

# Land Credits

A Plea For The  
American Farmer

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By DICK T. MORGAN

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**T**HE Crisis in Land Credit Legislation — Discrimination Against Farmers — Fundamental Principles — The Commission Bill, the Sub-Committee Bill, and the Senate Committee Bill — Type of Institution — Adequate Credit — Economy of Administration — Competitive Land Banks — Inadequacy of Reserve Fund — Multiplicity of Bond-Issuing Banks — Interest — Government Aid.

STUDY OF  
HUMAN FACTORS IN THE  
INDUSTRY

LAND CREDITS:  
A PLEA FOR THE AMERICAN FARMER

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AMERICAN FARMER

BY

DICK T. MORGAN

REPRESENTATIVE FROM OKLAHOMA IN THE 61ST, 62ND, 63RD  
AND 64TH CONGRESSES OF THE UNITED STATES.

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By DICK T. MORGAN

*SECOND PRINTING*

To  
My Wife  
ORA

## PREFACE

EVERY one who attempts to write anything for publication in book form, should have some excuse for so doing. In my early manhood, I removed from my native State, Indiana, to Western Kansas, where I resided for about four years. I have lived in Oklahoma since its birth, April 22, 1889. Thus, for nearly thirty years, I have lived in a new country, where capital was comparatively scarce, and interest rates were high. Through the favor of the voters of the "old second" and the "new eighth" Congressional districts of Oklahoma, I have been four times elected a Representative in the Congress of the United States. I represent, in part, a great agricultural State. The vast majority of my constituents are farmers. Oklahoma has made wonderful progress. Her future is bright with promise. With all her immense mineral wealth, agriculture will always be her chief industry. Today, inadequacy of farm-credit facilities impedes her agricultural development. High interest rates, as I honestly believe, impose an unjust and an unnecessary tax upon her farmers. Primarily my object in writing "Land Credits" is to serve my constituents who have trusted and honored me, and to aid the great young State, which I am proud in part to represent. However, I recognize that as a Representative in Congress, in coöperation with my colleagues in the House, I represent in part the nation at large. I hope even that "Land Credits" may be a means whereby I will discharge a duty I owe to all my countrymen.

When the Sixty-third Congress adjourned, March 4, 1915, I was confronted with a situation entirely new to me.

Apparently I had nine months' vacation in sight; for, barring an extra session, Congress would not meet again until December 6, following. Farm-credit legislation had been conspicuous before the Sixty-third Congress. The whole subject was postponed for the action of the Sixty-fourth Congress.

I was disappointed in the recommendations of the Commissions which went abroad to study Rural Credits and I had reached the conclusion that Congress should not enact into law the Commission Bill, the Sub-committee Bill, or the Senate Committee Bill. I, therefore, decided I could best serve my constituents, my State, and my country by devoting the greater part of my vacation to the further study of the principles of land credit, and in preparing the result of my investigations for publication in book form.

In my work, I have had access to all the information available at the National Capital. To establish the facts, I have quoted chiefly from the following works: "Agricultural Credit and Agricultural Coöperation in Germany," by J. R. Cahill, printed as Senate Document No. 17, Sixty-third Congress; and from "Agricultural Coöperation and Rural Credit in Europe," being the report of the United States and American Commissions, printed as Senate Document No. 214, Sixty-third Congress. I have obtained much information from the study of "Rural Credits" by Hon. Myron T. Herrick, and hereby express my thanks to him and his publishers, D. Appleton & Co.

I am fully aware that this volume is not an exhaustive treatise of the subject. It is with reluctance that I turn the manuscript over to the publishers — knowing full well, that with further time, much of value could be added. Nothing I have said in this volume is intended, in any way, to reflect upon the able gentlemen who comprise the United States and American Commissions, or upon the distinguished Senators and Representatives in the Sixty-

third Congress, who were members of the Senate and House Committees on Banking and Currency, and the Sub-committees of the two Houses on Rural Credits. I have no doubt they have reached their conclusions honestly. All who are familiar with the facts know that they gave earnest, faithful and conscientious study to the subject. With these statements, this volume is submitted to the public, with the hope that, with all its imperfections, it may still contribute something toward a proper solution of our Land-Credit problem.

DICK T. MORGAN.

WOODWARD, Oklahoma.  
September 1, 1915.

## INTRODUCTION

IN enacting legislation to facilitate land credits in the United States, we should have clearly in view the chief end to be attained thereby. Naturally we think first of the material benefit that will accrue to our farming population. The farmers constitute more than one-third of our total population. Their welfare is of the highest importance to the nation. To help our farmers, would of itself be a sufficient excuse for the establishment of a national system of land credits. Any legislation that would materially aid one-third or more of our population should command our most serious consideration. Agriculture is our greatest industry, measured by the number of persons engaged therein. The census of 1910 shows that in 1909 there were over 12,000,000 persons, over ten years of age, engaged in agriculture, and about 7,000,000 persons, over ten years of age, engaged in manufacturing and mechanical industries. Agriculture is not excelled by any other industry measured by the amount of the annual wealth it produces. The census of 1910 shows that our agricultural products in 1909 were valued at approximately \$9,000,000,000. The Department of Agriculture estimated the value of our annual agricultural products for 1914 in round numbers at \$10,000,000,000. These figures represent the annual wealth added to our nation through agriculture. It is true that the annual output of our manufacturing industries in 1909 was valued at \$20,000,000,000. It must be borne in mind, however, that our manufacturing industries used \$12,000,000,000 worth of raw material which must be deducted from the gross value of their products, to

ascertain the net annual wealth added to the nation by our manufacturing industries. Making this deduction, we find that agriculture and manufacturing are practically on an equilibrium, measured by the annual wealth these industries produce. But measured by the real wealth added to the country, manufacturing is the only other industry that compares with agriculture in the net value of its annual product. The value of the annual products of all other industries in the United States, including mining, forestry, fisheries, etc., combined, amounts to only about \$3,000,000,000. This is not all. Agriculture, as a basic industry, occupies a position not approached by any other industry. In a very high degree all other industries, including manufacturing, depend upon agriculture for support. Credit is an instrument most potent in its productive power. In the last fifty years, we have had marvelous development in manufacturing, commerce, trade and transportation. Without credit, this unparalleled development would have been utterly impossible. The fact is, the credit power of the country has been largely used for the development of industries other than agriculture. The farmers have not had their share of credit. The American farmer has been taught rather to keep out of debt. But if in debt, it has been his ambition to liquidate his indebtedness at the earliest date possible. With that in view, he and his family have bent their energies, practicing self-denial and sacrificing education, comfort and even health itself, to meet financial obligations and free the farm of mortgage. Some benefits have come from this effort of our farmers to be free from indebtedness. The great injustice has been, that from a lack of a proper system of agricultural credits, our farmers have been compelled to pay a higher rate of interest than has been paid by those engaged in other industries. This has, in effect, placed an annual tax of immense proportions upon agriculture, imposed upon our farming population unnecessary and unjust burdens and

hardships, retarded the expansion of agriculture, our greatest industry, and thus held back the growth of our country, reduced its wealth, and weakened the fabric of our national government.

In establishing a system of farm credits, we may primarily and directly have in view justice to our farmers and their families, to make them more prosperous, to give them greater profits, enable them to build better homes, enjoy greater advantages, and surround themselves with all those things which will contribute to their comfort, enjoyment and happiness. But, back of all this, we must not overlook the indisputable fact that our nonfarming population is deeply interested in the prosperity of our farmers and in the growth, development and expansion of agriculture, and that upon the prosperity and extension of agriculture depend the strength, greatness, prestige, and perpetuity of the nation.

James J. Hill in his book "Highways of Progress," says:

"The country is approaching the inevitable advent of a population of 150,000,000 or 200,000,000, within the lifetime of those now grown to man's estate, with a potential food supply that falls as the draft upon it advances. How are these people to be fed?"

There is the problem. If we do not plan to feed our people, we commit a great national economic blunder, invite national weakness, decay and deterioration, and voluntarily relinquish our place as a self-sustaining, independent people. Farm credits should not be viewed as a movement to confer special favor upon our farmers, to make them gifts, donations, concessions, or the object of charity. The founding of an adequate system of farm credits rather means the initiation, inauguration and perfection of a system of rural credits that will represent a great national policy; that will, in its operation, not only contribute to the prosperity and well-being of our farmers, but will be-



come a mighty factor in our national development, in promoting the welfare of all our people, in adding to the wealth, the strength, the greatness, and the glory of our nation, and in extending the blessings of our free government, and the ennobling influences of our Christian civilization to those living in the remotest parts of the earth.

The general discussion of the proposition to provide our farmers with better credit facilities and cheaper interest is of recent origin. The Country Life Commission appointed by President Roosevelt in its report had little to say of better credit for agriculture. President Taft was the first of our Chief Executives to take the initiative in the movement to provide better credit for our farmers. Through his Secretary of State, Mr. Knox, he instructed our representatives abroad to investigate the farm-credit systems of other countries.

The Republican, Democratic and Progressive parties in their national conventions in 1912 promulgated platform declarations in favor of establishing in this country a better system of farm credits. Through the initiative of the Southern Commercial Congress, the American Commission, composed of delegates from twenty-nine States and four provinces of Canada, was appointed to visit Europe, make a study of the rural credit systems of those countries, and make a report thereon. Congress authorized the President to appoint a commission — called the United States Commission — for the same purpose. This commission consisted of seven persons, two of whom were United States Senators and one a Representative in Congress. These two commissions went abroad together, and cooperated in the investigation. In due time the commissions made their reports, and the same have been printed.

When the Sixty-third Congress convened, President Wilson in his first message to Congress called attention to the importance of rural-credit legislation. For the first time in its history the United States Congress entered upon

a serious attempt to enact legislation which would improve the farm-credit facilities of the United States and reduce the rate of interest which the farmers were paying.

A large number of bills were introduced in both Houses of Congress. The Banking and Currency Committees of the Senate and the House appointed sub-committees on rural credits, and these committees held hearings on the subject. A large number of persons appeared before these sub-committees and presented their views. These hearings were published.

The United States Commission prepared a bill which was introduced in the Senate and House simultaneously, January 29, 1914. It was introduced in the Senate by Hon. Duncan U. Fletcher, a senator from Florida, Senate Bill 4246, and in the House by Hon. Ralph A. Moss, a representative from Indiana, H. R. 12,585. Originally this bill authorized the formation of national farm land banks with a minimum capital stock of \$10,000. Subsequently the bill was re-introduced, fixing the minimum capital stock at \$100,000. The new bill was introduced in the two houses January 8, 1915; S. 7184; H. R. 20,689. This bill has been popularly referred to as the Fletcher-Moss Bill or the Moss-Fletcher Bill. It will be referred to hereinafter in this volume as the "Commission" Bill.

The Senate and House committees on Banking and Currency each appointed a sub-committee on rural credits. The two sub-committees held joint hearings and agreed upon a land-credit bill. This was introduced in the Senate, May 12, 1914, S. 5542, by Senator Henry F. Hollis of New Hampshire, and in the House the same date by Representative Robert J. Bulkley of Ohio, H. R. 16,478. This is frequently called the Hollis-Bulkley or Bulkley-Hollis Bill. In this volume it will be referred to as the "Sub-committee" Bill.

On February 4, 1915, Senator Hollis of New Hampshire introduced in the Senate, another bill, S. 7554, prac-

tically the same as the Sub-committee Bill, eliminating the so-called "government aid" provisions.

On February 19 (Calendar day, February 27), 1915, the Senate Committee on Banking and Currency made a report on S. 5542, the Sub-committee Bill, striking out all after the enacting clause and inserting a new bill, which in the main was the Hollis Bill, S. 7554, with an important amendment, authorizing the organization of "Federal Farm Bond Banks," corresponding to the National Farm Land Banks in the Commission Bill. This will be referred to as the "Senate Committee" Bill.

There were numerous other land-credit bills introduced in the Sixty-third Congress. Some of them have very great merit. None of them, however, was endorsed by the commission or any of the Committees of Congress. It was thought best to confine the discussion to these three bills which have been "officially endorsed," either by the United States Commission, the Sub-committees on Rural Credits, or the Senate Committee on Banking and Currency.

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# LAND CREDITS

## CHAPTER I

### THE CRISIS IN LAND CREDIT LEGISLATION

THERE is a crisis in land-credit legislation! The turning point has been reached. The critical moment has arrived. An emergency exists. An exigency confronts the nation. A false step now may be irretraceable, a blunder at this time may be incurable, a mistake made at this juncture may be irretrievable, and an error committed in the pending crisis may be forever irreparable.

In this crisis in land-credit legislation great interests are at stake. The prosperity of 6,500,000 farmers is involved. Forty-five million men, women, and children on our farms, and untold millions to follow them, are directly, intensely, and vitally interested. The fate of agriculture—its growth, development, and expansion—the annual wealth produced thereby, and its ability to produce an adequate supply of food products for our rapidly increasing population, depend in a large measure upon the outcome of the pending crisis.

This crisis involves more than the physical and material well-being of our farmers and their families. The sweep of its influence includes their intellectual growth, their social welfare, and their moral and spiritual development. Its impress will tell on their schools, their churches, their homes, their manhood and womanhood, and upon their lives and their hearts.

The result of this crisis will determine the attitude of

our Federal government towards the farmers of the United States. It will show what appreciation this government has for the 12,500,000 people who toil upon our farms. It will indicate the policy of this government toward these people and their industry. Finally, it will show what respect this government has for the rights of the 45,000,000 men, women, and children who reside upon our farms.

This crisis will not stop with the farmers. Its effect will not be restricted to agriculture. Its influence will not be confined to rural life. Its sway will not be limited to the country districts. It will involve every industry, business, calling, and profession of life. Its influence will extend to every section of the land, to every State in the Union, and to every home and fireside. Commerce, manufacturing, mining, trade, transportation, merchandising, banking, clerical pursuits, the learned professions — all are interested. The rich and the poor, the millionaire and the pauper, labor and capital, employers and employees, merchants, artisans, day-laborers, and wage-earners — all will be affected by the solution of the existing emergency in land-credit legislation.

This crisis is not a creature of the imagination. It is not an illusion, a delusion, a fable, a dream, or a shadow. It is real and tangible. It may be seen and felt, comprehended and understood. It extends in every direction, touches our national life at every point, and encompasses the whole land.

Settle this crisis right and the republic will be strengthened, its power and influence will be augmented, its prestige will be enhanced, its fame will be magnified, its principles and ideals will be emphasized and accentuated, its resources and wealth will be multiplied, its security will be increased, its hands will be strengthened, and under its flag will dwell a better citizenship, and a happier, more contented, and prosperous people.

To understand how this crisis has been brought about, let us trace the history of land-credit legislation in the Congress of the United States:

1. March 4, 1913, Congress authorized the President to appoint a commission of seven to go abroad and study rural credits. The commission was appointed, made its trip to Europe, returned, submitted its report, and prepared a land-credit bill, which was introduced in the Senate and House.

2. The committees on Banking and Currency in the House and in the Senate appointed sub-committees on rural credits, to which were referred the Commission Bill, and all other bills on rural credits. These sub-committees held joint hearings, and agreed upon a bill, which was introduced in the Senate and House.

3. The Banking and Currency Committee of the Senate agreed upon a land-credit bill, and reported it favorably to the Senate as a substitute for the Sub-committee Bill.

4. A Land-credit Bill introduced by Senator Porter J. McCumber of North Dakota was placed as a "rider" upon the Agricultural Appropriation Bill in the Senate. This was referred to the Committee on Agriculture of the House, which came back to the House with a report that the Senate Committee Bill be substituted for the McCumber amendment, and the House, with some modifications, adopted the recommendations of the Committee on Agriculture.

5. The Rural-credit Bill went to the committee on conference, which reported as a substitute therefor a provision, authorizing the appointment of a joint-committee of the two houses, to consider the subject, prepare a bill, and report to Congress, not later than January 1, 1916.

6. The joint-committee of the two houses was appointed, and its report will no doubt be forthcoming within the time prescribed by law.

Every person interested in rural-credit legislation, and

that should include all who are interested in the welfare of the country, should know the line along which rural-credit legislation has drifted. He should know the starting point, the stopping point, and the intervening route that has been traveled. Many bills have been introduced in Congress. Various plans have been proposed, able speeches have been made before committees and the two houses of Congress, but all this may count for little in actual legislative progress. The line of progress is marked by the action taken by the United States Commission and the Sub-committees, and the Senate Committee. The United States Commission prepared a bill and submitted it to Congress. This was official action. The Sub-committees of the two Houses agreed upon a bill and through the chairmen this bill was introduced in the two Houses. This was a step forward. The Senate Committee agreed upon a bill and reported it favorably to the Senate. This was progress. The actions of the Commission, the Sub-committees and the Senate Committee mark the course rural-credit legislation has followed. To know where we are now, we must ascertain the contents of the Commission Bill, the Sub-committee Bill, and the Senate Committee Bill. There is a widespread opinion that these bills differ materially. They do differ in some particulars. They do not differ fundamentally. They all create the same kind of an institution. They all propose to bring into existence purely private, profit-sharing, dividend-paying, surplus-creating land banks as the instruments to direct, control and manage the land-credit system for the farmers of the United States. They all propose the same type, the same character of institution. This is fundamental. In this respect these bills agree with each other, but in this particular they disagree with practically all the land-credit systems of Europe. As things stand to-day, the "powers that be" propose to give our farmers private, profit-sharing land banks, in-

stead of public or semi-public, non-profit-sharing, farm-credit institutions, such as serve nearly all the farmers of Europe.

These three bills are alike, in that they propose to create a system of land banks, which gives no assurance that it will furnish the farmers of the United States with the amount of credit they need, thus leaving them without adequate credit facilities for many years to come, compelling them to pay in the meantime a much higher rate of interest than is paid by the farmers of European countries. These three bills agree in this, that they authorize the land banks to charge the farmers 1 per cent. annually on their loans for administration expenses and profits, a sum four times greater than the average charge by European land-credit institutions for the same purpose. These three bills agree in this, that they do not fix the rate of interest the banks may charge on loans, neither do they establish a maximum rate that may be charged. These bills agree in establishing a system of land banks that can not be economically operated, which will add that much additional burden upon the borrowing farmers. These three bills agree, in that they propose to exempt private-profit-sharing land banks — their profits, resources, surpluses and incomes from Federal, State and local taxation, which must add additional tax-burdens to other private property, rob the State and local governments of millions of dollars of revenue, when exemption from taxation is a privilege not extended to any of the private, profit-sharing land banks of European countries.

These bills are alike, in that they all propose a system of land banks which will place the farmers in competition with each other in marketing their securities — a policy that will increase the rates of interest on farm-mortgage bonds, which necessarily means a corresponding increase in the rate of interest paid by farmers on mortgages. These three bills are similar, in that they authorize numerous land

banks to issue and sell farm-mortgage bonds, which will distribute these bonds among investors in all the money markets of the country to the loss and disadvantage of the farmers. These three bills correspond in this, that they do not recognize the importance of centralization and unity in our bond-issuing institutions, as a means to strengthen the farmers' credit, and give the investing public confidence in their securities. These bills harmonize with each other in this, that they propose to permit banks to issue mortgage bonds, whose capital stock will be so small as to actually vitiate and discredit the farmers' securities in the eyes of investors. These three bills are in the same class in this, that they propose to establish a large number of rural banks, which will largely increase the annual expenditures of the Federal government in their supervision. These three bills are identical in that the land banks created thereby do not follow the vast majority of the land-credit systems of Europe, which are associations of borrowers, or institutions founded and conducted solely in the interest of borrowers. These three bills are one and the same in this, that they all create land banks over which the farmers will have no control, but which will be owned, directed and dominated by private capital, invested in these banks purely as a money-making proposition, without any altruistic purpose and under no obligation to serve the public interest. These three bills are identical in this, that they limit the length of loans from 30 to 35 years, too short a period to meet the needs of farm-tenants, farm-laborers, and others of limited means who desire to acquire farm-homesteads, thus discriminating against the poor, and again refusing to follow the European institutions which grant farm loans for periods extending as long as 75 years. These three bills parallel each other, in failing to require sufficient reserve, guaranty or insurance funds, to meet all possible losses, and thus make the mortgage bonds absolutely secure, a thing

that is regarded as fundamental in all European countries. These three bills coincide in establishing a land-credit system that will not be uniform in its benefits throughout the country, giving to the farmers of one State better facilities for credit, at a lower rate of interest, than will be given to those in another State; a system which is unjust, unfair, discriminating and sectional, and at variance with European land-credit systems. These three bills are of the same family, because none of them proposes a land-credit system that is national in its design, national in its aim, national in its construction, national in its administration, or through which the Government at Washington may carry out a distinctive, affirmative, national policy toward agriculture. Finally, while the Sub-committee Bill does contain a provision for governmental aid, along a certain line, these three bills are analogous in this, that none of them proposes the proper kind and character of government aid, or such use of the funds and credit of the Federal government as will bring into existence a land-credit system that will furnish to the farmers of the United States the credit to which they are entitled, or that will insure that expansion in agriculture which is essential in order that our republic may reach its greatest glory, and its citizens attain the highest good!

To undertake now to change the course along which land-credit legislation is moving is like attempting to change the channel of a river. It is no easy task to wipe the slate clean and begin anew. The position now occupied has not been attained by chance, or accident. Intelligent forces have been at work. Progress has been made, sentiment has been created, ideas have been developed, impressions have been made, opinions have been formed, conclusions have been reached, and definite positions have been taken. The foundation for land-credit legislation has been laid, the frame-work is up, and the superstructure is all but complete. Any material change now means rebuild-

ing from the ground up, with wiser plans and better material. This is the task before those who would modify the plans which already have been conceived, formulated and adopted by the legislative architects in charge. To aid in this great undertaking, to assist in the conception, preparation, and selection of better plans, to help in the work of laying a safer and more lasting foundation, to participate with others in erecting a land-credit structure that will be more useful and acceptable to the farmers of the United States, and more beneficial to the country at large, is the mission of "Land Credits: a Plea for the American Farmer."

## CHAPTER II

### DISCRIMINATION AGAINST FARMERS

It is difficult to exaggerate the extent to which our credit institutions discriminate against the farmers in extending credit. It is hard to comprehend the loss sustained by agriculture through lack of adequate credit. Credit is an instrument of great productive power. Without it our rapid commercial and industrial development would have been impossible. As a factor in our material development, credit should be ranked with steam and electricity. The object of rural-credit legislation is to place in the hands of agriculture this modern instrument of production. There is no desire to rob commerce, trade, transportation, and manufacturing. The object is to supply agriculture — to place in the hands of our farmers an instrument that will enable them to extend, expand, and enlarge their industry, increase their earning power, augment their profits and savings, and materially add to the total annual wealth produced in this country, from which all classes will reap great benefits. Credit for agriculture means the establishment of a new enterprise, the founding of a new institution, the invention of a new tool, implement, or machine. Other industries have been supplied with this credit. The fact is, trade, transportation, commerce, mercantile and industrial enterprises, have largely monopolized the credit power of our banking institutions. We read the story of the growth of our cities. We ponder over the concentration of our population in our towns and cities. We philosophize as to the cause of this movement.

Recognizing its danger, we seek remedies. We have been discussing the back-to-the-farm movement. From 1899 to 1909 our urban population increased 34 per cent. Our rural population, in the same time, increased but 11 per cent. Ten per cent. of our people live in three of our great cities—New York, Chicago, and Philadelphia. Twenty-five per cent. of all our citizens reside in cities with a population of 100,000 or over. Why this unparalleled growth in the great cities? Why has not the farm kept pace with the cities? The lack of credit has been one thing that has held the farm back. An abundance of credit power has contributed immensely to the growth of our cities. The credit power of the country has been concentrated in our cities. It has been used by the merchant, the manufacturer, the speculator. It has been utilized to expand our commerce, to extend our trade, to build up our industrial centers. It has been the one great factor in the construction of our steam railroads, our interurban lines, our city transportation facilities. It has built our great cities, paved their streets, erected their modern business buildings, palatial residences, and provided them with driveways, parks, and places of amusement. It has constructed their school houses, colleges, universities, and churches. It has given them electric lights, telephones, and every other invention, contrivance, improvement, or institution that adds to the attractiveness of city life, or to the pleasure, enjoyment, and happiness of the dwellers therein. Without credit in abundance our cities could not have had such wonderful growth, they would have been wanting in many of the industries and institutions which give employment and support to their people, and the people residing therein would be without many of those things which to-day contribute most largely to their welfare and happiness. The absolute proof of these statements is shown in the official reports upon our credit institutions. The annual report of the Comptroller of the

Currency for 1914 reveals some most interesting and instructive facts. This report shows that we have in the United States about 27,000 banks. Twenty-six thousand seven hundred and sixty-five reported to the Comptroller. According to these reports these banks have \$26,971,398,030.96 in resources. They have \$2,132,074,073 in capital stock, and \$2,276,517,370 in surplus and undivided profits. They have in loans and discounts and in investments in stocks and bonds, \$20,873,282,169. The banks have but \$2,132,074,073 in capital, but they are extending credit, in loans and in investments in stocks and bonds, to the amount of \$20,873,282,169. The banks, of course, own their capital, but their credit power—legally, of course, placed in their custody and control—really belongs to the public. We think of banks as cash institutions. Strictly speaking, they are not. They are credit institutions. They extend ten dollars in credit for every dollar of their capital. It is the deposits of the public that constitute the credit power of the banks. These credit institutions—these banking corporations—to whom a hundred million of people have entrusted their credit—are, under our laws, legally the custodians of this credit and may grant it to whom they please, and distribute it among those industries which will insure the greatest returns to shareholders. The bankers should not be criticised for this. They are engaged in a strictly private business—though under the supervision of Federal and State authority. The law in no way limits or restricts their dividends, their profits, or their gains. They are profit-making institutions. In the eyes of the world, the best banker is the one who manages his business so as to pay the most regular and liberal dividends, create the largest surplus, and possess the largest amount of undivided profits. The banks have granted credit more liberally to the city than the country, and have favored the demands of commercial and corporate interests as against agriculture.



In the first place, in distributing credit, the banks have discriminated in favor of the town and city and against the country. The report of the Comptroller of the Currency shows that our banks have loaned on farm lands only \$542,115,491, and that they have loaned on real estate, other than farm lands, \$2,965,844,140. They have more than five dollars loaned on urban property for every one dollar loaned on farm lands; this, in face of the fact that farm lands are considered to be safer security than city real estate, because subject to less fluctuation. With three billion dollars loaned on town and city property and only one-half of one billion loaned on farm lands, it is apparent that this large extension of credit, secured by city real estate, has been a most potent factor in the building of our towns and cities ahead of the country. The towns and cities, on real estate loans, have had six times the credit extended to the country. This credit power has been like a great throbbing dynamo, accelerating the building movement in our towns and cities.

The Secretary of Agriculture in his report for 1914 estimates that the State, private and savings banks have loaned to farmers on short-time loans \$1,000,000,000, and that the national banks have loaned to farmers on short-time loans about \$750,000,000. This would make the total of short-time loans by all our banks to farmers \$1,750,000,000. To this add the \$542,115,491 of farm-mortgage loans and we have a total of \$2,250,000,000 loaned to farmers by all of our banks. But our banks have in loans and in investments in securities \$20,873,282,169. In other words, our banks—national and State—have extended to the non-farming population over \$18,000,000,000 in credit and to the farmers they have loaned only slightly over \$2,000,000,000. In numbers our farmers constitute over one-third of our population, but our banks extend them but one-ninth of the credit of the country.

Our banks, State and national, in distributing credit, discriminate against land credit—the safest security existing. Their total loans, discounts and investments in securities of various kinds, as above pointed out, are \$20,873,282,169. On farm lands they have loaned only \$542,115,491. Only 2½ per cent. of their loans and investments are on farm mortgage security. Ninety-seven and one-half per cent. of their loans and investments are upon securities other than farm land. Our banks invest \$97.50 in other loans and securities for every \$2.50 they invest in farm loans. The farm lands of this country, constituting one-fourth of the wealth of the nation, command from our banks but one-fortieth of the credit at their disposal.

Manufacturing is the only other industry that compares with agriculture in the amount of annual wealth produced. Manufacturing has access to the sources of credit. The securities of this great industry are largely in the form of stocks and bonds. Stocks and bonds are liquid and easily negotiable. Manufacturing concerns are largely owned by corporations. The report of the Comptroller of the Currency for 1914 shows that on December 1, 1914, nearly \$4,000,000,000 of industrial stocks were listed on the New York Stock Exchange—constituting at that time nearly one-fourth of all the stocks listed on said Exchange. On January 1, 1914, the corporations of this country had \$64,000,000,000 in capital stock, and \$37,000,000,000 in bonded and other forms of indebtedness. These corporations had \$101,000,000,000 in stocks and bonds, and other liquid securities. They had a net annual taxable income of \$4,339,550,008—an income of 4.3 per cent. upon their total issue of stocks, bonds, and other forms of securities. The report of the Comptroller of the Currency for 1914, shows that on June 30, 1914, the banks—our credit institutions—had loaned, with stocks and bonds as security, and as investments in stocks and

bonds, the sum of \$9,712,000,000. Think of it! Five hundred and forty-two million, one hundred and fifteen thousand, four hundred and ninety-one dollars on our farm lands; \$9,712,000,000 on stocks and bonds. Forty-nine per cent. in stocks and bonds, and  $21\frac{1}{2}$  per cent. in farm mortgages. In round numbers, one-half of the entire credit power of all our banks is extended to corporations. The entire amount loaned to farmers on both personal and farm land security amounts to but 10 per cent. of the loans and investments of our banks. Have not the farmers a right to charge discrimination when our credit institutions extend to corporations \$10 in credit for every one dollar extended to them?

Compare investments made in railway securities with loans on farm lands. The report of the Comptroller of the Currency for 1914, page 71, shows that on June 30, 1914, the banks had invested in railway bonds \$1,675,303,719, and in railway stocks \$73,436,009, or a total investment in railway stocks and bonds of \$1,748,739,728. This does not include loans secured by railway stocks and bonds, which doubtless amount to a much larger sum. This \$1,748,739,728 is the amount of railroad stocks actually owned by the banks. So, to say nothing of the vast amount of loans made by the banks, with railway stocks and bonds as collateral security, the banks have actually invested in railway stocks and bonds more than three times the amount loaned to farmers on farm mortgages. The railways are valued at \$16,000,000,000; farm property is valued at \$41,000,000,000. The railways give employment to 2,500,000 persons; our farms give employment to 12,500,000. There are about 10,000,000 persons supported by the railways; there are 45,000,000 people supported by the farms. But when our banks own two and a quarter billions of dollars' worth of railway stocks and bonds, it is not surprising that the railroads have easy access to the sources of credit—centered in our banking institu-

tions. The banks have invested in State, county, and municipal bonds (see Comptroller's report 1914, page 71) \$1,353,427,136—nearly three times the amount invested in farm mortgages. They have over \$6,000,000,000 loaned on paper, signed by one or more persons, without any collateral security. On one-name paper alone, without any collateral security, they have \$1,336,693,365—nearly three times the total amount loaned on farm lands. Why all these figures? What do they teach? What are some of the conclusions to be drawn therefrom? These statistics show conclusively that our banks, the credit institutions of the nation, are institutions for the city and not for the country; that they are institutions for trade, transportation, commerce, and manufacturing and not for agriculture; that credit, as an instrument of production, has been largely monopolized by industries other than agriculture; that our banks are contributing little to the development of our greatest industry; and that there is, therefore, a just, legitimate, and imperative need for better credit facilities for agriculture, and that this demand for better credit for agriculture is a matter of the greatest concern to our nation and our people.

In considering the indebtedness of farmers and the \$500,000,000 they pay annually in interest on private indebtedness we should not overlook the farmers' share of the public indebtedness. This public indebtedness, a very large part of which rests upon the farmer, should also be taken into consideration as one of the things which makes it the more imperative that the national government shall bring into existence a system of rural credits which will reduce the annual interest charge which the farmers are paying upon their private indebtedness. It is true, that all other industries pay taxes and a part of the burden of taxation rests upon them. But it is well known that the land of the farmer never escapes taxation, while other kinds of property, for various reasons, very often are

not found by the assessor. Further than this, it is well established that the farmers, on the average, are paying a much higher rate of interest than those engaged in other industries are paying. As long as the farmer pays an excessive rate of interest, the burden of taxation will be more keenly felt, and the payment of taxes will become more and more a burden upon agriculture, which will retard its development in a way that will react upon all other industries and affect adversely those engaged in all other industries. Assuming that the farmers owe in all forms of indebtedness, \$6,000,000,000, and that upon this indebtedness they are paying an annual interest rate—say at least 3 per cent. higher than they would pay if a proper system of rural credit was established, it is apparent that the farmers through excessive interest charges are paying an annual tax of approximately \$200,000,000. Excessive interest charges and high rates of taxation are the two things which are absorbing a very large per cent. of the income of our farmers. We wonder why European countries long ago undertook to provide their farmers with ample credit and cheap interest. We naturally ask why European governments freely used both the cash and credit of their State and national governments, to inaugurate systems of rural credit which would supply agriculture with an abundance of credit, for long periods, on the most favorable terms, at a rate of interest even as low as the rates paid by the governments themselves. The fact is European governments acted from necessity. Agriculture was the basis of their industrial strength. Upon this great industry these governments rested. Long and expensive wars had increased governmental indebtedness. The burden of taxation fell upon agriculture. Interest rates were high. Usury was rampant. Agriculture could not bear the combined burden of high taxation and excessive interest. These governments, to preserve their own existence, were forced to relieve agriculture of this double burden.

