly not.

Mr. BULKLEY. Well, if there are no further questions, we are very much obliged to you.

Mr. NORTON. I might say, in conclusion, that I realize that there is a good deal of opposition to the Government going in this matter into what is termed paternalism in aiding farmers and giving them so-called special privileges.

But we are doing this in a small way now. In the irrigation districts all over the West, the Government has expended between \$80,000,000 and \$90,000,000 to carry on irrigation projects, and allows farmers to pay for these lands on terms that practically amounts to an amortization payment plan. There is a bill now before Congress which is amendatory of the laws governing irrigation projects, and which has the approval of the Secretary of the Interior, which provides that entrymen on irrigation projects may pay for their land in 20 years, by making small interest payments of 2 per cent per annum for the first 4 years, and gradually increasing it to a maximum rate of 6 per cent, which finally pays in full the sale price of the land.

So I do not believe, in view of what we are already doing, that this objection can be successfully urged.

Mr. BULKLEY. Of course, there is a question of policy there, and you might consistently vote for Federal aid if you believed it was expedient. But I take it that, if we believed it was unconstitutional, we ought not to vote for it, even if we were in favor of the policy.

Mr. NORTON. I quite agree with you there; and I shall be glad to submit authorities on that view of the subject.

Mr. BULKLEY. Yes. Well, if there are no further questions, the whole series of hearings on this subject will be considered at an end. (The bill referred to by Mr. Norton is as follows:)

[H. R. 12755, 63d Cong., 2d sess.]

A BILL For the establishment of a Farm Credit Bureau in the Department of Agriculture, to reduce the rate of interest of farm mortgages, and to encourage agriculture and the ownership of farm homes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby established in the Department of Agriculture a bureau to be known as the Farm Credit Bureau. The said bureau shall be in charge of a commissioner, to be appointed by the President of the United States, by and with the consent of the Senate. The commissioner shall hold office for a term of ten years, and shall be removed from office during such term only for cause. He shall receive a salary of \$8,000 per annum. The commissioner may be removed from office by the Secretary of Agriculture for violation of law or neglect of duty, but only after a public charge duly made, of which he shall have reasonable notice, and then only upon approval in writing by the President of the United States.

There shall also be in said bureau a chief clerk and such other clerks, agents, and employees as are provided for in this act, or as may be hereafter authorized by law or as may be authorized by the Farm Credit Board hereinafter provided for.

Sec. 2. That the said commissioner shall appoint a chief clerk, chief examiner, and a treasurer as officers of the bureau. This chief clerk shall receive a salary of \$5,000 per year. The treasurer shall receive a salary of \$4,000 per year, and each shall give bond in such sum and terms as shall be prescribed by the board hereinafter provided for. The commissioner shall engage such employees as shall be necessary, appoint appraisers and administrative agents of the bureau, and shall have charge of all employees and conduct of the business of the bureau. The commissioner shall have power to dismiss any of said officers, and is hereby authorized to incur all expenses necessary to the establishment, organization, and maintenance of the said bureau.

In the absence or disability of the commissioner the chief clerk shall act as deputy commissioner, and during the time he so acts shall perform the duties of the said commissioner, and no legal action shall rest upon a question of the authority of the said deputy commissioner to perform such duties.

SEC. 3. That the purpose of this act shall be to loan money upon the security of farm first mortgages direct to farmers, to farmers through the agency of farm credit associations, or as hereinafter provided. The term "farmer" for the purpose of this act shall be construed to mean any person, firm, or corporation engaged exclusively in the business of tilling the soil and raising farm products, or that shall hereafter engage in the said business.

The term "farm credit association" shall be construed to mean any association of farmers who actually reside upon and operate farms organized for the purpose of procuring better credit facilities with which to conduct the business of raising farm produce, and which shall comply with regulations prescribed by the board hereinafter created.

SEC. 4. That there is hereby created a board to be known as the Farm Credit Board, hereinafter referred to as the board. This board shall consist of the Secretary of the Treasury, the Secretary of Agriculture, and the Postmaster General of the United States, who shall act without additional compensation, and two citizens of the United States, who are farmers within the meaning of this act, and who shall fairly represent the agricultural interest of the different sections of the country. The said farmers shall be appointed by the President, by and with the consent of the Senate, for a term of three years. Said farmers shall receive a per diem of \$20 for each day their services are required by the board, together with their actual necessary traveling expenses between their homes and the place where the board may convene.

The board is hereby authorized and directed to prescribe procedure, regulations, and forms, not otherwise herein prescribed, and to provide, if at any time found necessary, for the establishment of branch bureaus in each of the several States for the best means of carrying out this act.

The Secretary of Agriculture shall be president of the board. Within thirty days after appointment, as hereinbefore provided, of the commissioner and chief clerk of the bureau, the board shall meet in the city of Washington, District of Columbia, at a place designated by its president, and perform the duties herein provided, and shall hold further meetings upon the call of its president. The chief clerk of the bureau shall be secretary of the board without additional compensation. The secretary of the board shall keep a record of all its proceedings, and all rules and regulations which shall be preserved in the archives of the Department of Agriculture, and copies thereof shall be transmitted to the commissioner of the bureau. All decisions on matters coming before the board shall be by vote of the majority, each member having one vote, and three members present shall constitute a quorum for the transaction of business.

SEC. 5. That the commissioner of the bureau shall receive applications for loans, supervise collections, keep a correct registry of all securities, and, by his direction, all disbursements from the funds of the bureau necessary to carry out this act shall be made. He shall keep correct account of the loans, sales, investments, receipts, expenditures, profit and loss, and make a report of these and other work of the bureau to Congress at the end of the fiscal year.

SEC. 6. That the commissioner, chief clerk, and the treasurer of the bureau shall constitute the staff of the bureau before which all applicants for loans may appear personally or by attorney, and present additional evidence if their application shall have been denied in whole or in part. The decision of the majority of the said staff shall be final.

SEC. 7. That the commissioner of the bureau, by himself or his agent, duly appointed for such purpose, for and on behalf of the Government of the United States, is hereby authorized and empowered to appear in any United States court, or State, Territory, or District court in the United States in any legal procedure on any question arising from the making or collecting of loans, sales, or purchase made under the provisions of this act. The said commissioner may designate, under regulations prescribed by the board, any farm credit or financial association as loan agent, but farm credit association shall be preferred.

SEC. 8. That to secure money for the purpose of making the loans, as herein provided, and for the carrying out of the provisions of this act, the Secretary of the Treasury is hereby authorized and directed to borrow money on the credit of the United States, as may be directed and under the terms and conditions prescribed by the board, and from time to time he shall, as may be requested, issue registered bonds to the United States, which shall be duly countersigned by the Comptroller of the Treasury. If so directed by the board the said Secretary of the Treasury shall issue registered bonds of one series to redeem the bonds of another series. All the bonds provided by this act shall bear interest not in excess of three and one-half per centum per annum, payable semiannually, and shall be exempt from taxes or duties of the United States, as well as from taxation in any form by or under State, municipal, or local authority. The bonds issued under this act shall be issued for a term of twenty years and with the privilege of paying the same upon the date of maturity of any interest payment after five years. The bonds so issued shall not be sold at less than par, and shall be of such maximum and minimum denominations and terms not herein provided for as shall appear to the board to secure the best market among all the citizens of the United States, and the Treasurer shall give notice of his intention to issue bonds, and shall invite from the public generally subscriptions to said bonds. If the amount of said subscriptions shall exceed the amount of bonds to be issued, he shall give preference in accepting money for said bonds to those offered in the smallest amounts, the intention being to give as wide circulation and distribution to said bonds throughout the country as possible: *Provided*, That the total sum of bonds outstanding shall bear as close relation as possible to the sum of securities and accepted applications for loans held by the bureau: *Provided*, That after this Act shall have been in active operation for one year said board shall have authority to reduce the rate of interest charged for farm loans thereafter made, and so also reduce the rate of interest upon the bonds herein provided for thereafter issued. It being the object of this Act to pay as low a rate of interest upon said bonds as will float said bonds at par and to charge as low a rate of interest upon the farm loans herein provided for as will

bring a sufficient revenue to pay said bonds, the interest thereon, and expenses connected with the making of said loans, and losses, if any, incurred therein.

SEC. 9. That each day all sums of money procured by the sale of bonds, together with all receipts of the bureau, shall be covered into the Treasury of the United States, and it shall be the duty of the Treasurer of the United States to keep an account of such sums in his charge, and they shall not be used for any purpose other than as herein provided. With the exception of such part of this fund as shall be required to pay the running expenses of the bureau, the accrued interest on outstanding bonds, and the amount of bonds as they may mature, the fund so provided shall constitute a loan fund which shall be loaned or invested with as little delay as possible, as herein provided.

SEC. 10. That the treasurer of the bureau is hereby authorized to draw warrants, which shall be countersigned by the commissioner, against the said loan fund, and the said treasurer shall keep account of such moneys in manner as shall be prescribed by the commissioner, and all accounts of the bureau shall be audited by the Auditor for the Department of Agriculture in the Department of the Treasury.

SEC. 11. That the bureau shall make to farmers loans on farm lands located in any of the States in the Union or in the District of Columbia, under rules and regulations made by the board and in accordance with the provisions herein. Said loans shall be secured by first mortgages made payable to the bureau, and shall bear interest at the rate of four per centum per annum, payable annually. That the terms of every loan extending for more than five years shall contain a mandatory provision for its amortization or reduction by annual or semiannual payments on account of the principal, and the terms of every loan shall provide that at any interest-due date the mortgagor or his grantee shall have the right to pay the entire loan or to make payment of \$100 or any multiple thereof on the principal thereof, and upon such payment being made the interest on the amount so paid shall thereon cease. Said mortgage shall provide that both the principal and interest shall draw interest at the rate of six per centum per annum from maturity.

That the bureau shall make loans to farmers upon farms (first mortgages), through farm-credit associations or designated financial associations acting as agents of the bureau, under regulations prescribed by the board, upon the same terms as prescribed in the preceding paragraph of this section, and the commissioner shall pay to the said association a commission annually of not in excess of one-half of one per centum on said loans; *Provided*, That said associations shall become security for all mortgages upon which loans are made through them.

SEC. 12. That no person shall be entitled to a loan of money from the bureau until he has made application therefor under oath upon blanks to be furnished by the bureau. Such application can be sworn to before any person authorized to administer an oath, and all postmasters and their deputies in the United States are hereby authorized to administer oaths to applicants making application for loans under this act, and to administer oaths to such applicants or other persons to any other affidavits made necessary by the rules and regulations of the board. Whenever any oath is administered by a postmaster or deputy postmaster no charge shall be made therefor. No person shall be entitled to a loan under this act who is not of good moral character and who does not establish to the satisfaction of said bureau that he is honest and bears a good reputation in the neighborhood where he resides. No loan shall be made to any person who is not an actual resident and engaged in the cultivation of the land offered as security; *Provided*, That where the applicant for the loan is endeavoring to secure the money for the purpose of building a house upon the land, or for the purpose of making part payment upon the purchase price thereof, the bureau can waive the stipulation if convinced that it is the intention of the applicant as soon as possible to reside upon the land and to cultivate the same, the intention of this act being to provide money only for persons who intend to reside upon and cultivate the land which they offer as security. No loans shall be made for more than sixty per centum of the value of the land offered as security, and only for one or more of the following purposes:

First. To make practical improvements on the land to be mortgaged.

Second. To aid in increased production of said land.

Third. To make payment of the part of the purchase money of the land to be mortgaged, or to pay off an indebtedness already existing against said land; *Provided*, That fifty per centum of any loan may be used for the purchase of

stock and farm implements. No loans shall be made upon the security of a single mortgage for an amount in excess of \$15,000 and no loan shall be made for less than \$200, and loans upon single mortgages for amounts less than \$6,000 shall receive the preference. No loans shall be made in any case for an amount in excess of sixty per centum of the value of the property offered as security.