The farmers in the United States are not on the verge of bankruptcy. But the experience of other countries shows that a condition may be reached when high interest rates and burdensome taxes may seriously embarrass the greatest industry of our land. It will, therefore, be instructive to study the subject of public indebtedness, and the annual charge upon agriculture as well as upon all other industries through taxation.

The Bureau of the Census, Department of Commerce, in 1913 issued a bulletin on national and State indebtedness. According to the statistics therein presented, "the public indebtedness, less sinking-fund assets of the nation, the States, and all minor civil divisions of the Government, in the United States, amounted, in 1913, to \$4,850,460,713. This was an increase of \$2,011,564,591, or 70.9 per cent. over the amount reported in 1902." From 1890 to 1902, the increase had been 42.7 per cent. or \$849,783,280. From 1902 to 1913, the per capita indebtedness increased \$13.98, or 38.8 per cent. From 1890 to 1902 the per capita indebtedness increased \$4.23, or 13.3 per cent. From 1902 to 1913, the indebtedness of the national government increased 6.1 per cent., the debts of the State governments increased 44.5 per cent., and the debts of counties, cities, villages, towns, townships, school districts, drainage, irrigation districts, and all other minor divisions of government in the United States, having power to incur debt, increased 113.2 per cent. During the period from 1902 to 1913 the net indebtedness of the national government increased \$59,106,814; the debts of the forty-eight State governments increased \$106,573,034; and the debts of counties, cities, towns, villages and all other minor divisions of government increased \$1,845,884,743.

The debt of our national government from 1902 to 1913 increased only slightly, but the annual expenditures of the national government during this period increased enormously. All this growth in expenditures and indebted-

ness of our national, State and local governments means that there has been continual increase in the rate of taxation. It is important in this discussion to note the stupendous increase in the indebtedness and expenditures of State and local governments, which are supported mainly by direct taxation. This kind of taxation necessarily falls most heavily upon the farmers. The total assessed valuation of all property subject to ad valorem taxation in 1912 was \$69,452,936,104. Fifty-one billion, eight hundred and fifty-four million, nine thousand, four hundred and thirty-six dollars consisted of real property. Three-fourths of the burden of all direct taxation for the support of all our State, county, city, town and local governments, falls upon real estate. To say that the farmers owe \$6,000,000,000 does not express the whole truth. It is not mere fiction to say that one-half of the debts owed by the forty-eight States, the 3,000 counties, the tens of thousands of school districts, and other local divisions of government, are debts of the American farmers. The farmers' share of public indebtedness amounts to probably \$2,500,000,000. The farmers will be taxed to pay these debts. Their industry will contribute to their liquidation. Their earnings will go to pay the annual interest charge. And with all this, from the products of their toil, an annual charge will be made in the form of taxes to meet the ever-increasing cost of national, State, county, township, school district and precinct governments. The farmers own about one-fourth of the wealth of the country; they pay fully two-thirds of all the taxes for the support of the State, county and all local governments, exclusive of the villages, towns and cities. As shown elsewhere in this book, the average rate of taxation upon property subject to ad valorem taxation in the various States of the Union, is \$1.94 upon every \$100. There is no prospect that this rate will be lowered in the immediate future. The profits in agriculture are meager compared with the

profits in commercial and industrial businesses. With an annual tax charge of nearly two per cent. per annum upon the assessed valuation of the farms of the United States, it becomes a national necessity to provide the farmers of the United States with ample credit at a low rate of interest. And in view of the fact that, on the average, agriculture pays a higher rate of interest than any other important industry, it will be a great injustice to further delay the enactment of national laws that will inaugurate a system of rural credits which will, in a large measure, emancipate the farmers of the United States from unjust taxation in the form of excessive interest charges.

## CHAPTER III

FUNDAMENTAL PRINCIPLES OF EUROPEAN LAND-CREDIT  
INSTITUTIONS

ALL European land-credit systems which provide for long-term, farm-mortgage loans are alike in some important features. Germany, for instance, has several classes or kinds of land-credit institutions, organized under different laws, but they all have some things in common. So throughout Europe whatever may be the character of the institutions, associations, or corporations, whether they be associations of borrowers, or organizations of lenders, profit-sharing or non-profit-sharing, conducted for gain or for the public good, founded by private capital, or endowed by the State — they are alike in some essential principles, features and characteristics. Among the common features of these institutions, may be mentioned, the following:

1. They are all authorized by law, regulated by statute and are subject to some kind of State or governmental supervision.
  2. They all make unrecalable, long-time, reducible loans.
  3. They all issue long-time bonds or debentures.
  4. They all require the principal debt to be paid by annual or semi-annual, amortization payments.
  5. All make their bonds or debentures absolutely secure.
1. *Authorized by Law.* Upon these fundamental propositions the land-credit systems of Europe are founded. These essential features must, of course, be embodied in the land-credit system of the United States. Obviously there can be no system or plan of land credit without

legal authority. Through State or Federal legislation land-credit institutions must be authorized. Private individuals can not supply agriculture with credit. In this country, and in all other countries, ordinary commercial banks have failed to supply agriculture with proper credit. Banks doing business on deposits, subject to check, are unsuited to extend credit on land security. Individual money lenders are unequal to the task. The law must authorize the formation of institutions especially designed to provide agricultural credit. As the modern business corporation has served all kinds of industrial and commercial enterprises, so it must serve the farmers in supplying them with credit. The farmers' land-credit corporation must have the sanction of legislation. It must have the prestige of the law behind it. Without this no land-credit institution can gain and hold the confidence of the public. So the first step is to create, through statutory enactment, artificial persons — corporations, associations, or institutions — and send them forth into the business world, clothed with the authority of the law, approved and sanctioned by the Federal government, designed, delegated, directed and commissioned to perform the definite, specific work of providing agriculture with adequate credit facilities. In addition to being authorized by law, they must be supervised by Federal authority. Some of the land-credit institutions are supervised by State or provincial authorities. These institutions have, however, lost by this rather than gained. There has been some discussion as to whether our land-credit institutions should be State or Federal institutions. A few of the States have authorized the organization of farm-credit banking institutions. But nothing worth while can be accomplished in this country, except through national legislation, national incorporation, and national supervision. This supervision can hardly be too severe. Anything which impairs confidence in our land-credit institutions will be absolutely fatal to their permanency and

success. The Federal government, creating these institutions, must see to it that their business is conducted in a way that will protect both borrowers and investors, and insure both permanency and efficiency. The law itself must throw around them such general rules as will standardize their business methods and keep them within the limits of perfect safety. But beyond this, there must be such official inspection, oversight, and surveillance as will preclude losses through dishonesty, speculation, negligence, or inefficiency.

2. *Long-time Loans.* In Europe long-time loans run from ten to seventy-five years. Farm loans in the United States generally do not run for a period to exceed five years. In other words, as the term is used in Europe, American farmers have no long-time loans. This is one great defect in our present farm-loan business. It is unjust to the farmer in many ways. Mr. Oren Taft, Jr., of Chicago, who has had extensive experience in the farm-loan business, in an article in "Trust Companies" in September, 1904, page 717, referring to the short-time farm loans in the United States, calls attention to the fact that on the average farm loans in this country run for a period of fifteen years, though on an average they are made for less than five years, thus imposing upon borrowers not only great annoyance, but also heavy expense for re-newals of loans.

Land-credit systems vary somewhat in the duration of long-term loans. In France the maximum time for which a farm loan may be made is 75 years. In Ireland loans may be made for 68½ years, in Switzerland for 57 years, in Germany 56½ years, in Sweden 56½ years, in Russia 55½ years, in Australia 54½ years, in Japan 50 years, in Italy 50 years, in Austria 42 years, in New Zealand 36½ years, in Chile 33 years, and in Finland 30 years.<sup>1</sup>

There are many advantages to the borrower in having a long-time mortgage loan system. Under it, on reasonable

<sup>1</sup> Herrick, page 211.

notice, he is entitled to pay the full amount of his loan at any time. For this privilege he pays no commission or bonus. He may pay all or any part of his debt at reasonable intervals. He is thus in a position to take advantage of any reduction in interest rates. If he makes a loan for \$1,000 for fifty years, at 5 per cent. interest, and thereafter at any time the prevailing rate of interest lowers, he can re-borrow at the lower rate and pay off his original loan. On the other hand, if he borrows at 4 per cent., for fifty years, and the interest rate rises, the loan institution can not demand a higher rate. The long-time loan protects the farmer against misfortune. In farming, as in other lines of business, misfortune and hard times may come. Every country has unfavorable seasons. They may come in succession. The farmer contends with drouths, storms, floods, insects, and diseases in plant and animals. Without his fault a year's labor may be lost. There may come a series of years in which he fails to make a living. Financially he falls behind. Unexpectedly he finds himself in straitened financial circumstances. Under these circumstances he can not pay a short-time mortgage, when it is due. Renewals are often difficult to secure. Sometimes they can be secured only on the payment of a large commission and higher rates of interest. With a long-time farm mortgage the farmer has ample time to recoup his losses. In long-time loans there is a lifetime in which to pay the principal. Annual annuity payments are small. Borrowers have time to tide over failures, misfortunes, unforeseen and unexpected reverses and losses. The peace of mind which these privileges afford is worth much to the borrower and his family. The man carrying a long-term mortgage loan is a better citizen than the one who lives constantly in fear of foreclosure, ejection, and loss of home. This is an asset to the community and the State. Under the short-term mortgage-loan practice in vogue in this country the borrowers are pressed to the

limit to meet the payment of the principal of their debts. They and their families are kept under constant strain. Every effort is put forth. Every member of the family must sacrifice. The children are denied educational advantages. They are cut off from opportunities of greater usefulness. Even if the borrower succeeds in meeting his obligation when due, the cost has been too great. A long-term mortgage loan system will, therefore, become a factor in social uplift, in conserving and improving the physical strength of our farming population, in extending to them better facilities for intellectual development, and in enlarging, broadening, and multiplying their opportunities in life. The long-time farm mortgage loan enables the borrower to do better farming. He will have additional funds to enlarge his farming operations, to provide better machinery, implements and tools, to acquire more live stock, to erect more suitable farm buildings, to plant orchards, grow timber, reclaim unproductive lands, and to acquire many other things which will make the farm more productive, more profitable, and more attractive. The long-term farm loan will enable the average farmer greatly to reduce the amount of his personal short-time indebtedness, which he now owes his local banker, or merchant from whom he buys supplies on time. These short-time loans are on personal or chattel security; ordinarily they run at a high rate of interest. With longer time in which to meet the farm-mortgage indebtedness, the farmer will have a greater surplus of funds. More generally, he will be a cash customer for the merchant. To a larger extent he becomes a depositor in the local bank, which will reap a profit in loaning his funds to others. Here, it might be added, it is that the establishment of a long-term system of farm land mortgage credit will benefit, not injure, commercial banks. The vast majority of these banks are comparatively small institutions, located in farm communities. They are almost entirely dependent upon agriculture. Any

change in our farm-credit system which increases the production of the soil, enlarges farming operations, or augments the prosperity of the farmers, will add to the value of the capital stock of every bank located in a farming community, and will increase its dividends, surplus, and profits. The commercial banks should be enthusiastic supporters of the movement to give the farmers of the United States the very best system of land credit that can be devised. Finally, the long-term farm mortgage is absolutely essential to meet the wants of tenants and other persons of limited means who wish to acquire farm homesteads. It is true that we do not have in this country liberated serfs or any class of farmers on a level with the peasants of some of the European countries. However, about one-third of our farmers are tenants. The census of 1910 shows that we had in this country 6,361,502 farmers. Two million, three hundred fifty-four thousand, six hundred and seventy-six of these were tenants. It is not necessary to enter upon an argument to show the evils of farm tenancy. All thoughtful persons recognize the importance of encouraging home-owning in both the country and city. One of the wisest things this country ever did was to dedicate the public domain to provide homes for the homeless. There was a time when some of our prominent statesmen contended that primarily the public domain should be used as a source of revenue to the national government. For some years it was so used. The free homestead law did not pass without a struggle. It was passed by both Houses of Congress once, and vetoed by one of our Presidents. The measure finally became a law and received the approval of Abraham Lincoln. Vast millions of dollars were thus diverted from the national treasury. Indirectly these funds flowed back into the treasury in far greater abundance; we became a greater and stronger nation; and our citizenship was strengthened in loyalty, fidelity and devotion to the principles of our free government. With the

cream of our public domain already gone, this government should enter vigorously upon a plan to promote home-owning among our citizenship. Our task is not so great or so difficult as that which confronted many of the European countries. We do not have to deal with problems which confronted Russia when she liberated her 22,000,000 serfs. We do not need to use a thousand millions of dollars in funds of this government which England will probably finally expend in acquiring homes for the peasants of Ireland. It will not be necessary for us to authorize the expropriation of lands in private ownership to secure homes for our tenants and for others who wish to acquire farm homesteads. If we establish a proper system of long-term mortgage loans, modeled after the best systems of Europe, with reasonable aid in the funds or credit of the national government, the tenancy problem in the United States will solve itself. And as the years shall go by we shall see through the reports of our decennial census that proportionately our farm tenants are growing less, that we are making substantial progress in reclaiming waste and unproductive lands, and that millions of our people through long-term mortgage credit have become independent, self-respecting, happy, patriotic farm-home owners.

3. *The Bonds and Debentures.* One of the most important discoveries in the world was the invention of the farm-mortgage bond or debenture as an instrument to promote land credit. There never has been a successful system of land credit established in any country that does not utilize the mortgage bond or debenture as an instrument to mobilize and liquefy land values. Through the mortgage bond or debenture the farm mortgage has been made easily negotiable, and put in such form that the holder may realize thereon immediately. The mortgage bond and the debenture in effect are the same. The term "mortgage bond" is used to indicate bonds or securities secured by certain specified and designated mortgages.

The "debenture" is an obligation of a bank or other institution, secured not by a number of specific mortgages, but by the general assets of the institution issuing the debenture. For instance, the *Crédit Foncier* of France estimates that it will need \$50,000,000 additional money on which to make farm mortgage loans. Under the law it may issue and sell \$50,000,000 in debentures even before it makes the loans, while a bank, issuing mortgage bonds, would first make the loans, and place the mortgages in trust as a special security for the bonds issued thereon. Thus the designated mortgages become the chief security for a certain issue of bonds, and the institution must keep deposited in trust farm mortgages to secure its bonds in an amount equal to the total of bonds issued. The bonds must not exceed the amount of mortgages deposited in trust to secure their payment. If a mortgage is paid, another mortgage of equal face value must be deposited in trust in lieu of it. In principle and in practice the mortgage bond and debenture serve the same purpose. The *Landschaften* of Germany issue debentures. Their debentures in amount always correspond with the amount of the mortgages held by the *Landschaft*. This must be true because the *Landschaft* does not pay the borrower the cash, but simply delivers to him bonds in an amount equal to his mortgage. The borrower takes the bonds and disposes of them himself. He may sell them to one or more individuals, or to a bank, or through the bank of the *Landschaft*, which has been in many cases organized especially to aid borrowers to dispose of their bonds. The joint-stock mortgage banks pay their loans in cash. They issue mortgage bonds, which are secured by designated farm mortgages of an equal amount. These mortgages are invariably deposited in trust to secure the payment of the bonds. The specific mortgages deposited in trust are not the sole security for the payment of mortgage bonds. The mortgage banks are required to set aside certain reserve or guaranty



funds to provide against losses from the nonpayment of the principal or interest on mortgages held in trust. Finally, of course, the capital of the mortgage bank, its surplus, and all of its assets would be used, if necessary, to redeem any outstanding mortgage bond. Generally, of course, the bondholders have a special and prior lien over other creditors upon the mortgages deposited in trust to secure bonds issued thereon. The bond and debenture are the farm mortgage in another form. The farm-loan institutions collect farm mortgages, and then, by the authority of law and under governmental supervision, change their form into a security suitable to the needs and wants of investors, large or small, and in form and character corresponding to securities of all other kinds, familiar to the financial world. The farm mortgages lie in safe seclusion. The bond and debenture, their representatives, are out "in company," commanding recognition even above the best industrial securities, and selling practically upon a par with bonds issued by the greatest and strongest governments of Europe.

The change of farm mortgages into bonds or debentures is like the process of mining, modifying, and purifying minerals. Iron, copper, lead, zinc, silver and gold, as taken from the mines, are not suitable for commerce, but through various processes these minerals are refined and made in form to meet the needs of commerce, industry, the arts, and the innumerable wants of mankind. So through mortgage bonds or debentures farm mortgages are changed in form, modified and refined, and made to conform to the needs of investors, banks and credit institutions, to serve agriculture, and to contribute materially to the welfare of our farmers and all other classes of our citizens.

The bonds and debentures of the European land-credit institutions are payable at no fixed time. The holder and owner of a mortgage bond or debenture can never demand its payment. The institution which issues the bond or

debenture may recall and redeem the bond at its pleasure. The bonds and debentures are redeemed by issuing institutions in the same ratio that mortgages are paid. This is obligatory upon land-credit institutions. The outstanding bonds must never exceed the amount of unpaid, existing mortgages. The bonds or debentures to be retired are determined by some system of drawing. Bonds and debentures must be redeemed at par. The fact that there is no fixed time for the payment of the bonds and debentures at first would appear to be a serious objection thereto. But this, however, is not true. These bonds and debentures are highly liquid securities. They are generally payable to bearer. They are transferable by mere delivery. They are easily negotiated and assigned. They may be used as collateral security for loans. They are regarded as gilt-edged security. Perhaps more than any other security they are like money itself. Indeed, the effort to make land the basis for money, the circulating medium of the country, appears to be responsible for the invention of the land debenture. The owner of a mortgage bond or debenture is not concerned as to the time it will be paid by the issuing institution. He may at any time realize cash therefor. Whenever he wishes to change the form of his investment, he can do so without any material loss, because there are always buyers for these securities.

4. *Amortization Payments.* All the land-credit institutions of Europe, for long-time loans, require the principal to be paid by annual or semi-annual payments. Usually the payments are made semi-annually. These are called amortization payments. Amortization means "the extinction or reduction of a debt through a sinking fund." To amortize a debt signifies to destroy, kill, or extinguish it by means of a sinking fund. The small annual payments made by borrowers are placed in a sinking fund. A sinking fund is a fund that is "instituted and invested in such a manner that its gradual accumulations will enable it to

meet and wipe out a debt at its maturity." The land-credit institutions issue bonds or debentures in amounts corresponding to the aggregate value of their mortgages. These bonds or debentures on their face are the debt of the institution issuing them. Primarily the bonds and debentures are the debt of the borrowers, who have executed and delivered their mortgages to land-credit corporations. Interest must be paid on these bonds and debentures. Ultimately the principal of the bonds must be paid. The mortgagors must pay both the interest and principal and in addition must contribute an additional fund to meet the cost of operation, or administration charges, including whatever profits are made. The land-credit institution, whatever be its name or character, acts merely as the agent of the borrowers. It is merely an intermediary between borrowers and investors. Even if it be a non-profit-sharing institution, it contributes nothing to the payment of principal, interest, or administration charges. But to enable the borrowers to meet the obligations they owe the credit institutions, and to make it possible for these institutions to extinguish their bonded indebtedness, which they have incurred to secure funds with which to make loans to farmers, a sinking fund is created, to which every borrower contributes a certain definite and fixed sum, payable annually or semi-annually. These sinking-fund payments are either invested for the use and benefit of borrowers or are used in redeeming outstanding bonds or debentures. The use of amortization payments to extinguish long-time farm loans is a feature of the land-credit systems of Europe of the highest importance. The long-time loan, the mortgage bond or debenture, and the amortization payments are the triple combination which is in the main responsible for the success of all existing systems of land credit. The land-credit systems of Europe require that borrowers shall pay at least one-half of 1 per cent. per annum upon the principal of their debt. The payment of this amount

annually will liquidate the debt in fifty-six and one-half years. The advantages of paying a debt by small annual payments are many. In the first place it stimulates thrift. It encourages systematic saving. It is the only method by which the average person of small means can acquire and pay for a farmhouse. Only institutions authorized to make long-time loans and issue and sell long-time bonds or debentures can make loans payable in small annual payments. The individual money lender would not care to accept the payment of the principal of a loan in dribbles. Land-mortgage institutions may accept small payments, because the funds which they use in making loans are borrowed from investors through the sale of long-time bonds or debentures. Small annual or semi-annual payments, contributed by numerous borrowers, pouring into a common treasury, with regularity, precision, and certainty, create a fund ample to liquidate at maturity the bond or debenture indebtedness of the largest land-credit institution.

5. *Absolute Security of Bonds and Debentures.* The success of any land-credit system depends upon the absolute security of the bonds and debentures issued by the corporations empowered to operate the business. The bonds and debentures run for long years. Generally, under European land-credit systems, there is no fixed time for their maturity. In duration they live beyond the lifetime of a generation. The active managers of an institution at the time a series of bonds is issued may not live to see them all paid. The sale of bonds and debentures is the source through which the funds come to provide agriculture with its credit. The streams of credit would soon cease to flow into the treasury of the land-credit institutions, if there were the least doubt about the absolute safety of their securities. Other defects in a land-credit system may be overlooked. This or that, may distinguish one system from another. One system may be successful in one country; a different one may prosper in another country. One



things are essential, without which our land-credit system will be comparatively a failure. It is not the main object of this volume to discuss propositions upon which there is no controversy. Rather the chief purpose is to elucidate, if possible, those points upon which there is disagreement. The succeeding chapters will be devoted to the discussion of other features and principles which are essential to the success of our land-credit system.

## CHAPTER IV

### THE COMMISSION BILL, THE SUB-COMMITTEE BILL AND THE SENATE COMMITTEE BILL

THE next step is to get a clear idea of the provisions in the three "officially endorsed" bills, viz.:

First. The Commission Bill.

Second. The Sub-committee Bill.

Third. The Senate Committee Bill.

#### *First. The Commission Bill*

1. It provides for the creation of a bureau of farm land banks in the Department of the Treasury, for the appointment of Commissioner of Farm Land Banks, gives the Commissioner, under the direction of the Secretary of the Treasury, supervision over farm land banks, and prescribes the duties of the Commissioner.

2. It authorizes the establishment of national farm land banks, by ten or more persons, with capital stock of not less than \$100,000.

3. The national farm land banks are authorized to make loans on first-mortgage security on farm lands within the States where they are located, limited to 50 per cent. of the value of the land, to run for not more than thirty-five years, to be paid in annual or semi-annual amortization payments, if loan extends over a period of five years, and provides that loans shall be made only to enable the borrower to complete the purchase price of the lands mortgaged, to improve and equip such lands for agricultural purposes, and to pay debts secured by mortgages or deeds of trust on such lands.

4. Every national land bank is authorized to issue and sell national land bank bonds, secured by first mortgages in an amount equal at least to the face value of the national land bank bonds, limited in amount to fifteen times the amount of its capital stock and surplus.

5. The rate of interest charged on farm loans shall not exceed the rate of interest paid by the bank on national land bank bonds by more than 1 per cent. annually.

6. The charges of administration imposed upon borrowers shall not exceed an annual charge of 1 per cent. per annum upon the amount unpaid on a loan.

7. Every national farm land bank, its capital stock, surplus, and the income derived therefrom, and all notes, mortgages, deeds of trust held, and all national land bank bonds issued by such bank, shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

8. Provision is made for existing land-mortgage associations and corporations to become national farm land banks.

9. The national land bank bonds are made available as security for the deposit of postal savings funds, as legal investment for time deposits of national banking associations, and for funds in District of Columbia savings banks, for trust funds and estates under charge of or administered by United States Courts, and as security for loans from national banking associations to national farm land banks, or to individuals to an amount aggregating not over 25 per cent. of the capital and surplus or to one-third the time deposits of the national banking association making such loan. The Commissioner of Farm Land Banks, with the approval of the Secretary of the Treasury, may withhold certain of the foregoing privileges from the banks of any State until the State has complied with certain requirements.

10. Provision is made for the appointment of examiners of national farm land banks, and for close supervision over their business.

11. The directors are authorized to declare dividends without limit, except (1) that no dividend shall be declared which will impair the capital stock of a bank or reduce the amount of capital stock and surplus of a bank to less than one-fifteenth of its outstanding national land bank bonds, and (2) that no dividend in excess of 6 per cent. per annum shall be declared by any bank until it shall have accumulated a surplus of at least 15 per cent. of its authorized capital. Special provisions are made for co-operative national farm land banks.

12. Every national farm land bank is prohibited from establishing branch banks, but is authorized with the approval of the Commissioner, to employ and maintain agencies throughout the State in which it operates, and for the sale of its bonds or for trading in the same, and may maintain sales agents or agencies outside of the State in which it operates.

#### *Second. The Sub-committee Bill*

The provisions of the Sub-committee Bill may be summarized as follows:

1. The Federal Reserve Board is authorized to appoint a farm loan commissioner, and the Federal Reserve Board is given the supervisory power over the Commissioner and the system of land banks created by the bill.

2. The bill authorizes the incorporation of national farm loan associations, in a county or group of contiguous counties, prescribed by the Commissioner of Farm Loans, with capital stock of not less than \$10,000, divided into shares of \$25 each.

3. The national farm loan associations are authorized to make loans only to persons who are the owners of at least one share (\$25) of the association's capital stock, and the stock owned by a borrower must be in amount not less than 5 per cent. of the amount of the loan; loans shall not be made to any person who is not at the time or shortly to

become a bona fide resident on the farm mortgaged, and permanently engaged in the cultivation thereof and in case of sale of the land the mortgage becomes due unless assumed by a purchaser qualified in his own right to make a loan under the provisions of the act. Loans must be secured by first mortgage; they shall not exceed 50 per cent. of the value of the land and 25 per cent. of the value of buildings thereon; they shall not run for less than five nor for more than thirty years; they must be paid by annual or semi-annual amortization payments, but may be paid in whole or in part at any interest payment; they can be made only (a) to liquidate indebtedness of the owner of the land mortgaged, existing at the time of the organization of the first farm loan association in or for the county wherein the land is located, (b) to provide for improvement of farm lands, (c) to provide for the purchase of equipment and livestock, (d) to provide for the proper and reasonable operation of the farm, and (e) to provide for the purchase of a farmhouse. The use of the whole or any portion of the money secured on a loan for any other purpose makes the mortgage due and payable forthwith.

4. The Federal Reserve Board is authorized to divide the United States into twelve districts, and all the farm loan associations of each district are required to unite in forming a Federal land banking association for the district, each subscribing at least \$1,000 to the capital stock of the Federal land bank for the district, which must have a capital stock of not less than \$500,000.

5. Every Federal land bank is authorized to purchase farm mortgages upon lands within its district, to issue and sell farm-loan bonds, not in excess of twenty times the amount of its capital and surplus, secured by farm mortgages of face value equal to amount of bonds issued.

6. Federal land banks are allowed to declare a 6 per cent. annual cumulative dividend, after setting aside one-fourth of the net profits as a general reserve fund. Profits

of the bank in excess of the above dividend shall be paid to the United States.

7. Farm loan associations are prohibited from charging an interest rate, which exceeds the legal rate current in the State in which the farm land securing such loan is situated. The Federal Reserve Board is authorized to review and alter at its discretion the rate of interest charged by farm-loan associations.

8. The bill provides for a special reserve and a general reserve. When the rate of interest on loans in any year exceeds by more than 1 per cent. the rate of interest on mortgage bonds issued by the bank, the excess after deducting the 1 per cent. shall be set aside as a special "reserve fund" to meet losses from the nonpayment of principal or interest. One-fourth of the net earnings shall be set aside semi-annually as a general "reserve account" until the same shall be equal to 20 per cent. of the outstanding capital stock of the bank.

9. The trustees of the United States postal savings depositories are authorized to purchase Federal farm loan bonds in lieu of United States bonds or other securities for the purpose of investing postal savings.

10. Federal land banks are required to pay farm-loan associations one-half of 1 per cent. per annum upon notes secured by mortgages purchased from said associations upon the total amount unpaid on said mortgages at the time the same were assigned to the Federal land bank.

11. Every Federal land bank and every farm-loan association, including the capital stock, reserve or surplus therein, and the income derived therefrom, is made exempt from Federal, State and local taxation, except taxes upon real estate.

12. There are two provisions authorizing the use of the funds of the Federal government in establishing and operating the system of land credits proposed by this bill, viz.:

a. If within ninety days after the opening of the sub-

scription books the minimum amount (\$500,000) of capitalization of any Federal land bank shall remain unsubscribed, the Secretary of the Treasury is authorized to subscribe the said unsubscribed balance.

b. Upon the application of one or more Federal land banks, and upon the recommendation of the Federal Reserve Board, the Secretary of the Treasury shall purchase from Federal land banks farm-loan bonds in an amount not to exceed \$50,000,000 in any one year.

### *Third. The Senate Committee Bill*

The Senate Committee Bill, in the main, is a combination of the provisions of the Commission Bill and the Sub-committee Bill. It authorizes the organization of any number of land banks corresponding to the banks authorized in the Commission Bill, and also provides for a system of local banks, connected with twelve district banks. The two systems of banks, wholly disconnected from and independent of each other, would be brought into existence if this were enacted into law. The provisions of this bill may be thus summarized:

1. The bill creates a Federal farm loan board, consisting of the Secretary of the Treasury, the Secretary of Agriculture, and the Farm Loan Commissioner which the bill authorizes the President to appoint.

2. National farm loan associations, each with capital stock of not less than \$10,000, may be organized in a county or in a district composed of a group of contiguous counties.

3. National farm loan associations are authorized to make loans only to farmers owning at least one share (\$25) of stock in the association, and the stock owned must be equal to 5 per cent. of any loan. The funds derived from a loan must be used for specific purposes as provided in the Commission Bill.

4. The United States is to be divided into twelve dis-

tricts. In these several districts a Federal land bank is authorized to be organized, each to have a capital stock of not less than \$500,000.

5. Every Federal land bank is authorized to purchase farm mortgages from the local associations, to issue and sell farm mortgage bonds not in excess of twenty times the amount of its capital stock and surplus.

6. Federal land banks may declare annually a 6 per cent. cumulative dividend, after one-fourth of the net profits has been set aside as a general reserve fund. Excess profits are to be paid to the United States except as to the profits of Federal farm bond banks.

7. The interest rate must not exceed the legal rate current in the State in which the mortgaged land is located. The Federal Farm Loan Board reviews and alters the rate of interest charged.

8. The normal rate of interest shall be established by adding 1 per cent. to the rate of interest specified in the latest farm-loan bonds issued in said district. The Federal Farm Loan Board is authorized to establish a specific rate of interest to be charged in a particular district. The Federal Farm Loan Board is authorized to fix the rate of interest on land-mortgage bonds.

9. A special reserve fund shall be provided to pay losses in each district, and a general reserve account is established by setting aside annually one-fourth of the net profits to such fund.

10. Trustees of United States postal savings depositories are authorized to purchase Federal farm loan bonds in lieu of United States bonds, or other securities, for the purpose of investing funds in postal savings depositories.

11. Federal land banks are required to pay farm-loan associations one-half of 1 per cent. per annum on notes secured by mortgages purchased from said associations, on the amount unpaid on mortgages at time of purchase.

12. Every Federal farm land bank, and every farm loan

association, its capital stock, reserve and surplus therein, and the income derived therefrom, its mortgages and bonds, shall be exempt from Federal, State and local taxation. This exemption does not apply to real estate.

13. If within ninety days after the opening of subscription books the minimum amount (\$500,000) of the capitalization of any Federal land bank has not been subscribed, the Secretary of the Treasury is authorized to subscribe the balance unsubscribed.

14. Authority is given for the organization of Federal farm bond banks, each with a capital stock of not less than \$250,000. They are required to limit their loans to the States in which they are located. There is no limit as to the number of these banks that may be organized in a State. They will be wholly independent of each other and in no way connected with the system of farm loan associations and Federal land banks described above. But so far as applicable they are subject to the same limitations and restrictions. In general, the Federal farm bond banks are the same as the national farm land banks authorized by the Commission Bill, but are required to have a minimum capital of \$250,000, instead of \$100,000 required of national farm land banks.

#### *How These Three Bills Differ*

The following shows how these bills differ along general lines:

1. These three bills differ in the supervisory power.

*a.* Under the Commission Bill the Commissioner of Farm Land Banks, under the direction of the Secretary of the Treasury, constitutes the supervisory power.

*b.* Under the Sub-committee Bill the National Farm Loan Commissioner, under the direction of the Federal Reserve Board, is the supervisory power.

*c.* Under the Senate Committee Bill the Farm Loan Commissioner, under the direction of the Federal Farm

Loan Board, consisting of the Commissioner, the Secretary of the Treasury and the Secretary of Agriculture, constitutes the supervisory power.

2. They differ in the provisions relating to the rate of interest on loans and bonds.

*a.* The Commission Bill contains no provision controlling interest rates on bonds, and no provision restricting interest rates on mortgages except that the interest charge shall not exceed by more than 1 per cent. per annum the interest rate on bonds.

*b.* The Sub-committee Bill provides that the interest rate shall not exceed the legal rate current in the State where the loan is made, and authorizes the Federal Reserve Board to review and alter the rate of interest charged by farm loan associations.

*c.* The Senate Committee Bill limits interest to legal rate current in the State where the land is located, gives the Federal Farm Loan Board the power to review and alter the interest rate on mortgages and power to fix interest rate on bonds, and authorizes the Farm Loan Commissioner to establish a "specific rate," for any particular district, higher than the normal rate, and declares that the normal rate of interest shall be established by adding 1 per cent. to the rate of interest specified in the latest issue of farm-loan bonds.

3. They differ as to limitation of dividends and profits.

*a.* The Commission Bill in no way limits the amount of dividends that may be declared, but limits those dividends to 6 per cent. per annum until a bank shall have accumulated a surplus equal to at least 15 per cent. of its authorized capital, and declares that no dividend shall be declared which will impair the capital stock of a bank, or reduce the amount of the capital stock of a bank to less than one-fifteenth the amount of its outstanding national land bank bonds.

*b.* The Sub-committee Bill in no way limits the profits



of shareholders in local farm-loan associations but limits the dividends of Federal land banks to a 6 per cent. annual cumulative dividend, after setting aside one-fourth of the net profits as a general reserve fund, and profits in excess thereof shall be paid to the United States.

*c.* The provisions in the Senate Committee Bill relative to dividends and profits are essentially the same as in the Sub-committee Bill.

4. They differ in system of banks authorized.

*a.* The Commission Bill authorizes the formation of any number of national farm land banks in any State, giving absolute freedom as to the number and location of such banks, except the organization thereof must be approved by the Commissioner.

*b.* The Sub-committee Bill authorizes the organization of (1) Local farm-loan associations, and, (2) of twelve Federal land banks, in twelve districts to be made. The loans are to be made exclusively through the local associations and bonds are to be issued exclusively through the twelve Federal land banks. The local associations are required to subscribe to the stock of the Federal land bank in their respective districts, and in this way both form a part of the same system.

*c.* The Senate Committee Bill authorizes the same kind of local associations and Federal land banks as in the Sub-committee Bill, but in addition thereto authorizes the organization of independent Federal farm-bond banks, which in themselves correspond with the national farm-loan banks in the Commission Bill.

5. They differ in limitation on the amount of bonds that may be issued.

*a.* The bonds to be issued under the Commission Bill must not be in excess of 15 times the amount of the capital stock and surplus of the bank issuing the bonds.

*b.* Under both the Sub-committee and the Senate Committee Bills the bonds may be equal to twenty times the

capital stock and surplus of the bank issuing the bonds.

6. The bills differ in government aid features.

*a.* The Commission Bill in no way provides for the direct use of government funds to aid the system of land banks, except in the amount of money to be expended by the department in supervising such banks.

*b.* Under the Sub-committee Bill government funds may be used under certain conditions, in subscribing to the capital stock of the banks and in the purchase of farm-mortgage bonds, and also in supervising the business of the banks.

*c.* Under the Senate Committee Bill the government funds, under certain conditions, may be used in subscriptions to the capital stock of the Federal land banks, and in supervising the business of the land banks.

7. They differ in provisions making mortgage bonds available as investments.

*a.* The Commission Bill makes the bonds issued by national land banks available as investments for postal savings funds, time deposits in national banks, funds and estates in the hands of United States courts, and as security for loans from national banks not to exceed 25 per cent. of the bank's capital and surplus, and authorizes the trustees of the postal savings depositories to purchase these bonds in lieu of government bonds or other securities.

*b.* In both the Sub-committee Bill and the Senate Committee Bill the trustees of the United States savings depositories are authorized to invest the funds of the depositories in mortgage bonds in lieu of United States government bonds or other securities. Mortgage bonds are made lawful investment for all trust funds.

#### *How These Bills Agree*

The Commission Bill, the Sub-committee and the Senate Committee Bills agree in some important particulars.

1. They agree in the nature, in the kind, and in the

character of the banks to be created — they all propose to establish purely private banks, operated for profit, with no altruistic aim in view.

2. They all create a new bureau of the Federal government, to be operated at the expense of the Government, to supervise and regulate the business of these banks.

3. They all exempt the banks, their capital stock, surpluses, reserves, bonds, notes, mortgages, and incomes therefrom, from Federal, State, and local taxation, except as to taxes on real estate.

4. None of these bills names the rate of interest which either the mortgages or bonds shall bear, or establishes a maximum rate of interest on mortgages or bonds.

5. All of these bills authorize the issue of farm-mortgage bonds to be secured by first mortgages upon farm lands, not in excess of 50 per cent. of the value of the land mortgaged.

6. None of them authorizes loans to be made in excess of thirty-five years.

7. All of them require that the principal of the loans shall be paid by annual or semi-annual amortization payments, but permit borrowers at the time of any interest payment to pay any part or all of his loan after five years from the date of the loan.

8. They all require the money secured by a loan to be used to pay off existing liens on the land, to provide buildings, equipment and stock, or other things which will enable the borrower to make his farm more productive and profitable.

9. None of these bills authorizes the land banks to accept deposits from the general public or engage in general banking business except the Commission Bill, which authorizes the land banks to receive deposits up to one-half their capital and surpluses.

10. All of them require that no loan shall exceed 50 per cent. of the value of the land mortgaged.

11. All require loans shall be made only upon first-mortgage security.

#### *Defects and Objections*

The fundamental plans of these bills have been presented. The essential points upon which they differ have been set forth. The next step is to point out the defects of these bills, to show the objections thereto, and to give the reasons why none of these bills, or any combination of the essential features of all of them, should be adopted as a basis for the land-credit system of the United States.

Some of the principal objections to these three "officially endorsed bills" may be enumerated as follows:

First. They propose to establish purely private, profit-sharing, dividend-paying, surplus-creating banks as the national instrument to control, conduct, operate, direct, and dominate the land-credit system of this country.

Second. These bills propose to create a system of land banks which will not provide adequate credit for the farmers of the United States.

Third. The land banks which these bills, if enacted into law, would create can not be economically administered.

Fourth. These bills propose to create a system of "competitive" land banks, which would place the farmers in competition with each other in the sale of their securities, but would not give the farmers any effective competition in interest rates on their farm loans.

Fifth. The provisions of these bills do not provide for the creation of an ample reserve fund or guaranty fund to meet all possible losses in the payment of principal and interest on loans, or that will give investors confidence in the absolute safety of farm-mortgage securities.

Sixth. These bills provide for a multiplicity of bond-issuing banks which will reduce the amount of credit extended to agriculture and increase the rate of interest paid by farmers on their farm-mortgage loans.

Seventh. The Commission Bill proposes no direct government aid to our land-credit system, and the bond-purchasing provision of the Sub-committee Bill is not desirable from the viewpoint of the Federal government, and neither is it the kind of aid that will render any substantial service to the farmer.

There are many other objections which will be referred to in the succeeding chapters. In the main, the discussion will center around the above propositions. If the land-credit plans proposed in these three "officially endorsed bills" are defective in the points above set forth, or in any material part thereof, then the proposed plans should be abandoned or materially modified.

## CHAPTER V

### TYPE OF INSTITUTION

OUR land-credit institutions should be public, or semi-public, non-profit-sharing institutions, designed primarily to serve borrowers, not lenders, to aid farmers not investors, and to promote agriculture, not to provide profits for private banking institutions.

The three "officially endorsed" bills propose to create purely private banking institutions, organized for profit, owned, operated, and controlled by private capital, as the instruments to provide agriculture with proper credit facilities. These three bills, therefore, fundamentally agree. They propose the same type of an institution. The authors, proponents, and advocates of these three bills are not far apart, when they agree upon the kind and character of institution to be created.

The corporate institution, whatever may be its name — which shall be created as the governmental instrument to promote land credit, stands as the middleman between the farmer and the investor. The farmer above all others has a just right to be suspicious of middlemen. Every farmer is a producer. The farmers' products pass through many hands before they reach consumers. The things which farmers buy, pass through many hands, numerous avenues and many processes before they reach the farmers. The merchant buys at wholesale and sells at retail. The farmer sells at retail and buys at retail. In this country, unlike in many European countries, our farmers have made little progress in collective buying and selling. The farmer

gets for his products only about 45 per cent. of the price paid therefor by consumers. I do not charge that middlemen ordinarily make excessive charges. It is, however, unquestionably true that from the farmer's view point, our system of purchasing, transporting, manufacturing, and distributing farm products is complex, complicated and expensive. No one in particular is to blame for this. Other lines of business have become highly organized and concentrated. The whole tendency has been towards unity and concentration. Heretofore, the farmer's credit has been a haphazard affair. He has secured a little here and a little there. Individuals, commercial banks, insurance companies, loan companies, agents, merchants, and so on, have supplied the farmers with such credit as they have had. There has been neither system in loans nor standardization in rates of interest. The farmer has been left to "hoe his own row." The main sources of credit have been largely used in business and commerce, in Federal, State and municipal affairs, and in financing speculative undertakings. The farmer has been crowded out. He has had to shift for himself. He, from the very nature of things, could not compete with other industrial forces for credit. He took the crumbs. That the farmers have paid excessive rates of interest, will not be denied; that they have frequently paid usurious rates of interest can be conclusively shown; that the business of the farmer has been greatly retarded through lack of credit, at reasonable rates, is unquestionably true. Now, this matter is to be taken in charge by the national government. The wrongs are to be righted. Behold! The first plan of land credit to receive serious consideration by Congress proposes to create a system of purely private land banks, organized for gain, conducted for profit, controlled by shareholders, like men in all other kinds of private business, whose greatest purpose must be to provide dividends, and create surpluses, undivided profits, and reserves that will augment the value of

the capital stock. Are such institutions the kind the farmers want? Is this the best the Congress of the United States can give the farmers? Will banks of this character be any improvement over the middlemen institutions, which deal with the farmers in other lines of business? Is not the farmer entitled to get his credit at cost? May he not justly ask that in selling his securities and in purchasing his credit, there shall be no profits go to middlemen? May not the farmers justly insist that Congress shall not erect between them and investors a system of private land banks, with power to control the amount of credit, and the cost thereof? Are not the farmers entitled to an impartial, unselfish, altruistic intermediary to act between them and investors? Should not Congress eliminate middlemen's profits in one thing the farmers have to sell — securities, and in the one thing they have to buy — credit? The farmers are willing to pay all it costs to secure credit. They should pay no more. Whatever else is added, is unjust. Whatever capital is required in operating a land-credit system is entitled to compensation. Farmers will not ask that the capital of private individuals shall be used in a system of land credit, without the payment of fair interest thereon. Interest on working capital is a part of the cost of any system of land credit. The farmers are willing to pay this interest. This is all that should be asked of them. It may be asserted that, under the provisions of the Commission Bill, the Sub-committee Bill and the Senate Committee Bill, dividends are limited. This is true, in a way. But these banks are required to create reserves and surpluses. Reserves, surpluses, and undivided profits give strength to a bank, and the public confidence therein. They likewise give additional value to the capital stock of the banks. Reserves, surpluses, and undivided profits are contributed by the farmers. The stockholders of the banks contribute nothing thereto — except through careful and wise management. If the farmers, through

commissions, interest, amortization payments, administrative and other charges, pay an annuity sufficient to create reserves, surpluses, and undivided profits — why should not all these be set aside to the credit of farmers — to add to the confidence which investors have in farm mortgages — and not to add value to the stock which shareholders own in private banking institutions? Besides, the farmers must not be deceived in the character of the proposed land banks, by the provisions which limit the amount of annual dividends that may be declared. There are legal ways of getting money out of banks other than by declaring dividends. If banks are limited in the amount of dividends they may declare, they will have less inducement to economize, if not actual encouragement to spend money unnecessarily in other directions. A land bank, like any other business institution, must pay out money for many purposes. These banks are authorized to purchase real estate and erect buildings thereon in which to do business. The buildings must be furnished. Equipment, apparatus, stationery, and other facilities must be provided. Men must be employed. Salaries must be paid. Upon what scale is all this to be done? The farmers pay for it; they are interested. The shareholders and the officers and managers of the bank do not pay for it; they are not financially interested. They would be, if the law did not limit the amount of the dividends the banks might declare. Because, in that case, any amount saved in management could be paid out in dividends. The plan of protecting the farmer by limitation of dividends is of doubtful utility and benefit. It is contrary to the policy of the Federal government to limit profits in private business. Why then should this be applied to private land banks? National and State banks are not limited in the amount of dividends they may pay, nor in the amount of surpluses and undivided profits they may accumulate. In principle, the proposed land banks and our commercial banks are alike. The wisdom

of this provision is doubtful. It would give a far greater incentive to bankers to exercise energy, skill, industry, and economy in the management of these land banks if some other method could be used to prevent high rates of interest and excessive charges for other purposes. Not only would it be better for the bankers, but far safer and more effective for the farmers. This might be done by fixing by law the rate or the maximum rate of interest a bank could charge, or a governmental board might be authorized to fix the rate of interest. This would protect the farmers from excessive interest rates and give the land banks perfect freedom in business management, placing them in a position to receive the just rewards for the display of superior energy, greater skill, more industry, higher efficiency, and better judgment in conducting business. All this difficulty can be avoided by creating non-profit-sharing, land-credit institutions as the corporate instrument to collect the mortgage securities of the farmers, transform these mortgages into bonds, and negotiate the sale of these bonds among investors. The men who operate this land-credit corporation must be paid for their services. They need not have financial interest in the concern. The directors, managers, officers, and employees should be largely like public officials, paid a salary for the performance of a public trust. Such an institution, so far as possible, would reduce the cost of the service rendered by middlemen, give the farmers their credit, so far as possible, at actual cost, and give the farmers an institution which they could rightfully call their own, in which they would take a natural pride, and around which they would rally in their support in a way that will never be possible toward private banking institutions.

European land-credit institutions are largely public or semi-public corporations and are non-profit-sharing. Germany admittedly leads all other nations in the credit facilities she has provided for her farmers of all classes.

The principles upon which her institutions were founded have stood the test of time. There will be profit in ascertaining the character of the land-credit institutions of the German Empire.

Cahill in his report, Agricultural Credit and Coöperation in Germany, Senate Doc. 17, page 11, 63rd Congress, referring to the character of the land-credit institutions of Germany says:

"Setting aside for the moment the joint-stock mortgage banks, the whole of these agencies are in the nature of governmental, non-profit-seeking institutions — using the word 'governmental' in a sense that would comprise the State, provincial, district, municipal (or communal) authority as well as those corporations of landowners which rank as public bodies."

On the same page Mr. Cahill classifies Germany's land-credit institutions as follows:

"The various agencies may be divided into three main classes according to the purposes for which their loans are granted. In the first class there are four groups of institutions, namely, the land mortgage credit associations (Landschaften), the State, provincial, and district mortgage credit banks, the joint-stock mortgage banks, and the savings banks, all of which grant mortgage credit without requiring, in ordinary circumstances, any declaration as to the purpose of the loan. The second group comprises the land improvement funds, the land improvement annuity banks, the provincial aid banks, and the imperial insurance institutions, all of which grant loans, mainly for specific land improvement or building undertakings. The third group is that of the rent-charge banks, which are concerned with loans in connection with the creation and equipment of small-holdings."

There are in Germany twenty-three Landschaften, or land mortgage credit associations; there are sixteen State, provincial or district mortgage credit banks; there are

2,844 public and 288 other savings banks; there are in most provinces land improvement funds or land improvement annuity banks; there are provincial aid banks, rent charge banks; and finally the joint-stock mortgage banks. Practically all of these land-credit banks and institutions are public or semi-public corporations or associations. The only important exceptions are the joint-stock mortgage banks. There are thirty-seven of these. Their loans are largely upon urban property. In 1911, only about 6 per cent. of their outstanding loans were secured by mortgages upon rural property. Furthermore in 1909, 91 per cent. of all rural loans made by these thirty-seven joint-stock mortgage banks were made by one Prussian and seven Bavarian banks. The joint-stock mortgage banks are virtually the only private, profit-sharing, land-credit institutions in Germany. Their business is almost exclusively confined to loans upon town and city real estate.

Dr. Kapp-Königsberg, S. Doc. 214, 63rd Congress, page 383, says:

"The Landschaften do not carry on their business for gain. They are satisfied, on the contrary, with such a use of their energies as reimburses them for their own outlays. . . . The interest which the incorporated landowners have in getting loans on as easy terms as possible is the ruling force for the entire business activity of the Landschaft." On page 384, S. Doc. 214, 63rd Congress, Dr. Kapp-Königsberg further says of the Landschaften: "In their unselfish, public-spirited labors, free from every tendency to profit-making, they render the most important services to the State by preserving a vigorous and healthy agriculture."

Mr. Cahill in his report (S. Doc. 17, page 75, 63rd Congress), referring to the German savings banks, says:

"They have been established usually by and under the guaranty of public authorities, and in normal cases do not aim at profits beyond the obtaining of an adequate in-

terest upon money deposited with them and the payment of the expenses of management. Any surplus remaining after meeting these charges and making suitable appropriations to reserve are applied to objects of public welfare. In primary aim they are distinguishable from banks in the ordinary sense of the term—they seek deposits not in order to be in a position to grant credit for their own profits, but to foster thrift and only to utilize deposits for investments in the interests of the depositors themselves.”

Further, on page 76, he says:

“The great majority of savings banks are communal, district, or urban, and are public institutions established, supervised, or managed, and guaranteed by these governmental units, apart from which they do not possess a separate legal status.”

The *Crédit Foncier* of France is a profit-sharing institution, but can not be said to be a purely private bank. It has many of the characteristics of a public institution. 1. The State contributed \$2,000,000 toward its founding. 2. It was given a monopoly for twenty-five years. 3. Special privileges were conferred upon it. 4. In 1854 a decree was issued authorizing the Emperor of France to appoint the President, and two vice-presidents of the institution, and requiring that three of its directors should be selected from the Ministry of Finance. 5. It may use without charge internal revenue officers in remitting interest to holders of debentures and in collecting dues from borrowers. An institution so dominated and controlled by the national government of France can not be regarded as a private banking institution.

The chief land-credit institutions of Austria are modeled after the *Landschaften* of Prussia, and hence are public institutions and non-profit-sharing. There are at present seventeen of these provincial land banks. The character of these institutions is shown by the statement of Friedrich Redl, director of the Provincial Mortgage Institute of

Lower Austria, in Senate Doc. 214, 63rd Congress, page 197, as follows:

“The object of the institute is to make loans on real estate, without hypothecation, and with fixed rates of interest. The institute is not for gain, it is not a profit-earning company like any other share company.”

“The principal features of the institute are as follows: First, absolutely no motive for gain; second, the borrower is not required to give notice of intention to repay; third, the rate of interest each borrower has to pay is invariable and can not be altered; fourth, compulsory repayment, the borrower being compelled to pay interest as well as loan in installments.”

The Austrian Minister of Agriculture in a statement (S. Doc. 214, 63rd Congress, page 180) referring to the banks of Austria, says:

“The banks operating for profit received slow and scant returns on their investments in average agricultural holdings, so that these sources of credit remained exclusively open to the large agricultural estates up to the present day for the reason that these estates became more and more industrialized and, consequently, better able to pay the high rates of interest demanded by the banks.”

He further, in referring to the Provincial Mortgage Institution of Lower Austria, says (S. Doc. 214, 63rd Congress, pages 189, 190), as follows:

“The provincial mortgage institution aims to grant loans without profit. It endeavors to secure for the communities money at low rates of interest without waste of time or costs. The nature of the loan is therefore sub-ordinated to this purpose.”

“The provincial mortgage institution endeavors to alleviate the negotiation of loans and to assist the borrower as much as possible. In the accomplishment of these aims it attempts by special office days and through its confidential men and appraising officials to remain in constant touch

with the population with a view to keeping down the costs in the contraction of loans. In cases of appraisements of real property in distant places, the institution pays the traveling expenses of its officials, attends to the registration of small holdings, and charges only the necessary stamp tax required of the borrower. The institution grants payment-time extensions in cases of damages by the elements, attends to collections of arrears free of charge, executes documents, grants reductions in the managing expenses, attends to the disposal of its securities at the smallest possible margin, and, by special efforts, seeks to maintain the popularity of the securities of the institution."

The Hungarian Boden-Credit Institute of Budapest with loans amounting to \$119,000,000 and with outstanding bonds amounting to \$100,000,000 is a public credit institution.

The National Land Credit Institute for Small Land-owners of Hungary is a public institution and has made loans exceeding \$54,000,000.<sup>1</sup>

Italy's land-credit system is largely conducted by non-profit-sharing institutions.

In Sweden the land-credit system consists of landowners' mortgage associations. There are ten of these in existence. They are private associations, but have no capital stock and are non-profit-sharing. However, these associations are connected with the Swedish General Mortgage Bank, which was founded by the State as a central institution to aid in financing the local associations, especially in the sale of their mortgage-bonds. This bank was endowed by the State with \$2,144,000 of unconvertible bonds.

The land-credit banks of Norway are public institutions, as shown by the report of the Sub-committee of the U. S. Commission (S. Doc. 214, page 589, 63rd Congress) as follows:

"Two banks in Christiania were visited, one organized

<sup>1</sup> Herrick, pp. 166, 167.

to assist the small would-be farmer to procure and own a home in the country. Long- or short-term mortgage bonds, as well as short-term credit, are features here. The bonds are virtually municipal bonds, as they bear the guaranty of the municipality in which the bank promoting them is located. For this reason they find a ready market in London and Paris at from 3½ to 4 per cent. The other bank, inspired from the same sources, is intended to perform a similar service for the worthy man of limited means and still more limited credit who resides in Christiania or in suburbs to secure and own a home. Bonds for this purpose are similarly issued and guaranteed by the city of Christiania, which opens to them the money markets of Great Britain and Continental Europe."

The Mortgage Bank of the Kingdom of Norway is a public institution. Its total capital is 27,000,000 kroner, or \$7,155,000. Twenty-one million one hundred and ten thousand kroner, or \$5,594,150, were contributed by the State and the bank is under the control of the State. It is, of course, a non-profit-sharing institution. (S. Doc. 214, pages 590 to 593, 63rd Congress.)

The Republic of Chile, our South American neighbor, sixty years ago created for her farmers a non-profit-sharing land bank worthy of our study and imitation. The Chilean State Land Mortgage Bank (*Caja de Credito Hipotecario*) has been in operation nearly three quarters of a century. It is the one great land-credit institution of Chile. Two-thirds of all the business done by bond-issuing land banks of Chile is done by this State land bank. The French government has in matters of investments placed the bonds or debentures of this institution upon equal footing with government bonds. English bankers deal in the bonds of the Chilean State Mortgage Bank. These bonds are sold in other European money markets. What kind of a land-credit institution is this bank which stands preëminently above all other land-credit institutions on the American



continent? It is not a privately-owned, profit-sharing, dividend-paying land bank.

The Agricultural Bank of Egypt is a joint-stock, dividend-paying company, but should be classed as a semi-public institution. The National Bank of Egypt, which may be regarded as a government instrumentality, owns two-thirds of the stock of the Agricultural Bank of Egypt. Government tax collectors are at the service of this institution and the government guarantees dividends on its stock, and when necessary to enable it to borrow money at reasonable interest, guarantees the payment of its debentures. The maximum rate of interest under the law is 9 per cent. per annum.

The forty-six Noko Ginko Banks of Japan are semi-public institutions. They were endowed by the Imperial government with a subsidy of \$4,980,000. This amount was distributed among the prefectures, the local governments or administrative districts, in which each bank was located, and was used to purchase shares of the capital stock. These banks are in part owned by the local governments.<sup>1</sup>

Australian State governments have founded public land-credit systems. South Australia established a State land-credit bank, controlled by five trustees appointed by the Governor. The bank is authorized to issue bonds guaranteed by the State.

Western Australia authorized the creation of a State bank, the president to be appointed by the Governor. The bank is authorized to issue government 5 per cent. bonds, to secure money to loan to farmers.

New South Wales created a government board composed of three persons, through which the Government issues stock bearing 3½ per cent. interest. By this method funds are raised to make loans to farmers. Victoria authorized the Victoria Savings Bank to issue government bonds

<sup>1</sup> Herrick, p. 192.

bearing 4½ per cent. interest. The proceeds from the sale of these bonds are used to make loans to landowners.

The Agricultural Bank of Queensland is a government institution managed by three trustees appointed by the Governor. Through appropriations made by the Legislature or by the sale of government bonds, funds are raised and loaned to farmers.

The joint-stock, profit-sharing banks of Germany were not primarily designed to meet needs of agricultural credit. This is shown by a statement of Robert Franz, on the Statistical History of the German Banking System, in the Report of the National Monetary Commission (S. Doc. 508, 61st Congress, page 38) in which, referring to the formation of the joint-stock mortgage banks of Germany, he says:

“The growing demand for dwellings was accompanied by a rapid rise in value of city grounds; hence the necessary construction of dwellings required larger amounts of capital than were at the disposal of the individual builders. It was mainly to meet the needs of credit on urban real estate that mortgage banks (*Hypothekenbanken*) were created, and thus a special organization of city real estate credit was formed. The greater number of the mortgage banks now in existence was founded during the decade 1862 to 1872; practically all the others were founded during the building boom of 1894–1896.”

Dr. M. Augsbin, referring to the failure of the private joint-stock mortgage banks of Germany to serve successfully as instruments of agricultural credit (S. Doc. 214, page 391, 63rd Congress), says:

“In Germany we now have forty mortgage banks which have together loaned out on mortgages the amount of 10,000,000,000 marks.

“But only about 6 per cent. of this large sum is lent out on rural property—the great majority of mortgages are given on land in towns. The great banks, the Central Land Credit Joint-Stock Company and the Bavarian Mort-

gage Bank hold together 90 per cent. of all these mortgages on agricultural property, so that all the other mortgage banks have no great importance for agricultural purposes."

If the experience, practice, and example of other nations are to be followed, certainly this government will not bring into existence private, joint-stock, profit-sharing, land-credit banks to dominate and control our land-credit institutions. It is true that Germany has thirty-seven private, joint-stock, mortgage banks, which are classed as *land-credit* institutions, but they are not *farm land-credit* institutions, and were not designed to be such. This is shown by the foregoing quotations. These banks follow closely the business methods of the non-profit-sharing institutions which dictate the rate of interest and all other charges which constitute the cost of loans upon farmland security. The situation is far different from what it would be, if all the land-credit institutions of a great nation like the United States were built upon the profit-sharing plan, operated exclusively by private capital, with gain as the chief inducement for investments in their capital stock, managed, directed and controlled by men who are not farmers, and who are not required and could not be expected to have any more interest in expanding our agricultural interests, or promoting the prosperity of the farmers, than are the owners of our commercial banks, or the managers of the great industrial and business corporations of the nation.

There are many reasons why the farm-credit instrumentalities created by the national government should not be purely selfish institutions, like all ordinary private business concerns.

*First. Purely private corporations do not comport with the object to be attained.* As a great nation we have neglected our farmers in the matter of credit. Other nations have excelled us in providing credit for their farmers. Our banking institutions were designed for all classes and

all industries. They were to serve alike all trades, occupations, and avocations. They have not done so. So much has this become the case, that they are now designated as commercial banks — institutions to serve commerce. This idea so permeated the public mind, and so dominated the ideas of our national legislators that when the Federal government in 1913 was enacting a new banking and currency law, the movement to include in the same act provisions for agricultural credit was promptly suppressed. The word was given out that currency, credit, banking facilities for farmers must not interfere with the needs or demands of commerce. Provisions were inserted, giving slight recognition to agriculture, and national banks were authorized — permitted — not required, to make a limited amount of loans on farm mortgages. It is not necessary, neither would it be just, to lay any particular blame upon the bankers. It is the system that should be condemned. But be that as it may, our present credit institutions, composed of our national and State banks serve commerce, not agriculture. As the term is understood in Europe, we have no agricultural credit institutions. While the farmers of other nations have had ample credit at a rate of interest below that accorded commercial and industrial enterprises, our farmers have suffered great financial loss, through lack of credit and high interest. But the dawn of a new day is at hand. Our eyes have been opened. The mistakes of the past are to be rectified. We are to make amends to agriculture. In our plans we must not overlook the fact that an emergency exists; that a crisis is at hand. Having lost fully a half of a century, we can not now safely experiment. It is too late to do things by halves. The agricultural credit institutions which we shall create must compare favorably with the best models in existence. At this late day, to place agricultural credit in the hands of purely private banking institutions, would be merely repeating the mistakes of the past. We have

27,000 of these institutions, located in every rural community in the United States. As instruments to promote farm credit, they have been weighed in the balance and found wanting. The farmers have supplied them with deposits, contributed freely to their annual dividends, and augmented their surpluses and undivided profits. Largely through agriculture, the great majority of these banks owe their existence and success. In this emergency, in this crisis, shall Congress simply create more banks, like those we now have? Certainly not. Our new land-credit institutions should not be purely private banking institutions, similar to existing commercial banks. They will have a separate field in which to work. They will have a distinct purpose to accomplish, a special object in view, a peculiar work to do, and a mission of their own to perform. They must not be handicapped with a selfish purpose as the main magnet to attract capital to their support. Gain to shareholders should not be the chief corner-stone upon which they are founded. Profit-sharing should not be the underlying principle upon which we should erect our land-credit system for our 6,500,000 farmers. Such institutions will not harmonize with the great purpose the nation should have in view in establishing a new system of land credit. That purpose fundamentally is altruistic. It is to supply our greatest industry with that credit which is absolutely necessary for its proper and legitimate expansion. It is to give our farmers credit facilities which will place them upon an equal basis with commercial interests. It is to promote, through agricultural development, the prosperity of all. In short, our new land-credit system embodies a national policy which will contribute abundantly to the greatness of our country, and add immeasurably to the happiness of all our people. The object in view, the purpose to be accomplished, the great end to be attained, are too intimately connected with the very heart-throbs of the nation, to be entrusted to private bank-

ing institutions without public obligations, responsibilities, or duties.

*Second. Public or semi-public, non-profit-making, land-credit institutions will insure cheaper credit.* This proposition is self-evident. The land banks are middlemen. They are the go-between corporations, erected by law, to collect securities from the farmers and distribute them to investors. They constitute the administrative machinery to do a special work. Whatever it costs to do this work, is legitimate expense. Anything above this is profit. Men with surplus capital usually invest it where the greatest profits, coupled with reasonable safety, are promised. This, from a business stand-point, is legitimate and sound. Men who invest their money in a business venture expect good returns. They not only want interest, they look for profit. If men put \$50,000 in a commercial bank, they expect a reasonable interest on the money invested, and in addition thereto they demand profits. These profits may appear in large dividends, or in increased value of their stock, or in both. The national banks of the United States in 1914 paid average dividends of 11.39 per cent. on their capital stock. They also added a comfortable amount to their surplus funds. Both their dividends and surpluses represented profit. On January 1, 1915, the surpluses and undivided profits of our national banks amounted in the aggregate to a sum equal to the entire capital stock of these banks. This meant, of course, that on the average every dollar which had been invested in national bank stock in the United States had doubled in value. The owners of these banks had been able not only to earn interest on the capital invested but they had also, in previous years, laid aside sufficient earnings to double the value of their original investments. Now, these banks are not run for the accommodation of their depositors, nor for the profit of their borrowing customers. But dividends and surpluses, gains and profits of the banking business, come mainly through

resources furnished by depositors and interest paid by customers. We have, however, another class of banks in this country — our mutual savings banks. They are located largely in New England. They have no capital stock. They pay no dividends to shareholders. They have a philanthropic purpose. Their object is to encourage thrift among wage-earners and people of small means, and so these banks are forces in social betterment and in the economical development of the State. The profits of these banks go to the depositors in interest payments upon their deposits. In these mutual savings banks the wage-earners have on deposit nearly \$4,000,000,000. As the mutual savings banks are organized, operated, conducted, and managed solely in the interest of their depositors, so our system of land banks should be organized and operated entirely for the benefit of the farmers. The profits of the institution should in the end go to the borrowers. Capital used should be allowed a legitimate return in interest. The actual administration charges should be paid by the borrowers. But all contributions above this should be placed to the credit of those whose farms are mortgaged, and ultimately returned to those who have contributed them. The bills which propose to create profit-sharing banks as our instruments for land credit provide for the creation of reserve accounts. This provision is wise, if private, profit-sharing land banks are to be created. This reserve gives additional security to bondholders. But these reserves belong to the banks. They add value to the bank stock. Reserve funds are therefore profitable to shareholders. Non-profit-sharing banks should create reserve funds, and such reserve funds should be amply sufficient to pay all possible losses. But in non-profit-sharing land banks the profits of reserve funds go to borrowers, in the form of lower interest. Reserve funds are guaranty funds. They make mortgage bonds more secure. Whatever adds to the safety and security of the mortgage bonds tends to

lower the rate of interest. In profit-sharing institutions the reserve funds, contributed by payments of borrowers, add to the value of the investment of stockholders. In non-profit-sharing institutions the reserve funds of all kinds, surpluses, and undivided profits, are an asset of the borrowers, which gives them better credit, lower interest, and additional prestige and standing with investors. Such an institution, unselfish in its aim, founded upon non-profit-sharing principles, administered in the interests of borrowers, free from speculative tendencies, will give the farmers of the United States the most satisfactory service, the most ample credit, and the lowest rates of interest.