Sec. 13. That it shall be the duty of every postmaster, deputy postmaster, or other employee or official of the Government, without fee or pay therefor, to make confidential reports to said bureau, upon request therefor, upon anything pertaining to any loan and upon the character or standing of any applicant or witness. Such postmaster, deputy postmaster, or other officer shall also, when requested by said bureau, appoint appraisers to appraise the land offered for security under the regulations of and upon the blanks furnished by said bureau.

Sec. 14. That any person applying for a loan shall furnish to said bureau an abstract of title to the land offered as security and shall pay all the necessary expenses connected with the making of said loan. Such applicant shall furnish conveyance for the appraisers appointed to fix a value upon the land offered for the loan, or shall pay for the transportation of said appraisers to and from said land, and if required by said appraisers he shall pay a fee to each of them, not exceeding two in all, which fee shall be ascertained in advance and fixed by the official appointing said appraisers. It shall be the duty of said bureau and the officials appointing said appraisers to select efficient, qualified, and unbiased persons, but at the same time to regulate any fee that they may charge for such service so as to make the same as small as possible. Such appraisers shall make return upon blanks provided by the bureau, and shall swear to the same before some person qualified under this act to administer an oath.

Sec. 15. That it shall be the duty of every United States district attorney or deputy district attorney, upon request from said bureau, to examine the abstract of title to any land offered as security under this act, and to make return thereof to the said bureau. It shall likewise be the duty of any district attorney or deputy district attorney, when requested by the bureau, to foreclose any mortgage taken as security for a loan under this act and to prosecute the same to final judgment. All such services so rendered by an attorney connected with the Department of Justice shall be a part of his official duty and shall be rendered without pay, but said bureau shall pay in all cases the actual expenses of any such attorney in connection with such litigation.

Sec. 16. That it shall be the duty of any post-office inspector, United States marshal, deputy United States marshal, or other employee or inspector of any other department when engaged in official business in the vicinity of any land mortgaged to said bureau, upon request of said bureau, to make a personal inspection of the same and to report thereon to said bureau. Such inspection shall be made without charge, but said bureau shall pay the actual expenses, if any, made necessary thereby. It shall likewise be the duty of any postmaster, deputy postmaster, or other governmental official residing or doing business in the vicinity of any land that has been mortgaged to said bureau, upon request of said bureau, to make a report upon said loan or as to whether the money borrowed upon said land has been expended or is being expended in accordance with the purposes for which the same was loaned, and in making any loan under this act the said bureau can withhold, under such rules and regulations as the board may prescribe, any part of the same for the purpose of insuring the application of said loan to the purposes for which the same was made.

Sec. 17. That should the owner of any land mortgaged to said bureau fail or neglect to pay the interest thereon at or before the time when the same is due, or permit the taxes on the land to become delinquent, or neglect or refuse, without the consent of the bureau, to apply the money borrowed in accordance with the statements made in the application for the loan, or if he has made any false statement as to the material matter in said application, or if he neglects to properly care for the improvements on said land, or if he do any other act that materially injures the value of the security, either by overt act or by neglect and inattention, or should said land, without the consent of the bureau, cease to be farmed and cultivated, then the said bureau shall have the right at its election and without notice to declare the entire amount secured by said mortgage due and payable, and may take any steps necessary for the foreclosure of said mortgage and the collection of said loan, and from and after said election so made by the bureau the amount secured by said mortgage shall bear interest at the rate of six per centum per annum.

That in making any payment of interest or payment of the principal, or part payment of the same, upon any loan made under this act the person making such payment can pay the same to any postmaster designated by said bureau, and such postmaster shall immediately notify the bureau of such payment, and the transmission of the money so paid, and thereupon credit shall be given for the payment of such money as of the date the same was paid to the postmaster. The said bureau shall notify each person to whom a loan has been made as to the post office where payments upon this loan can be made. The bureau may make such designation by general circular or by specific notice in writing, and can designate by such notice a post office within a county or other district to which all payments within such district can be made.

SEC. 18. That the bureau shall have power to sue and to be sued, to complain and defend in any court of law or equity having jurisdiction of the subject matter in litigation. To protect any loan it may pay the taxes or any other prior lien due and unpaid against the land securing said loan, and in such case the amount paid in liquidation of such taxes or lien shall be added to and become a part of its mortgage on said real estate, and from the date of such payment shall bear interest at the rate of six per centum per annum. It shall have the right and authority to purchase at sale under judgments or decrees of court rendered in foreclosure proceedings of any mortgage it owns the land so mortgaged, but in such case it shall not bid a greater amount for such land at such sale than the amount due in such proceedings, together with costs and expenses expended in relation to said loan. In case the bureau obtains title as set forth in this section to any real estate, it shall have authority to sell the same at such price as may be for the best interests of said bureau in the judgment of the commissioner, and to convey title to the purchaser thereof by deed signed and acknowledged by the commissioner. In making such sale it shall be authorized to make a return mortgage from the purchaser for part of the purchase price thereof in accordance with the provision of this act.

SEC. 19. That it shall be unlawful for any Senator, Member of the House of Representatives, or any other official of the Government of the United States to use or attempt to use political or any other influence to induce said bureau to make or refuse to make any loan or loans. Any person found guilty of the conduct in this section prohibited shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined in any sum not exceeding \$2,000, and in addition thereto shall be removed from office.

That it shall be unlawful for any official of any State or any officer or member of any political committee to use or attempt to use any political or other influence to induce said bureau to make or refuse to make any loan or loans. Any person found guilty of the conduct in this section prohibited shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined in any sum not exceeding \$1,000 or be imprisoned for a term of not exceeding one year, or both such fines and imprisonment, in the discretion of the court.

SEC. 20. That any person or persons who shall make any false representation to said bureau in connection with the making of any loan or in connection with the investigation of any application for a loan, shall be guilty of a felony, and upon conviction shall be fined not more than \$5,000, which fine shall be paid into the loan fund, or shall be imprisoned for a term of not exceeding five years, or shall be sentenced to both such fine and imprisonment, in the discretion of the court.

SEC. 21. That there is hereby appropriated from any unexpended balance in the Treasury of the United States the sum of \$100,000 for the purpose of carrying out the provisions of this act pertaining to preliminary expenses and organization.

SUPPLEMENTAL STATEMENT OF ABEL ADY, OF KLAMATH FALLS, OREG.

(The following statement was submitted by Mr. Ady and ordered incorporated in the record:)

Two distinct banking features are required to meet the financial needs of the American farmers, namely, the accumulation and control of local capital for short-time loans, and a method of concentrating capital into the rapidly-developing farm districts for long-time farm loans.

The first feature requires cooperative farm banks with a minimum amount of capitalization, and with a limited per cent of shares that may be held by

any one individual, and a limit to one vote for each individual shareholder, and with an unlimited amount of depositors so as to permit farmers to control their collective capital for mutual use as a guard against control of such capital by money lenders through the medium of other banks.

Appropriate provision should be made for Federal five-year deposits at 3 per cent, and equal in amount to all State five-year deposits at 4 per cent, being made in such banks in order to start the same in localities of undeveloped country where money is scarce. All loans to be subject to the requirements of the Federal banking laws, with such rules and regulations as may be mutually approved by the Secretary of the Interior, the State comptroller, and the board of directors of the cooperative bank; and the loans confined to less than three years in time.

The second feature may be met by providing national farm-land banks, one in each State, or convenient group of States, with the right to sell the stock to cooperative farmers' banks. To issue and sell bonds to the limit of the face value of such farm mortgages (as it shall from time to time receive) which bond issue shall be limited to 15 times the bank's capitalization; and to assign bond mortgages to other national farm-land banks for issuance of bonds thereon after its own bond issue has reached the limit of 14 times its own capitalization. This transfer of mortgages from one bank to another is to serve as a means of drawing capital from developed farm localities where it is not needed to undeveloped localities where the capital is needed; this banking system of balancing supply and demand being the especial use for the national farm-land bank. Appraisements should be made jointly by a Federal fiduciary agent, a representative of the State comptroller, and a representative of a local cooperative farmers' bank. The latter having knowledge of local land conditions that would prevent a borrower from taking advantage of special conditions and favorable seasons, and thereby showing to a stranger \$100 land that might not be worth \$100 under ordinary conditions.

Provisions should permit local cooperative farmers' banks to guarantee collection and divide equally with the national farm-land bank the difference between the rate of interest on the bond issues and the rate of interest on farm mortgages. As collections must be taken care of locally, the farmers could best take care of collections of mortgages and interest on the same and the national farm-land bank take care of the sale of the bonds and payment of principal and interest on same.

The necessity of getting "back to the farm," is admitted. The control of capital by classes of men, chiefly in sympathy with the development of corporations and millionaires has driven our farmers to the cities, and there is no way of getting them "back to the farm," or of leaving them the possibility of remaining on the farm, except with the use of capital.

With all due respect to some of the glowing descriptions given of monuments earned by money lenders, under past methods of farm loans, I assure you that few of our Western farmers have succeeded in paying the required rates of interest and had money enough left to secure a monument for the borrower.

SUPPLEMENTAL STATEMENT OF HERBERT MYRICK, PRESIDENT OF THE ORANGE JUDD CO., SPRINGFIELD, MASS.

(The following was submitted by Mr. Myrick and ordered incorporated in the record:)

[An epitome tentatively drafted by Herbert Myrick, Mar. 6, 1914, after testifying before joint subcommittees on rural credits of United States Senate and House, and after reviewing all the evidence.]

1. National farm finance act: This title is comprehensive, dignified, business-like, expressive, self-reliant, inspires confidence, is uniquely American. Do not use the term "rural credits," which suggests lack of assets, unthrifty borrowing, pauperism.

2. One comprehensive measure in two parts: Part 1. National rural banks for personal credits; part 2. National farm-land banks for mortgage credits.

An American method adapted to the people, needs, conditions, customs, habits, and institutions throughout rural America.

3. One Federal system enabling (a) national banks under existing law, the proposed (b) rural banks, and (c) farm-land banks to compete in supplying the

needs of agriculture and rural industry; also to cooperate in so doing through the (d) Federal reserve banks.

Both types, rural and farm land, are administered by the Treasury Department, under the Comptroller of the Currency, through a deputy comptroller of rural banks and a deputy comptroller of farm-land banks. In fundamentals, subject to Federal Reserve Board. No new bureaus, no unnecessary expense, no untried methods, no needless red tape. The same governmental supervision, examination, and control that applies to national and Federal reserve banks.

PART 1—*National rural banks.*

4. How formed: Ten or more natural persons may organize a national rural bank with not less than \$2,000 paid-up capital, in shares of a par value of \$5 each, double liability same as for national-bank stock. Only one vote for each member; no proxies. Not to exceed 20 per cent of the stock may be held by one person. Interest on capital not to exceed legal rate in its State; further earnings available for distribution may be apportioned as dividends on patronage, nonmembers receiving only half the dividend paid to members.

5. Business: Transacts all kinds of banking business, but only with its members, until its paid-up capital stock shall be \$25,000, when it shall become entitled to all duties and privileges of a full-fledged national bank, including membership in its Federal reserve bank.

These are to be the little local thrift banks for rural savings and petty personal loans. Through the rural bank's indirect connection with the Federal reserve bank, the benefits of the reserve system are brought within reach of each farmer or rural resident. The rural bank may negotiate mortgages on the farms of its members as agent for the farm-land bank.

But the rural bank does not tie up any of its current funds in permanent mortgages. Thus the rural bank safely supplies each farmer's needs for savings, deposits, and personal loans, and assists him in getting a mortgage loan. Many small State banks, having \$5,000 capital or so, probably will be reorganized as national rural banks. Federal, postal savings, and other public funds may be deposited in the rural bank.

6. May own a national bank: Not less than 5 nor more than 10 rural banks may invest not more than 50 per cent of their capital in shares of a regular joint-stock national bank having not less than \$25,000 capital and being a member of its Federal reserve bank. Such rural banks must own collectively at least 60 per cent of said stock, so as to control; balance may be owned by natural persons.