*Third. The attitude of the farmers will be more friendly and favorable toward public, semi-public, non-profit-sharing, land-credit institutions than toward purely private banks, conducted entirely upon the principle of profit and gain.* The burnt child dreads the fire. There is a natural inclination for the farmers to feel that in the development of our industrial, financial, and commercial systems they have been placed at a great disadvantage. They realize their unorganized condition. They have at times revolted against conditions which have prevailed. They constitute more than one-third of our population. The proposed new land-credit system is primarily for their benefit. Next, its purpose is to promote the expansion and prosperity of the great industry in which they are engaged. Finally, through better credit for agriculture, all industries are to be helped, and all the non-farming population is to reap substantial benefits. But the farmers have a direct and personal interest in the success of the proposed new system of land credit. The system of land credit established should meet their reasonable demands. Now, many of the farmers are asking that the national government shall go so far as to make loans direct to the farmers out of funds in the national treasury. Some of them are asking that the Federal government shall guarantee the payment of farm-mort-

gage bonds, secured by farm mortgages. This is shown by the action taken by the National Grange, and the Farmers' Union. But in lieu of these demands, the farmers are offered a system of profit-sharing private banks, controlled by share-holders with money-making as their chief motive. Here are the two extremes. Will the farmers who are demanding direct loans, and Federal government guaranty of land mortgages, accept profit-sharing, private banks as the medium through which their future credit must come? Naturally they will not. The farmers would be suspicious of such institutions. The farmers are willing to trust public land-credit institutions. They would have faith and confidence in land-credit institutions, administered by officials, ranking as public officers. They would accept an institution which would be an impartial, unselfish intermediary between them and investors. They will not be satisfied with land-credit institutions, which have an interest of their own paramount to the welfare of the farmers. The attitude of the farmers! Is not that worth considering? Will any system of land credit be successful which does not meet with the approval of the farmers? Any system of land credit will have more or less difficulties. There will be some dissatisfaction, some disappointments, some complaints, and some criticisms. But the national government should not force upon the farmers credit institutions which in kind and character are not acceptable to the farmers. To do so, would be to invite failure. To make any system of land credit a success, the coöperation of the farmers is needed. It is not momentary success that we should plan for. It is not to satisfy the farmers, until another Presidential campaign shall have been passed. It is not to aid candidates in the next Congressional election. It is only permanent success that is worth while. We are building for the distant future. Frederick the Great of Prussia, without a model from which to copy, founded the *Landschaften*. One and a half centuries have

rolled by. The *Landschaft* still stands as a splendid and enduring monument to its founder. In all these one hundred and fifty years, no profits of the *Landschaften* have gone to make dividends for private capital. The supreme object of these institutions has been to render unselfish service to farmers. This is the secret of their success. We are at the threshold of a great undertaking. We are about to bring into existence a new land-credit system. The foundation will be insecure, and the whole structure will be endangered, unless the system adopted meets with the general approval of the farmers of the United States.

## CHAPTER VI

### ADEQUATE CREDIT

OUR land-credit system must be such as will insure adequate credit for agriculture. Any system which does not supply the necessary amount of credit will be a failure. Lack of credit has been a great handicap to agriculture. To cure this defect, is one of the chief purposes of land-credit legislation.

One of the serious objections to the plan of land credit provided in the Commission, the Sub-committee and the Senate Committee bills, is that under these bills there is no assurance that the amount of credit provided will be adequate to meet the demands of our agricultural interests. There is no way of knowing just how much credit will be needed. This must be, more or less, a matter of conjecture. We may make estimates. In this way, we may ascertain approximately the amount of land credit our new institutions will be called upon to provide. In general terms, we know about the amount of existing farm mortgages in the United States. The census of 1910 does not show the amount of all farm mortgages existing at that time. It shows only mortgages upon farms occupied by the owners. Such mortgages, as shown by the census reports, amounted to \$1,726,172,851. The number of farms occupied by owners were 3,948,722, or about two-thirds of the entire number of farms. By assuming that the farms not occupied by the owners, in proportion to their number, carried the same amount of mortgage indebtedness as farms occupied by owners, we may approximate the total amount of mortgages

upon the farms of the United States. By this method we ascertain that the farm-mortgage indebtedness of the United States in 1910, amounted to about \$2,300,000,000. The Department of Agriculture estimated that the farm-mortgage indebtedness in the United States in 1910 was \$2,793,000,000. It is safe to say that the farm-mortgage indebtedness of the United States now amounts to approximately \$3,000,000,000. The personal indebtedness of various kinds, including all debts of farmers not secured by a mortgage on real estate, is estimated at from two to three billions of dollars. The indebtedness of our farmers must, therefore, range some place between \$5,000,000,000 and \$6,000,000,000. If the Federal government establishes a system of land credit that meets the needs and expectations of our farmers, there naturally will be additional demands for mortgage credit. Under our present facilities for mortgage credit, the average farmer uses the mortgage on his farm only as a last resort. Of course, much of the existing mortgage indebtedness comes from the habit of American farmers of enlarging their farm holdings by the purchase of additional lands and going in debt therefor. Still, it is true that farmers of this country are not in the habit of mortgaging their land for productive purposes, such as buying machinery, tools, implements, stock, and other things to enable them to enlarge the production of the farm. We must assume that if loans secured by farm mortgages can be obtained on more satisfactory conditions, easier terms, and at lower interest rates, that there will be additional demand for farm-mortgage credit. On the other hand, if under the new system established, loans are offered on better terms and at lower rates of interest, the existing mortgage indebtedness will be largely refunded under the new system. While some time will be required to make these adjustments, any new system of land credits which greatly improves the terms and conditions upon which farm-mortgage loans may be secured and makes a

material reduction in the prevailing interest rates, will be called upon to take up a very large part of existing farm-mortgage indebtedness and supply large additional demands for loans, some of which will be used to pay off existing personal indebtedness and other amounts will be used to meet new loans, made to enable farmers to increase the productiveness of their farms. All of this can not be accomplished in a day, or in a year, but nevertheless the pressure upon our new land-credit system — whatever may be its character — will be great indeed. Any plan, system, or program of land credit, which is not so conceived, devised, and constructed as to meet large demands for credit, will be unsatisfactory and is doomed to failure.

There will be another demand for farm loans that must not be overlooked. We had in this country in 1910, 2,354,676 farm tenants. We have in our towns and cities millions of men who would in time acquire farm homes if suitable provisions were made by which, through long-time loans at a low rate of interest, they could purchase such homes. Practically all European countries, in establishing land-credit systems, have made provision for such cases. Our new land-credit system should be such as will meet the needs of tenants and others who desire to acquire farm homesteads. There will be large additional demands for farm loans from such classes. From this review, it is plain that the demands for loans will be enormous. Any plan or system of land credit which is not capable of almost indefinite expansion will not afford adequate credit for agriculture. Any system which does not afford credit of sufficient volume to meet the legitimate demands therefor will be a failure. The Commission Bill authorizes the organization of any number of national farm land banks. There may be one organized in each State; there may be none. Their organization is wholly a voluntary matter. There is no compulsion on any one. There is indeed no provision in the bill which requires, or in-

sure, that a single bank would be organized under this law. It is all a matter of conjecture and opinion, doubt and uncertainty. The advocates of the bill assume that its provisions are such that capital will be attracted to these banks, and that a sufficient number of banks will be organized, with such capital stock as will enable them to supply the demand for farm credit. Is it wise to build upon opinion, conjecture, and belief? But whatever might be the number of banks organized under this proposed law, the banks are to be limited in the amount of their loans. The amount of bonds issued by any bank must not be more than fifteen times the capital stock of the bank. The capital of the bank serves only as a working fund. The funds upon which loans are made are secured mainly through the sale of bonds. But as it is wholly indefinite and uncertain as to the number of banks that would be organized under the provisions of this bill, and as to the aggregate amount of capital stock these banks would have, necessarily there would be no way of telling in advance the amount of credit which such banks could extend.

The Sub-committee Bill and the Senate Committee Bill are not quite so bad. Under these bills, there are provisions which assure that the bond-issuing banks would have at least a minimum amount of capital. Both of these bills provide for the organization of twelve regional or district, bond-issuing, land banks, each with a capital stock of at least \$500,000. Should private capital not be forthcoming in sufficient amount, the Secretary of the Treasury is authorized to subscribe the balance. Then under the provisions of these two bills, there would be twelve district banks, each with a capital stock of at least \$500,000. This would assure that the twelve bond-issuing banks would have an aggregate capital stock of at least \$6,000,000. Under the provisions of these bills the bonds issued by these banks must not exceed twenty times the amount of the capital stock. These banks could issue a total of land-

mortgage bonds to the amount of \$120,000,000. The total amount of loans assured under the provisions of the Sub-committee Bill or the Senate Committee Bill, would be \$120,000,000. Any amount of loans above this would be wholly doubtful and uncertain. Obviously it could not be foretold what amount of capital would be invested in the stock of these banks above the minimum required by law. The question is, should Congress adopt any system of land credit which assures only \$120,000,000 farm-mortgage credit? This is only 4 per cent. of the \$3,000,000,000 of existing farm mortgages in the United States. This leaves 96 per cent. of existing farm mortgages unprovided for. To refund existing farm mortgages, under the system proposed, the land banks should have an aggregate capital of \$150,000,000. Only \$6,000,000 is assured under the provisions of the Sub-committee Bill or under the Senate Committee Bill. Only one twenty-fifth of the necessary capital is assured. It is true that it should not be assumed that the entire amount of the \$3,000,000,000 of existing farm mortgages would be refunded by the banks under the new system. Doubtless existing farm banks, insurance and loan companies and individuals holding farm mortgages would meet the reasonable demands of their customers, and continue to carry for an indefinite time much of the existing mortgage indebtedness. However, to balance against this would be the very large demands for additional credit (1) from ambitious farmers who will desire to make large new loans with a view to increasing the production and profits of their farms, and (2) demands for loans from tenants and others who will desire to acquire farm homesteads. To start out with a land-credit system that may be able to supply only 4 per cent. of the demands for farm loans would seem to be the height of folly. The provisions in these bills which seek to limit the dividends of the proposed land banks to 6 per cent. annually, though intended to protect borrowers from excessive profits, will necessarily

deter capital from investment in the stock of these proposed land banks. Investments in the stock of these banks will be wholly a voluntary matter. While safety is one element which influences capital in choosing investments, the amount of income is also a determining factor. Where two forms of investments are offered, with reasonable safety assured in both, capital will go where the larger dividends are offered. Long experience has shown that money invested in the share capital of our national and State banks is reasonably safe. The average dividend paid by our national banks in 1914 was 11.39 per cent. By what course of reasoning can it be claimed that within a reasonable time, \$150,000,000, or any large sum of money, will be invested in land banks, limited to a 6 per cent. dividends, when national bank stock is paying dividends of 12 per cent. per annum? The limitation of profits in purely private land banks may be just and wise. But such limitation is unfavorable to the development and extension of the system. Men with capital want a free hand in their business. This is according to commercial ideas everywhere. It is a principle which has contributed much to the material progress of this and all other countries. It is fundamental in the economical policies of the world. It is true that the Federal Reserve Act limited dividends of the twelve Federal reserve banks. But the national banks were only required to invest in the stock of the Federal reserve banks 6 per cent. of their capital and surpluses. If, however, it had been proposed to limit the dividends of all national banks to 6 per cent. per annum, and to have required all excess of earnings above this amount to have been paid into the treasury of the national government, the holders of national banks stock would have regarded the proposal as revolutionary and confiscatory. And it would have been. More than this, the creation of private banking institutions, as the instruments of our land-credit system, and then placing a limit upon the amount of the divi-



dends that may be declared, is not supported by the practice in European countries. The *Crédit Foncier* of France is a profit-sharing institution. There is no limit placed upon the amount of the dividends it may declare. Certain obligatory reserves are required. But when these reserves have been provided for, the directors may use the balance of the profits in paying dividends — without restriction or limit.<sup>1</sup> The same is true of the joint-stock mortgage banks of Germany. The Prussian Central Land Mortgage Company, one of the great mortgage companies of the world, is a private, profit-sharing mortgage company. The dividends of this company are not limited by law. The company has built up a reserve equal to 41 per cent. of its capital, but for over forty years of its existence has paid annual dividends averaging 8.75 per cent.<sup>2</sup>

Now, the difficulty arises from the attempt to create profit-sharing, private banks as the instruments of our land-credit system, and applying to them principles applicable to non-profit-sharing institutions. If you limit the profit of these banks you discourage capital in investing therein. The banks can not provide adequate credit, without very large capital. Large capital will not be forthcoming unless large profits are possible. Hence, the system falls from its own weight. With non-profit-sharing institutions this difficulty does not arise. These institutions, as a rule, have no capital stock. Hence, the amount of bonds they may issue is unlimited. Consequently the credit they may extend is without limit. There is no controversy over profits, because they have none to distribute. The profits go to the reserve funds, and finally in rebates in principal and interest to the borrowers.

If joint-stock banks shall be created as the instruments to operate our land-credit system, and the amount of bonds

<sup>1</sup> Herrick, p. 117.

<sup>2</sup> Herrick, p. 110, Cahill's Report, Senate Doc. 17, 63rd Congress, p. 72.

to be issued by each bank shall be limited to some proportion of the amount of its capital stock, say from fifteen to twenty times the capital stock, then the only way to insure adequate credit is to create institutions with large capital stock.

Simply to authorize the formation of private banks, with a provision limiting dividends to 6 per cent. per annum, gives no assurance as to the amount of capital that will be invested in these banks.

The inherent weakness of the plans proposed in the Subcommittee, the Senate Committee and the Commission bills is forcibly apparent in the smallness of capital required or assured. Under the first two, the total capital assured for the twelve district banks is \$6,000,000. Under the Commission Bill banks may be organized with \$100,000 capital. The number that would be organized is left in doubt and uncertainty. The amount of loans that can be made under the provisions of these bills will be controlled by the amount of capital of the banks.

Twelve banks with a combined capital of \$6,000,000 to meet the demands for farm-mortgage credit of 6,500,000 farmers! This seems like trifling with the farmers. There is France, with 40,000,000 people. We have, in round numbers, 100,000,000. Our national wealth is more than double that of France. The *Crédit Foncier*, France's chief land-credit institution, has a capital stock of \$45,000,000. Yet, it is seriously proposed to found a great land-credit system, for the United States, the chief agricultural country of the world, upon twelve regional or district banks, with a combined capital of only \$6,000,000! Are the farmers of the United States to be blamed if they turn away from such a proposition in disgust. Recently we passed the Federal Reserve Act. Twelve regional or district banks were created. They are called Federal reserve banks. Admittedly their chief purpose is to serve commerce. The farmers, of course, are interested in a sound

banking and currency system. They are interested in the growth of commerce and in the expansion of industrial enterprises. Indirectly, the farmers are benefited thereby. The Federal Reserve Act required that each of these banks should have a minimum capital of \$4,000,000, or a total capital of \$48,000,000. To secure this capital, each national bank was asked to subscribe 6 per cent. of its capital and surplus. But the act declared that if the banks did not subscribe this \$48,000,000 of capital, the Secretary of the Treasury should subscribe the balance in the name of the United States. The capital for these twelve Federal reserve banks was in due time forthcoming. Congress, by its action, said to the farmers, when the Federal Reserve Act was under consideration, "Wait! It will be your turn next. Rural credit legislation will follow." The national banks were required, under penalty of losing their charters, to put up \$48,000,000 to provide capital for the Federal reserve banks. But no national bank is asked to contribute a penny to provide capital sufficient to insure adequate credit for agriculture, the one industry upon which all others largely depend for their very existence. If a system of joint-stock banks shall be adopted, to operate our land-credit system, the combined capital stock of the bond-issuing institutions should be not less than \$60,000,000. If twelve district banks shall be created to issue farm mortgage bonds, each of these banks should be required to have at least \$5,000,000 in capital. And it is the duty of Congress to provide a way by which this amount of capital will be forthcoming. The amount of mortgage bonds to be issued by a land-credit bank should not be controlled by the amount of its capital. It is, of course, necessary that the amount of bonds issued should not exceed the amount of mortgages held as collateral security for the bonds. Without exception, all bond-issuing, land-credit institutions of Europe are prohibited from issuing bonds in excess of the mortgages deposited for their security. This is fundamen-

tal. It is true that in the European systems private joint-stock banks are not permitted to issue bonds, except in a certain ratio to their capital. But the main object of this is not to secure the payment of their bonds. Practically all of these banks receive deposits and do a general banking business. One object is to keep their bond liabilities down to within certain limits so as not to endanger the interests of the depositors. But, however this may be, land-credit banks, not allowed to receive deposits and not engaged in the general banking business, should not take the capital as the basis to control the amount of the bonds it may issue. This is supported, 1. By sound reasoning and 2. By actual practice, and experience.

The mortgages are of course the basic security for the mortgage bonds issued thereon. Under any properly regulated system of land credit, the mortgage will only represent about 50 per cent. of the value of the land covered thereby. Some institutions do loan up to two-thirds the value of the land. The general rule is to limit the loan to one-half the value of the land. Every precaution is taken to have an honest, intelligent and fair appraisal made of the land. Ordinarily there is little opportunity for excessive appraisements. The mortgages are, therefore, ample security for the bonds. But mistakes may occur. There is always a possibility of fraud. Occasionally there may be a bad title. Lands may deteriorate in value. Unfavorable seasons and numerous unforeseen things may arise to destroy the value of a mortgage or defer the payment of the principal or interest. To meet cases like these, a fund must be provided in advance. But the capital of a bank is not the proper fund with which to meet such defaults. To meet such losses as these, every safe and sound land-credit institution should accumulate a reserve fund, a guaranty or insurance fund. This reserve fund should be set aside from the annual payments or annuities paid by mortgagors, and should bear a certain ratio to the amount of outstanding bonded indebtedness of the institution.

The *Landschaften* of Germany do not have any capital stock. They make loans and issue bonds indefinitely. The only restriction is that debentures must not exceed the amount of mortgages. The system is, therefore, capable of extending unlimited credit. The provincial mortgage institutions of Austria work on the same principle. They have no capital stock or shareholders. Loans may be made, and bonds issued thereon indefinitely, except bonds must not exceed the total amount of mortgages. The system automatically supplies the demand for credit. It is capable of expansion to meet the requirements of farmers for credit. Under this system a bank need not increase its capital stock to meet the demand for loans. Loans may be made so long as farm-mortgage bonds can be sold. The bank's capital revolves indefinitely. This is safe, because all such institutions constantly accumulate a fund especially set apart to meet losses. This fund must be equal to a certain per cent. of the outstanding bonds. This, however, automatically adjusts itself. The fund comes from contributions from borrowers. It necessarily bears a constant ratio to the amount of mortgages, and also to the amount of outstanding bonds. The mortgages and bonds are equal. The reserve, guaranty, or insurance fund is derived from annual or semi-annual payments made by each borrower. These payments equal a certain per cent. of each mortgage. The total reserve grows as the mortgages grow. The mortgages must not be less than the outstanding bonds. The system is self-regulating. It is capable of almost indefinite expansion. Now, the capital of a bank is generally stationary. Its growth may be limited by statute. Its increase may depend entirely upon the pleasure of the directors or shareholders. They may be controlled entirely by the selfish interests of the shareholders. Any system of land credit which limits the amount of loans to a certain percentage of the capital of the institutions, is not capable of supplying credit according to the demand there-

for. Its credit power lacks elasticity. In times of stress, when more credit is needed, the tendency will be to restrict credit. One of the main objects in founding the new Federal Reserve System of Banking and Currency was to give our credit system elasticity. Elasticity is also needed in our land-credit system. Why establish a new system of credit for commerce — especially designed to expand at all times sufficiently to meet the demand for credit and currency — and give to agriculture a land-credit system incapable of automatically expanding to meet the natural and legitimate demands for credit? This point can hardly be made too emphatic. Adequate credit is essential. The point to get clearly in our minds is, that we must choose between joint-stock companies and land-credit banks or institutions without capital stock. Both may be authorized to issue bonds or debentures to secure funds to loan; neither will be allowed to issue bonds in excess of the mortgages held as collateral security therefor. But the amount of bonds which one class of institutions may issue (and hence the amount of their loans) is limited to from ten to twenty times the capital stock of the institutions issuing the bonds. The other class has no capital stock. Banks of this class may issue bonds indefinitely, restricted only by the amount of the loans or mortgages. To provide against loss banks of this class accumulate reserve or guaranty funds which must be equal to a certain percentage of the outstanding bonds. The percentage required varies in different institutions from 5 to 10 per cent. of the outstanding bonds. The creation of this reserve is obligatory. The capital stock of a bank seldom changes. It remains stationary. The reserve, guaranty, or insurance fund grows as the amount of business enlarges. From year to year every borrower contributes a very small percentage thereto. It is automatic in its workings. One system is arbitrary, rigid, unelastic, non-expansive. The other is elastic, and automatically expands or contracts to meet the demands for

credit. It may be admitted that both of these systems are safe. The institutions without capital stock, that make loans, take mortgages, and issue bonds indefinitely thereon, and that rely upon special guaranty funds to meet losses, have a record which precludes all doubt about their safety. The long, unbroken record made by the *Landschaften* is in itself sufficient proof of this statement. The success of the land-credit institutions of Germany, Austria, Chile, and other countries furnishes additional proof of the soundness and safety of land-credit institutions, without capital stock, but with adequate reserve funds, which make loans and issue bonds thereon with no limitation except that the outstanding bonds must not exceed the mortgages held as collateral security therefor.

In the preceding discussion it has been assumed that bonds may be sold in unlimited quantities. Evidently this may not be the case. There are many things which may affect the sale of bonds or debentures issued by land-credit institutions. The sale of land securities may be affected (a) by the general financial conditions of the country, (b) by the character of the institution, (c) by the location of the institution relative to the centers or sources of credit, (d) by the amount and character of other securities on the markets, selling in competition with land securities, and (e) of course, by the general reputation of the institution issuing the bonds.

(a) *General Financial Conditions.* General financial conditions will of course affect the sale of farm-mortgage bonds. But general financial conditions can not be controlled by any peculiar or special system of land credit. Whatever system may be adopted, the amount of credit which it may extend will be subject more or less to the conditions of the money market. Our new land-credit system must contend with all adverse conditions in general business. When the country generally is prosperous, when our industrial enterprises are running on full time, when

wage-earners are employed at good wages, when capital is active, commerce is prosperous, and business is good, when confidence, good-cheer and optimism dominate, farm-mortgage bonds, like other securities, will sell readily and in almost unlimited quantities. Judging from the past, we should expect seasons of stress, depression, hard times, and possibly war. Under such conditions, the sale of farm-mortgage bonds will be limited, restricted and curtailed. The lesson is this: the land-credit institutions should be planned and constructed so as to meet adversity with the greatest assurance of safety. One of the highest compliments to the *Landschaften* is that in times of war—they stood the test. Their bonds sold at less discount than the bonds of the Imperial government of Prussia. So our land-credit institutions should rest upon a foundation so safe and secure that they will be able to tide over safely every kind and character of stress and adversity.

(b) *The Character of the Institution.* The character of the land-credit institution will affect the amount of credit it will be able to extend. Ordinarily, other things being equal, a public or semi-public, land-credit institution will command greater credit than a purely private concern. The public or semi-public institution has a prestige not possessed by a private institution. The people have confidence in their government. The public or semi-public institution shares in this confidence. A private institution may gain the confidence of the public. Ordinarily this requires long years of successful business. It is largely a matter of growth. If the institution is small its business is restricted, and its reputation is confined closely to an area around its place of business, or within limited circles away from home. The private institution is thus handicapped in competition for credit with public or semi-public institutions.

The great majority of the land-credit institutions of other countries, which have been successful, are public or

semi-public institutions. Indeed, there is not a single country in the world that has established a satisfactory land-credit system through private institutions only. It is not contended that private, land-credit institutions can not be successful in business. The contention is that the public or semi-public institution ordinarily will command credit more readily than purely private institutions. With a view therefore to assuring ample credit for the farmers of the United States, public or semi-public institutions promise the best results. To rely entirely upon private banking institutions to supply adequate credit for the farmers of the United States, is simply taking a leap in the dark.

(c) *Location of Bond-issuing Banks.* The location of bond-issuing banks with reference to the sources of credit will be a factor in the amount of credit they may extend to agriculture. It is well known that there is a great variety of interest rates throughout the United States. Some sections of the country have a surplus of capital. In the older States capital is more abundant than in the newer regions. Now, one of the objects of organizing land credit is to mobilize this surplus capital. Evidently the land-credit bank located in the very midst of this surplus capital will sell its bonds more readily than a bank far remote. This is especially true if a large number of small private land banks are brought into existence and authorized to issue mortgage bonds. A bank with a small capital stock located remotely from the financial centers will have great difficulty in disposing of its securities. In planning our land-credit system, care should be exercised that the location of bond-issuing banks should be near the source of supply of credit. This, of course, involves the question of the number of banks which shall be authorized to issue mortgage bonds. This is a vital question and will be fully discussed elsewhere.

(d) *Competition with Other Securities.* The mortgage

bonds issued by our land-credit institutions must be sold in competition with other securities. The market is generally flooded with securities of all kinds. Our corporations have issued immense quantities of stocks and bonds. The total issue exceeds \$100,000,000,000. There is a limit to the amount of capital free for investment in these securities. Investors are familiar with the securities hitherto placed upon the market. If a new land-credit system shall be established, a new form of bonds will go upon the market. These new securities will find investors already supplied. They will find the bond market occupied. The success of any system of land credit which may be established will depend upon the ability of the mortgage bond to find favor among investors. How important that the mortgage bond issued by our land-credit institutions shall at first go upon the market under the most favorable auspices. The success of any land-credit system depends upon the sale of the bond. No land-credit institution can operate unless its securities can be disposed of. It all hinges on this point. The mortgage bonds — the farmers' securities — must compete in the money markets of the world. Every possible safeguard must be thrown around them. Care must be exercised all along the line. The application for loans must be in proper form, appraisements must be conservative, reliable, and trustworthy, reserves must be ample to meet all possible losses, provision must be made to guard against fraud, misrepresentation, and rascality, the mortgage bonds must be issued only by institutions that will add to and not detract from the safety of the bonds issued upon the mortgages of the farmers. In brief, the farmers' securities must go to investors, in such form and through such institutions as will enable them to meet successfully all competition, and command credit adequate to meet all the needs of agriculture.

(e) *Reputation of Institution.* In the foregoing the importance of the reputation of the institution issuing mort-

gage bonds has been shown. Corporations like individuals have reputations. A private banking institution can not successfully dispose of land securities in large quantities unless it is both favorably and widely known. Here again will be seen the grave danger in placing our land-credit system in the control of private banking institutions. The private institution must first establish a reputation. The public or semi-public institution enters upon business with the reputation of the State or Government behind it. This is an invaluable asset. The farmers furnish absolute security. They pledge two dollars for every dollar they borrow. They are entitled to have their securities presented to the public through institutions of the highest character and reputation.

## CHAPTER VII

### ECONOMY OF ADMINISTRATION

*First. General Statement.* If profit-sharing, dividend-paying, surplus-creating, privately-owned banking institutions shall be created to operate, direct and control our land-credit system, every care should be exercised to bring into existence institutions which may be economically operated. The farmers must support these institutions. Administration charges are as much a part of the cost of credit as the nominal rate of interest. All fees, commissions, charges and expenses of every kind and character will be paid by the borrowers. The farmer must pay the expense of examining and appraising the land, the cost of the abstract, and for the preparation of papers. He must meet the annual interest and amortization payments. His contributions make up the reserves and guaranty funds, the surplus and undivided profits. He pays the annual dividends to shareholders. He pays all rents and insurance charges. The funds which go into buildings, furniture, stationery, equipment and apparatus are paid for by the farmer, or he pays an annual interest charge on the cost thereof. He provides salaries for officers, wages for employees and incidental, miscellaneous and emergency expenditures. He supplies the banking-house with light, heat and all modern equipments. He liquidates all transportation charges, pays the bills of telegraph, telephone and express companies, provides the loan institutions with postage and pays their taxes. Primarily owners, managers, directors and employees of these institutions in no way

contribute to the support of these banking institutions. They receive annual dividends upon the capital furnished. They receive annual salaries for service rendered. They are not directing charitable institutions. They are not managing public or semi-public concerns. They are not engaged in an altruistic, benevolent or philanthropic enterprise. Social service is not within the scope of their undertaking. Their purpose is not to make the farm more attractive or agriculture more profitable. The men who will put their capital in these institutions and assume their management will be just like men in our commercial banks, like men in our business corporations — no better and no worse. But the farmers, the borrowers, agriculture, in some form, will pay every kind, character and description of expense. Hence, it is of vital importance to the farmer that the land-credit institutions, brought into existence by national or State legislation, shall be capable of economical administration. Of late years we have been emphasizing efficiency in administration. Economy in administration in our national, State, county, municipal and all local governments is the crying need of the hour. Economy in management, in production and in distribution is the one thing that marks the revolution in modern business methods. In the mighty contest going on among the great nations of the world for industrial, commercial and financial supremacy — economy in production, sale and distribution is essential to leadership. In creating financial corporations as instruments for the organization of agricultural credit, we can not pay too much attention, we can not give too careful consideration, to the question of economical administration. Whatever may be the other merits of our land-credit system, it will be a failure if the administrative machinery created can not be operated economically. Administrative machinery in government or in business corporations is like any mechanical tool, implement or machine used in the industrial world. It can

not be extensively used, unless economical in its operation. That is the test which measures every mechanical invention. Vast numbers of wonderful inventions have been worthless because the cost of operation precluded their use in commerce or industry. So a system of land credit may be workable, but so expensive in administration as to cause wise and thoughtful men to reject it. All land-credit bills should be critically examined to ascertain whether or not they can be economically administered. If not, they should be rejected. And the whole question of efficiency and economy in administration of any proposed land-credit measure should be carefully, conscientiously, and patiently studied and discussed.

*Second. Administration charges under the Commission, Sub-committee, and Senate bills.* The amount to be consumed in administrative charges is largely measured by the difference between the rate of interest which the mortgage bond bears, and the rate of interest the farmers pay on farm mortgages. The Commission Bill, the Sub-committee Bill, and the Senate Committee Bill all authorize the banks to loan at an interest rate at least 1 per cent. higher than the rate of interest upon the mortgage bonds. That is to say, under these bills the farmers would be required to pay 1 per cent. annually on their loans to the banks, to be consumed in various kinds of administrative charges. The second subdivision in Section 16 of the Commission Bill is as follows:

“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 bonds by more than 1<sup>00</sup> per cent. annually upon the amount unpaid on the loan, which said 1 per cent. shall cover all charges of administration.”

Section 10 of the Senate Committee Bill provides that the Federal Farm Loan Board shall have power, among other things:

"(b) To review and alter at its discretion the rate of interest to be charged by farm-loan associations for loans made by them under the provisions of this Act, said rates to be uniform so far as practicable."

Section 25 of same bill in part provides:

"That so far as practicable the rate of interest on loans secured by first mortgages under this Act shall be uniform, as provided in Section 10, and the farm-loan commissioner shall from time to time establish a specific rate of interest to be charged on all first-mortgage loans in each land-bank district. The normal rate of interest, not including therein any amortization payment, on first mortgage loans, shall be established by adding 1 per cent. to the rate of interest specified in the latest issue of farm-loan bonds in said district. Whenever, because of local or other conditions, it shall be deemed wise by said farm-loan commissioner, in order to provide a special reserve against losses, to establish a specific rate of interest in excess of said normal rate, the amount of interest thereafter paid by any borrower in excess of the amount which he would have been required to pay if his loan had been made at the normal rate of interest current when said loan was made shall be carried to a special reserve fund, which shall be specifically set apart by the association or the land bank then holding said loan for the purpose of meeting any losses incurred in the State where the land mortgaged to secure such loan is located."

The fifth subdivision of Section 8 of the Senate Bill is as follows:

"Fifth. The rate of interest charged for such loans shall not exceed the legal rate current in the State in which the farm land securing such loan is situated."

The provisions in the Sub-committee Bill relative to interest on bonds and mortgages are as follows:

Subdivision fifth, Section 8:

"The rate of interest charged for such loans shall not

exceed the legal rate current in the State in which the farm land securing such loan is situated."

The Federal Reserve Board is given authority in Subdivision (b), Section 10, as follows:

"To review and alter at its discretion the rate of interest to be charged by national farm loan associations for loans made by them under the provisions of this Act, said rates to be as nearly uniform throughout each State as the conditions of business will permit."

Section 24 in part is as follows:

"That whenever the rate of interest paid by the borrower upon loans secured by first mortgages which have been transferred to a Federal land bank in accordance with the terms of this Act, shall exceed in any year the rate of interest established upon the bonds issued during that year by said land bank in an amount greater than 1 per cent. per annum, the said excess, after deducting 1 per cent., shall be carried to a reserve fund which shall be specifically set apart for the purpose of meeting any losses incurred through the non-payment of principal or interest of the loans secured by the said mortgages."

An examination of the foregoing provisions shows that under these bills 1 per cent. per annum is set apart to pay administration charges. This would be a most extravagant charge to impose upon the farmers of the United States. If it will require 1 per cent. per annum upon all farm mortgages made by these banks to provide for administrative charges, that alone is sufficient to condemn these bills and the system of land banks provided for therein. It is claimed that under the system proposed by these bills farm loans could be made to farmers at 5 per cent. annual interest. While 5 per cent. interest might seem reasonable compared with the rates farmers are now paying in some sections of the United States, there can be no legitimate excuse for authorizing banks to charge 1 per cent. per annum, throughout the life of the loan, for administrative expenses.



This would mean that at least one-fifth of all the interest the farmers pay would go to the land banks, which the law creates as middlemen between the farmer and the investor who purchases the farmers' securities. These loans may extend over a period of thirty-five years. It is proposed to erect these profit-sharing land banks to stand between the borrower and the sources of credit. Access to credit can not be obtained except through these banks. The banks collect interest from the farmer, pay interest on the bonds, but retain 1 per cent. every year, one-fifth or more of all the interest, for administrative charges. Some idea of what this would amount to is apparent when we think of the amount of outstanding land-mortgage indebtedness of our farmers. As has been shown elsewhere, the aggregate of farm-mortgage indebtedness is approximately \$3,000,000,000. If a new system of land credit materially reduces the interest charge, the bulk of this land-mortgage indebtedness, in a reasonable time, will be transferred to the loan institutions under the new system. Suppose one-half of it is brought under the new land-credit system. One per cent. annually upon \$1,500,000,000 would amount to \$15,000,000. In ten years, it would amount to \$150,000,000. But it would not stop in ten years. This 1 per cent. administrative charge allotted to the proposed land banks would go on and on for an indefinite period. Suppose a farmer borrows \$3,000. If 1 per cent. annually is allowed to the banks for administrative charges, on a \$3,000 loan \$30 annually would be the tribute the farmer pays to the bankers for their services as middlemen. Now, 1 per cent. commission on the face of this loan, a single charge would seem to be a fair remuneration to the land bank—which only furnishes one-fifteenth to one-twentieth of the capital used in all these loans. But the 1 per cent. is an annual charge. In ten years, the farmer making a \$3,000 loan would pay to the bank \$300. This process goes on until the loan is paid in full.

The Senate Committee Bill provides for the organization of twelve banks, one in each of the twelve districts into which the United States is to be divided. Each of these twelve banks must have a capital of at least \$500,000. In the aggregate, these twelve banks would have at least \$6,000,000 in capital. They are allowed to make farm loans and issue bonds up to twenty times their capital stock. Should these loans and bonds reach the limit, with a capital of \$6,000,000, the total loans made by these banks would amount to \$120,000,000. One per cent. per annum on these loans would amount to \$1,200,000. This would be the annual tax which these twelve banks and the local associations would levy upon the farmers for administrative charges. At this rate, in five years, the farmers would pay on these loans for administrative charges \$6,000,000, an amount just equal to the capital stock which these banks are required to have to do business under the law. Every five years in administrative charges alone the farmers would pay to these twelve banks a sum equal to all the money invested in their capital stock. The capital stock is only the working fund upon which the business is operated. Certainly the Government should provide some cheaper financial method than this to enable the farmers to reach the investors of the country.

*Third. Administration charges of Land Credit Institutions of Other Countries.* The administration charges made by the sixteen State or provincial mortgage credit banks of Germany range from one-fourth to one-half of 1 per cent. per annum.

Borrowers from the *Crédit Foncier* of France must pay all preliminary costs of securing a loan, and these usually amount to about 3.5 per cent. of the face of the loan. The rate of interest must not exceed by more than six-tenths of 1 per cent. the rate of interest on the bonds from the sale of which the funds were raised. This limitation does not apply to loans made in Algeria and Tunis.

The Prussian Central Land Credit Company, of Germany, a private, joint-stock, profit-sharing mortgage company, corresponding in character to the profit-sharing banks proposed in the Commission, the Sub-committee, and the Senate Committee bills, charges borrowers for cost of business, as a commission on the face of the loan from 1 to one and one-fourth per cent., with an additional one-half of 1 per cent. as a profit to the bank. This is an introductory charge and is made but once. The three bills under consideration permit the banks to charge 1 per cent. annually on the amount due on the loan, to pay administrative charges and provide dividends, surpluses and reserves for the banks.

Joint-stock mortgage companies of Germany have agents to aid them in securing business. These agents are paid commissions — not by borrowers but by the banks. (Cahill's report, S. Doc. 17, p. 68, 63rd Congress.)

Cahill in his report (S. Doc. 17, pp. 44, 45, 63rd Congress) gives a general summary of the cost of administration of the *Landschaften*, as follows:

“ Besides the interest on loans and the percentage payments to sinking fund, both of which are usually payable half-yearly, borrowers contribute toward the cost of administration. Payments on this account vary greatly both in amount and in method of calculation and levy. Thus in Silesia no charge is made when properties are lent upon up to half their value; over that proportion only one-twelfth per cent. per annum is normally charged by the provincial corporations constituting the association, but half of these constituent corporations waive the charge. In East Prussia one-third per cent. of the loan is charged to borrowers in respect of expenses of preparation of bonds and other documents and the stamps thereon; contributions for the general costs of administration of the association are payable at the rate of one-fifth per cent. for each of ten years, but in the case of loans upon reducible mortgages — this

association makes sinking-fund payments obligatory only in case of loans exceeding half the valuation — this payment is not charged separately but covered out of the sinking-fund payments. The New Pomeranian Association charges simply one-sixth per cent. per annum, no other payment being normally charged beyond the interest and redemption payments. The Saxon Association requires a payment of one-fourth per cent. for each of the six years following the issue of the bonds to mortgagor. The New Brandenburg Credit Institute levies one-tenth per cent. per annum until the loan is repaid. Borrowers from the Kur and Neumark Credit Institute (for large landholders) are chargeable with one-fourth per cent. per annum, but owing to this organization being managed in common with the New Brandenburg Institute, the percentage is, in practice, reduced to one-tenth. The same percentage (one-tenth) is also payable by members of the Mortgage Credit Union of Schleswig-Holstein. The Schleswig-Holstein Association charges one-tenth per cent. (with certain exceptions in which no payment is required). The Posen Association charges one-eighth per cent. toward its administration funds, and, as regards its preliminary costs, 6d. for the first £150 worth of bonds, 1s. for the second, 1s. 6d. for the third, 2s. for the fourth, and 2s. 6d. for each further £150 worth of bonds (thus for bonds issued to a borrower having a total value of £900, 10s. would be payable), as well as the entrance fees already noticed above. The Westphalian Association and the Bavarian Agricultural Bank fix the charge for administration at one-fourth per cent. payable annually until the loan is extinguished.”

One of the salient features of land-credit institutions in practically all the countries, where special land-credit institutions have been established, is that administration costs are kept to the lowest limit.

The charges for administration of the seventeen provincial mortgage institutes of Lower Austria are shown by a

statement of the Minister of Agriculture (S. Doc. 214, 63rd Congress, page 190), as follows:

"To pay the cost of running expenses and for the creation of a reserve fund, the provincial mortgage institution levies a contribution amounting at this time to one-fourth per cent. on the loans. This levy is liable to reduction or to be discontinued by the Diet. Mortgage loans not in excess of the original grant of 6,000 crowns are not required to contribute to these funds."

The cost of administration expenses of the Hungarian land-credit institutions is shown by the statement of its vice-president, Mr. Coloman de Szill, Senate Document 214, 63rd Congress, page 160, as follows:

"The administration expenses at the beginning were 1 per cent., but soon fell to  $\frac{1}{2}$  per cent. and later successively to 0.35, 0.30, 0.25, 0.21, 0.19, and 0.16."

The cost of administration of the Bavarian Agricultural Bank, one of the large farm-mortgage credit institutions, of Germany, is shown by the statement of the President of the Bavarian Council of Agriculture, referring to said bank, as found in Senate Document 214, 63rd Congress, page 268, as follows:

"The annual payments due on the first-mentioned long-time loans which can not be repaid or called in are: (1) The rate of interest at which they were issued plus (2) an amortization quota of at least one-half per cent., and (3) a further quota for management expenses, now equal to one-fourth per cent., but which is calculated only for the amount of capital still due; that is, for the capital minus what has been paid in amortization."

In Bavaria, Germany, there are four large joint-stock mortgage banks, founded on profit-making principles. These are the Bavarian Mortgage and Exchange Bank, founded in 1834, and the South German Land Credit Bank, the Bavarian Union Bank, and the Bavarian Commercial Bank. The President of the Bavarian Council of

Agriculture, in a statement relative to the cost of administration of these banks (S. Doc. 214, 63rd Congress, pages 268, 269) says:

"The routine management of all these banks is the same. The rate of interest on mortgages is generally one-half per cent. higher than that on the mortgage bonds. This small difference of one-half per cent. must cover all expenses for salaries, taxes, risk, etc., and it is expected to bring in the business profits of these banks. The special costs or charges occasioned by the delivery of the bonds or granting of mortgages are generally borne by the debtor and are deducted from the amount of the loan. The costs include: (1) Loss due to the rate of exchange at which the bond is sold; (2) the commission paid by these banks to other brokers on the sale of the bonds; and (3) the stamp duty collected by the German Empire, amounting to one-half per cent., as well as the imperial 'Talon-tax,' an annual tax of about one-fiftieth per cent. The brokers employed by the mortgage banks generally receive a commission of one-fourth per cent. of the value of the loan."

In the Credit Union of Württemberg, an institution with outstanding loans of 110,000,000 marks or \$26,180,000, there is no charge for administration. The borrower is charged a premium of 4.17 per cent., at the inception of the loan, but at the payment of the loan, this is returned to him with compound interest. This is shown by the testimony of the managing director (S. Doc. 214, 63rd Congress, page 301) as follows:

"When the association was started 85 years ago it began without capital. In starting a loan a premium equivalent to 4.17 per cent. is charged to the borrower and this is added to the loan in order to create the reserve mentioned above. This premium, however, has always been returned with compound interest to the borrower at the final payment of the loan. The present reserve fund is 7,734,142 marks. The rate charged borrowers does not include cost

of administration. This is covered by profits made by the association in buying in below par their own bonds whenever opportunity offers and by discounting bills of exchange and drafts."

As to the charge for the administration expenses of the Nassau Mortgage and Savings Bank, Mr. Reusch, the Councilor (S. Doc. 214, 63rd Congress, page 341), says:

"The current rate of interest on mortgage bonds is 4 per cent., but the farmer pays  $4\frac{1}{4}$  per cent., and that one-fourth of 1 per cent. goes toward the running expenses."

The administration charges of the Landschaft of Saxony are shown by a statement of one of the directors (S. Doc. 214, 63rd Congress, page 366) as follows:

"Every man who gets money from the Landschaft pays 1 mark for every 1,000 for general expenses (entrance fee), and in addition, one-fourth of 1 per cent. for general expenditures."

From the foregoing it will be seen that the charge of 1 per cent. per annum on the face of the mortgage, or upon the amount unpaid upon the mortgage, is wholly without precedent among European land-credit institutions. The charges for administration in these institutions range generally from nothing up to one-half of 1 per cent. per annum. Seldom is the administration charge over one-fourth of 1 per cent. per annum. It must be borne in mind that under the "three officially endorsed" bills, the borrowers must pay all preliminary charges, like perfecting title, securing abstract, and so on, in addition to the 1 per cent. per annum. The *Crédit Foncier*, which is a joint-stock, profit-sharing company, is only allowed to charge an interest rate six-tenths of 1 per cent. above the rate of interest on its bonds. The Prussian Central Land Credit Company of Germany, which makes loans on both rural and urban property, and is one of the largest institutions of the kind in the world, has been conducting its business upon an administration charge of only  $\frac{13}{100}$  of 1 per cent. per annum

upon its total loans. The United States Commission, and those who support the Commission Bill and the Senate Committee Bill, zealously guard the national treasury from appropriations to aid our rural-credit system, but are most liberal in allowances to the private banks for services rendered to borrowing farmers. Why is the money in the treasury more sacred than that in the pockets of the American farmers? Economy in the administration of public affairs is right. But the just demand for greater economy in all our governments — national, State and local — only demonstrates the necessity of economy in the administration of our land-credit institutions. Be it remembered, that the farmers owe five or six times as much as the amount of the interest bearing debt of the United States, and more than the interest-bearing debt of the national government plus the total debt of all our State, county, city, town and local governments. This gives us a conception of the vastness of the business proposition to be handled by our farm-credit institutions, and how absolutely essential it is that these institutions shall be administered at the lowest cost possible.

## CHAPTER VIII

## COMPETITIVE LAND BANKS

THE United States Commission reached the conclusion that a "competitive" system of national land banks would be best. It so recommended in its report. This report, Senate Document 380, Parts I and II, 63rd Cong., page 28, says:

"As a result it (the Commission) became convinced that the system outlined in the bill which it had formulated possessed advantages which a central bank plan would not possess and encouraged competitive banking to an extent that would not be possible under a bill providing for a central institution." . . .

"Under the provisions of this bill, any ten people can organize a separate and independent bank with a minimum capital, with a fixed ratio between that capital and the volume of land-bank bonds which the banks may issue, and with an area of operations as wide as the State in which they are organized. Competition is invited in the organization of such institutions. The right to organize such institutions is given to every one, and the greatest latitude in operation is afforded that is thought to be consistent with soundness and safety."

Further on page 30, the Commission says:

"A full consideration of these and many other phases of the problem convinced the Commission that the proper method of meeting these various conditions was to authorize competitive banking."

The Commission Bill seeks to establish such a system.

It provides for the organization of any number of national land banks, all of which are authorized to issue and sell land mortgage bonds. The advocates of this measure argue that the proposed land banks will compete with each other in a way to keep interest rates down. One of the primary objects of a new land-credit system is to lower existing interest rates. But will these banks compete with each other in establishing lower interest rates? The proposition should be carefully considered. The farmers of the United States should understand it. The friends of the farmers should study the proposition with the utmost care. The question is, will there be any such competition among these proposed national land banks as will, to any appreciable degree, affect the rate of interest charged the farmers? This question must be answered in the negative.

*First.* In reaching a conclusion as to whether or not competition between land banks would be a controlling force in the regulation or reduction of interest rates to farmers, common experience and observation must be taken into consideration. These banks will be purely private institutions—organized as profit-sharing corporations. In this respect they will be just like existing banks. The men who will invest their money in the capital stock of these institutions will not enter the enterprise with any altruistic purpose in view. They will go into the business for the money there is in it. We have now nearly 27,000 banks in the United States. Our large cities are crowded with them. The small cities are abundantly supplied. Every town and village of any consequence has its bank. On an average there are about nine banks in every county in the United States. Our banks have been rapidly increasing. Men with money are constantly seeking a place that is available for the establishment of a new bank. Banking is a money-making business. Experience and observation teach us that our banks do not compete with each other in interest charges. They compete for depositors;

they do not compete for borrowers. On every hand, there is evidence of this fact. Banks select choice locations for business; they erect costly edifices thereon; they place therein expensive and elegant furniture; they employ the most efficient help; they advertise in the public press; and their capital, deposits, surpluses and undivided profits — if creditable in amount — are placed conspicuously before the public. The chief purpose of all this display, is to get deposits. Banks openly solicit deposits. With this end in view, bankers sometimes participate in national, State and local politics. They expend money to educate the public in the habit of depositing money in the banks. To secure deposits, banks pay interest thereon. Competition among banks does increase the rate of interest paid depositors. In the rate of interest charged borrowers, there is virtually no competition. Ordinarily banks can make all the loans their deposits will justify, without soliciting borrowers. To secure borrowers, they do not need to offer any inducements in the way of "cut" rates on interest. So it would be with the proposed "competitive" national land banks. They would compete to secure deposits, and along all those lines which would enlarge their business, or add to their profits. But like existing commercial banks, only in exceptional cases, and, as a last resort, would they adopt rate-cutting in interest charges as a means to increase profits, to enlarge dividends, or to add to the surplus and undivided profits.

*Second.* The number of banks that would be organized under the proposed law might not be sufficient to make any effective competition. Under the plan proposed by the Commission, any number of these banks may be organized. That is, the law in no way limits the number of banks. Unless these banks are as profitable to shareholders as ordinary commercial banks, it is almost certain that few of them would be organized. They can not be as profitable as commercial banks unless their charge for interest is high

enough to make these profits. These banks are required to organize with a capital stock of not less than \$100,000. Under this requirement, capital would be forthcoming for national land banks only in the larger cities. We can only conjecture as to the number of such banks that would be organized in an average State. However, there is no certainty that any large number would be organized. The probabilities are that they would be organized only in the chief business centers of a State and that each bank would have a field for operation, practically without competition from similar banks.

*Third.* In recent years the influence of competition as a factor in all kinds of business has greatly declined. In theory, we still rely upon competition as a factor in controlling prices. In practice, there never was a time when competition had so little to do in fixing the price of goods, the cost of transportation, the pay for labor, or the charges for any service rendered by an individual or corporation. Competition has practically ceased to be a factor in transportation charges. The rates charged by public utility companies are now largely fixed by statute or controlled by commissions. Our manufacturing industries have been combined until large corporations control the bulk of the business. The large concerns in each line of business largely fix the prices. The small concerns usually do not cut prices to get business. The banks are not exceptions. The big banks in the larger cities necessarily dominate the banking business of the nation. In fixing interest rates, competition is not now, and will not be, an important factor. Bankers may disagree about almost everything else, but seldom will they disagree about what, from their viewpoint, is a reasonable rate of interest.

*Fourth.* The land banks under the Commission Bill are limited in the territory in which they may make loans. A bank is not permitted to make loans outside of the State in which it is located. In interest rates, there will be no

competition except between the banks of a single State. In making loans, in fixing interest charges, the banks of Massachusetts would in no way compete with the banks of Indiana. The banks of Illinois would in no way be in competition with the banks of Kansas. The banks of Kansas would not compete with the banks of California. The one, two, three, four, five or more banks in a State, in obtaining loans, would be free from competition from outside the State in which they are located. The proposed law gives the banks in each State a monopoly to make loans under the new system of land credit. In fact, the proposed law restricts competition — encourages and promotes monopoly. If competition shall be relied upon as a chief factor in reducing interest rates, why not allow the national land banks of the East to loan in the West? Why not bring the land banks of the North in competition with the land banks of the South, where generally a higher rate of interest prevails? There is nothing in the Federal or State laws which limits our commercial banks in the area in which they may make loans. A bank in Maine may make a loan to a resident of Alaska. The vast majority of farm loans are made by banks, insurance companies and mortgage companies doing business outside of the State where such institutions are located. It is this system that now constitutes the chief competition in the farm-loan business. The very object of the new system should be to bring the surplus capital in one State directly to the use of agriculture in another State. Any system of land credit for the United States which does not do this, will not meet the expectations of our farmers; neither will it bring to agriculture adequate credit or a low rate of interest.

*Fifth.* These proposed banks would compete with each other in selling their farm-mortgage bonds. This would not be competition between the banks on interest rates charged the farmers, but competition among the farmers in the sale of their securities. Here is the supreme ob-

jection to the proposed system of "competitive" land banks. The farmers of each State will be competing with each other in the sale of their mortgage bonds. The bonds will be issued in the name of the banks. The real ownership is in the farmers. In selling these mortgage bonds, the banks are merely acting as the agents of the farmers. When national land banks from every section of the country sell their bonds in competition with each other in every money market of the country, this will put the farmers in competition with each other. To make this point clear; it must be borne in mind that the rate of interest which the bonds bear controls almost entirely the rate of interest which the farmers will pay on their mortgages. With some few exceptions, in European countries, the rate of interest on the bonds is slightly less than the rate of interest charged the farmer. Under any system of farm credits, some charge must be made to meet the cost of administration. Capital of the land banks is used largely for an operating fund. The banks in the main do not loan their own money. The proposed system allows national land banks to loan from fifteen to twenty times the amount of their capital stock. Suppose a land bank has \$100,000 capital stock. It makes farm loans to the aggregate amount of \$100,000. It is authorized then to issue \$100,000 in land-mortgage bonds. These bonds are then sold to investors wherever they may be found. From the proceeds of the sale of these bonds, the bank puts back into its vaults \$100,000, which it re-loans. This process is repeated over and over again. Under the Commission Bill, the bonds issued must not be in excess of fifteen times the capital stock of a bank. Under the Sub-committee Bill the bonds may be twenty times the capital stock of the bank. Though in a different form, the bonds are in reality the mortgages of the farmers. Mortgages of the farmers have been transformed into bonds. The object of this, is to change the farmers' mortgages into liquid securities that will be easily nego-

tiated, and in form more acceptable to investors of all kinds. In this process, the land banks are doing for the farmers' mortgages just what the great packing companies are doing for the farmers' cattle, hogs, sheep and poultry. The cattle are changed to beef. The hogs are made into pork. The sheep are transformed into mutton. The turkeys, geese, ducks and chickens are slaughtered, dressed and prepared for the cook-ovens of the consumers. Every farmer knows that the price he receives for his cattle, hogs and other food animals will be controlled by the price of beef, pork, mutton and other meats. So when the mortgage bonds, issued in the name of the banks, are placed upon the money market, they are still the farmers' securities. The farmer can not secure low rate of interest unless the mortgage bonds issued upon his mortgage can be sold in the money markets at a low rate of interest. To meet administrative charges or the expense of the business of the banks, the mortgage must bear a higher rate of interest than the bond. In other words, the banks — acting as middlemen must have a profit. They obtain this profit, by requiring the farmer to pay a higher rate of interest than they pay on the mortgage bonds, which are simply the paper or security on which they borrow the money from investors to re-loan to the farmers. Having made it clear that the mortgage bonds are in reality the farmers' securities, and that the rate of interest these bonds bear will control the rate of interest the farmers will pay on their mortgages, it becomes perfectly plain that to permit land banks from every section of the country to sell their mortgage bonds in competition with each other, simply places the farmers in competition with each other in the sale of their securities. Now, who reaps the benefit of this competition? Not the farmers, but the investors — the men with money who are able to buy these bonds. The investors and the farmers have opposing interests. The investor naturally wants his money to bring him the

highest rate of interest obtainable. He wants to buy a bond bearing a high rate of interest. He is in this case in the position of the money-loaner. Where two securities on the market are both safe and sound, the investor will always buy the one bearing the higher rate of interest. This is human nature and it is also business. With numerous national land banks selling mortgage bonds — selling the farmer's security — all seeking to sell on the same market — all offering their bonds to the same investors — the farmers under this system are compelled to engage in direct and fierce competition with each other in the sale of their securities. Further discussion along this line will be found under the topic of the multiplicity of bond-issuing institutions.

*Sixth.* Competition in the sale of mortgage bonds favors the investors; non-competition favors the farmers. The bank or banks are simply the sales agencies for farm-mortgage bonds. The selling of mortgage bonds is not materially unlike the marketing of ordinary farm products. To assert that competition in sales agencies inures to the benefit of the seller, is contrary to all practice, precedent and experience in modern business methods. When many persons are engaged in the production of the same article, their interests can be served by having a single sales agency. This is the basis of coöperation in business. Coöperation is only one step removed from monopoly. In fact, coöperation is one form of monopoly. All coöperation is to a certain degree monopolistic. In Europe the farmers have their coöperative societies through which they purchase their supplies and sell their products. Germany has 25,000 of these coöperative agricultural societies. These societies enable farmers to sell their products at higher prices, and buy their supplies at lower prices. The farmers of Europe have profited enormously through coöperative business methods. To some extent, farmers in the United States have organized coöperative societies to



aid them in marketing their products at less expense and at better prices. Manufacturers have often adopted the device of placing the sale of their products in the control of a single corporation. The revolution in business methods in recent years is very largely a concentration either in the production or sale of an article. If farmers profit by the elimination of competition in the sale of their farm products to consumers, they will profit by eliminating competition in the sale of their farm-mortgage securities. If gigantic business concerns find it profitable to eliminate competition in selling manufactured products, merchandise and all other articles of commerce, farmers will profit by eliminating competition in the sale of their securities in the money markets of the world.

## CHAPTER IX

## INADEQUACY OF RESERVE FUND

THE Commission Bill, the Sub-committee Bill, and the Senate Committee Bill do not provide ample reserve funds to provide perfect safety in the payment of the bonds, authorized to be issued by the banks. The price at which bonds sell necessarily determines the rate of interest the farmers pay. The bonds are the farmers' mortgages, slightly modified in form so as to conform to the demands of investors, and the usages of the financial world. The public must know that these bonds are an absolute safe investment. The law, therefore, must above all things, in some manner, by some method, means or requirement, make the mortgage bonds absolutely safe. The capital of a bank should not be regarded as a part of the reserve or guaranty fund, except such portion as shall be specifically set aside for this purpose and safely invested for the benefit of bondholders. The decree which founded the *Crédit Foncier* declared that its "guaranty fund" should be 25,000,000 francs<sup>1</sup> or about \$5,000,000. This fund, now called its capital, has grown to \$45,000,000.

The *Crédit Foncier* is required to set aside additional funds as a reserve to secure its bonds. This institution does not need to invest its capital in making farm-mortgage loans, because it is allowed to sell its bonds in advance of making loans, to secure the funds therefor. It is plain, therefore, that the capital of land-credit institutions should not be regarded as a part of the reserve, guaranty, or

<sup>1</sup> Senate Doc. 214, 63rd Congress, p. 655.

insurance fund only in so far as this capital shall be kept invested in some absolutely safe securities, which will be quick assets, available at any time to meet defaults in the payment of interest or principal on mortgages. It will be instructive to examine the Commission, the Sub-committee and the Senate Committee bills to ascertain what portion of the capital of the proposed land banks is available as a reserve, guaranty or insurance fund.

Sub-division (c), Section 16, of the Commission Bill authorizes national farm land banks:

"(c) To use its capital stock, surplus, and deposits as a revolving fund for the negotiation 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; 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 50 per cent. of such capital and surplus may be permanently invested in such national land-bank bonds 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 approved by the Commissioner of Farm-Land Banks."

The Federal land banks are given power under sub-division "second," section 15, of the Sub-committee Bill to invest their capital as follows:

"Second. To invest such funds as may be in its possession by the purchase of first mortgages on real estate situated within the Federal land bank district within which it is organized or for which it is acting."

Under sub-division "second," of section 15, of the Senate Committee Bill, every Federal land bank is given power as follows:

"Second. To invest such funds as may be in its possession in the purchase of first mortgages on farm lands

situated within the Federal land bank district within which it is organized or for which it is acting, preference being given to mortgages taken by farm-loan associations within the district."

Section 13 of the Sub-committee Bill, H. R. 16,478, introduced May 12, 1914, among other things provides as follows:

"Ten per cent. of the capital stock of every land bank shall be invested in bonds of the United States."

However, the Sub-committee Bill re-introduced March 2, 1915, by Mr. Bulkley of Ohio, H. R. 21,603, contained this provision:

"Five per cent. of the capital stock of every land bank shall be invested in bonds of the United States."

It will be observed that the Federal land banks under the original bill were required to invest 10 per cent. of their capital stock in government bonds, while under the bill subsequently introduced such banks were required to invest but 5 per cent. of their capital stock in government bonds.

In Section 13 of the Senate Committee Bill the Federal land banks are required to invest 5 per cent. of their capital stock in government bonds. The provision is as follows:

"Five per cent. of the capital stock of every land bank shall be invested in bonds of the United States."

The foregoing provisions show that in the Commission Bill the land banks may keep their entire capital invested in farm mortgages, with bonds outstanding against those mortgages. The bond-issuing banks under the Sub-committee and Senate Committee bills are likewise authorized to invest all their capital in farm mortgages, except 5 per cent. thereof which must be invested in government bonds. Only that portion of the capital which is required to be kept invested in government bonds should be regarded as a part of the reserve, guaranty or insurance fund. It is true, of course, that the capital invested in farm mortgages would

be available as a final asset to meet the obligations of a land bank, in case of failure or bankruptcy proceedings. But the capital of a land bank which is used as an operating or working fund to enable the bank to carry on its business of negotiating and selling farm loans, should not be regarded as any part of the fund designed to meet losses. Because capital thus used is naturally not available when most needed, and when thus used impairs the credit of the bank. Under the Commission Bill the bond-issuing bank may have a capital of only \$100,000. The bank may issue mortgage bonds up to fifteen times its capital or to the amount of \$1,500,000. This bill does not provide for the accumulation of any reserve as special security for the bonds issued, but does limit annual dividends to 6 per cent. per annum until a surplus shall be accumulated equal to 15 per cent. of the authorized capital. Whether any such surplus would be created is a matter of uncertainty. But if a bank accumulated a surplus equal to 15 per cent. of its capital of \$100,000, the surplus would amount to \$15,000. This would be but 1 per cent. of the outstanding bonds which it would be authorized to issue. The bill provides for no reserve fund. The Subcommittee Bill requires that one-fourth of the net earnings shall be carried to a "reserve account," until it shall equal 20 per cent. of the outstanding capital stock of the bank. The bond-issuing bank with a minimum capital stock of \$500,000, would be required to have a reserve account of \$100,000. Under the bill the bank is allowed to issue bonds equal to twenty times its capital stock or to the amount of \$10,000,000. One hundred thousand dollars reserve would be 1 per cent. of the amount of bonds it would be authorized to issue. Five per cent. of its capital must be invested in government bonds, which would amount to \$25,000. This would amount to one-fourth of 1 per cent. of its outstanding bonds. This would provide a total reserve fund of only one and one-fourth per cent. of

the outstanding bonds the bank would be authorized to issue. The provisions relative to the reserve account in the Senate Committee Bill are the same as in the Subcommittee Bill, except that the Farm Loan Commissioner is required to establish a specific rate of interest in each State. When the "specific rate" is above the normal rate, the excess interest collected thereby is required to be placed in a "special reserve" fund to meet losses from non-payment of mortgages in such State. There is no provision which in any way fixes the amount of this "special reserve" fund. The reserve fund in all these bills is left under the control of the bank. There is no provision for its investment. No requirement that it shall be placed at interest, and no safeguard to insure its safety. It will be interesting to compare these provisions with the reserve requirements of European land-credit institutions. As shown above, the capital of the *Crédit Foncier* of France was originally designated as a "guaranty fund," and is still largely invested to make it such. In addition it is required to set aside from 5 to 20 per cent. of its net annual earnings as an obligatory reserve until the reserve amounts to a sum equal to one-half the capital stock of the bank. This obligatory reserve is now equal to one-tenth the capital stock. The Prussian Central Land Credit Joint-Stock Company, one of the greatest mortgage credit companies in existence, with a capital stock of \$10,656,000, in 1911 had a reserve fund equal to 39.2 per cent. of its capital stock.<sup>1</sup> The Prussian Provincial Aid Banks are required to place the net profits into the reserve account until it equals 5 per cent. of the outstanding bonds. This is in striking contrast with the provisions of the three bills above referred to which require a reserve fund equal to only 1 per cent. of the outstanding bonds. The capital stock of the Bavarian Mortgage and Exchange Bank (Germany), a

<sup>1</sup> Cahill's Report, Senate Doc. 17, 63rd Congress, p. 74.

joint-stock profit-sharing company, in 1911 amounted to £3,000,000, or \$14,580,000, and its reserves amounted to £2,870,913, or \$13,952,637.<sup>1</sup> In other words, the reserves were almost equal to the capital stock or 96.6 per cent. thereof. The reserves of the Bavarian Union Bank at the same date amounted to 40 per cent. of its capital. The capital of the Bavarian Agricultural Bank in 1911, was £211,105, or \$1,025,970, and its reserves were £55,997, or \$272,145, or over 26 per cent. of its capital.<sup>2</sup> The capital of the forty-six Noko Ginko Banks of Japan in 1912 amounted to \$17,166,060, their outstanding loans were \$47,560,000, and their reserves were \$4,551,076. Their total reserves were over 26 per cent. of their aggregate capital, and over 9.8 per cent. of the total outstanding loans.<sup>3</sup> The savings banks in Italy are required, if they have capital stock, to set aside one-fourth of the net earnings as a reserve fund, and if they have no capital stock the reserves must accumulate until they, with the guaranty fund, equal 10 per cent. of the debentures in circulation.