7. Rediscount privileges: Such national bank so owned, or any other national bank, may rediscount for a rural bank good notes said rural bank receives in due course of business from its members, but only when the notes are indorsed by said rural bank. Such prime paper, when indorsed by said national bank, shall be entitled to rediscount by it at its Federal reserve bank.

This converts the farmers' short-time or seasonal notes into three-name paper, secured by the collective assets of the rural bank and indorsed by the national bank. If existing nationals do not take reasonable care of paper for the rural banks, then the rurals may collectively acquire a controlling interest in a national bank of their own, thus insuring their connection with the Federal reserve.

GENERAL PROVISIONS.

8. Depositaries: Any national rural bank, or any national farm-land bank, shall be a legal depository for Federal postal savings, or other public funds, or for the funds of courts, trustees, corporations, or individuals responsible to Federal law; State law to coincide.

The act of each State legislature pertaining to the national farm-land bank for that State shall likewise make said bank a legal depository for State, county, city, township, or public funds, or trust funds under the laws of that State. Said State law shall also coincide with the Federal act with respect to sections 9 and 10 following:

9. Land bank bonds legal investment for Federal, postal savings, or other public funds, or for the funds of courts, trustees, corporations, or individuals responsible to Federal law; State law to coincide.

10. Taxation: The shares and funds of national rural banks shall be subject to the same taxation as national banks. But the shares of farm-land banks, their bonds, mortgage notes, and mortgages, also the income therefrom, shall

be free from any and all taxation whatsoever; and this shall be confirmed by State law.

11. Penalties for malfeasance same as for national banks.

12. An appropriation sufficient for these purposes: (a) for deputy comptroller of national rural banks to employ agents to go out and organize rural banks where requested, to see that they start right, and to supervise them thereafter; (b) for deputy comptroller of farm-land banks to do likewise; (c) to defray all organizing expenses of both kinds of banks.

PART 2.—*National farm-land banks for mortgage credits.*

13. One State shall be the unit of territory for each national farm-land bank; Federal reserve board may authorize more in any State if it thinks same essential to the public welfare.

14. Capital stock to begin with at least \$500,000, increasing as desired; shares \$100 par value, double liability.

15. Each member shall have but one vote irrespective of number of shares owned, no proxies. Not over 5 per cent of the stock may be owned by any one member, except the State or any political subdivision thereof.

16. Members (shareholders) may be (c) natural persons, (b) the State or any political subdivision thereof, or (c) corporations, but (b) and (c) must register their representative, by whom alone may they act or vote. Borrowers on mortgage shall be divided into suitable groups, each group to have one voting member.

The foregoing insures at least one strong mortgage bank in each State under national law. It will be able to powerfully influence mortgage rates and terms throughout the State, thus controlling the situation for borrowers and lenders, while stimulating competition throughout the mortgage business, all under Federal supervision. Its utility and service will be to mortgage finance in its State what the Federal reserve bank is to commercial banking for its reserve district.

Each member of the farm-land bank having but one vote, and the shares being widely scattered, no one interest can control. The State may be a shareholder, and thus exercise its oversight.

17. Dividends on capital may be paid out of earnings up to 6 per cent, which may increase to 7 per cent when surplus (called "land reserve") reaches 25 per cent of capital, and may not exceed 8 per cent after land reserve reaches 50 per cent of capital.

This compares with 6 per cent dividends permitted to the shares in the Federal reserve banks. The farm-land bank being relatively a new institution and its capital stock guaranteeing its bonds, the return thereon may be 7 or 8 per cent if success warrants. These provisions, and the next paragraph, insure that the necessary capital will be subscribed forthwith, perhaps at a premium over par, such premium to go into the land reserve.

18. Any share may be called in and retired at its market price not exceeding \$200 per share out of the earnings in excess of the required land reserve, provided that combined capital and land reserve always shall be not less than 5 per cent of its mortgage bonds outstanding.

19. Land reserve: Thus eventually the capital stock may be all retired, its place being taken by the accumulated land reserve. Thereafter, as no interest will have to be paid on shares, all the earnings will be available for additions to the land reserve, or for premiums to borrowers and bondholders.

20. Profit-sharing premiums: Earnings in excess of interest on capital and in excess of desired additions to the required land reserve shall be apportioned three-fourths to borrowers and one-fourth to bondholders, being due and payable as a profit-sharing premium when a mortgage or bond is paid off.

At the end of, say, 20 years, such premium accruing to the borrower may amount to as much as 10 or 12 per cent upon his mortgage and will correspondingly reduce the principal to be paid and shorten the time of liquidating. The premium payable to the bondholder may be as much as 3½ or 4 per cent within the same period and will be a powerful incentive to investors to buy national land-bank bonds and to hold them to maturity. This will create a fine market for the bonds, insuring their stability and availability.

21. Organization: When the Federal Reserve Board finds that the laws of any State afford reasonable protection to mortgagors and mortgagees and comply with the requirements in sections 8, 9, 10 hereof, it shall appoint an organizing agent for that State, shall invite the governor to appoint another,

and these two shall select a third. This committee shall proceed to organize the farm-land bank, offering the stock at public or private sale for not less than par, and shall call the first meeting of members to adopt by-laws and to elect a board of not less than 9 nor more than 15 trustees, suitably representative of the various sections and interests of the members. The trustees shall choose the officers by whom the bank shall be administered.

This insures that each national farm-land bank shall be owned, officered, and conducted in harmony with its purpose—to loan money as cheaply as possible on farm mortgages upon easy but rigid terms of gradual repayment, instead of being run for big returns on its shares.

22. Standard rules, application blanks, and mortgage forms shall be adopted by the farm-land bank. Any mortgage offered that complies therewith may be accepted, being paid for in cash or in said farm-land bank's national land-bank bonds.

Any individual, any rural national bank, any other bank or corporation may offer a mortgage or mortgages to the farm-land bank, which may accept the same if found satisfactory. Therefore all existing agencies in the farm-mortgage business may compete in serving the farmer, under regulations as to rates and terms established by the farm-land bank. And the borrowers thus cooperate through the farm-land bank so to control the situation as to get money at rates and terms reasonably attractive and absolutely safe to both lenders and borrowers.

23. The rate of interest charged borrowers on mortgage by the farm-land bank shall not exceed by more than one point, or 1 per cent, the interest guaranteed upon the national land-bank bonds in the series secured thereby.

For instance, if the national farm-land bank of New York can sell at par its national land-bank bonds bearing 4 per cent, then the interest charged the borrower shall not exceed 5 per cent and maybe less. The rate will fluctuate slightly from year to year, as is the case with Federal or State bonds, according to conditions of the money markets and of the offering.

24. Loans shall be only upon first mortgage on real estate within said State at not to exceed 50 per cent of the appraised value of improved lands and buildings thereon, or not to exceed 40 per cent upon unimproved land. Appraisal must be made by or subject to approval of the farm-land bank. The borrower shall pay an annuity to include interest, installment upon principal (amortization sufficient to liquidate loan within a specified period), and contribution toward expenses of bank. The profit-sharing premium accruing upon each loan shall be credited upon the principal thereof, to be paid only when (with the last payment upon principal) the mortgage is liquidated in full. Loans may run for less than five years, but bonds may be issued only upon mortgages having not less than 5 nor more than 35 years to run. Borrowers shall not be required to pay more than the agreed-upon amortization, but shall have the right to pay off in larger installments or in whole at any interest date. In such case the profit-sharing dividend accrued upon such loan, or upon the bonds secured thereby, shall become due, being payable upon surrender of the papers.

25. Bonds: For each \$100 of mortgage loans made by it, a farm-land bank may issue its national land-bank bonds to not exceeding an equal amount. Its aggregate bonds outstanding shall never exceed 20 times the total of its capital stock and land reserve combined. Bonds shall be issued in series of specific maturities, but upon due notice shall be callable for retirement at par, plus any profit-sharing premiums accrued thereon.

This last clause enables bonds to be retired out of the income from amortization upon the mortgages securing said bonds. The bonds outstanding always have back of them 100 per cent security in the form of gilt-edge mortgages and guaranteed by the capital and land reserve of the issuing bank.

26. Federal cotrustee: The Federal Reserve Board shall appoint a Federal cotrustee for each farm-land bank to represent the Government and the bond holders in the joint possession and control of the bank's mortgages which secure its outstanding bonds. The Federal cotrustee shall supervise the application of all receipts to their appropriate accounts and shall verify that at all times the bonds outstanding do not exceed the mortgaged security held against them, and do not in any other way violate any provisions of law.

This guarantees that the Government at all times shall see to it that each farm-land bank is honestly run in behalf of all parties in interest. Through its Federal cotrustee the Government may supervise each transaction. The Federal cotrustee is analogous to the class C directors of each Federal reserve bank, who also are designated by the Federal Reserve Board.

LETTER OF FREDERICK H. ALLEN, NEW YORK, N. Y.

The following communication, addressed to the chairman of the Committee on Banking and Currency of the House of Representatives, was directed to be incorporated in the record:

NEW YORK, *March 4, 1914.*

Hon. CARTER GLASS,

*Chairman Committee on Banking and Currency,
House of Representatives, Washington, D. C.*

DEAR SIR: As a member of the permanent American commission which investigated agricultural conditions in Europe last summer I desire to make a statement with reference to the proposed bill to establish a national farm-land bank system.

The first and one of the most important features is that such banks can be incorporated with a capital stock of \$10,000. As I view it, one of the objects of the bill is to enable farmers to secure loans upon their farms at a cheaper rate of interest than they are now able to do, in order thereby to cut down one of the expenses of production, and I feel that no bank without quite a considerable capital, which could thereby secure an expert management, could sell the debentures in the markets where money is cheapest; that is to say, in the Eastern States. The capital should be sufficiently large to make its guaranty of value, because of the size of the fund behind the debentures and because of the reputation of the men who manage it. Either this or that they should have simply a nominal capital, such as is the case with the building and loan associations, and be distinctly associations of borrowers. I fear that the creation of a lot of little banks might lead to such inexpert management that the failure of a number of them might discredit the whole idea. Think for one moment of a bank having \$10,000 capital which would be able to issue debentures to 15 times the amount of that capital. Granting that the \$10,000 could make 6 per cent, that is \$600, and that it was able to issue the full amount of debentures allowed, viz. \$150,000. Upon this it can make an administration charge of 1 per cent, \$1,500. As, under the bill, deposits are allowed up to 50 per cent of the capital and surplus, the deposits in this case could be \$5,000. Suppose it could make 4 per cent on its deposits, which would be very liberal, this would amount to \$200, and as under section 41 it can receive up to 50 per cent of its capital and surplus in Government deposits, it might make a further profit of \$200 on these. Thus we have a total of possible earnings of \$2,500. Out of this would first have to come the expenses, which would certainly include some kind of office; the expenses of the appraisement committee; the expenses of the company's lawyer for passing on the titles; the expenses of the fiscal agent, which, as provided by the bill, shall be paid by the bank; the expenses of a bookkeeper and treasurer; possible expenses on account of losses, etc.; and incidentals such as printing, postage, etc. Moreover, out of the fund would have to come any moneys to be set aside for reserve and an accumulated surplus, so that, to my mind, it is impossible for any such small banks to operate with success.

Should, however, the small bank be permitted, the area of its operations should be restricted to a county or magisterial district, or some comparatively small area, so that their loans could only be made where the appraisement committee could have some idea of real values (the area might be computed in accordance with the density of population). Further, should the plan of small banks be adopted, it would seem to me that it should only be done with the proviso that a certain minimum number should be established in any one State, and that they should be required to subscribe a certain amount of their capital and surplus for the formation of a State farm land bank, which should have large enough capital to make its bonds salable.