The nine land improvement annuity banks, and the eleven provincial aid banks of Germany, are required to put all profits in the reserve fund until it equals 5 per cent. of the outstanding debentures.<sup>4</sup>

The reserves of the National Land Credit Institute for Small Landowners of Hungary at the end of 1912, amounted to \$3,756,585 with loans about \$54,390,000. The reserves were over 6.1 per cent. of outstanding loans.<sup>5</sup>

The Minister of Agriculture of Austria in a statement referring to the reserve funds required of the Provincial Mortgage Institute of Lower Austria (S. Doc. 214, 63rd Congress, page 190), says:

<sup>1</sup> Cahill, Senate Doc. 17, 63rd Congress, p. 68.

<sup>2</sup> Cahill's Report, Senate Doc. 17, 63rd Congress, p. 42.

<sup>3</sup> Herrick, p. 192.

<sup>4</sup> Herrick, p. 97.

<sup>5</sup> Herrick, p. 167.

"The institution is required, both as regards mortgages and communal loans, to create a reserve of 5 per cent. on the value of every debenture or communal bond issued to cover losses which may occur in its transactions. Unexpended balances are applied to the amelioration of credit conditions in harmony with the public-spirited principles of the institution."

In a statement issued by the Royal Hungarian Department of Agriculture, S. Doc. 214, 63rd Congress, page 131, referring to the reserves required of mortgage credit institutions of Austria, it is said:

"For the securing of the mortgage bonds, a special reserve fund (to be managed separately) must be created, which fund must represent at least 5 per cent. of the value of the mortgage bonds issued and must in any case amount to at least 400,000 crowns (\$80,000). If the institute in question desires that its mortgage bonds should be tax-free and should enjoy the privilege of being accepted as investments for trust funds in chancery, the special reserve fund must amount to not less than 3,000,000 crowns (\$600,000). Such reserve fund serves exclusively as a security for the owners of the mortgage bonds as a body. No other persons can have any claim on the same — even in cases of bankruptcy — until all claims of the owners of the mortgage bonds have been satisfied."

The Hungarian Land Credit Institution has some unusual provisions, constituting the reserve, or guaranty fund to secure the payment of its debentures. In addition to the capital and the mortgages, this institution has a "mortgage bond insurance fund," equal to 5 per cent. of the outstanding bonds, a reserve fund, and a "mutual solidarity fund" equal to 1 per cent. of the face of each loan. A statement relative thereto, made by Count Hoyos, a director of the institution, as shown in S. Doc. 214, 63rd Congress, page 156, is as follows:

"The mortgage bonds are secured (1) by the mortgaged

property itself; (2) by the capital of the institution; (3) by the mortgage-bond insurance fund (5 per cent. of the bonds outstanding); (4) by the reserve fund; (5) by the mutual solidarity fund of the members of the institution. For this latter purpose every one who receives a loan has 1 per cent. deducted from the loan, which is deposited in the mutual solidarity fund. In case of losses this money must be called in first to replace them. After 63 years — that is to say, at the end of the loan — it is returned to the borrower.”

Baron von Gutstadt, a director of the *Landschaft* of the Province of Saxony, Germany, referring to the amount of reserve fund of the association, S. Doc. 214, page 364, 63rd Congress, says:

“The *Landschaft* has no desire to earn money; it has no use for earnings except to pay running expenses. No dividends are paid, for there are no shares and no dividend profits. However, a surplus is accumulated and placed to the credit of the *Landschaft* until the fund reaches 5 per cent. of the outstanding obligations of the association.”

The reserve primarily is to secure the bonds. It should bear some relation to the outstanding bonds or debentures of the institution. Every land-credit institution should be required to accumulate and maintain a reserve fund equal to at least 5 per cent. of its outstanding bonds or debentures.

It should not be overlooked that, under the Sub-committee and Senate Committee bills, after a reserve equivalent to 1 per cent. of the outstanding bonds has been accumulated, and a 6 per cent. dividend shall have been paid to shareholders, the balance of the profits go into the treasury of the United States. This is a most remarkable provision. These bills jealously guard the United States from loss. The Sub-committee Bill does authorize the United States under certain conditions to purchase the bonds of these banks. But as these bonds bear interest, and

are absolutely safe investment, there is no risk or financial loss in the transaction. But the Federal government is to have all profits after the payment of a 6 per cent. dividend to shareholders. To require the farmers of the United States to pay on their farm-mortgage loans an interest rate high enough to pay the administrative charges of expensively operated profit-sharing banks, to pay 6 per cent. dividends on the capital invested in such banks, and then contribute through interest payments an additional sum toward defraying the expenses of the national government, is indefensible. If the Federal government had furnished the entire capital of these banks, if it had guaranteed the payments of its bonds, if it had assumed any liability, or given the banks a subsidy, there might be some excuse for it accepting a share of the profits. But the point is this: it is the special duty of the Federal government in bringing into existence land-credit institutions, to be the instruments of agricultural credit, to see to it, that these institutions shall not issue mortgage bonds, about the safety of which there can be any question. The reserve funds are the one and the only source from which losses can be paid. The capital of the banks can not be used for this purpose without undermining the foundation upon which joint-stock mortgage banks are built. But without an adequate reserve fund to insure against losses, it is seriously proposed to take profits from the banks to replenish the funds in the National Treasury. The United States under the Constitution has plenary power of taxation. The national expenditures are enormous and are ever-increasing. The annual appropriations are constantly mounting higher. But the Federal government has not reached the point where it is necessary to increase interest charges on farm loans to add to its annual revenue. Whatever may be the character of the land-credit institutions which may be created, after the payment of administrative expenses, including dividends upon capital used, the balance of the

profits must go into the reserves. There these profits will add financial strength to our land-credit institutions, add value to their securities, increase their sale, enhance the credit of the farmers, and finally become a most important factor in reducing the average interest charge. There may be room for argument on the question to use the funds or the credit of the Government to aid agricultural credit. There can be no room for argument on the proposition to use the interest paid by farmers to aid the Government. The reserve fund should be set apart as an emergency fund to meet unexpected losses. Its object is to insure the payment of the mortgage bonds. It is a fund strictly supplementary to the mortgages themselves, which are the primary security for bonds issued thereon. Now, the mortgages used as a basis for bonds are set aside, placed in the hands of a fiduciary agent, even beyond the control of the institution issuing them. The fiduciary agent holds them in trust for the use and benefit of the bondholders. They have a first lien upon them, superior to the claims of all other creditors. But the reserve fund is likewise a trust fund created, and held to secure bondholders. Experience has shown that some borrowers will be in default in the payment of interest or of the principal of their indebtedness. The reserve fund is to meet such losses. The bondholders should have a first lien on the reserve funds. And this fund like the mortgages used as a basis for bonds, should be in the hands of a fiduciary agent. The banks have no more right to have the use, custody and control of the reserve funds than they do to have the control of the mortgages used as a basis for bonds. The mortgages though held by a fiduciary agent in trust, are productive. Through the annual interest and amortization payments, a fund is created to meet the interest charge on bonds, and a sinking fund is created to pay the principal of the bonds. This sinking fund is used every year to reduce bonds, or is placed at interest so that its accumulation will finally ex-

tinguish the bonded indebtedness. So the reserve fund should be placed at interest, or invested in productive securities, of unquestionable character. In this way the fund grows from year to year. As the reserve funds grow, the security of the bondholders is increased, the credit of the farmers is enhanced, the institutions administering our land-credit system grow in the confidence of investors and the public generally, and become every year more capable of rendering service to the farmers, to the public and to the nation.

## CHAPTER X

### MULTIPLICITY OF BOND-ISSUING BANKS

*First. General Statement.* The mortgage bond is the farmers' security. Its character will be judged by the institution issuing it. A poor security issued by a strong institution will sell better than a good security issued by a weak institution. The farmers are entitled to have their securities issued by an institution that will not vitiate their character in the eyes of investors. The success of our land-credit system in a very high degree depends upon the institution authorized to issue and sell farm-mortgage bonds. If the bond-issuing institution is right, our land-credit system can not fail; if the bond-issuing institution is wrong, it can not succeed. Water can not rise above its source. Farm-mortgage bonds, in the money markets, can not rise above the institution from whence they come. The Commission, the Sub-committee and the Senate Committee bills propose a multiplicity of bond-issuing land banks. This brings up one of the vital problems of land-credit legislation. Shall we distribute the power to issue farm-mortgage bonds among many institutions, or shall it be centralized in one or a few institutions? The importance of this question demands that it be discussed somewhat at length.

*Second. Multiplicity of Bond-Issuing Institutions.* As originally introduced the Commission Bill authorized the formation of any number of national farm-land banks with capital stock of not less than \$10,000, and authorized any of these banks to issue farm-mortgage bonds. The revised

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Commission Bill, which is now recognized as the Commission Bill, requires these banks to have not less than \$100,000 capital. Under this bill any number of these banks may be formed, and they are all authorized to issue and sell farm-mortgage bonds. It is a matter of conjecture as to how many of these banks will be organized. The authors of the bill, however, assume that there will be many of them organized. The Senate Committee Bill authorizes the organization of two classes of land banks. It authorizes the formation of twelve banks, in twelve different districts, into which the United States shall be divided by the Federal Farm Loan Board. These twelve district banks are authorized to issue farm-mortgage bonds. In addition to these twelve district banks, the Senate Committee Bill authorizes the formation of any number of Federal farm-bond banks, with capital stock of not less than \$250,000. These are authorized to issue farm-mortgage bonds. Under this bill there would be not only many banks issuing bonds, but there would be two classes of bond-issuing banks, wholly independent of each other.

The Sub-committee Bill authorizes the formation of twelve district banks, one in each of the twelve districts into which the United States shall be divided by the Federal Reserve Board. Should this system be adopted there would be twelve bond-issuing banks in the United States. The plan presented in the Sub-committee Bill is far preferable to the plan proposed by the others. This bill does recognize the principle of unity and centralization in the bond-issuing power. But as twelve bond-issuing banks would be better than 100, so one would be preferable to twelve.

*Third. The Howard Bill.* Mr. Howard, a Representative from the State of Georgia, introduced in the Sixty-third Congress, H. R. 12,746. This is an elaborately prepared bill. It creates a system of national farm-land banks, embracing, (1) local national land banks, (2) State

national farm-land banks, and (3) the United States national farm-land bank, located at Washington, District of Columbia. These are connected with each other and form a national system. Under this system only the one bank—the United States National Farm-Land Bank—is authorized to issue farm-mortgage bonds. The United States Commission did not, of course, overlook the question of centralization of the bond-issuing power in one institution. In its report it says:

“A second great question which confronted the Commission was the question as to whether it should recommend a central bank, which alone should issue land-bank bonds based on mortgages guaranteed by local institutions and forwarded to the central bank. The arguments in favor of such an institution were elaborately presented and carefully considered. It was urged, with great force, before the Commission that a single central bank of issue, having a large capital and alone emitting land-bank bonds, would create a confidence in the investing public which would tend to improve the market for mortgage loans, which would standardize the farm bonds as an investment, and which would in many ways redound to the interest of the farmer. . . . The advantages and disadvantages of such a plan were thought to be worthy of such serious consideration that a bill outlining this method and providing for every detail of the operation of such banks in connection with mortgage credit was drawn up and fully discussed.”

The Howard Bill represents the plan rejected by the Commission. No one questions the good faith of the members of the Commission, or the honesty of their convictions. Nevertheless, it was unfortunate for the farmers of the United States that the Commission was swerved from what appears to have been its original inclination to recommend a system of land-credit institutions which centralized the bond-issuing power in one great institution which would be national in its character, in its scope, in its advantages, in its benefits, and in its blessings.

*Fourth. Experience of Other Countries.* In reaching a conclusion on this question, the institutions of other countries should be carefully studied.

The advantages of one large institution as the bond-issuing instrument is shown in the history of the *Landschaften* of Germany.

To meet the embarrassment under which the single *Landschaft* at times labored on account of a lack of a market for its debentures, in 1873 a central *Landschaft* was organized composed of eight *Landschaften*. It is true that a majority of the *Landschaften* have not joined this central organization, but the central organization has demonstrated its usefulness to the organizations belonging thereto.

Cahill in his report (S. Doc. 17, 63rd Cong., pages 40, 41) referring to the organization of the Central *Landschaft*, says:

“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 bad 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. About the period (1870–1875) when the central association was founded, the market prices of the bonds of several associations were low and unstable. For some time after the establishment of that association prices improved; but the association has not met with the success anticipated.”

In discussing some of the reasons why the Central *Landschaft* has not attained the success anticipated, Mr. Cahill (S. Doc. 17, 63rd Cong., page 41), says:



"The want of success is attributed to two principal causes: (1) the unwillingness of the provincial associations to renounce any of their independence in favor of a central body, and (2) the general historical development of these associations — the market for their bonds has always been mainly provincial, bonds of particular associations finding their chief sale in their own Provinces, and being in many cases only quoted on one or two exchanges in addition to that at their own center, while in the case of the largest organizations, e. g., that of Silesia and east Prussia, the German market was already at their disposal."

The Hungarian Boden-Credit Institute of Hungary is an example of a central institution for promoting land credit. This institute was founded in 1863. It is not a profit-sharing institution. In 1912, its loans were \$119,000,000 and it had \$100,000,000 in outstanding bonds. It started out with a capital of \$821,730. This has been increased, until in 1910, the capital and reserves amounted to \$10,000,000.

Hungary has adopted centralization in her land-credit institutions. There are in Hungary three State land-credit institutions. Each one is designed to work in a separate field. Each institution is national in its scope and character. The institutions are as follows: 1. The Hungarian Boden-Kredit Institute, which makes loans to individuals and associations and promotes land improvement and irrigation. 2. The National Land Credit Institute for small landowners in Hungary, the name of which indicates its object; and 3. The National Federation of Hungarian Land Credit Institutions.

The first of these were founded in 1863, the second in 1879, and the third in 1911. These institutes are all national in policy, in purpose, in scope of operation, and uniform in their benefits to all portions of the nation.

Japan has one large central land-credit institution, and forty-six local land-credit institutions, one in each prefecture.

The first is the Nippon Kwango Ginko Bank, and local banks are the forty-six Noko Ginko banks. While the local banks are independent of the central bank, yet the central bank may make long-time loans to the local banks and guarantee their debentures.

The advantages of a large central institution are illustrated in the success which has been achieved by the Prussian Central Land Credit Joint-Stock Company of Berlin, Germany. The history of this institution will be found in Senate Document 214, Sixty-third Congress, pages 404-411, prepared by Herr Wegener, a director. This company was organized in Prussia in 1870, under the approval of the King and the Prime Minister, von Bismarck. At that time the *Landschaften* had been in operation for a hundred years. This great loan company is located at Berlin. It is authorized to establish branches, but has never done so. In conducting its business it employs 300 agencies. In their appointment the directors and the President must be confirmed by the King. The company is under the supervision of the government but has never received any government aid in either credit or capital. Originally the institution was designed to accept deposits and carry on a general banking business. That idea was dropped. It became purely a mortgage bank. "All speculative business," says Herr Wegener, "is prohibited." Originally the capital stock was 36,000,000 marks or about \$9,000,000. The capital has been increased to 44,400,000 marks, or about \$11,000,000. The total reserve funds in 1912 were 18,324,634 marks, or about \$4,581,158. In 1912, its total loans were 1,021,727,553 marks; its total bonds outstanding were 982,374,750 marks. Expressed in dollars, its loans were about \$255,431,888, and its outstanding bonds were about \$245,593,000. In the first year of its history, it paid a 7 per cent. dividend. In all the forty-two years following it has never paid a dividend on its stock of less than 8 $\frac{3}{4}$  per cent. In thirty-four of these years it paid a dividend

of 9 per cent. or over. The cost of administration in 1912 was 1,345,949 marks, or about \$336,487. This is equivalent to only  $\frac{13}{100}$  of 1 per cent. on the amount of the outstanding loans. This is a matter of the greatest importance. It is a striking example of economy in administration of a large concern. Here is a large, dividend-paying, profit-sharing institution controlled by private capital. Its business covers all Prussia. Its rate of interest, says Herr Wegener (Sen. Doc. 214, 63rd Cong., page 406) is "dependent upon the rate of interest which the bank itself must pay for the mortgage bond. At present (1913) the institution is working on the ground of the mortgage bonds at 4 per cent. and the rate of interest for loans amounts therefore usually to  $4\frac{1}{4}$  per cent." This mortgage institution is one of the largest in Germany. In the amount of its loans only three *Landschaften*, those of Silesia, East Prussia and Posen, exceed it, and the Silesia *Landschaft* is the oldest of them all, having been organized in 1769. Only two mortgage banks in Germany surpass it in amount of loans. Its interest rates have been only slightly in excess of the *Landschaften*, it has accumulated a large reserve fund, paid an average annual dividend on its capital stock of over 9 per cent., pays administrative charges, but its rate of interest is only one-fourth of 1 per cent. above the rate of interest borne by its mortgage bonds. If the national government shall create private banking institutions to operate its land-credit system, it is essential that these banks shall be required to conduct their business economically. If the Prussian Central Land Credit Joint-Stock Company of Berlin can keep its administrative charges down to a point of only  $\frac{13}{100}$  of 1 per cent. on its total loans, and charge its borrowers on mortgages only one-fourth of 1 per cent. above the rate of interest on its bonds and still pay liberal dividends, and accumulate an ample reserve fund, there can be no good reason why land-mortgage banks in the United

States can not do equally as well with American farmers. It is apparent that no small mortgage bank could operate so economically. This institution is worthy of the closest study. It is not an experiment. It has done business forty-three years. There has been a continuous and substantial growth in its business. Its dividends have been regular and liberal. Its reserve fund has grown constantly. Its interest rates on farm loans have been low — seldom above  $4\frac{1}{2}$  per cent. per annum. It is not a bank in reality, but a loan company — merely an intermediary instrument between the borrower and the investor. It does not receive deposits. It engages in no speculative business. And if we are to create private land-credit institutions to supply American agriculture with credit, the Prussian Central Land Credit Joint-Stock Company is a model from which we may copy much.

*Fifth. Advantages of Centralization in the Bond-Issuing Power.*

1. *Centralization in the bond-issuing power will insure a lower interest rate than can be had under a system which brings into existence a multiplicity of bond-issuing institutions.* The reduction of the interest rate on farm loans is the chief object of land-credit legislation. To give the farmers credit at a low rate of interest is the one great end to be accomplished. All other considerations must be made incidental, secondary, and subsidiary. The greatest danger is, that the farmers' securities will be discredited by the institutions which offer them to the public. The land banks will be the agents of the farmers. The farmers will be judged by the character of their agents. The land banks will be the financial representatives of the farmers. The farmers can not stand better in the financial world than their duly accredited representatives. The banks will be spokesmen for the farmers, and they will speak through their reputations. To have a multiplicity of agents, means to have a variety of agents — some good, some bad. The

bad will injure the good. The rate of interest the farmers will pay depends on the confidence the investing public has in the farm-mortgage bonds. Bonds issued by a multiplicity of banks will have different values. Bonds of one institution will be regarded safer than others. To doubt the safety of one bond, is to question all of them. A few bad citizens will destroy the good name of a whole community. One bank failure develops mistrust in all banks. So one bond-issuing institution of doubtful standing will discredit all of them. It matters not how remote the institution may be. Multiplicity of banks means small banks. Many banks means unknown banks. Small banks, unknown banks, can not and will not command the confidence of investors. Banks will not confine the sale of their securities to the localities where they do business. Their bonds will be scattered far and wide. Purchasers will be sought everywhere. Multiplicity of bond-issuing banks will create confusion in the minds of investors. This very confusion will lower the price of mortgage bonds generally. The only way the farmers can secure the lowest rate of interest is to present to buyers a mortgage bond that is absolutely secure. It is utterly impossible to do this where these bonds are issued by a multiplicity of mortgage banks. Many bond-issuing banks mean more interest. The farmers of the United States should understand this proposition and act accordingly. They should insist that their securities shall not be impaired, discredited, vitiated, tainted and debased by a multiplicity of bond-issuing institutions. The farmers have the best securities in the world, but they can not be sold at the highest price and to the best advantage unless issued and sold through an institution that commands the implicit confidence of investors throughout the nation.

2. *Multiplicity of bond-issuing banks means non-uniformity of interest rates.* Elsewhere it has been shown that a system of land credit should be adopted that will

secure uniformity of interest rates throughout the Union. It has been shown that variety in interest rates means higher interest — not simply higher interest to some but higher interest to all. Because through a great central institution, representing the combined credit of the farmers of the United States, the farmers in those States where the lowest rates of interest prevail would secure a lower rate of interest than they could through a small institution. It is true that the interest rates on farm loans in some States are now lower than in others. It is true that better credit facilities are extended to the farmers of some of the States than in others. It is true that in some States there is more local capital for investment in farm-mortgages than in others. But let not the farmers of these favored States be deluded with the idea that they will gain anything through the small bond-issuing mortgage banks. Under such a system, they might and probably would do better than the farmers in those sections where local capital is scarcer and interest rates higher. They will not, however, do as well as they would under a centralized system of bond-issuing banks. It must be admitted that the farmers of the South, and the West will suffer most from a multiplicity of bond-issuing banks. But the farmers of no State will suffer from the centralization of the bond-issuing power in our land-credit banks. All will be benefited thereby.

3. *Multiplicity of bond-issuing institutions will increase the cost of supervision.* All of these bills propose to create a Bureau of the Federal government to supervise, direct and control the land banks to be brought into existence. The larger the number of banks, the greater will be the number of employees in the land-credit bureau, and the higher will be the cost of supervision. The fewer the banks we have, the less will be the cost to supervise them. This applies to the entire system of banks to be brought into existence. This is one objection to all these bills.

The Sub-committee Bill and the Senate Committee bills provide for local banks with a minimum capital of \$10,000. There are about 3,000 counties in the United States. There may not be a local bank in each county. But these local banks will be numerous. It will require many men to supervise them. This expense will come out of the National Treasury. These banks will increase in number. This business will grow. So as the years go by the cost of supervision to the Federal government will increase. If money is to be taken from the National Treasury to promote rural credits, it should be used in a way that will aid the farmers the most, and not in the supervision of thousands of small banks, when the utility of these banks is doubtful.

4. *Only through centralization of the bond-issuing power will the farmers of the United States secure access to the capital of foreign nations.* European investors have invested largely in our railway, industrial and municipal securities. They will purchase farm-mortgage bonds, if they shall be issued by the right kind of institutions. They will not purchase these bonds if they shall be issued by numerous small institutions. Why should we thus voluntarily restrict the market for our farm-mortgage bonds? The sale of the mortgage bonds is the difficult task to perform. The marketing of the farm-mortgage securities is the one great work of our land-credit institutions. The success of our undertaking should not be endangered by multiplying the number of our bond-issuing institutions and thereby precluding our farmers from securing credit abroad.

5. *Bonds issued on mortgages covering lands within a small area are less secure than bonds based upon mortgages upon land covering large area.* The small bank confines its loans to a limited area. Its business will be restricted within a single State, and in many cases, within a section of a State. The bonds issued by these banks

are secured by mortgages on these lands only. Failure of crops through drouths, floods, extremes of cold or heat, and losses from insects, diseases of plants and animals, frequently seriously affect a State or locality, but do not materially affect the agricultural prosperity at large. Crop failures generally throughout the United States have never been known. But failures over a limited area occur frequently. The general average of production may be good, when a particular State or section has had a crop failure. In such case, the small bond-issuing institution is put to a severe test. All of its borrowers have suffered alike. They have all met severe losses. Defaults in the payment of principal and interest due, would be general. Local disasters would not seriously affect an institution with mortgages from every State in the Union. The small bond-issuing institution can not distribute its risks. The central institution distributes its risks over the entire country. It is backed by the agricultural resources of the nation and hence is as sound, as safe, and enduring as the nation itself.

6. *Multiplicity of bond-issuing institutions puts farmers in competition in the sale of their securities.* The farmers must buy credit. In buying credit they sell their mortgage bonds. When these bonds are placed on the market by many institutions, the farmers are competing with each other. Competition in the sale of bonds acts just as it does in anything else. The effect is, to reduce the price of the bond. That is to say, the bond sells below par. That the farmers may have cheap credit, mortgage bonds, bearing a low rate of interest, must sell at or near par. When numerous institutions are selling bonds on the same market, the tendency will be to increase the rate of interest thereon. But increased interest on the mortgage bonds means higher interest on the farm mortgage. This works to the advantage of the investor, the money lender, and to the disadvantage of the farmer, the bor-

rower. The investor can choose between bond-issuing institutions. He can buy the bond that bears the highest rate of interest, or that sells at the greatest discount. He naturally deals with the institution offering the best terms, the greatest bargain. It must be borne in mind that with many banks issuing bonds, while restricted in the area in which they make loans, they may sell their bonds anywhere and everywhere. They will not compete in making loans to the farmers — in offering the farmers better terms and lower interest, they will compete in dealing with investors — in offering them the best security possible, on the best terms. The multiplicity in bond-issuing institutions gives the farmer no competition in the terms of his mortgage, in the amount of his loan or in the rate of interest. He must deal with one institution on the terms offered by that institution, but the investor, the money lender, may buy bonds from a hundred institutions. He has the benefit of competition. If farm-mortgage bonds were issued by only one institution, the farmers would not be compelled to compete with each other in selling their securities. The farmers of the West would not compete with those of the East; the farmers of the South would not compete with those of the North. One section of the country would not compete with another. It may be said that competition is the rule of business, and that farmers should not object to this. But the farmers would still have competition, because their securities, the farm-mortgage bonds, must compete in the money markets with all other kinds of securities. Farm-mortgage bonds will be a new thing in the United States. They must make their way in the money markets of the country. They must seek and win the confidence of investors — large and small. They must sell in competition with the bonds of the Federal, State and local governments, with the bonds of all kinds of public utility corporations, with the bonds of steam and electric railways, and with the securities is-

sued by all kinds of manufacturing, mercantile, commercial and industrial corporations. The farmers will have enough to do to make their way against these mighty forces, which now largely monopolize the credit resources of the country. What chance will the farmers have to secure and hold their legitimate share of credit, if their securities are placed upon the market by numerous small institutions? Let not the farmers underestimate the task before them. The great commercial forces of the country will not willingly relinquish their hold upon the purse-strings of the investing public. All along the line there is a demand for more credit. The business of the country is growing. Commerce is constantly expanding. Our transportation companies are seeking additional capital. The great industrial corporations need more credit. Our great mercantile houses are offering their notes to banks and investors wherever idle funds can be found. Greater capital, larger credit, more money is the universal cry, coming from every line of industry and enterprise. The farmers will have competition. Agriculture will not command adequate credit without a fierce struggle. Agriculture should not compete against itself. Farmers in securing credit should not compete against farmers. The only way to avoid this is to present their securities through a single institution. In this way, the farm-mortgage bonds will be nationalized. They will go to investors, with the united support of all our farmers, sustained and secured by the strength and wealth of our greatest industry. In this way farmers will not compete with each other for credit, but they will be able to compete successfully with other industries and interests for credit, among investors of all kinds in every part and portion of the land.

7. *Only through centralization can there be standardization of business methods, mortgages, bonds and appraisements.* With many independent institutions making loans in many different localities, there must be vast variety and

variance in their business methods. The law may limit their loans to one-half the value of land mortgaged. But this will mean nothing unless appraisements are made upon the same basis. There can be no standardization of appraisements when numerous independent institutions are making appraisements for their own loans. It is asserted that local banks are acquainted with land values in the country surrounding them and are therefore better qualified to make appraisements of such lands. There is, however, danger along this line. Local bankers, like others, are liable to have an exaggerated idea of the value of lands in the locality in which they do business. They are also liable to be influenced by close personal relation to the borrowers. Sometimes the local bank or some one connected with it, will be financially aided by the borrower obtaining a long-time loan. There may be many local conditions which will influence the judgment of the local appraisers. The most reliable appraisements will come through appraisers wholly free from local connections. Expert appraisers, sent out by a central institution, with a knowledge of land values throughout the country generally, will prove safer and more satisfactory than local appraisers. At least, appraisements made solely through local independent banks or their agents, will follow no fixed standard. The safety of the mortgage bonds rests largely upon the trustworthiness of the appraisal. Without standardization in the appraisal, the security behind the bonds of the various institutions will vary. The investing public will have full knowledge of these facts. Lack of standardization in business methods, in valuation of mortgaged lands, and variance in the security behind the bonds of various institutions will discredit farm-mortgage securities among investors. With numerous banks issuing bonds, necessarily there will be variety in the actual value of these bonds. Some banks will be safer than others. This will mean that the bonds of some institutions will be under

suspicion. Under the Commission Bill, the minimum capital of the banks is fixed at \$100,000. But there is no other restriction. Should this bill become a law, there might be one bank with \$100,000, another with \$500,000, and another with \$1,000,000, and still another with \$10,000,000, and so on up. The Sub-committee Bill authorizes the organization of twelve district banks, each with a minimum capital of \$500,000. No maximum in capital is fixed. Under this bill there might be one bond-issuing bank with \$500,000 capital, and another with \$5,000,000, or \$50,000,000. Under the Senate Committee Bill, there would be still greater variance and variety in the amount of capital stock of the bond-issuing banks. For under this bill, two classes of bond-issuing banks are authorized. See where all this leads to? Utter confusion, and bewilderment. With farm-mortgage bonds offered to investors from all kinds of banks, it is inevitable that the bonds issued by the large banks will have a prestige over the bonds issued by the small banks. To say that one farm-mortgage bond is safer than another is to question the safety of all of them. To doubt one, is to doubt all. This means that multiplicity of bond-issuing banks with no uniformity in capital stock, will weaken the whole fabric of our land-credit system, and to a degree destroy the confidence of the public in the farmers' security, which must result in limiting credit and increasing interest. There is another feature along this same line that should be mentioned. Under these "officially endorsed" bills, the banks are required to set aside certain surplus or reserve funds. They are not required to follow a fixed standard as to the amount of surplus or reserve fund. That is to say, should any one of these bills become a law, the amount of surplus or reserve fund in the bond-issuing banks would vary greatly. One bank might have a much larger surplus or reserve fund in proportion to its capital than another. The surplus or reserve fund

in a bond-issuing bank is an insurance or guaranty fund — held by the bank to meet any and all losses which may come. If bond-issuing banks vary in the amount of their guaranty funds, they will vary in the security they offer investors. This means there will be an actual difference in the value of their bonds. Investors must, therefore, first look at the capital of the bank issuing the bond, and then they should ascertain what surplus or reserve fund the bank has to meet unexpected losses. There is the human element in all these numerous bond-issuing banks. If many banks issue farm-mortgage bonds, it means great variety in the management of these banks. Skill in management, honesty in administration, appreciation of responsibility to investors, the recognition of duties to the public on the part of owners and managers, will have much to do with the safety of securities issued by bond-issuing banks. The larger the number of bond-issuing banks we have, the greater will be the variety in the character of their owners and managers.

Again, with a multiplicity of bond-issuing banks there is a lack of standardization in the character of the lands mortgaged. The bonds of one bank are secured by Eastern lands, another by Western lands, another by Southern lands, and still another by Northern lands. The securities held as collateral for the bonds of these banks will be covered by mortgages upon a vast variety of lands — corn lands, wheat lands, cotton lands, fruit lands, grazing lands, and so on. This presents another problem for the solution of investors. What lands — judged by their chief product — are the safest security. One investor would put his money upon the corn-belt, another upon the wheat-fields, and still another would choose the lands in the domain where cotton is king. Here again is confusion for investors in farm-mortgage securities. All this non-conformity, and variety must create doubt, perplexity, and mistrust. The whole thing becomes a confused mixture,

an incomprehensible jumble and conglomeration. In the multiplicity of bond-issuing land banks all this is inevitable. Through one great bond-issuing bank all this will be avoided. Business methods will be standardized. There will be order, regularity, and uniformity in appraisements. There will be no question in the minds of investors about the capital, the surplus, the reserve, or the management of the bond-issuing bank. There will be no confusion about the location of lands, or the character of their products. There will be standardization, order, regularity, uniformity, system, solidarity and unity. These will mean strength, stability, prestige, power, influence and success.

8. *Land-mortgage bonds should be issued by institutions of such financial strength as will command the confidence of the investing public.* This is more important here than in European countries. We have a vast area of country. European countries have small area. Our country is comparatively sparsely settled. European countries are thickly settled. Germany, composed of some twenty-six States or Provinces, with nearly 70,000,000 population, has less area than the State of Texas. Land bonds issued by *Landschaften* and other land-credit institutions of Germany, usually find a market in the very community in which the land is situated. Not so in this country. By far the greater part of the bonds issued by the land banks must be sold to investors residing one, two, or three thousand miles distant, who know little of the bank, the products of the country, or the character of the people. Very naturally men will hesitate to risk their savings in banks of this kind. But a single great bank would command the confidence of investors. It would quickly attain a national standing and its name would become familiar throughout the country. Land securities issued by such a bank would sell more readily and at a lower rate of interest than securities by numerous small banks, about

which the public generally could have but little knowledge. France, in enacting a law to establish her land-credit system, started with the idea of having many land banks with authority to issue bonds. After a brief trial she abandoned the idea. The smaller banks were purchased by the one great land-credit institution, the *Crédit Foncier*.

Emperor Napoleon III promulgated a decree which extended the powers of the Land Bank of Paris, conferred upon it the title *La Société du Crédit Foncier de France*, and "authorized it to absorb the other companies which had been formed."

The farmers of the United States will make a fatal mistake if they are led to sanction a land-credit system that is based upon the credit and standing of small banks scattered throughout the vast territory of the United States. To have many banks issuing land-mortgage bonds, will cost the farmers millions of dollars every year in higher rates of interest.

All experience demonstrates that in every line and character of business conducted by governments, corporations, associations, partnerships or individuals the strong government, the large concern, the big institution, the wealthy individual, can always borrow money upon the best terms and at the lowest rate of interest. The United States can borrow money cheaper than it can be borrowed by the small Republics of Central and South America. The Standard Oil Company and the United States Steel Company have better credit than their small independent competitors. The Wanamaker and Marshall Field department stores can command money at a lower rate of interest than the small concerns located in obscure streets in Philadelphia or Chicago. All of which illustrates the strength of credit that comes from centralization and unity.

## CHAPTER XI

### INTEREST

THE subject of interest will be considered under the following heads:

1. General Statement.
2. Provisions in the Three Officially Endorsed Bills relative to Interest Rates.
3. Interest Rates in other Countries.
4. Interest Rates on Bonds.
5. Diversity of Interest Rates.

1. *General Statement.* The chief end to be attained in the organization of land credits is a reduction in existing interest rates. All of our efforts will be largely in vain unless the main purpose of land-credit legislation shall be accomplished. Too much care can not, therefore, be exercised in constructing our land-credit institutions with a view to giving agriculture not only ample credit, but such credit at the very lowest rate of interest possible. It would not be true to say that the "Three Officially Endorsed Bills" contain no provisions which would tend to reduce the rate of interest on farm-mortgage loans. Every one of these bills contains a provision which, if enacted into law, would effect a material reduction in interest rates on farm loans. The provision referred to is the one that exempts farm mortgages, farm-mortgage bonds, and the income therefrom from all national, State and local taxation. Aside from this provision, these bills give little promise of any material reduction in the prevailing rates of interest on farm-mortgage loans. The Federal govern-



ment, through the actions of the Commission and the Committees of Congress, has thus gone far along the way toward creating a system of land credit that does not insure a low rate of interest on farm-mortgage loans. To-day danger hangs over agriculture. Misfortune threatens our farmers. Their interests are in jeopardy. Their welfare is in peril. Through unwise legislation our farmers are about to lose benefits and advantages to which they are clearly entitled. In this crisis, the provisions of these bills which relate to or in any way affect the rate of interest, should be placed under the closest scrutiny. Every provision in these bills which is unfavorable to a low rate of interest should be abandoned. There is entirely too much at stake and the interests involved are too momentous and far-reaching to crystallize into law any land-credit bill which will not insure the farmers of the United States ample credit at the very lowest rate of interest.

2. *Provisions Relating to Interest.* The Commission Bill by no specific provision attempts to control the rate of interest on farm-mortgage loans. It authorizes no governmental power to fix or regulate the rate of interest the proposed land banks shall charge borrowers. The only provision which in any way relates to the interest charge is found in Section 16, which is as follows:

"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 1 per cent. annually upon the amount unpaid on the loan, which said 1 per cent. shall cover all charges of administration."

The provisions in the Sub-committee Bill relating to the interest charge are found in Sections 8 and 10. The fifth subdivision of Section 8 is as follows:

"The rate of interest charged for such loans shall not exceed the legal rate current in the State in which the farm land securing such loan is situated."

The provision in Section 10 declares that the Federal Reserve Board, shall have power:

"To review and alter at its discretion the rate of interest to be charged by national farm-loan associations for loans made by them under the provisions of this Act, said rates to be as nearly uniform throughout each State as the conditions of business will permit."

The provisions in the Senate Committee Bill which relate to the interest charge are found in Sections 8, 10, and 25. The provision in Section 8 is as follows:

"The rate of interest charged for such loans shall not exceed the legal rate current in the State in which the farm land securing such loan is situated."

The provision in Section 10, says that the Federal Farm-Loan Board shall have power:

"To review and alter at its discretion the rate of interest to be charged by farm-loan associations for loans made by them under the provisions of this Act, said rates to be uniform so far as practicable."

The provisions in Section 25, in part, are as follows:

"That so far as practicable the rate of interest on loans secured by first mortgages under this Act shall be uniform, as provided in Section 10, and the farm-loan commissioner shall from time to time establish a specific rate of interest to be charged on all first mortgage loans in each land-bank district. The normal rate of interest, not including therein any amortization payment, on first mortgage loans shall be established by adding 1 per cent. to the rate of interest specified in the latest issue of farm-loan bonds in said district. Whenever, because of local or other conditions, it shall be deemed wise by said farm-loan commissioner, in order to provide a special reserve against losses, to establish a specific rate of interest in excess of said normal rate, the amount of interest thereafter paid by any borrower in excess of the amount which he would have been required to pay if his loan had been made at the normal

rate of interest current when said loan was made shall be carried to a special reserve fund, which shall be specifically set apart by the association or the land bank then holding said loan for the purpose of meeting any losses incurred in the State where the land mortgaged to secure such loan is located."

These bills propose to confer upon capital invested in these land banks very important privileges. The Government proposes to supervise the business. All this will be done at the expense of the Government, requiring annually an ever-increasing outlay of money. Under the Commission Bill the Government would furnish none of the capital for these banks. But under certain conditions the Government may become the owner of some of the bank stock under the Sub-committee Bill and the Senate Committee Bill. Under the provisions of the Senate Committee Bill, the Government may derive a profit from the business of these banks. The banks under the Commission Bill are to have a monopoly of the name "national." While it is assumed that the organization of these banks will be the result of private initiation, that the money necessary for their operation will be contributed by private capital, and that their management will be controlled by private citizens, still, in an important sense, these proposed land banks are institutions of the national government and will be so regarded by the public. Why would not the Government be justified in declaring by statute that the rate of interest shall not exceed a certain amount? If it is the intention of the Federal government to establish a system of land credits, which will materially reduce the rate of interest now prevailing, why not at least establish a maximum rate of interest, and prohibit the charging of higher rates. This would be one way of guarding against excessive interest charges. The Sub-committee Bill gives the Federal Reserve Board the power to "review and alter" the interest rate charged by farm-loan associations. The Sen-

ate Committee Bill gives the same power to the Federal Farm Loan Board. Congress might, however, fix a maximum rate of interest and confer upon the supervisory authority the power to review and alter interest rates, subject to the statutory provision. The regulation of interest rates is a power that has always been exercised by the State governments. But if the national government shall bring into existence special land-credit institutions, to be instrumentalities of the Federal government, the chief object of which is to reduce interest charges to farmers, why should not Congress in creating these institutions say that they shall not charge to exceed a certain rate of interest? The prevailing rate of interest on farm loans in this country is well known. The usual rate of interest charged on farm mortgages by European institutions can be ascertained. Legislators know about what rate of interest our new land-credit institutions must charge to meet the expectations of the public. Why then should these private banking corporations be brought into existence and given full control of our land-credit institutions, without any declaration by Congress as to interest rates — a matter of such vital and supreme importance to the farmers of the country?

Under the Commission Bill, as shown by the paragraph quoted above, the rate of interest on mortgages must not exceed by more than 1 per cent. annually the rate of interest on the bonds. This is the only provision in this bill which in any way limits, restricts, or controls the rate of interest on loans. Whatever may be the purpose of this provision, its utility or effectiveness as a means or method of securing a low rate of interest is very doubtful. The general effect of this provision will be, to raise the rate of interest on the mortgage bonds rather than to reduce the rate of interest on loans. The only requirement the law makes of the proposed banks is that there shall not be more than 1 per cent. difference between the rate of in-

terest on bonds and the interest charge on loans. This requirement can be fulfilled, by maintaining a high interest rate on both bonds and mortgages. The statute only demands of the banks that they shall maintain a certain ratio between the interest rate on bonds and the interest rates on mortgages. Now, these proposed national land banks are not to be public institutions, with a benevolent or charitable object. It must be assumed that they will act from selfish motives, as do other private business concerns. Self-interest will be first. When the interests of the banks are not at stake they will naturally move along the line of least resistance. It must also be remembered that in the organization and administration of any system of land credit, two important classes of persons must be dealt with. These are the farmers who borrow, and the investors who purchase the farm-mortgage securities. Their interests are not identical. Investors desire as high a rate of interest as can be secured on safe security. The interest on the bonds held by the investors will be paid by the farmers. It is to the farmers' advantage that the interest rate on the bond be as low as possible. The proposed land banks will stand as arbiters between the investors and farmers. When their own interests are involved, both investors' and farmers' will be ignored. As between them, the banks will naturally go where their own interests lead them. This is human nature. We can not expect our rural-credit legislation to change human nature. If the new system of land credit shall materially lower the rate of interest, the banks will have no difficulty in securing loans. No one anticipates that there will be a dearth of applications for farm loans. The hard problem that will confront the banks will be the sale of their bonds. There are several reasons why this will be true. Existing capital is already largely invested. There will be other demands for capital. Our great transportation companies are demanding more capital. The industrial and commer-

cial enterprises of all kinds will have their securities on the market. The credit of our banks, as has been shown elsewhere, is very largely invested in commercial and industrial enterprises and in mortgages upon urban property — rather than upon farms. Investors are not familiar with agricultural securities. Our banking institutions have not been accustomed to aid in their distribution and sale. Besides, under the proposed system of land banks, these banks will be in competition with each other in the sale of their bonds. Under the Sub-committee Bill there will be twelve of these mortgage-bond-issuing banks, offering their bonds in the same market. Under the Commission Bill, or under the Senate Committee Bill, there may be any number of these banks competing in the sale of their bonds. In this situation, with competition in the money market on every hand, the proposed land banks would have no selfish interest in establishing and maintaining a low rate of interest on mortgage loans. The selfish interests of the bank would be just the reverse. The banks are to be allowed a margin of 1 per cent. between the interest rate on the bond and the interest rate on the mortgage. The bond with a high rate of interest will sell more readily than a bond at a low rate of interest. In securing loans the banks will have little competition. In selling bonds the competition will be severe. The banks naturally will issue bonds bearing such rates of interest as will make them attractive to investors. The banks can lose nothing in issuing bonds at a high rate of interest, because they are permitted to charge an interest rate on their mortgages 1 per cent. higher.

It would appear from these observations that the provision in the Commission Bill, and the similar provisions in Section 25 of the Senate Committee Bill which declare that the normal rate of interest on mortgage loans, shall "be established by adding 1 per cent. to the rate of interest specified in the latest issue of farm loan bonds," will

tend to increase rather than lower the rate of interest to farmers. The maximum rate of interest should be established by law, or such provisions should be placed in the law as will, if possible, make it to the interests of the banks to give the borrowers the lowest rate obtainable. Especially the banks should have a financial interest in selling bonds bearing the lowest rate of interest possible. The law should give the banks every encouragement to offer investors a bond that will command money at the lowest rate of interest. To illustrate: suppose (1) that the law fixed the maximum interest charge, including all charges, commissions, and amortization payments, at 5 per cent. annually; (2) that the law did not limit the dividends to shareholders of banks. Under these provisions, the banks would be interested in selling their farm-mortgage bonds at the lowest rate of interest possible. They would likewise be interested in an economical administration of the business of the bank. They would have every inducement to manage their business with the highest degree of efficiency. They would be interested in securing and maintaining the confidence of the public. In short, they would have every possible encouragement and incentive to establish a good reputation among investors with a view to disposing of their mortgage securities in large quantities, on good terms and with promptness. But when the law limits their dividends, restricts their profits, and still allows them to charge an interest rate, 1 per cent. higher than the bond-interest rate, the banks are placed in an attitude of indifference as to the rate of interest at which their bonds sell. In the first place, their dividends are limited, the margin of their profits is restricted and the banks become chiefly interested in the amount of business which they transact. For negotiating loans and selling the bonds, the law allows them 1 per cent. per annum margin. This they can have regardless of the rate of interest on their loans, or the rate of interest on their bonds.

3. *Interest Rates in Other Countries.* In enacting land-credit legislation with a view to reducing the interest charge on farm-mortgage loans, the rates of interest prevailing in other countries should be studied. The land-credit institutions of other countries furnish credit to farmers at a low rate of interest. What other countries have done, this country is able to do, and should do.

The five Land-Improvement Annuity banks of Germany are not permitted by the law to charge an interest rate in excess of 4.5 per cent., exclusive of amortization payment, and a commission of one-fifth of 1 per cent. for cost of business.

Only about 20 per cent. of the assets of the German savings banks are invested in farm loans, and many of these loans are for short terms which naturally bear a higher rate of interest than a long-term loan. While the savings banks are not as a rule profit-sharing institutions, yet one of their objects is to encourage thrift and they pay depositors a high rate of interest on their deposits. They are not, therefore, designed especially to secure a low rate of interest on farm mortgages. Still their rates are reasonable, running from 3 to 5 per cent.

The rate of interest charged by the *Crédit Foncier*, in 1913, was 4.30 per cent., and this included amortization payments and annual payments toward administrative expenses.

Referring to the rates of interest charged by the joint-stock mortgage companies of Germany, Cahill in his report, Senate Document 17, 63rd Congress, page 69 says:

"The rate of interest charged to the borrower is mainly dependent upon the general market conditions; this is, upon the rate which the banks find necessary to pay at the time upon bonds to be issued. The act lays down that they may not issue bonds at a lower rate than they receive upon the mortgage. For some years most banks have found that bonds bearing less than 4 per cent. are not easily market-

able, and the usual rates payable upon loans are accordingly 4 per cent. plus a margin of about  $\frac{1}{4}$  per cent. The cost of valuation and other expenses also fall upon the borrower, and these, which may amount, in the case of agricultural loans, to 2 or 3 per cent., are deducted from the loan."

Cahill testifies that the *Landschaften* and other public land-credit institutions of Germany, make loans at a lower rate of interest than profit-sharing banks, when, in discussing the reasons why the joint-stock mortgage companies had not made more loans to farmers (S. Doc. 17, 63rd Congress, page 66) he said:

"Landowners on their side did not seek their services, partly because their credit was dearer than that of the existing institutions and partly because other conditions (e. g., joint-stock mortgage banks do not allow borrowers to dispose so freely of accumulated sinking-fund payments as the mortgage credit associations) were not granted by them."

The interest rate on the bonds of the joint-stock mortgage companies of Germany, is shown in the statement of Cahill, Senate Document 17, 63rd Congress, page 71, as follows:

"At the end of 1909 the joint-stock mortgage banks had in circulation mortgage bonds to the value of £487,619,459, apart from those amounting to £14,535,830 in communal bonds. Of the total, 58.48 per cent. bore 4 per cent. interest and 39.65 per cent.  $3\frac{1}{2}$  per cent., 98.13 per cent. thus bearing these two rates. The balance was practically confined to those at  $3\frac{3}{4}$  per cent. and  $4\frac{1}{2}$  per cent. It was more than once remarked to the writer by directors of these banks that for some years bonds at less than 4 per cent. were practically unsalable. A comparison of the figures of 1900 with those of 1909, made by Dr. Schulte, affords complete confirmation of this statement. The total value of the mortgage bonds in circulation in 1900

amounted to £318,128,233, and their communal bonds to £3,501,445; 61.77 per cent. of these bore  $3\frac{1}{2}$  per cent. (as against 39.65 in 1909), and 38.03 per cent. bore 4 per cent. (as against 58.40 per cent. in 1909)."

The Prussian Central Land Credit Company, of Germany, charges borrowers from 4.25 to 4.50 per cent. interest. In addition the borrowers pay on the face of the loan 1 per cent. as a profit to the bank and from 1 to  $1\frac{1}{4}$  per cent. on the face of the loan to cover administration charges. The borrower also pays 1 per cent. tax to the State.<sup>1</sup>

Referring to the interest rates of the State and provincial mortgage-credit banks of Germany, Cahill, Senate Document 17, 63rd Congress, page 13, says:

"The rates of interest usually range at the present time from  $3\frac{1}{2}$  to 4 per cent., and there is in addition an annual charge for cost of administration (usually  $\frac{1}{4}$  to  $\frac{1}{2}$  per cent.)."

The Bavarian Agricultural Bank, with total loans in 1911, amounting to \$32,827,778, was carrying \$21,671,317 at  $3\frac{3}{4}$  per cent. (Cahill, S. Doc. 17, 63rd Congress, page 42.)

Referring to the interest rates of the sixteen State, provincial and district mortgage banks of Germany, Cahill (S. Doc. 17, 63rd Congress, page 61), says:

"Not aiming at profits beyond the payment of expenses, although, in fact, considerable sums are usually allocated to public purposes as the result of their operations, they grant loans more cheaply than the joint-stock mortgage banks."

The State, province, or district, through legislative enactment fixes the rate of interest chargeable on loans, and which bonds shall bear, in the sixteen State, provincial, and district mortgage-credit banks of Germany, as is shown

<sup>1</sup> Herrick, p. 109.

by the statement of Cahill (S. Doc. 17, 63rd Congress, page 61) referring to some of the drawbacks of these institutions, when he says:

"Certain drawbacks are associated with the management and the control of the banks now being considered by the State or public assemblies of districts or provinces. Thus the necessity of obtaining the sanction of a representative assembly for changing the rate of interest payable on bonds or chargeable on loans, the strict adherence to formal rules (e. g., as regards lending over fifty or other percentage of the assessed value), for whose alteration similar authority is required, may often prove disadvantageous in practice."

The Provincial Diets of the Austrian provinces fix the maximum rate of interest the Provincial Mortgage Institute of Lower Austria is allowed to charge. The Minister of Agriculture in a statement (S. Doc. 214, 63rd Congress, page 189), says:

"By reason of the statutory provisions, requiring that the rate of interest on debenture and communal loans of this institution must be equal to the rate of interest serving as a basis for the loan, a fixed and stable rate of interest was fixed, the maximum of which is determined by the Diet. The present rates of interest are 4 and 4½ per cent."

The interest rate charged borrowers by the Hungarian Land Credit Institution is shown by a statement of Count Hoyos, a director (S. Doc. 214, 63rd Congress, page 156), which is as follows:

"Mortgage bonds are now issued at 4½ per cent., running 63 years, with a yearly charge, including amortization, of 4.85; also mortgage bonds at 4 per cent., running 50 years, with a yearly charge of 4.7.

"The price which the borrower netted in our last loan was 91.50; in the second case it was 84. In the first case the money cost the borrower 5.29, in the second case 5.6."

Also by statement of the Vice-President, Mr. Coloman de Szill (S. Doc. 214, 63rd Congress, page 160), as follows:

"Q. What rates are charged for money and the percentage that is paid for interest, administration, and amortization?"

"A. The rates varied; also the periods. When the bank began work the rate was 5½ per cent. and the period 33½ years. Later the rate was 5 per cent. and the period 15 years, or 33½ years. Still later the rate was 4½ 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 ½ 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., the administration expenses (commission) have risen to 0.35 per cent. after being for a time 0.25 per cent., and the periods are now 50 and 65 years."

The tendency of profit-sharing banks to charge a high rate of interest is shown in the statement of the Austrian Minister of Agriculture (S. Doc. 214, 63rd Congress, page 180), in which he says:

"The banks operating for profit received slow and scant returns on their investments in average agricultural holdings, so that these sources of credit remained exclusively open to the large agricultural estates up to the present day for the reason that these estates became more and more industrialized and, consequently, better able to pay the high rates of interest demanded by the banks."

In Senate Document 214, 63rd Congress, page 41, there is a statement by a director of the Florence Savings Bank relative to the rates of interest on long-time mortgage loans made by this institution, as follows:

"The rate of interest, as a rule, is 4 per cent., but it rises sometimes to 4¼ per cent., and sometimes as high

as 5 per cent., according to the state of the money market. To this must be added a charge for income tax. In case of long-time loans, made for thirty-five years, the regulations provide that the rate of interest may vary, always remaining at  $\frac{1}{2}$  per cent. higher than the rate of interest paid by the savings bank to its depositors."

The interest rate charged by the Bavarian Agricultural Bank, is shown by statements of the President of the Bavarian Council of Agriculture, Senate Document 214, 63rd Congress, page 268, as follows:

"The present rate of interest on mortgages and loans to rural communities is  $4\frac{1}{4}$  per cent., the whole annual payments thus amounting to  $4\frac{3}{4}$  to 5 per cent."

The managing director of the Württemberg Credit Union, gives the interest charges of the association (S. Doc. 214, 63rd Congress, page 301), as follows:

"On a 50-year amortization mortgage, the interest of the borrower is at the rate of 4.85 per cent., arrived at as follows: Interest, 4 per cent., amortization 0.66 per cent., advance to reserve, returnable with compound interest at the expiration of the loan, 0.19 per cent.—total 4.85 per cent."

Mr. Reusch, Councilor for the Nassau Mortgage and Savings Bank (S. Doc. 214, 63rd Congress, page 338), referring to the interest rates of this institution, says:

"The rate of interest stands to-day at  $4\frac{1}{4}$  per cent., and before it was 4 per cent., and before that  $3\frac{3}{4}$  per cent."

That public mortgage-credit institutions furnish credit cheaper than private joint-stock, dividend-paying banks is shown in the statement made by Prof. Dutterwiler, director of the Bank of Zurich, Switzerland (S. Doc. 214, 63rd Congress, page 463), which is as follows:

"Besides the canton banks there are also private, joint-stock, and coöperative banks, which conduct the same kind of business as the canton banks. The rates of interest on credit granted by the last-named class of banks

are lower than those of the private banks. The efforts made by the latter to secure profits are greater, because they have to pay dividends to their stockholders, whereas the canton banks have only to pay the customary rates of interest on their endowed capital to the cantons themselves as the holders of their bonds. The private mortgage banks pay dividends as high as 6 per cent., as, for example, the Aargau Mortgage Bank. Even though the credit of private banks is furnished at somewhat higher rates, there is still business enough for this class of banks, for the reason that the funds at the disposal of the State banks are not sufficient to supply all of the demands for credit."

The Mortgage Bank of Eindhoven, Holland, has capital of 1,000,000 florins or \$400,000. Its interest charge is 4.25 per cent. per annum, including one-fourth of one per cent. for administration charges.<sup>1</sup>

4. *Interest Rates on Bonds.* The rate of interest upon the mortgage bonds when sold at par value practically determines the rate of interest on the farm mortgages. Ordinarily the mortgages bear an interest rate slightly above the interest on the bonds. In this way, loan institutions generally secure their funds to meet administration expenses. Some institutions issue bonds bearing the same rate of interest as the mortgages put up as collateral security therefor. In such cases the administration expenses are obtained by requiring borrowers to pay a commission, or other expense fees, paid annually or otherwise. Sometimes expenses are met largely by profits on other business which some local banks are authorized to transact. But farm-loan institutions secure funds on which to make loans by the sale of mortgage bonds. In other words, in effect they borrow money, through the sale of their mortgage bonds. The interest rate which these bonds

<sup>1</sup> Senate Doc. 214, 63rd Congress, p. 521.

bear indicates the rate of interest the institutions are paying investors for money they loan to farmers. In brief, the mortgage bonds are farm mortgages in different form. It will throw light on the subject to ascertain the rate of interest European farm-mortgage bonds bear, and the price at which these bonds usually sell.

The Silesian Landschaft has issued debentures on loans to both members and non-members to the amount of \$150,328,879. The debentures bore interest rates at 3, 3½ and 4 per cent. The 3 per cent. debentures were quoted at from 81.20 to 84.20, the 3½ per cent. debentures at from 90.60 to 93.50, and the debentures bearing 4 per cent. interest were quoted at from 99.65 to 100.85.<sup>1</sup>

Count Hoyos, a director in the Hungarian Land Credit Institution, in a statement (S. Doc. 214, 63rd Congress, page 156), relative to the interest on bonds issued by the institution says:

"Mortgage bonds are now issued at 4½ per cent., running 63 years, with a yearly charge, including amortization, of 4.85; also mortgage bonds at 4 per cent., running 50 years, with a yearly charge of 4.7.

"The price which the borrower netted in our last loan was 91.50; in the second case it was 84. In the first case the money cost the borrower 5.29, in the second case 5.6."

The Managing Director of the Credit Union of Württemberg, referring to the price and interest on the mortgage bonds of the institution (S. Doc. 214, 63rd Congress, page 301), says:

"The present market rate of the association bond is 97.50, on a 4 per cent. interest basis."

The European farm-mortgage credit institutions have succeeded in issuing bonds which in the eyes of investors have been practically as safe as bonds issued by communal, provincial, State and Imperial governments of

<sup>1</sup> Herrick, p. 76.

Europe. These institutions have been able to borrow money virtually as cheap as the governments under which they do business. The European farmers have been able to borrow money on their farms, almost, if not entirely, as cheap as their governments have been able to borrow it. It is true that in some cases these bonds are secured by the guaranty of the governments. But this is not true in other cases. The fact is, it is a fundamental principle of European land-credit institutions, by some means, method, process, or arrangement to make the farm-mortgage bonds absolutely secure. This places them on a level with the securities of the strongest governments of the world. To make the farm-mortgage bond as good as gold should be the ambition of all those who have in their charge the building of the land-credit institutions for the American farmers.

The following testimony shows how farm-mortgage bonds in European countries have stood in comparison with government securities:

Mr. Cahill in his report, Senate Document 17, 63rd Congress, page 51, referring to the Landschaften, says:

"It may be observed that the bonds of these associations have consistently maintained a relatively strong position on the market. The quotations of the majority of these appear to remain from under 1 to about 2 per cent. lower than Prussian or Imperial Government stock bearing the same rates of interest. More than a century ago they proved their strength. The writer was informed by the director of one association that 4 per cent. Prussian stock in 1802-1805 stood at first at 83, then at 50, and in 1808 at 20, yet that Silesian Association bonds did not sink below 50."

The value of the mortgage bonds of the Hungarian Land Credit Institution compared with that of the State is shown by the statement of Count Hoyos, a director, made before the Commissions which went abroad to study Rural



Credit systems of Europe. This is shown in Senate Document 214, 63rd Congress, page 157, by questions and answers as follows:

"Q. Now, do your bonds fall below 100 more than they did some years ago?

"A. Yes.

"Q. Why?

"A. There is a great want of money, and for that reason there are more sellers than buyers. Some years ago our 4 per cents. were at 93 and now they are at 85.

"Q. Do the State bonds fall more in the market now than the land-mortgage bonds?

"A. Yes, more by 10 per cent."

Long-term mortgage credit, varying from 10 to 50 years, is extended by seven savings banks of Italy. The standing of these bonds compared to that of government bonds is shown by a statement made by the Minister of Agriculture, Senate Document 214, 63rd Congress, page 24, which is as follows:

"With regard to the degree of security, investment in mortgage bonds is equal to that of Government bonds, not only in public estimation, but legally. In fact, the societies, the ethical institutions, the benevolent associations, and other associations which are allowed by law to invest their funds in whole or in part in securities issued or guaranteed by the State have the right to invest from one quarter to the whole in bonds issued by the institutes of mortgage credit. Moreover, the mortgage bonds can be accepted with the security of the administration of the State, of the provinces, of the communes, of the public institutions of charity, of the savings banks, and of the city pawnbrokers at a valuation regulated by nine-tenths of the average prices of the bourse for the preceding semester.

"As to the prices of the mortgage bonds, it is not exactly accurate to affirm that they are always higher than the State bonds. Account must be taken of the variations

of the rates of interest, which fluctuate between  $3\frac{1}{2}$  and 5 per cent. The equality of the rates of interest is a reason tending to prevent the rise of prices of the mortgage bonds above par, and also the possibility of repayment every semester—a reason not applicable to the deeds of the 'Consolidated funds,' which are not redeemable. What can be affirmed is that the mortgage bonds always maintain a high level and a rate not superior to the nominal value. Only lately, when there has been a rising tendency in all rates of interest, the mortgage bonds issued at low rates ( $3\frac{1}{2}$ ,  $3\frac{3}{4}$ , 4 per cent.) have suddenly been sensibly depressed."

Dr. A. Schlesinger, United States Vice-Consul and Deputy Consul General at Munich, referring to the prices at which the bonds of the Bavarian mortgage banks sold (S. Doc. 214, 63rd Congress, page 276), makes this statement:

"Land-mortgage bonds in Bavaria are declared by law to be a proper investment for all trust funds, and these securities are thus placed in the same class as city and State bonds for such purposes. An issue of land-mortgage bonds bearing an interest rate of  $3\frac{1}{2}$  per cent. was quoted on the stock exchange May 9, 1913, at 87.80, this rate being paid for bonds which were withdrawn. Current bonds of the same issue—that is, bonds which had not yet matured nor been drawn by lot to be canceled under the amortization feature of the bonds—were quoted at 86.10. Four per cent. bonds were quoted at from 98 to 98.50, these quotations being taken from the Munich latest news issue of May 9. At the same date Bavarian State 4 per cent. bonds were quoted at 98. Quotations for May 31, which was the latest date obtainable, show no change from these quotations. The bonds for which these quotations were made have no government guaranty, either by the imperial or provincial government."

Referring to the mortgage bonds of the Nassau Mortgage and Savings Bank, Mr. Reusch, councillor for the bank (S. Doc. 214, 63rd Congress, page 338), says:

"The land bank issues bonds, and these bonds are in such demand in Prussia and Germany that to-day they stand higher than government bonds. The 4 per cent. bonds are to-day quoted at 99."

Dr. Kapp-Königsberg, General Director, in a statement (S. Doc. 214, 63rd Congress, page 382), referring to the safety and standing of the debentures issued by the *Landschaften*, says:

"The *landschaft* bonds are therefore absolutely secure and as reliable investments quite as popular as loans to the State. The *landschaft* bond has become a perfect type of secure investment."

Dr. Brodnitz, Professor of Political Economy in the University of Halle, referring to the price of debentures issued by the *Landschaften* (S. Doc. 214, 63rd Congress, page 360), says:

"Q. How does the value of these bonds in Prussia compare with government bonds?"

"A. It is just a little lower, because they only have a restricted market. I am not sure, but I think government 4 per cent. bonds stand to-day at 97 in Berlin, and *landschaft* bonds at 95; they are somewhat lower.

"Q. How does the fluctuation in value over a period of years compare in the case of these bonds with government bonds? Are they as steady in value as government bonds?"

"A. No; they go in the same way except in times of crisis. For instance, just 100 years ago, when there was a great crisis in Prussia, the value of *landschaft* bonds was much higher than that of government bonds, because the Government could not pay interest owing to the wars against Napoleon, but the *Landschaft* did pay interest. But in ordinary times the price of *landschaft* bonds is a trifle lower than that of government bonds."

Further on, page 362, he says:

"Why is it that the *landschaft* bonds can be issued at a low rate of interest?"

"A. Because the *Landschaft* obtains its funds through negotiable bonds so liquid and secure in character as to enable those bonds to be sold in the open market at as high a price for the bonds and at as low a rate of interest as government bonds."