The plan of small banks has been adopted in Europe in the case of banks formed for short-term loans, but in the case of banks formed for long-term mortgage loans, the European experience has led to the creation of large banks. For instance, the Credit Foncier in France has a capital of 225,000,000 francs and operates over the whole of that country. In Germany the land-mortgage banks are all of very considerable size. There are 23 of the *landschaften*, each one restricted to some political subdivision of the Empire, and all of them of good size. The total loans of the *landschaften* amount to £170,000,000. Besides these there are a number of joint-stock mortgage banks for long-time

loans, but these loan more particularly on city property. In Italy and Spain the land-mortgage banks are also powerful institutions, so that European experience would seem to discredit the idea of small land-mortgage banks.

Section 16, specific powers.—I do not believe in the idea that such banks should accept and pay interest on deposits, even if the amount be restricted, because the principle of a bank of deposit is to have its loans in such a condition that it may quickly liquidate them to pay its depositors, and the idea of a land-mortgage bank is to make loans which can not be recalled quickly. Moreover, when a bank is allowed to receive deposits the tendency is for the managers to pay more attention to this feature of the business than to the question of long-time loans. I might cite as an example of this the United States Mortgage & Trust Co. of this State.

Specific powers, No. 3.—Provision should be made for maintenance of the property, with power to demand partial repayment in case of depreciation. This matter is referred to later on.

Paragraph (c) penalty.—Whoever shall knowingly issue, in behalf of such mortgage banks, bonds in excess of cover shall be punished by fine and imprisonment.

Paragraph (c).—After the words "collateral trust bonds" insert the words "in denominations of \$100, \$500, and \$1,000."

Section 16, paragraph (d), specific limitations.—As I view it, 20 per cent paid-in capital and surplus is too much; 10 per cent would be enough.

Section 17.—I should add to the last clause, "except with the consent of the commissioner." (Sometimes some parts of the country have known extended periods of drought which might force the bank to dispose of property at a loss if they were compelled to do so within five years.)

If the principle of a State farm-land bank is adopted in connection with the small banks, the duties of the Federal fiduciary agent could be performed by the State bank without the expenses connected with such agent, which would be heavy upon the small bank. Mortgages made by the small bank could be deposited with the State bank, which could either guarantee the debentures of the small bank or issue its own debentures upon the security deposited with it. It would certainly be only the debentures of the State bank that could have any extended market.

If, however, the idea of the agent be adopted, I would call your attention to paragraph 1 of section 19, that no national-bank bond issued without his signature shall be binding upon said bank. Many innocent purchasers might buy these bonds without being aware of this provision in the law, and in the case of a bank, which was operated dishonestly, they would have no recourse against the bank, so that a clause should be put in making it a criminal offense against the officers of the bank to issue these bonds without the signature of the agent in order to have protection for the buyers.

Clause 3.—There should be a penalty clause against the bank officers making entries without securing the approval of the agent in writing.

Section 30.—There is no provision for the election of a treasurer. It should be provided that whoever acts in this capacity should give a bond.

Section 34, paragraph 1, privileges.—I do not believe in the deposit of postal savings funds in such banks. It is enough that these funds can be used to purchase the bonds of such banks.

Section 39, appraisal committee.—It should be provided that an appraisal of the property should be secured, not only by the committee, but by at least one freeholder living in the neighborhood of the applicant for a loan, and qualified to know the value of the property, and the committee should take into consideration the salable value and character of the land and the revenue derived therefrom. The appraisal shall be open to the inspection of any stockholder.

Section 42.—Provision should be made, in case the borrower fails to pay the premiums on insurance policies, that the bank may call for the entire loan within three months after failure to pay. Provision should also be made that in case the borrower reconstructs his buildings within one year after their destruction by fire or otherwise, that the bank shall pay back to him the insurance money.

Section 43.—I have already stated that in case the small-bank idea is adopted, it should be limited in its operations to a small area, and the loan agencies should be confined within this area.

Section 46.—The borrower should be entitled to pay off the amount of his mortgage, or any portion thereof, in cash, as well as by presenting the national

loan-bank bonds. It might be difficult for him to get these bonds, whereas the bank has the privilege of calling them. Again, should the borrower wish to sell a part of his land, he should be enabled to do so by tendering to the bank the amount he receives upon such sale, and the bank should then cancel an equal amount of bonds. Instead of calling in bonds where payments have been made, the bank should also have the privilege of substituting other collateral. In case of bankruptcy proceedings against the bank the claim of bondholders on the mortgages entered in the mortgage register should have preference over any other creditors of the bank.

In Europe the banks are usually forbidden to loan upon mines, pits, and quarries. Such properties decrease in value as the limit of their production is approached.

A provision should be included in regard to foreclosure, viz: When any borrower fails to pay his interest, etc., the bank may begin foreclosure proceedings against him within two or three months after the interest, etc., is due, unless some unavoidable incident, such as fire, failure of crops, destruction by hail, etc., has given a valid reason for extending the time of such payment.

The borrower should be compelled to make application for his loan in writing and state the purpose for which the loan is desired, and the committee should be satisfied that the loan promises to benefit the borrower.

Provision should be made that in case the property depreciates partial repayment may be rendered, and loans on farm lands should contain provisions for proper soil conservation.

The appraisement committee should be allowed to inspect the mortgaged premises from time to time. The expense of foreclosure should be borne by the mortgaged property.

Passing from details to the general principles of the bill, mortgage banks, under whatever plan may be adopted, should be, in my opinion, allowed to make long-term loans upon urban as well as upon rural property.

It certainly is true that in many parts of the country urban property is loaned upon more easily and at a lower rate than farm property, and a company having mortgages on both kinds as security for its debentures could dispose of these debentures at a better price than when restricted to rural properties alone and would thereby be enabled to reduce the rate of interest on farm mortgages, the mixed security giving better value to the debentures as a whole. I beg to remain,

Yours, very truly,

FREDERICK H. ALLEN.

(Thereupon, at 4 o'clock p. m., the subcommittee adjourned sine die.)

RURAL CREDITS

JOINT HEARINGS

BEFORE THE

SUBCOMMITTEES OF THE
COMMITTEES ON BANKING AND CURRENCY

OF THE SENATE AND OF THE
HOUSE OF REPRESENTATIVES

CHARGED WITH THE INVESTIGATION
OF RURAL CREDITS

SIXTY-THIRD CONGRESS, SECOND SESSION

Volume II—Part 1

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1914

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE.

HENRY F. HOLLIS, New Hampshire, *Chairman*.
BLAIR LEE, Maryland.
COE I. CRAWFORD, South Dakota.

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES.

ROBERT J. BULKLEY, Ohio, *Chairman*.

WILLIAM G. BROWN, West Virginia.	J. WILLARD RAGSDALE, South Carolina.
CLAUDE U. STONE, Illinois.	EVERIS A. HAYES, California.
HARRY H. SELDOMRIDGE, Colorado.	FRANK P. WOODS, Iowa.
CLAUDE WEAVER, Oklahoma.	EDMUND PLATT, New York.

RURAL CREDITS.

THURSDAY, JULY 23, 1914.

UNITED STATES SENATE,
Washington, D. C.

The subcommittees assembled at 10.30 o'clock a. m., Hon. Henry F. Hollis presiding.

Present: Senators Lee and Crawford and Representatives Brown, Woods, and Platt.

Senator HOLLIS. I will say that this meeting is called so that Mr. David Lubin may ask some questions of some of the gentlemen present who have made studies of rural credits in this country, in order to get their opinion as to which type of land-mortgage bond will sell best in the market. It is conceded on all hands that the success of the system depends upon the goodness of the bond; that is, its intrinsic value, as well as its currency in the market and how freely it will be bought all over this country and in foreign countries. That seems to be conceded.

Under the bill that has been recommended by the subcommittees the scheme is roughly this: To have local units called "farm loan associations," whose sole function will be to issue loans on first mortgages on farm lands for certain specified purposes. These local units will be somewhat like building and loan associations in their scope. They will not have regular banking rooms; they will not take deposits; they will not do a checking business. They ought to do business on a very economical plan. Very likely the office will be in a grocery store or a lodge room or something of that kind. They will not need to meet very often; perhaps once or twice a month. Their sole function will be to make only good loans and then to "rediscount" those loans, so to speak, with a Federal land bank.

The plan is to have a Federal land bank in each Federal reserve city, so there will be a dozen of them. These land banks will obtain their capital by having 10 per cent of the capital of the farm loan associations. They are to have a capital of not less than \$500,000 each. Their function is to take farm loans from the local associations and then make those farm loans the basis for an issue of farm-loan bonds. The local associations and the land bank are to divide between them 1 per cent annually on the outstanding loans, so that we know that the expenses are limited to 1 per cent. Future experience may prove that that is too much, but we believe that it is at least all that it ought to be.

Now, that is roughly the plan. We hope to make the bonds sell on the same basis all over the country, but that may prove impracticable.

One feature of our plan which is objected to by what might be called the orthodox school of economists is what is called the Government-aid feature; and that provides merely that the Federal Reserve Board may, at its discretion, require the Treasury Department to purchase a certain amount of farm loan bonds yearly, not exceeding \$50,000,000 in any one year. It is believed by the friends of this bill that that will give the bonds a standing in the money markets of the world; that people will say, "Why, if the Government has looked after these bonds so carefully that it is willing to purchase them and invest in them, that is a good recommendation to other people."

There is a very large contingent in this country, including the granges, that have wanted direct Government loans; that is, loans from the Government direct to the farmer at a low percentage. They have wanted the Government to borrow money at $3\frac{1}{2}$ per cent and lend it directly to the farmer at 4 per cent.

And we had that very considerable element in mind when we agreed on this Government-aid feature; because we knew that they would not be satisfied with anything less than we have put into the bill; and since the bill has been introduced the legislative committee of the National Grange has approved the bill with that feature in it. And we fear that if we withdraw the Government aid entirely, we will meet the active opposition of the granges all over the country.

It was Mr. Lubin's idea while he was here in Washington to outline to experts in this matter the landschaften system in Germany; and either to outline himself or permit us to outline to the same persons, our plan under Senate bill 5542; and to ask those experts which bond, in their opinion, would sell best in the market.

Now, having made that preliminary statement, I will turn the matter over to Mr. Lubin. But I will say first that most of those whom we invited to come here as experts on the marketing of such bonds have not been able to come, owing to the fact that these large financial institutions are shorthanded at this time through letting a number of their men go on their summer vacations. But Mr. Woodruff, representing the Prudential Insurance Co., is here; and also Messrs. Thompson and Carver, representing the Secretary of Agriculture.

Mr. Lubin, I will ask you now to proceed.

STATEMENT OF MR. DAVID LUBIN, DELEGATE OF THE UNITED STATES, INTERNATIONAL INSTITUTE OF AGRICULTURE, ROME, ITALY.

MR. LUBIN. Did I understand you to say, Mr. Chairman, that you would present the landschaft proposition?

SENATOR HOLLIS. No; that you would do that.

MR. LUBIN. Well, the landschaft proposition is a simple matter. It has been in operation in Germany during the past 145 or 147 years. I think it is 147 years.

It was started by a man named Buring. The matter was presented to the Reichstag—or what was then the Reichstag—but it did not appeal to them; in fact, it was thrown out on several occasions. But the matter came to the ears of Frederick the Great and he took this man and his idea up, believing that the scheme was entirely practicable. At that time the finances of Germany were in bad shape. I

think they had had extensive wars which had left Germany in bad shape. Its agricultural conditions were bad, and anything that would relieve agriculture was welcomed at that time. And Frederick the Great saw sufficient merit in this system to put it into operation, and he had laws enacted to put it into operation, and it is in operation to-day.

I have here [indicating] recent quotations on the landschaft bonds. I have the financial supplement of the *Vossische-Zeitung* of Berlin, giving the stock-exchange quotations. Let us compare a few of these quotations with those given in the same paper on the Government bonds of Germany on the same day. These quotations are published daily.

Senator HOLLIS. Are these quotations for 1914?

Mr. LUBIN. At the time when the American commission was there; that was June, 1913, was it not?

Senator HOLLIS. Yes; 1913.

Mr. LUBIN. These are the quotations on German Government bonds and German landschaft bonds at 4 per cent, $3\frac{1}{2}$ per cent, and 3 per cent, respectively; those are different issues or different series of bonds. The Government 4 per cent bonds brought 96 marks; the landschaft bonds brought 100 marks for the 4 per cent. The $3\frac{1}{2}$ per cent Government bonds were quoted at 84.80 marks; the landschaft $3\frac{1}{2}$ per cent bonds at 96 marks. The Government 3 per cent bonds sold at 74.80 marks; the landschaft bonds at 80.50 marks.

Of course, when these farmers want to cancel their debts they go out and buy these bonds, and the bond may run up to 100 marks when they have sold it for 87 marks; but, as a rule, the farmer buys it back for about the price he sold it for. If the bond goes up, why, he has lost; that is all; his company is better than he thought it was; that is all.

Now, this is an exceedingly simple proposition. It does not require a financier to understand its operation; any ordinary farmer can understand it, and it is a proposition that any ordinary set of farmers can carry out, not merely because the farmers are competent and willing and even zealous, but mainly because they can not help themselves and could not help themselves from carrying it out, even if they did not want to carry it out they would have to carry it out, and if they did not want to do what the laws says they should, you would find it out right then and there.

Substantially the system is this: We will suppose this [indicating] is a piece of land; here are one, two, three, four, and five pieces; they need not necessarily be confined within that district; one man can live in here [indicating] and one over there [indicating] and two or three over here [indicating]. But here is that land.

Now, there can be 100 farmers, 50 farmers, 500 farmers, or as many as you please, in this merger, as we will call it; and these people go to the Government and say, "Give us a charter." The Government says to them, "Yes; we can issue charters here. Are you in a position to comply with the laws?" The fine print in this book sets forth what the laws are. The applicants say, "Yes," and the Government gives them a charter.

These people are then ready to proceed. They then have an election, and they have seven directors, of whom they elect six. The King—not the Government, but the King—directly appoints the

seventh director; and the seven directors are then sworn in as German officials, to obey the German law, perform their duties, etc.

Then they proceed to business. This man, we will say, has 10 acres of land, and this other man has 10,000 acres. This man puts in his mortgage in the landschaft, and they proceed to issue bonds on it; and that bond is taken to the open market and sold at these prices which are quoted here [indicating] on the bourse; and this farmer receives money for his bond; he puts his money in his pocket. That finishes the whole transaction—that part of the transaction; there is no bank—nothing. The farmer has got his money; there it is.

Senator HOLLIS. Pardon me, Mr. Lubin. This matter is not so familiar to some of us as it is to you. As I understand the process, the man who wishes to borrow on his farm goes to the landschaft and delivers whatever kind of mortgage or title they require, and then he receives from the landschaft a bond?

Mr. LUBIN. Yes.

Senator HOLLIS. To the amount nominally of the loan that he makes?

Mr. LUBIN. Yes.

Senator HOLLIS. Then he himself takes that bond and sells it in the market, and that is where he gets his cash?

Mr. LUBIN. Well, not necessarily. He has certain ways of getting rid of that bond. Sometimes he makes this landschaft the messenger to sell his bond in the open market. Sometimes he does not want the landschaft to be the messenger, as the open market can be reached as readily by himself. According to the law of Germany, the widows' and orphans' funds must be invested in these bonds; and frequently they will call upon the farmers to hurry up and send in their mortgages, in order that trust funds may be invested in these bonds.

Senator HOLLIS. Mr. Lubin, is that not, in an indirect way, the Government aid which the Government supplies, but for which the Government is not responsible, requiring widows' and orphans' funds to be invested in this form of investment?

Mr. LUBIN. Well, we will get to that in a little while, if you please.

Senator HOLLIS. All right; I did not mean to interrupt you?

Mr. PLATT. It is not true, is it, that the Government requires the widows' and orphans' trust funds to be so invested? It merely permits that, does it not?

Mr. LUBIN. That is the law.

Mr. PLATT. But it does not mean that those bonds are the exclusive investment for such funds, does it?

Mr. LUBIN. Well, I will not say positively that they must be exclusively so invested; that if a widow's or orphan's fund is \$10,000 absolutely every cent of it must go for those bonds; but the widows' and orphans' funds by law must be invested in those bonds.

Now, we will get a little further with these bonds. These bonds, as may be seen from the quotations I read, float just the same as an aeroplane floats; these bonds float in the open market. And the value of any rural-credit system must depend, after all, upon two conditions: One, that the thing will float without being held up at all. An aeroplane that has to be held up when it is 3,000 feet in the air, with a lot of men underneath to hold it up so that it will not fall down is not worth much. You have got to have bonds that

will float in the market; that is the test. The test is not how brilliant the scheme may appear to be; not what a grand scheme some young man or old man had brought before the committee. The test is not even that it seems to be practicable and logical. The real test is, can that bond be floated at all times without any necessity for being supported?

Mr. BROWN. Whether it is self-supporting?

Mr. LUBIN. Yes; whether it is self-supporting. A good many slurs have been thrown at the landschaft system from various quarters, of which I have copies in my book of clippings. In the first place, they claim that it is undesirable; that it is a system in operation by paupers; whereas, as a matter of fact, some among the wealthiest farmers in all the world are members of landschaften, and can these be called paupers? They really need the Raiffeisen system, which provides loans for small amounts on the unlimited liability of all its members. They get \$30 for a cow, and they have to ask a series of questions, which, if they were asked of a farmer in Texas, would be likely to result in the asker being shot dead on the spur of the moment. [Laughter.] They would not be likely to answer such questions in Texas; they might in Germany.

The landschaft deals with people who own 10,000 acres of land; it also deals with people who own 5 acres of land; it deals with the owners of the land; and it is a financial proposition and not a benevolent proposition.

Mr. BROWN. Pardon me, Mr. Lubin, let me ask this question: The landschaft deals exclusively with the landowner, does it not?

Mr. LUBIN. Yes, sir; the landschaft is composed of landowners—the committee—

Mr. BROWN (interposing). Yes; I understand.

Mr. LUBIN. Now, the question comes up, What magic is there in that man's land, or in this 10,000-acre tract or this 5-acre tract, which makes that landschaft bond float? Does it float because a landschaft organization has issued it? Does it float because the Government says that the widows' and orphans' funds shall be invested in it? What magic is it that makes this landschaft bond float?

Now, I try to make this point so clear, not because I am so very bright, but because I have been in and near the field where it is in operation for the past 10 years.

Mr. CARVER. Mr. Chairman, may I ask Mr. Lubin a question?

Senator HOLLIS. Yes; certainly.

Mr. CARVER. Would you advocate a rule in this country requiring trust funds to be invested in landschaft bonds, to the exclusion of National, State, and municipal bonds?

Mr. LUBIN. I would not say that just now. I will get off the track if I do not finish this point I was discussing just now.

Mr. PLATT. That is not the case, is it, in Germany?

Mr. CARVER. I do not understand that it is.

Mr. LUBIN. I want first to show how this bond floats, and how it keeps floating; what magic is there that makes it float? Now, whether you have the landschaft system, or whether you have the bill that is now before the committee (S. 5542), or any bill that you could mention, if you are going to have a bond in the open market that will float at all, you have got to have the very points embodied

that I am going to explain now; and if you have the security in the bond I am going to explain, you might just as well have the landschaft, because it is the simplest; for with the landschaft the farmer gets the money in his pocket without any bank at all, and he gets it at 3, 3½, or 4 per cent; there are those three different issues; and the farmer chooses which one he will want; and he fills in his paper to show what kind he wants, 3, 3½, or 4 per cent bonds, and he gets the kind he wants, and there is no toll-gathering bank between him and his loan.

What makes this bond float? It is the integrity of the bond. What makes the integrity in the bond? As near as I can understand—these laws on the landschaft. By reason of forming a landschaft you practically outlaw the land of that landschaft from all existing land laws in Germany upon the subject and create a new law that governs the land; the law that governs the landschaft. There is, as it were, a new tenure created. That tenure is that, when that landschaft takes the mortgage of a farmer and gives him the bonds, that mortgage becomes a judgment against the land. It is a judgment; there is no going to court; there is no pleading; there is no question about a comma in a legal document being out of place; there is no question of their having found in a trunk over there a new will or that the boy with red hair and not the old man over there is the proper owner of that property.

That is a very peculiar law. I do not know whether it is in operation anywhere else in the world. But they have got it under the landschaften system. If you want a charter, you have got to get that power; that charter which the Government gives you to establish a landschaft contains that power—that it outlaws practically all other laws relating to the land and puts into operation that peculiar law which gives this landschaft the right to take this land without the necessity of recourse to law if the farmer refuses to pay his mortgage.

SENATOR CRAWFORD. Well, do you think it is right to bar all equities against the land like that; to shut them out absolutely, no matter whether they are just or unjust?

MR. LUBIN. I am not speaking now about the equity in a case. Of course, the equity is certainly right here. But I am speaking of the fact that this landschaft bond floats without anybody holding it up. Now, that is one proposition.

Next in importance comes the appraisalment of the land. Take an average farmer and ask him how much his land is worth, and you will be told, if he wants big money, that his land is worth \$100 an acre; he will tell you how many onions he might raise on it; there might be gold underneath, or coal; and there will be a lot of things which will make it valuable according to his view; his land is an awfully big thing.

Well, probably it is not in fact so big after all. It is the appraisalment which must determine that question. Now, whose appraisalment are you going to take? In Germany they take the appraisalment of those seven directors of the landschaft, and then they take another appraisalment by another committee; the burgomaster, and probably the sheriff and county officials; and the appraisalments are private; they do not exchange the results of their appraisalments. Then, they have the leading men of the university, constituting another appraising committee, etc.—a third committee; and then this man who owns

that land has to go on the stand and be examined. They will ask him, "What were your average net earnings during the last 10 years? What did you do this year, and what did you do that year?" The farmer has to answer a whole lot of questions. In substance, the trial in the court is held before the farmer gets his money, not after he gets his money. After he gets his money that land, in substance, belongs to that landschaft; and they can take it any time if this farmer does not pay his interest.

It may be said, "Well, that would be a heartless proposition, to seize this man's land," because they can do so without recourse to law. Well, let us see how the case stands: There, on the one hand, is an average money lender; the success of his business depends upon how much he can earn, and so he prays that this farmer who borrowed from him shall not be able to pay him, so that he can take this \$7,000 piece of land, on which there is a loan of probably \$1,500, and foreclose that man and sell the land and keep the money.

The landschaft, on the other hand, if this farmer refuses to pay, call him in and reason with him. They say, "Your interest at $3\frac{1}{2}$ or 4 per cent is reasonable; why do you not pay your interest?" And if this farmer tells a real fine, pathetic story, and it is a true one, these men may chip in the interest, which is nominal, and tide him over another year. In other words, they are not sharks; they are his neighbors. If this farmer is a villainous scoundrel, then they foreclose him; but then they have got to give him back any residue after the land is sold and the amount due paid; they give him back the balance of the money, because they are not a money-making concern. There is no money made here at all. The only money collected is to run this association; and its office is probably in a bedroom, and there is a bureau with all the papers in there: so that the expenditure is merely nominal. Probably if a director lives out very far from the office and can not afford to come to the meetings, they might give him mileage; but those are the kind of expenditures they have. They may have one man employed in the office, if it is a big landschaft, to whom they pay a nominal fee for being secretary of that institution. That is all there is to it.

Now, the question is, what is the merit of this landschaft? The merit is that the appraisalment has been done thoroughly and conscientiously. In the proposed adaptation of the landschaft system to the United States, I have made one amendment or modification; the rest is the same as it is in Germany. The modification that I refer to is one of publicity, which I shall bring up further on. Before doing so I will speak of the cause of the proposed modification. I do not trust those seven men to appraise the land; because they might be all assembled around a table in a poker game, and they might say, "We will appraise that land at \$100 an acre," although it might not be worth more than \$4 an acre; and there will be a lot of bonds issued in one State, say Pennsylvania or Kansas, for example, which will be sold out in Oregon or Florida, which maybe is a very good trick so far as these gentlemen are concerned. They may thus float bonds on land for \$100 an acre that is worth \$4 an acre.

And the borrowers can say, "Well, you can foreclose this afternoon if you want to." Well, what are you going to foreclose in such a case, where there is \$100 an acre borrowed on land that is worth \$4? There is nothing to foreclose on; you have been humbugged, cheated,

robbed. So I do not trust that kind of proposition; such appraisements may do for Prussia, but it would not do here. Here we must have a system where you "can not beat the game."

Now, one of the strongest ways of getting this integrity into these bonds is, first, to have the widows' and orphans' trust funds invested in them; because such trickery as I have spoken of would not be tolerated if the money to purchase the bonds was to largely come from widows' and orphans' funds.

And now as to the publicity in appraisements. I would like to have a hearing committee in every landschaft district; and the appraisements should be printed and hung up in the post office, the butcher shop, the grocery store, the courthouse, and other public places, prior to the hearings. The public should have a right to attend the hearings on the appraisals. Suppose a farmer has put his land in at a valuation of \$40 an acre. Some of the "oldest inhabitants" would say, "If it is worth that much, how does it come that last year he sold so many acres of that land for such-and-such a price? That man is lying." That would be the result of publicity; it would force out the truth.

Then I would suggest having another hearing committee, for the larger phase of the business, at Washington.

Now, if we are in earnest and really want a rural-credit system in the United States, one that will not work so that its bonds will go up high at the start and then suddenly come down like a rock; like a calamity that we had some 30 years ago, when they took land and converted it into bonds, and all of a sudden the thing was dead—you can ask Mr. L. M. Shaw about that; he is now in Philadelphia; he was Secretary of the Treasury at that time.

Senator HOLLIS. He was Secretary of the Treasury.

Mr. LUBIN. Yes. He can tell you about that experience; how many families were ruined and how many institutions broke down.

Now, as to the publicity of these hearings upon appraisals, you take a large concern like a life insurance company; they want a liquid asset, and they want a good asset, a paper that they can keep in their vault; a paper that in time of panic they can pass out and that will go from hand to hand, just the same as gold. Those people will see that those hearings are pretty well attended and properly conducted, because it will be an open proposition; it will not be only those 7 men, but it may be 700 men in that district that would go to that hearing any day. "What kind of appraisalment are they giving us on this thing?" In other words, they can hire an attorney, and it will pay them to do that; and the holders of widows' and orphans' trust funds can hire attorneys for that purpose, and as a result of all this those bonds will float and they will probably be the best value in the United States.

The history of these bonds in Germany has proved that when war or panic came along—especially war—the Government bonds went down, but these landschaft bonds remained where they were; they remained stationary.

Now, whether you adopt this system, or whether you adopt any system—I do not mean the Raiffeisen or the Schulz-Delitzsche; but I mean on mortgage credit you have got to have the very same security on that land, so that all questions of title are removed absolutely, because the farmer wants money for 3, 3½, or 4 per cent, and the peo-

ple who are expected to buy rural credit bonds at 3 per cent, $3\frac{1}{2}$ per cent, or 4 per cent these people are not money sharks who will take a risk for 8, 10, or 12 per cent; but they are the common people, the carpenter, the shoemaker, the butcher, or, if you please, the great insurance company, and those who place the money of the widows and the orphans. There should be no risk whatsoever on that, and therefore the borrower has to come into that noose, so that if he does not pay the landschaft can at once get his land and settle promptly for one hundred cents on the dollar.

Now, you may say, "What a miserable, heartless proposition this is!" All right. Now, we will imagine the case of the money shark; what a nice, pleasant gentleman he is! When that farmer can not pay up, of course he goes over and says, "I am awfully sorry your chickens do not hatch, or your trees did not bear, etc., or that you took too many drinks." Will he do that? No. When this farmer can not pay up, he is foreclosed, and he loses his property. These landschaft people, if that farmer can not pay up, take him before them and they try him, and if he is all right, they pay the interest for that year.

Now, I answered a question in a certain way to Dr. Carver, and I answered it the other day to Secretary Houston. He said, "Is this a proposition whereby, practically, A pays for B and B for C, etc.—that is, as to responsibility? In other words, that this man is responsible for that man's debt?" And I said, "Yes"; but that does not happen to be the case. I said, "Yes"; but it is not that kind of a "Yes" that I intended to say.

Now, for a fact, the landschaft is responsible to the world for that piece of land, or for the debt on it. Therefore all these men are responsible to the bondholder. Now, B, the buyer of the bond, has for his security not a little tract of land; he has not got that identical tract. As to that identical tract, the landschaft has the mortgage, but that man has got all the mortgaged land of the landschaft as security. Therefore the bond floats without any trouble whatever. There is no question about the bond. He has got probably \$5,000,000 worth of property as security for a \$2,000 loan, and that is gilt-edged.

"Well, then," you say, "in the landschaft every man is responsible for every other man." But he is not, because this landschaft has taken so much pains in its appraisalment that they have got \$5,000 worth of property on bonds for \$2,500, so that they do not have to put their hands in their pockets at all. Therefore they are not responsible in reality. Similarly, they are one for the other—

Senator HOLLIS. Mr. Lubin, I understand that there has been substantially no loss under the landschaft system.

Mr. LUBIN. None.

Senator HOLLIS. There has been no loss?

Mr. LUBIN. None.

Senator HOLLIS. They have been operating under that law which gives them a first lien and wipes out all previously existing liens, and under their system of appraisal the loans have all been good?

Mr. LUBIN. Every one of them. I have never known of a case of failure. There have been such cases under the Raiffeisen and the Schulz-Delitzsche systems and other kinds of banks, but not under the landschaft system.

SENATOR LEE. May I ask a question? It seems perfectly clear that the landowner would have an interest in getting his title cleared up in a comprehensive way; that might be very desirable under the conditions in Germany. But I wish you would make it clear to the committee what would be the interest of the individual landowner who is responsible and capable and who can get his money in the local market at a certain fixed rate—what is his interest in going in and becoming responsible for the average of the men who make up the combination or association?

MR. LUBIN. That is in different words, but is precisely the same question that was asked me by Secretary Houston and by Dr. Carver, and they asked it in this form: "Are they responsible for the debts of the others?" I said "Yes."

Well, I felt differently, but I said "Yes," because I had to say "Yes" or "No." Now, the correct answer was not "Yes" and it was not "No." Do you not see that the landschaft is responsible, which means the entire association? But this man has given \$5,000 in value to them and he has received only \$2,500; and the appraisal was just and right. The land is worth \$5,000 in the open market, at auction; but he has received only \$2,500 from the landschaft.

MR. BROWN. May I ask this question, then, Mr. Lubin? What interest is it to the landowner who does not want to borrow money or who, having borrowed money and repaid it—what interest is it to him to remain in this institution and let his land stand responsible for the debts of the others? Of course there is no responsibility from your standpoint; there can be no responsibility owing to the security upon the individual debts.

MR. LUBIN. I do not think he is responsible.

MR. BROWN. But what inducement is there for him to remain responsible in that case?

MR. LUBIN. He is no longer a member of the association. He is a member only when he has a mortgage in it.

SENATOR HOLLIS. Gentlemen, we have to adjourn at 12; and Mr. Woodruff, of the Prudential Insurance Co., is the only witness here from outside of the city, and I would like to ask Mr. Woodruff a few questions, and then let Mr. Lubin ask a few questions that he wanted to ask.

MR. WOODRUFF'S full name is A. M. Woodruff; where do you live, Mr. Woodruff?

**STATEMENT OF MR. A. M. WOODRUFF, ASSISTANT SECRETARY
PRUDENTIAL INSURANCE CO., NEWARK, N. J.**

MR. WOODRUFF. Newark, N. J.

SENATOR HOLLIS. And you are assistant secretary of the Prudential Life Insurance Co.?

MR. WOODRUFF. I am; yes, sir.

SENATOR HOLLIS. And you have supervision of the mortgage loan department of the Prudential Co.?

MR. WOODRUFF. I have.

SENATOR HOLLIS. Now, I am not trying to probe into any secrets of the company's business; and if we ask any questions that you think you can not properly answer, just say so. I would like to ask you just a few general questions.

Can you tell approximately what percentage of the Prudential investments are in land mortgages?

Mr. WOODRUFF. About 33½ per cent of our assets are secured by mortgages.

Senator HOLLIS. Yes.

Mr. WOODRUFF. About two-thirds of our mortgages are farm loans.

Senator HOLLIS. Yes; and, roughly speaking, what part of the country do they cover?

Mr. WOODRUFF. We loan from central Ohio to central Kansas; from southern Minnesota—about half of the State of Minnesota—down through Tennessee, and somewhat in Georgia and Oklahoma.

Senator HOLLIS. Yes.

Mr. WOODRUFF. We are rather developing the southern field.

Senator HOLLIS. You have a separate department to look after those loans, have you?

Mr. WOODRUFF. We have; yes, sir.

Senator HOLLIS. And you have your own agents to look after the appraisals, and who pass those loans, and that is a recognized and normal expense of the business? What I mean by that is, you have your own men instead of doing it through other companies?

Mr. WOODRUFF. If you will permit me, I would like to explain our system.

Senator HOLLIS. Yes; we should be glad to have you do so.

Mr. WOODRUFF. The applications are presented to us through what we consider a State correspondent, they in turn receiving them from a county correspondent. Those applications are presented to us at a net rate, we will say 5, 5½, or 6 per cent, the rate that we nominate that we will consider on an application for that State. All expenses over and above the 5 per cent rate (or whatever rate it may be) in securing the loan must be paid by the applicant.

Senator HOLLIS. Yes.

Mr. WOODRUFF. And we have nothing to do with them; we do not control that at all; it is controlled by competition. What we are interested in is to get the desirable security at a given rate.

Now, up to that point we are at no charge whatever. The State correspondent and the county correspondent are really the agents of the borrower and are compensated by the borrower.

To safeguard our investment, we maintain an inspection system, inspecting every case of \$10,000 or over before we grant the loan, and every case of less than \$10,000 before we renew the loan; securing from our State correspondent a contract that they will pay on account of any loan in which our inspection shows the value of the land not to be double the amount of our loan. We keep up our grade by that contract, the State correspondents knowing that if they send us an undesirable security they will be called upon in the course of time to make a payment on account of the loan.

Senator HOLLIS. Well, of course, the laws in the different States vary considerably?

Mr. WOODRUFF. Very materially.

Senator HOLLIS. And I want to ask you if you have had many titles that have proved to be bad?

Mr. WOODRUFF. Comparatively few. I think it would be safe to say that not 2 per cent of the titles that are presented to us are turned down as undesirable; they are always subject to correction.

Senator HOLLIS. What I mean is this: Of the loans that you actually make; of course, now and then there will be a bad title turn up—or in your experience have you never run across a bad title on a loan which you have made?

Mr. WOODRUFF. In our experience we have never suffered a loss on account of a bad title.

Senator HOLLIS. I think that is a very good record.

Mr. PLATT. Yes; that is certainly a good record.

Mr. BROWN. Yes; very good.

Senator HOLLIS. You see, under the different State laws, and having your applications presented by so many different people, I think it is very material that under the system you have been able to inaugurate you have never had any loss on account of bad title.

Mr. WOODRUFF. I may say that we have had bad titles in the case of a portion of our security in a given case, and we would have lost on that portion of our security, but the remainder of the security has been sufficient to see us through safely.

Senator HOLLIS. In your foreclosures, have you had a substantial number of cases where the security proved to be of less value than the amount of the loan, with interest?

Mr. WOODRUFF. We have never had such a case.

Senator HOLLIS. You have never had such a case? Then under your system, as you have conducted it, safety has been obtained?

Mr. WOODRUFF. Yes; we feel that it has so far.

Senator HOLLIS. Will you tell us how long your company has been doing business in substantially this way?

Mr. WOODRUFF. They started in 1898, and have gradually developed; they started in Missouri, gradually widening out from that State into other States.

Senator HOLLIS. Yes. Now, Mr. Woodruff, does any reason occur to you why equal safety could not be obtained by local appraisal, and local supervision by the local association, and an appraisal and supervision by the central land bank? In the case I put to you the central land bank would correspond to your company; the local association would correspond to these agents who offer the loans.

Do you see any reason why, under the system I have outlined, equal safety might not be obtained if it were properly looked after?

Mr. WOODRUFF. No, sir; I do not.

Senator HOLLIS. And Senator Lee suggests in addition to that that there would be inspection and examination under the Federal Reserve Board, as there is in the case of national banks, to look after that end of it.

Mr. WOODRUFF. I think that last statement is absolutely essential.

Senator HOLLIS. Yes.

Mr. WOODRUFF. If you will permit me, I will make just one statement in regard to our experience.

Senator HOLLIS. Certainly; go ahead.

Mr. WOODRUFF. Our experience has shown that locally the local people almost always have exaggerated ideas as to value. We have the greatest difficulty in keeping our values down to the productive

qualities of the land. It is the almost invariable desire to place the farm-loan values upon selling values, which we do not recognize. We do not loan upon selling values; we loan upon productive values; and both the farmer, the applicant, the local people, and the State correspondents to a large extent are influenced very largely by selling values.

For that reason we have found it almost absolutely necessary to have an entirely independent salaried inspection, which can arrive at a conclusion in regard to the productive quality of the security, making it comparatively safe from a marketable standpoint, if for any reason we want to foreclose.

Senator HOLLIS. Now, this is Mr. Lubin's conference, and I want to suggest to the rest of those present that Mr. Lubin be given the right of way, as we only have 35 minutes.

Mr. Lubin, will you now ask Mr. Woodruff any questions which you desire him to answer?

Mr. LUBIN. I would like to ask Mr. Woodruff, if his company had the choice of buying bonds in the open market, which of the two bonds they would buy, the landschaft, as explained a little while ago, where the National Government would make such laws that there would be no question of the title at all, and where there would be no foreclosure, but there would practically be a judgment the moment the mortgage was deposited with the landschaft; it would then be a judgment. I will go further than that; I would not allow the landschaft to hold the mortgage; I would have a central office here in Washington, in the United States Treasury, to hold the mortgages passed through the landschaft, the landschaft to hold duplicates of them; I would give the shadow on this proposition to the landschaft officials, but the substance—the mortgages and the blank bonds—I would have in the Treasury Department under Federal authority. I would take away the bond blanks, so that they could not issue bonds; otherwise they might be issued galore, and then probably take a few drinks and issue more of them, and then float them all over the country; and who could tell the difference? I would let the Federal office here in Washington issue those bonds, and then let the landschaft countersign them and turn them over to the borrower.

I would have the same thing done with the payment of interest, so that the record would be here in Washington.

Now, assuming those things were done, and the publicity given to the appraisalment, etc., where your company would have the right, through its attorney and in every place, to go into a landschaft and look over these lists, appraisements, etc.; and assuming this bond of the landschaft to be in the market, as well as this other bond that is proposed in the bill, which would the Prudential buy?

Mr. WOODRUFF. If the title to the landschaften security was guaranteed by the Government or by the State, and if the security back of that bond was a given area of farm land which was of unquestionable value, at an even rate I think the debenture bond would be preferable.

Senator HOLLIS. To make the record clear, do you mean the landschaft bond?

Mr. WOODRUFF. Yes; I mean the landschaft bond; it would be equivalent to a municipal bond.

Mr. LUBIN. Oh, I beg your pardon; there is no such proposition as Government security; there is no Government guaranty or security. That is, the Government by its laws is empowered to and will perform the functions safeguarding the bonds; but it gives no guaranty; this landschaft is a guaranty; all this land is a guaranty; but not the Government.

Mr. PLATT. Well, the law under which the landschaft is organized guarantees the title, or, rather, makes the mortgage practically a guaranty.

Mr. LUBIN. It does not guarantee the title in this way, that the Government says, "We, the people of the United States, do hereby guarantee that piece of land, and if it is not good we will pay for it."

Mr. PLATT. It makes that land absolutely guaranteed as to title.

Mr. LUBIN. Morally, but not legally; no. The Government does not pay anything in any case. It is like you drop a letter in the post-office letter box and the letter is lost. The Government will take steps to recover the letter, but it does not give you \$10 if there was a \$10 bill in it.

Senator HOLLIS. Now, Mr. Lubin, if you will permit me—

Mr. LUBIN (interposing). I beg your pardon, the question was not answered. Which of those bonds would you prefer?

Mr. WOODRUFF. I would prefer the landschaft bond, provided the two "ifs" were carried out, both the security as to the title, backed by either the Government or the State, not guaranteeing the bond, but protecting the title to the security, and then provided the security back of that bond was of unquestionable value.

Mr. LUBIN. I can only give a description of how it is done; I have done so. Now, this bond has been described and that bond has been described. Under these conditions as described, which of the two bonds would you take if you were compelled to buy one of them for your company?

Mr. WOODRUFF. At a given rate, I should say the landschaft bond would be preferable—at the same rate.

Mr. LUBIN. Yes; that is all.

Senator HOLLIS. Mr. Lubin, if you will permit me, we are seeking the truth in this proposition. Of course, you want to help and Mr. Woodruff wants to help and I want to help.

Now, in my opinion, it is impossible for the Government to give such a title—the National Government—in the various States; and I think it is almost impossible to persuade the States to pass such a law as would give an indefensible title. You have thought of that, of course?

Mr. LUBIN. Would you like to ask that as a question?

Senator HOLLIS. Yes; I want your comments on that.

Mr. LUBIN. Well, if that is asked in the form of a question, I will say this: The Government of the United States has no power to coerce any State to adopt this law or repeal that law in relation to a title. I do not think that a State has any power to coerce the United States along the same lines.

But the United States, I think, has ample power to pass an act which will say, "Under this act we will issue charters; whatever States desire charters may have them, provided that section — of this act shall be complied with"; that is, put it in operation.

Well, this law is passed, and they find that there is only one State in the Union which can operate under this law, and that is Iowa. Iowa starts a landschaft and issues its bonds; it becomes known to the people. The bonds are sold; immediately subscribed for; taken up.

The result is that Michigan, for instance, wants the same law; they want the same charter; they apply to the United States Government for a charter. The Government says to them, "We can not give you one; your State has to pass those laws in order to get a charter."

And in this way the United States can wait patiently until all the States of the Union are in line, and if they want charters, they can get them, but they must comply with the law, and there is no compulsion at all; whenever the States do this they can get the charter.

That is the answer.

Senator HOLLIS. That idea, Mr. Lubin, was in the Fletcher-Moss bill. Have you read that bill? It probably came from your suggestion. That was one of the conditions laid down in the Fletcher-Moss bill.

I would like to ask Mr. Woodruff one or two questions.

Senator LEE. Would you allow me first to ask Mr. Lubin a question, Mr. Chairman?

Senator HOLLIS. Yes; certainly.

Senator LEE. Mr. Lubin, how would you get rid of the constitutional limitation on the power of the States which prohibits them from passing any law which would violate a contract? Assuming that there is a cloud upon the title to land which results from a contractual liability, how could the States pass laws which would clear up that title and thus meet the requirements of the Federal Government which you suggest?

Mr. LUBIN. Well, that is a very hard question; that would take probably a finer lawyer than I am to answer; I would not feel competent to answer that question; I do not know.

Senator HOLLIS. Mr. Woodruff, how much do your mortgages net the company as an investment?

Mr. WOODRUFF. About 5.07 per cent.

Senator HOLLIS. 5.07 per cent?

Mr. WOODRUFF. Yes.

Senator HOLLIS. If our system should go into successful operation, and we should succeed in floating our bonds, so that we could loan to the farmers at 5 per cent, you see that we would make practically all the farm loans in the country and eventually would drive you out of that investment field. Then you would have to either invest in something else or buy our bonds?

Mr. PLATT. They would not have to do that under this bill, because you limit the loan to any one borrower to \$4,000.

Senator HOLLIS. Yes; that would leave the larger ones free. Do you require any limitation, Mr. Woodruff, upon the purposes for which the money shall be spent?

Mr. WOODRUFF. No; except that we do not encourage the speculative borrower. We do not inquire as to whether the money is actually going to be used upon the farm or not. As a matter of fact, the majority of our loans go to purchase additional lands.

Senator HOLLIS. If we should succeed in making our system a success, and should float our bonds at 4 per cent, do you think that would prove an attractive investment to your company, provided you should be driven out of the 5.07 per cent mortgage loan market?

Mr. WOODRUFF. I should very gravely doubt it for this reason, if you will permit me to say so: We make our farm-loan mortgages to a certain extent to encourage the State—encourage the individual; we want the individual to come in personal touch with the company; we have an indirect advertisement in that way.

Senator HOLLIS. Yes.

Mr. WOODRUFF. The investment feature is not the only feature that prompts us to make farm-loan investments.

Senator HOLLIS. But that is a pretty good rate for an almost absolutely safe investment, is it not?

Mr. WOODRUFF. Yes.

Senator HOLLIS. That is an attractive rate, is it not?

Mr. WOODRUFF. Yes; an attractive rate.

Senator HOLLIS. As shown by the amount of your investment in those loans?

Mr. PLATT. Do you say you make your loans from Ohio to southern Minnesota?

Mr. WOODRUFF. Yes.

Mr. PLATT. You do not loan, then, I take it, in New York and Pennsylvania?

Mr. WOODRUFF. No, sir.

Mr. PLATT. Is that because farm loans are made at lower rates in New York and Pennsylvania, or because the security is not so good?

Mr. WOODRUFF. Because the farms are not marketable. They vary greatly in value, and in the event of their being offered for sale they do not meet with a ready purchaser.

Mr. PLATT. I think there is some truth in that, but the farmers in New York and Pennsylvania do borrow at a lower rate than elsewhere.

Mr. WOODRUFF. They do from local institutions, where the security is known; but from long distances it would be difficult to borrow on a security of that character—I mean that is not readily marketable.

Senator HOLLIS. Senator Crawford, would you like to ask any questions of Mr. Woodruff?

Senator CRAWFORD. No.

Senator HOLLIS. Senator Lee? Mr. Brown?

Mr. BROWN. Nothing more, I believe.

Senator HOLLIS. Dr. Carver?

Mr. CARVER. Yes. You expressed a preference, Mr. Woodruff, for the landschaft bonds, as compared with the bonds issued under this bill, of course, at the same rate of interest; you put in a proviso—a couple of “ifs.” I suppose if those “ifs” applied to both bonds, you would not have any reason for preferring the landschaft bond to the bond issued under this bill?

Mr. WOODRUFF. If you will allow me to express my personal judgment in the matter, I do not see how you are going to get your farmers in the United States to organize landschaft organizations, for the reason that there are too many opportunities for them to secure funds at a reasonable rate outside of such an organization; and the farmers of the United States are very slow, or would be

very slow, I think, to obligate their security to protect their neighbors' indebtedness.

Mr. CARVER. Well, under this bill, as I remember it, there is a double liability, as in the case of an ordinary bank; so that if they go in under this bill they would have some considerable responsibility for their neighbors' debts.

Mr. WOODRUFF. To answer your question as to the two propositions, I should say that the bond issued under this bill, from our standpoint, would be preferable.

Mr. CARVER. To the landschaft bonds?

Mr. WOODRUFF. To the landschaft bonds, if the two "ifs" were covered.

Mr. LUBIN. If the two "ifs" were covered. But if they were not it would create a lot of banks for the farmers, and how can the farmers run banks? In the first place, you said that the interest is 5—

Mr. WOODRUFF (interposing). 5.07 per cent.

Mr. LUBIN. 5.07 per cent. Now, is that the interest that the farmer pays or is it the net interest that you receive?

Mr. WOODRUFF. It is the net interest that we receive from the farmer.

Mr. LUBIN. Is that the net interest that the farmer pays?

Mr. WOODRUFF. Oh, no.

Mr. LUBIN. What does the farmer pay?

Mr. WOODRUFF. We do not know; but probably in the neighborhood of 6 per cent. In the South more than that.

Mr. LUBIN. That is, you have, as it were, a toll before passing over; there is a middle course that deals with the farmer direct, and that middle course is compensated by a certain compensation.

Mr. BROWN. Paid by the farmer.

Mr. LUBIN. Yes. Therefore, if I understand right, the farmer does not receive the money at 5.07 per cent, but you receive 5.07 per cent.

Senator CRAWFORD. Yes; there is a commission mortgage in there.

Mr. LUBIN. Yes; there is a commission man.

Senator CRAWFORD. There are the abstracting expenses, and the attorney's fees, and so on.

Mr. LUBIN. Yes; and there is a middleman, is there not, between you and the farmer?

Mr. WOODRUFF. There must of necessity be.

Mr. LUBIN. Well, then, there is one thing that should not be overlooked. If you are receiving a landschaft bond, you have got a finished product; in the other case you have got a good deal of keen, inside business to attend to, and you have got to go to the bank to see if the thing is straight; whereas in the landschaft bond, if the two "ifs" are there, it is a finished product; and you still insist that you prefer the bank of the farmer here to this finished product that would be floating? Which of the two would you prefer?

Mr. WOODRUFF. It is a pretty hard question to answer.

Mr. BROWN. May I ask a question? Mr. Woodruff, do you know absolutely what rate per cent the farmer pays on your mortgages?

Mr. WOODRUFF. No, sir; we do not.

Senator HOLLIS. The mortgages actually run to you; you are named in the mortgages; you do not take an assignment of them, do you?

Mr. WOODRUFF. The mortgage runs to us, and the rate that we receive is named in the mortgage, which is a matter of record.

Senator CRAWFORD. There is probably another mortgage, however—a commission mortgage.

Mr. WOODRUFF. A commission mortgage.

Senator CRAWFORD. And the rate which the farmer pays is $7\frac{1}{2}$ to 8 per cent. Of course, you do not know anything about that; you simply get your 5.07 per cent interest. But between you and that borrower there is a margin that makes his rate of interest run up to 7 per cent, probably.

Mr. WOODRUFF. His transaction has got to go through at least two parties, and they have to be compensated for their services.

Senator CRAWFORD. Certainly.

Senator HOLLIS. But, on the other hand, you do this to establish cordial relations with the people of those sections; and if the rate ran too high you would know that and would disapprove of it.

Mr. WOODRUFF. Yes; and then there is competition between the different corporations who desire to secure farm loans which has a tendency to keep the rate down.

Senator HOLLIS. Mr. Thompson, have you any questions to ask Mr. Woodruff?

Mr. THOMPSON. No.

Senator HOLLIS. Do you want to ask Mr. Lubin any questions? We have 15 minutes in which to discuss the matter; and it is open to anyone to ask questions of anyone else.

Mr. THOMPSON. Mr. Lubin made the statement a moment ago, in comparing the landschaft with the system provided in this bill (S. 55542), that in the one case the farmers would be having banks to deal with. Do you understand, Mr. Lubin, that the loan associations provided here, the local associations as contrasted with the landschaft as such, are in the nature of banking institutions with banking machinery?

Mr. LUBIN. Does this call for banking machinery?

Mr. THOMPSON. I mean the local associations among farmers; do you think of them as banks or in the nature of banks?

Mr. LUBIN. Well, you can not go only upon one branch of the proposition; one part is not the whole.

Mr. THOMPSON. You are thinking of the central district selling agency?

Mr. LUBIN. For the landschaft? Are you speaking of the landschaft?

Mr. THOMPSON. I am speaking of this bill.

Mr. LUBIN. On this? I am taking the whole proposition. So far as the landschaft is concerned you have no bank whatever. The farmer gets his money and it is finished. That is the end. He pays his interest, or it is paid through here, and it is finished. He gets his mortgage for 50 or 75 years on this plan here, and he can pay his mortgage in two weeks; and if he buys his bond in the open market he has cleared himself out; so he is at liberty to move; it is mobile; this is a mobile piece of paper; the debt is a mobile debt; the thing is absolutely mobile any moment.

Mr. THOMPSON. You assume, then, that the selling problem in connection with the bonds takes care of itself largely?

Mr. LUBIN. Yes; it is like subscribing to Government bonds. If this thing were done to-morrow as it is in Germany, with the additional provision for publicity, these bonds would be oversubscribed and run up to hundreds of millions of dollars in a week.

Mr. THOMPSON. I have no other questions.

Mr. BROWN. May I ask one more question, Mr. Chairman?

Senator HOLLIS. Certainly.

Mr. BROWN. Do I understand, then, Mr. Lubin, that these bonds have no security other than the mortgaged lands?

Mr. LUBIN. They have got the security of the whole tract of land mortgaged to the landschaft, but with efficient appraisement any one parcel of land mortgaged is sufficient.

Mr. BROWN. Yes; but all of that land is mortgaged in order to get into the landschaft proposition, as I understand?

Mr. LUBIN. No; let us see. Suppose you start the landschaft and there is only one man in it, who has 5 acres. He puts in a proposition for a bond. The whole landschaft is 5 acres; you can not float any more bonds than on those 5 acres, probably \$2,000; you can not float any more.

Mr. BROWN. What security has that bond other than the land that is mortgaged?

Mr. LUBIN. It has not any other.

Mr. BROWN. Well, that is what I wanted to get at.

Mr. PLATT. Is that always true? Have not some of the landschaft associations accumulated funds?

Mr. LUBIN. No; they accumulate nothing. They may accumulate \$50; they have to assess themselves to pay for paper, or for a bag or trunk, a spittoon, or a hatrack; they may accumulate \$50, but that is all the money they have, it is their petty cash, they do not do any banking.

Senator HOLLIS. You see they do not have any funds to turn over to the borrower; all they turn over to him is the bond, which in effect says that he has turned certain land over to them, which they hold for the bonds.

Mr. PLATT. But the landschaft receives the amortization payments; what does it do with those?

Senator HOLLIS. Yes; that is true; what do they do with that money, Mr. Lubin?

Mr. LUBIN. I have never found any mistake or any failure—

Mr. PLATT (interposing). What do they do with the money, the landschaft, when the money is paid in for amortization payments?

Mr. LUBIN. They buy back the bonds.

Mr. PLATT. Yes. In other words, the landschaft uses the amortization payments and interest to pay the interest on the bonds, and if there is a surplus, what is done with that?

Mr. LUBIN. They have no surplus; there is never any surplus.

Mr. PLATT. Suppose they are loaning out money at 4 per cent, and the interest they have to pay is only 3 per cent, what do they do with the difference?

Mr. LUBIN. They do not make any profit at all.

Mr. PLATT. But the interest payments and the amortization payments come into the landschaft itself, and they have got the money; what do they do with it?

Mr. LUBIN. Oh, you mean the interest? When the bond is issued you have printed on it that it is a 3 per cent bond or a $3\frac{1}{2}$ or 4 per cent bond. There are the different issues; and you print the rate right on the bond. Those bonds are then sold; the rates do not vary.

Senator HOLLIS. The borrower walks up with his interest and his amortization payment and gives it to the landschaft, and the landschaft gives that whole amount over to the holder of the bond; is that correct?

Mr. LUBIN. That is it.

Senator HOLLIS. There is nothing retained by the landschaft in the way of profit?

Mr. LUBIN. No. Suppose the man has sold this bond for \$92, but within a week after that he wants to cancel all his indebtedness. He takes out a 50-year indebtedness; but suppose he has a fortune left him. So he goes into the market to buy the bonds back, and they are worth \$3 a share more than when he sold them. That man will lose that \$3 a share.

Mr. BROWN. Suppose the bonds have fallen in the market?

Mr. LUBIN. Then he gains.

Mr. PLATT. Prof. Carver, as a matter of fact, have not a number of the landschafts accumulated surplus funds?

Mr. CARVER. Well, as I understand it as Mr. Lubin does, that they keep no funds.

Mr. LUBIN. They have got nothing there.

Mr. CARVER. The amortization payments as they come in are used to pay up the interest on the bonds or go into the market and buy the bonds.

Mr. PLATT. Well, they can not make the things exactly balance. Suppose they bonds have gone down; they can get them more cheaply.

Mr. LUBIN. But the landschaft does not buy the bonds for itself. It buys them for those farmers.

Mr. CARVER. But, Mr. Lubin, I think the point is that the amortization payments as they come in more than pay the interest on the outstanding bonds; otherwise there would be no amortization.

Mr. LUBIN. Yes; that is true.

Mr. CARVER. Now, what they do with that surplus is to buy in bonds.

Mr. LUBIN. Yes, buy in bonds; they have no cash.

Mr. CARVER. As soon as they have \$100 amortization payments they go and buy up bonds.

Senator CRAWFORD. Suppose the man who owns the bond does not want to sell it?

Mr. CARVER. They are always for sale on the market, like Government bonds.

Senator CRAWFORD. Suppose you can buy them, but have to pay a premium on them?

Mr. CARVER. In that case they defer it.

Senator CRAWFORD. What do they do in the meantime?

Mr. CARVER. In that case they put the money in the bank, like an individual.

Senator CRAWFORD. Then they must have funds on hand?

Mr. CARVER. They must have funds on hand; but there is no accumulation or surplus; it is like a working balance.

Mr. PLATT. As I recall, some of the statements made to the committee were to the effect that some of these older landschafts had considerable funds on hand; but whether they belonged to the present borrowers or men who borrowed years ago I do not know.

Mr. LUBIN. I want to say that there are some so-called landschaft banks; but these are not part of the real landschaft; they are outside, and are run by some members of a landschaft as a side issue. They are not part of the landschaft system at all. They are really, as it were, clearing houses.

Mr. PLATT. Yes.

Mr. LUBIN. Now, these clearing houses are not a part of the landschaft at all; they do that voluntarily. A certain number of landschafts have a clearing house. But it is not under the Government law relating to landschafts. It is the same as if they should say, "Let us chip in and have a grocery store on that corner." It does not concern the landschaft.

Mr. PLATT. Yes; I understand.

Mr. LUBIN. They have money, and they do a lot of things and do some kind of banking which that association allows them to do; but they use this money more for distributing products—handling products, etc.

Mr. PLATT. Yes.

Mr. LUBIN. That has really nothing at all to do with the landschaft proper.

Mr. CARVER. It seems to me that the essential difference between the landschaft system and the system which is proposed here is simply in the selling of the bonds. Under the landschaft system, the farmer who gives the mortgage gets the bond and sells it himself; whereas the pending bill (S. 5542), introduced by Senator Hollis, has provided machinery through which these bonds shall be sold by this central reserve—I forget the title—

Senator HOLLIS. Federal land banks.

Mr. CARVER. Federal land banks; and they do the selling instead of the farmers. That seems to me to be the essential difference.

Senator HOLLIS. Moreover, they have a capital back of them.

Mr. LUBIN. I beg to make this statement in connection with the landschaft; it is not necessary for this farmer to run around to the grocery store or butcher shop, etc., and say to the people there, "Do you want to buy a bond?" He can go to this landschaft and leave the bond there; they do the selling for him, if he wants to do it that way. Or they take it to a broker who deals in that sort of thing; or he takes it on the bourse himself, if he wants to; but it is not incumbent on him to go around and sell his own bond.

Mr. PLATT. Mr. Lubin, there are a great many of these landschaft associations, are there not?

Mr. LUBIN. Yes.

Mr. PLATT. Do all of the bonds of the landschafts sell on an equality?

Mr. LUBIN. No.

Mr. PLATT. One landschaft's bonds may be selling better than those of another, even though they pay the same rate?

Mr. LUBIN. Yes; there is no compulsion about it.

Mr. BROWN. Even if they bear the same rate of interest?

Mr. LUBIN. Yes; there is no compulsion.

Senator HOLLIS. We thank you, gentlemen, for attending the meeting.

(Thereupon, at 12 o'clock noon, the subcommittees adjourned.)

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