Henry W. Wolff in "Coöperative Banking," page 236, referring to the price of debentures issued by the *Landschaften*, says:

"I may at once add that, although, during short periods, *landschaft* bonds have sometimes been depreciated, generally speaking they rule at least as steady as Government securities, and have often been over par."

Further on, page 242, covering the same point, Mr. Wolff says:

"And, generally speaking, the price of their bonds has continued to advance. There have been times of tight money, marked by a want of confidence, when quotations fell below par—once or twice considerably so. But, as a general rule, land bonds have ruled steadier than even Government securities, and about as high, sometimes higher."

It is said that the United States can borrow money cheaper than any other nation in the world. It is a pity it can not also be said that the American farmers can borrow money cheaper than the farmers of any other nation in the world. The truth is, our farmers pay higher rates of interest than European farmers pay, and have less credit. Why does not the national government frankly acknowledge that the American farmers have been "sinned against," and proceed to make amends for the past by giving them something at least as good as European governments have given their farmers?

From the foregoing quotations it will be seen that European land-credit institutions loan on farm mortgages with an interest charge at from 3 to 4 per cent. per annum, and that the total annual charge for interest, annual pay-

ments on the principal, reserve and guaranty funds, and administration charges usually is less than 5 per cent. per annum. The American farmers are entitled to equal credit facilities at no higher cost. Farm-mortgage bonds, based upon mortgages upon farms of the United States, should sell as well as debentures or bonds upon European farm mortgages. European farm-mortgage debentures and bonds command a price practically as high as the bonds of these governments. So we should seek to place the farm-mortgage bonds in this country upon a par with the bonds of the Federal government.

5. *Diversity of Interest Rates.* Any system of land credit established by the national government should seek to provide a uniform rate of interest for agriculture throughout the Union. The United States Commission reached a conclusion just the reverse of this. In discussing this question the Commission in its report (see Part II, S. Doc. 380, 63rd Congress, page 29), says:

"The commission also recognizes that conditions in the various States are different, that the rates of interest paid for money vary in different localities between large extremes, and that the legislatures of the various States have recognized these varying interest rates by establishing widely varying legal rates of interest on loans. In one State the legal rate will be 6 per cent., while in another State it may be as high as 10 per cent., but the same legal rate exists all over a given State.

"In view of this it could hardly be hoped that the land-bank bonds sold by a bank and based on mortgages in a State where the legal rate was 10 per cent. could be sold on the same basis as similar bonds issued by a bank against mortgages in a State where the legal rate of interest was 6 per cent. The problem in some of its phases remains and must remain a State problem owing to our dual system of government. Obviously, any attempt to force by Federal legislation one rate of interest in all the States

would be futile. The law of demand and supply will control these rates, and legislation which attempted to enforce a single rate all over the country would result in making it difficult to sell land-bank bonds issued in a State where the current interest rates were higher than those attempted to be enforced through such legislation. On the other hand, once the system of national farm-land banks is in operation in the various States under Federal law and the bonds are recognized as safe investments, the tendency would be to reach not only a common but a lower level of interest rates."

The conclusion reached by the Commission is not satisfactory. It would be a national calamity, if Congress should enact a law, bringing into existence a system of land credit that would enable agriculture in one section of the country to secure credit cheaper than that secured by agriculture in another portion of the country. Some of the arguments for uniformity of interest rates will be presented:

*First. The States are free to authorize the organization of land-credit institutions.* If a State acts in this direction, it has in view primarily advantages for its own farmers, encouragement to the industry of agriculture within its own borders, the promotion of the welfare of its own people. When Congress acts, a nation-wide viewpoint must control its action. The Federal government acts only when national policies are necessary for the good of all. The State may legitimately enact a law designed to give its own farmers an advantage. Ordinarily a State would not be justified in enacting laws that would injure the citizens of another State, but certainly a State may legislate with a view to protecting its farmers, its business men, and its wage-earners from discrimination from without the State. Indeed, it is the duty of the legislature of every State, to enact such laws as will contribute to the prosperity of its own people. But the national legislative

body should seek to enact such laws, to inaugurate such policies, and found such institutions as will, so far as possible, distribute benefits uniformly and equitably throughout the land. To bring into existence a system of national land banks, which admittedly will not provide credit at uniform rates of interest throughout the Union, is an acknowledgment that the Federal government is lacking in power, and efficiency, or that those in authority are lacking in ability, wisdom or statesmanship. If the national government can not give to all equal advantages and benefits, it should stay out of this field of activity altogether. If uniformity of interest rates to all farmers can not be provided by the national government, it should keep its hands off, and say to the States, "Take care of your own farmers."

*Second. The Federal government, in bringing into existence national land banks, should see to it that the farm-mortgage bonds placed upon the market are absolutely secure.* To authorize the existence and operation of any financial machinery to handle the securities of the farmers of the United States — which may place upon the market farm-mortgage bonds of doubtful value, would be a very grave mistake and inflict stupendous loss upon agriculture. The United States in assuming to create financial institutions to promote agricultural credit must see to it that the bonds issued by such institutions, wherever they may be located, are sound, safe and secure. Our farm-mortgage banks must have such capital, they must do business under such restrictions and limitations, they must be subject to such supervision, regulation and control, they must be required to maintain such surpluses, reserves and guaranty funds, as will, for all time, settle the question of the safety of their bonds. No institution must be allowed to issue farm-mortgage bonds, about the payment of which there can be any question. This is essential to the success of any farm-credit system which provides either adequate

credit or a low rate of interest. This idea of absolute certainty in the payment of farm-mortgage bonds is the foundation of every successful system of land credit in existence. Now, the national government through the laws enacted, through the character of the system of land credit it establishes, through its supervision, regulation and control can prevent the issuing of any farm-mortgage bonds except bonds which are as safe and secure as the Government itself. If this can not be accomplished in any other way, the Federal government should appropriate funds out of the national treasury to add to the capital and reserve funds of the national land banks, authorized to issue farm-mortgage bonds. Or, as a last resort, rather than have farm-mortgage bonds placed upon the market of questionable value, the Federal government should guarantee these bonds as many of the European States have done. Now, assuming that we shall issue no farm-mortgage bonds except those that are absolutely secure, then they are all good — they are all safe, they are all sound, they are all gilt-edged securities and of equal value. If they are all good — if there can be no question about the payment of the principal or interest of any farm-mortgage bond to be issued, then these bonds should all sell for the same price. In other words, if the farm-mortgage bond issued by a national land bank of Kansas is as sound and safe as such a bond issued by a farm-mortgage bank in Indiana, then these bonds are of equal value and should bring the same price, wherever presented in the United States.

*Third. The provisions of the Commission Bill which make the farm-mortgage bonds issued by national land banks available as securities for the investment of certain trust funds, recognize the uniform value of all such bonds, regardless of the location of the lands covered by the mortgages which secure the bonds.*

Section 34 of said bill is 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 all 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 25 per cent. of the capital and surplus or to one-third of the time deposits of the national banking association making such loan."

It is further provided in said section that the Commissioner of Farm Land Banks shall have the power to withhold the foregoing privileges from the national land banks of any State until the State shall have complied with certain requirements prescribed by the Commissioner, and one of these requirements from the State is set forth in subdivision "C" of said Section 34 and is as follows:

"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."

It is certainly inconsistent to argue that farm-mortgage bonds secured by mortgages from one State shall sell

at a lower rate of interest than bonds secured by mortgages from another State, and yet provide by law that the bonds of all national farm-land banks, regardless of the State in which the banks are located, must be accepted alike as security for trust funds of all kinds under the control of the United States courts. As shown by the first subdivision of Section 34 above quoted, national land-bank bonds of *any national farm-land bank* shall be available "as security for the deposit of postal saving funds in all other banks authorized to secure such funds." This provision places the bonds issued by all national land banks upon the same basis. The postal saving funds are really funds of the United States. Any loss thereto would be loss to the United States. In enacting such a provision the national government says to the world the bonds issued by all these banks are alike acceptable as security for the funds of the United States. In the law there is to be no favoritism shown, no distinction suggested, no discrimination made. The bonds of all these banks, whether from Maine or Missouri, Oregon or Ohio, Nebraska or New Jersey — in the eyes of the law, shall be placed upon the same footing, extended the same privileges, and recognized as securities of the same class, character and validity. If the United States in providing securities for its own funds shall accept the bonds of all national land banks, without distinction or discrimination, why should not investors? But the proposed bill in subdivision "second" above quoted declares that the national land-bank bonds of any national farm-land bank shall also be available, "as a legal investment for the time deposits of national-banking associations" as provided in the Federal Reserve Act. Here, again the proposed act recognizes that the bonds of one bank shall be as good as the bonds of any other bank. The national banks are authorized to invest their time deposits in these bonds, regardless of the location of the land bank issuing the bonds. Under this provision, the National

banks of New York would be authorized to invest time deposits in bonds issued upon farm mortgages, irrespective of the location of the lands covered by such mortgages. Congress has exclusive jurisdiction over the savings banks of the District of Columbia. The deposits of such banks represent the savings of the working people. These institutions should be allowed to invest only in the highest class of securities. This bill prepared by the United States commission, authorizes these savings banks to invest their funds in the bonds issued by any national land bank. The securities of all such banks are placed upon an absolute equality. Why then should the Commission contend that these bonds can not sell on equal terms — on the money market? Why should the commission claim that the proposed national land banks from one State can not loan at the same rate of interest charged by banks from other States? The proposed bill goes still farther and declares that the bonds of any national land bank shall be available “as legal investment for trust funds and estates under the charge of or administered by any of the courts of the United States.” When it is proposed by act of Congress to create national land banks in every State in the Union, and solemnly declared that administrators, clerks and other officers of the United States courts, having control of trust funds — the most sacred funds in existence — shall without discrimination, distinction or difference, invest these funds in the bonds of any national land bank — how can those who propose such enactments consistently reach the conclusion that there can not be a uniform rate of interest upon loans made by these banks in different States? It must be borne in mind, that the interest rate is almost entirely regulated by the rate of interest upon the bonds. If these bonds are of equal value, if they are all recognized as absolutely safe and secure, and if any of them may be used as securities for government funds, as securities for savings bank deposits, as security for postal

savings bank funds, and even for the trust funds in the hands of the United States officers — why then should not the bonds of one bank sell to investors as readily as the bonds of another bank, and at as low a rate of interest? If so, then the banks in one State can secure money to loan at as cheap a rate as the banks of any other State, and there should be no great difficulty in maintaining a uniform interest rate on land mortgages throughout the nation.

*Fourth. The margin for security is the same on all loans regardless of the location of the lands.* The law limits all banks in the amount of loans — the amount must not exceed 50 per cent. of the value of the land. The standard of value will be the same everywhere. This will be true regardless of the method used to determine the value of the land. If the selling price is the standard — that will be applied everywhere. If the productive value is used as a test in one State, the same criterion will be enforced elsewhere. The banks of one State will be required not only by the law itself, but by the strict supervision of Federal officers, to measure its loans upon farm lands by the same standard that is applied in every other State. The fact that lands vary in price in different States, does not affect the quality of the security. The mortgage can not under the system in amount exceed one-half the value of the land, ascertained by the same rules elsewhere. According to the census of 1910, the average value of farm land in Indiana was \$74.85 per acre. In Alabama the average value of farm lands was \$13.90 per acre. In Nebraska the average value of farm lands was \$46.95 per acre. In North Dakota on an average farm lands were valued at \$28.94 per acre. Oklahoma's farm lands were shown to be worth \$25.60 per acre. In principle, there could be no difference in the safety of a loan made upon any of these lands where in each case the mortgage did not exceed half the value of the land. The security in each

case is absolute. On an average loans made on farm lands in Indiana, based upon the census valuation, would not exceed \$37.42 per acre. Upon the same valuation, the loans made on North Dakota lands would not exceed \$14.47 per acre. For the amount loaned, the North Dakota mortgages would be just as secure as the Indiana mortgages. It may be said that values of land in the West — the new portions of the country — are not so stable and well settled. There is some force in this suggestion — at least according to the popular conception in the older settled States. The situation now is far different from what it was in the years immediately following the settlement of the Western States. The agricultural possibilities of every State have been ascertained. Whatever may be the uncertainties, the limitations, the drawbacks, and the hardships in any of the Western States, such limitations are well known. All these things would be considered in making loans. Besides it must be remembered that in every State in the Union, there is a vast variety of land values. Illinois has lands worth \$250 per acre. Illinois also has lands not worth \$10 per acre. In fact the Union has a vast amount of lands almost worthless. The census of 1910 shows that even in our choice agricultural States there is a vast amount of land that is waste, unproductive land. Seventeen and one-tenth per cent. of Iowa lands and 21.8 per cent. of the lands in Illinois are unimproved. So in all the great agricultural States, a large percentage of the lands is unimproved and unproductive and would be uncertain security for mortgage loans. The whole question goes back then to the safeguards provided by law and by governmental administration to provide against over-valuation. All these can be applied in one State the same as in another. On an average loans of \$100 per acre upon lands valued at \$200 per acre are no more secure than loans of \$25 per acre upon lands valued at \$50 per acre. The Western lands have this one great

advantage. The present selling values of lands in the new States are largely controlled by the density of population. The Western States are not so densely populated as the Eastern and Central States. There is not so great a demand for land. There is less accumulated wealth to invest in lands. All these things affect the selling price of the land — but do not affect the productive value of the land. There is a tendency to obtain an equilibrium. From the beginning of our history, down to the present time, the tide of population moved westward, where the population is less congested. So it will be. Farming population will drift to those States where land is cheaper. This not only augments the price of land in the West, but tends to prevent the rise of prices of lands in the more thickly settled sections of the country. The cheaper lands in the new States will naturally rise in value. This certainty of growth in the value of the lands in the West, South and Southwest, adds immensely to the security these lands offer on farm loans made at the present time in amounts not exceeding one-half their existing value. With the certainty that these lands, on the whole, will for many years constantly increase in value, a mortgage which now represents 50 per cent. of the value of the land, in 10 years will probably not represent one-third the value of the land, and, at no distant date, will not represent more than one-fourth the value of the land. As a rule this growth in value will be more marked in low priced lands than upon high priced lands. Indeed, there is more danger in shrinkage in value in land rated at \$200 per acre than in lands rated at \$25 per acre. For many years to come, the tide of emigration to the new and less developed agricultural regions will add to the security of the farm-mortgage bondholders. The general growth of population — making greater demand for farm-homes and an absolute necessity for ever-increasing supply of food products — is an-

other mighty force that will add constantly to the value of farm lands in every section of the country, and thus add to the value of farm mortgages and farm-mortgage bonds secured thereby. In practice, at least, scientific farming is only in its infancy. Science with all its mystic and mighty power is cooperating to give additional value to every bond based upon a farm mortgage, regardless of the location of the land. The development of better business methods among farmers is a movement which promises to add to the profits of our farmers and thus contribute materially to their ability to meet the interest and principal of their mortgage obligations. Even the vast wealth centered in commerce, trade, transportation and industrial enterprises — through the expansion of these great fields of human endeavor — becomes a factor in augmenting the value of farm lands even in the newest and remotest States of the Union. So the improvement in the means of transportation, communication, and education within the reach of our farming population, and every advance in social uplift of our people engaged in agriculture and every improvement which adds to the attractiveness of the farm, or to the health and happiness of the farmers and their families — all are factors which will work unceasingly to give to farm mortgages and bonds issued thereon safety, security and stability. All these mighty forces are working for no particular section of our country — but reach out to every State, to every section of the country. Agricultural prosperity can not be and will not be confined to the East or to the West, to the North or to the South. Seasons will change. Climate, soil, local conditions will vary somewhat. But there is safety and security in every State. All are entitled to equal advantages, opportunities and privileges. All our farmers, regardless of the State in which they reside, are entitled to the same credit facilities, at the same interest charge. The national government can

not justly establish a system of land credit which does not give to all the same credit and a like rate of interest. Any system that does not provide for equality in the extent of the credit, and in the interest charge for such credit, is unfair, unjust, discriminatory and sectional.



*Brief History of Government-aid Controversy in Congress.*

There is no doubt that at one time the leaders in the Sixty-third Congress, in good faith, intended to enact rural-credit legislation before the Congress adjourned. A controversy arose over the question of what should be the character of aid rendered by the national government. The great majority of rural-credit bills that had been introduced in both Houses of Congress provided for the use of either the funds or the credit of the national government to promote the proposed system of farm credits. In fact, the Commission Bill was regarded as the one measure which provided for no government aid — either in the use of its credit or money. That the provisions of this bill represented the view of the administration in power, in the executive branch of the Government, is shown by the declaration of President Wilson in one of his messages to Congress and by the statements in the annual report, 1914, of Mr. Houston, the Secretary of Agriculture. On the 2d day of December, 1913, the President in a message read before Congress, in a joint session of both Houses, said:

“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.”

In his annual report for 1914, Mr. Houston, the Secretary of Agriculture, said:

“The chief difference of opinion arises over whether there should be special aid furnished by the Government.

## CHAPTER XII

## GOVERNMENT AID

GOVERNMENT aid was the rock upon which rural-credit legislation stranded in the Sixty-third Congress. It was the proposition upon which the administration forces divided. It was the one big bone of contention which agitated the whole country. It was not settled. It will not be settled until the final vote has been taken in Congress and the Chief Executive of the nation shall have indicated his approval or disapproval. It is of the highest importance that this question shall be settled right. Too much attention can not be given to it. The subject can not be studied too thoroughly. In brief, all those in Congress, or out of Congress, should bring to the consideration of the question the most careful, painstaking, conscientious and patriotic investigation, with a view to reaching a conclusion that will be fair to the farmers, and just to the non-farmers, and that will give to agriculture the proper aid, without injury to other industries, and that, in the end, will contribute most largely to the prosperity of all classes, and add the greatest strength to the nation.

The subject will be discussed under the following heads:

- I. Brief history of controversy in Congress.
- II. Views of the United States Commission, the American Commission, the Sub-committees on Rural Credits, the Senate Committee, and Members of Congress.
- III. The Federal government should render all the aid that is necessary to provide agriculture with adequate credit at a low rate of interest.

There seems to be no emergency which requires or justifies government assistance to the farmers directly through the use of the government cash or the Government's credit."

Apparently there was a deadlock between the Commission and the Sub-committees of the two Houses. The Sub-committee Bill, emanating from these two sub-committees, contained two provisions which, under certain conditions, permitted the use of the government funds, to insure the success of the system. Section 13 of the Sub-committee Bill provided that in case the public failed to subscribe for all the stock of the Federal land banks the Secretary of the Treasury, for the United States, should subscribe the balance. Section 30 authorized the Secretary of the Treasury, under the approval of the Federal Reserve Board, to purchase land-mortgage bonds, issued by the Federal land banks, in an amount not to exceed \$50,000,000 annually.

The controversy came to the floor of the House. On the 19th day of December, 1914, Hon. Robert J. Bulkley, of Ohio, chairman of the Sub-committee, delivered a speech in the House, defending the principle of Federal aid as provided in the Sub-committee Bill. (Congressional Record, December 21, 1914, page 499.)

On the 31st day of December, 1914, and on the 2nd day of January, 1915, Hon. Ralph A. Moss, of Indiana, vice-president of the Commission, delivered in the House a speech, opposing the use of the Government's credit or its funds in establishing our system of land credit.<sup>1</sup> Apparently the sub-committee of the Senate Banking and Currency Committee decided to abandon the government-aid feature of the Senate Sub-committee Bill, as Senator Hollis, the chairman of the sub-committee, on the 4th day of February, 1915, re-introduced the Sub-committee Bill without the government-aid provision as found in Section

<sup>1</sup> Congressional Record, p. 944, January 2, 1915.

30. This was the situation on February 25, 1915, when the McCumber Bill was added as an amendment, known as amendment "89," to the Agricultural Appropriation Bill. On the next day the Senate Committee on Finance reported the Hollis Bill, referred to herein as the Senate Committee Bill, to the Senate.

The McCumber amendment to the Agricultural Appropriation Bill went to the Committee on Agriculture of the House, late Saturday evening. The Committee met early on the Monday morning following. This was March 1st. The House Committee on Agriculture had given no consideration to rural-credit bills. The bills on that subject, under the rules of the House, go to the Committee on Banking and Currency. The Sixty-third Congress would expire by constitutional limitation at noon on March 4th. The Agricultural Appropriation Bill had come back to the House from the Senate with nearly 100 amendments, including the McCumber amendment. These amendments must all be considered by the conference committee to be appointed by the two Houses, and the report be considered and adopted by both Houses before 12 o'clock meridian, March 4th. Evidently the Committee on Agriculture could give no adequate or serious consideration to the McCumber amendment or proposed substitutes therefor. The Senate Committee Bill, without the government-aid feature as provided in Section 30, had the endorsement of the Senate Banking and Currency Committee. With this provision omitted, the Commission Bill and the Hollis Bill did not materially differ—at least they both provided for the formation of a system of privately owned, dividend-paying, profit-sharing land banks, as the institutions to provide American agriculture with credit.

The Committee on Agriculture in its report to the House proposed as a substitute for the McCumber amendment the bill which had been reported by the Senate Committee, which embodied the main features of both the Commission

Bill and the Senate Committee Bill, which was the same as the original Sub-committee Bill with the "government-aid" features eliminated. Such a bill would naturally have the support in the House of those who favored the Commission Bill as well as those who favored the Sub-committee Bill — with government-aid features eliminated. The report of the Committee on Agriculture came up in the House for consideration shortly after 12 o'clock noon on March 1st, 1915. Under a unanimous consent agreement the general debate on the Committee substitute was limited to two hours' duration. After the general debate, the proposition was taken up under what is known as the "five-minute rule," when the bill was read, subject to amendment with speeches limited to five minutes, unless by unanimous consent additional time was granted. The discussion in the House centered around the question of "government aid." The Committee report proposed to substitute for the McCumber Bill the Senate Committee Bill without any "government-aid" feature. Mr. Bulkley, of Ohio, proposed to amend the Committee report by inserting the "government-aid" proposition in the original Sub-committee Bill, which authorized the Secretary of the Treasury, with the approval of the Federal Reserve Board, to buy mortgage bonds not to exceed fifty million dollars' worth annually. This brought the question of "government aid" directly before the House. The vote on the Bulkley amendment stood 157 ayes and 44 noes. (Congressional Record, March 1, 1915, p. 5611.) Further on in the proceedings, Mr. Wingo, of Arkansas, presented a motion to recommit, with instructions to report the McCumber amendment in lieu of the Committee proposition. The motion to recommit was lost on a call of the ayes and nays, with a vote of 89 yeas and 238 nays, 95 not voting. The votes show that a large majority of the Members of the House were in favor of some form of "government aid" in establishing a rural-credit system.

The whole matter went to the Committee on Conference. The Conference Committee agreed to a report which eliminated both the McCumber amendment and the House substitute therefor, and in lieu thereof authorized the appointment of a joint committee on Rural Credits, in the following language: (Congressional Record, March 3, 1915, p. 6015.)

"That there is constituted a joint committee of the Senate and House of Representatives, to consist of the chairman of the Senate Committee on Agriculture and Forestry, the chairman of the House Committee on Agriculture, and the Chairman of the Committee on Banking and Currency of the two Houses, and two other members of each of said committees, to be designated by the chairmen of the respective committees, and it shall be the duty of said joint committee to prepare, after such investigation as may be deemed necessary, a report to the Congress on or before January 1, 1916, a bill or bills providing for the establishment of a system of rural credits adapted to American needs and conditions. The sum of \$10,000 is hereby appropriated, the same to be immediately available, out of any funds in the Treasury not otherwise appropriated, to defray all necessary expenses of said joint committee, the payment of said expenses to be made upon vouchers approved by the chairman of said joint committee, who shall be selected by the committee."

No separate vote was had on this proposition. On final passage of the Agricultural Appropriation Bill on which the foregoing proposition was pending, the vote stood 220 yeas, 103 nays, 98 not voting.<sup>1</sup>

## II

Views of the United States Commission, the American Commission, the Sub-committee on Rural Credits, the

<sup>1</sup> Congressional Record, March 3, 1915, pp. 6017, 6018.

Senate Committee, and Members of Congress as expressed in the Debate on the McCumber Amendment.

1. *The United States Commission (appointed by the President, under Act of Congress) in its report, S. Doc. 380, Part II, page 22, 63rd Congress, says:*

"There is room for an honest difference of opinion as to the question of state aid, if only European experience is consulted. A few illustrations will suffice. In Austria, the mortgage banks are state or provincial institutions whose bonds are guaranteed by the State or province chartering the banks. In Hungary, there is a compromise between these two principles, the State advancing a part of the foundation capital, while founders' shares were sold to secure additional capital. The control of the institution rests between those who contributed the founders' shares and those who make the loans. In France, the State gave a subsidy of \$2,000,000 to the *Crédit Foncier*, and gave it a monopoly of the long-term mortgage business. The remainder of the capital, however, has been raised by the sale of stock, and in all essential features this bank is a private joint-stock institution with certain special privileges granted by law.

"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 that nation. It is our opinion that such aid should not be extended in the United States. Our farm property is computed to be worth \$40,000,000,000, and is rapidly increasing in value. Surely this vast property, whose value is as stable as the foundations of our government, is sufficient to attract capital in ample volume to improve and cultivate its area, without subvention from our government treasury. The idea of Federal aid is always attractive and commands many able and earnest advocates; but self-help should be the motto of our new agriculture. If given the opportunity, under liberal enactment of law,

the savings of our nation will gladly invest in this safe field and relieve the Federal Treasury of any necessity to finance the project. It is wise legislation, rather than liberal appropriations or loans, which rural credit mostly needs at our hands."

2. *The American Commission (appointed under auspices of the Southern Commercial Congress) in its report, S. Doc. 261, Part I, page 13, 63rd Congress, says:*

"Nearly all European governments do assist farmers in obtaining credit, and in some countries, like France, the amount of money loaned directly by the government for farming purposes is very great, indeed. Some countries have gone further than others, but nearly all the European countries give financial assistance in some form.

"It has been shown that government aid in democratic Australia is a common practice, and there are strong advocates of government assistance in the United States. Why should not the Government help? Here is a great business, fundamental to the nation's prosperity, in which combination is difficult, a business that has special needs. Now, why should not the Government step in and contribute liberally or lend its credit?

"Nevertheless, it is the opinion of the Commission that our American problem of rural credit should be worked out without government aid.

"It is perhaps true that the world is short of capital. But it is believed that capital awaits investment in farm lands as freely as in other fields, provided the security is good and the means of investment are made easy. On the other hand, if there is not private capital in sufficient quantities the only way the Government can get the needed capital is either by taxing all the people in order to get capital for farming, or else by issuing bonds that sometime later must be paid by all the people. Of course there are conditions under which the Government can guarantee bonds that are issued with farm property as security.

But this is no great advantage, because under a wise system of credit the land itself is the very best security for borrowed money, and the safest system is the one that stands on its own feet."

3. *The Senate Committee on Banking and Currency in its report on S. 5542, February 19, 1915, Report 1048, 63rd Congress, says:*

"There are two main schools of thought on this subject, the radical and the conservative. The radical would have the Federal government borrow money on its bonds, and make loans directly to the farmer at 5 per cent., or even less. This is the extreme of so-called government aid. The conservative would provide a system of land banks, bringing the farmer and the investor together for their mutual profit and advantage, but providing no Government aid.

"The pending bill takes a middle ground between these two views, avoiding government loans but exercising strict supervision of the system, and giving indirect aid of a substantial character. The bill borrows from the European system such features as are adaptable to American conditions, adds certain provisions which are believed to be new, strikes a fair medium between the radical and the conservative, and brings the whole into harmonious relations with the Federal Reserve Act."

4. *Hon. Robert J. Bulkley, a Representative from the State of Ohio, Chairman of the Sub-committee on Rural Credits of the House Committee on Banking and Currency, in a speech in the House, December 19, 1914 (Congressional Record, 63rd Congress, December 21, 1914, page 499), said:*

"The use of the public credit to support farm-mortgage loans is justified by the experience of all the nations which have established land-mortgage systems in the interest of the small borrower, and those countries comprise the greater part of the civilized world.

"Without such government support as is provided by our bill it is fair to predict that the land-credit system will be slow and uncertain in its beginnings and incapable of giving substantial relief for many years to come; it is fair to say that success is doubtful and that there is not at hand in all the history of the world a single example of the success of a land-mortgage system on the long-time amortization plan for the benefit of small borrowers which has not had public financial aid."

5. *Below will be found excerpts from remarks on rural credits in the House of Representatives, in the debate on the McCumber amendment to the Agricultural Appropriation Bill.*

HON. T. H. CARAWAY, OF ARKANSAS:

"I hope a bill introduced by me on this subject, and which I shall offer here as an amendment, may prevail. If it does not, I shall vote for the Senate amendment 89, known as the McCumber amendment. If we concur in that amendment the conferees can not lay their hands on it, and we get a beginning. We have pledged this Government to aid a farm-credit system. Another Congress can perfect it. It would not dare repeal it. Therefore I shall, if my amendment does not succeed, support the McCumber amendment. I shall do this because I want to serve my people more than I desire to be partisan. All who want to aid the farmer must forget the origin of the amendment and support the system. I am willing to do so."

HON. ELLSWORTH R. BATHRICK, OF OHIO:

"Now, the McCumber amendment to the Agricultural Bill as it came from the Senate will give every farmer in this country 5 per cent. money, and it is more nearly workable and more nearly perfect than any other bill that has been presented to you. I know it is not perfect, and I know some things in it should be changed; and if I have

the opportunity I shall offer as an amendment to the substitute of the gentleman from South Carolina, a revised McCumber Bill. Now, I have no pride of opinion in that, but I believe if that is voted up and we can not vote up the McCumber amendment, it should be voted in this afternoon, and I will see that most of you get a copy of that revised McCumber Bill."

HON. DUDLEY DOOLITTLE, OF KANSAS:

"I am quite certain the so-called Hollis-Moss-Fletcher amendment which the committee has reported is much better than no bill at all, but in my opinion, it lacks the fundamental principle of sufficient government aid to make it an instrument that will lower materially interest rates to borrowers, and it is complicated. It is primarily to be financed by private funds, and that means profit to the man who has the private funds to invest rather than a reduction in the interest the borrower must pay. Private capital invests where the rate of return and the security is the most advantageous; public or government funds take the larger view and invest, when properly directed, where most needed, properly safeguarded, of course, and where the welfare of the borrower is not ignored."

HON. WILLIAM SCHLEY HOWARD, OF GEORGIA:

"Now we have here the Hollis Bill. I do not believe these good gentlemen intend to hand the farmers a stone when they ask for bread, but after eight hours' study of this bill — that is all the time I have had to put onto it — I do not believe that the bill is going to help the farmer. I do not believe it is going to do anything else on this earth except to allow a lot of people who have got money to organize these banks in the different localities in this country and to issue bonds or debentures and try to sell them, and drag the farmers' securities around through the country, and I do not believe that the rate of interest is going to redound to the benefit of the farmer. I am going to be very frank about this matter."

HON. JAMES C. McLAUGHLIN, OF MICHIGAN:

"A cry is raised against Federal aid, and some gentlemen — a great many, I believe — stand aghast at the idea that any Federal money shall be used for the purpose of assisting in the organization of these banks or be used by them in making loans upon farm property. I wish to say to my associates on this side of the House that if they are opposed to the idea of Federal aid they would better change or modify their national platform, because the platform has declared in favor of the organization and the supervision of banks and organizations by which the farmer of the country may obtain cheap money. But in my judgment, formed after a great deal of attention to the manner in which organizations of this kind are effected and operated in the first instance, they can not be organized and started successfully on their work without Federal aid."

HON. EDMUND PLATT, OF NEW YORK:

"The bills that the farmers' organizations have indorsed are bills like the Bathrick Bill containing government aid from the sale of government bonds. Some have indorsed the Bulkley Bill and a few the Moss Bill. The Hollis Bill does not give them what they are asking. It will not do what the farmers want, and if we should pass this hybrid Hollis Bill they will all be dissatisfied with it. It is a mere makeshift compromise, patched up at the last moment. I do not see why any man should vote for it, whether he believes in government aid or does not believe in government aid. If he believes in government aid, he ought to vote for the McCumber amendment just as it comes over from the Senate. The McCumber proposition is at least simple and easily understood — money from the United States Treasury. The Hollis Bill is complicated. It provides for three or four kinds of institutions and two different sets of bonds, but will satisfy nobody."

HON. J. W. RAGSDALE, OF SOUTH CAROLINA:

"I want to say, Mr. Chairman, that I do not care where a bill comes from — I do not care if it comes from a Progressive, I do not care if it comes from a Republican, I do not care if it comes from a Democrat — if it will reduce the interest burden that the farmers and producers of wealth in this country, upon whom we are dependent, pay, then I am for that bill, no matter what its effect on any party. (Applause.) I believe that at this time the Bulkley-Hollis Bill is the best bill to adopt, because I do not believe that the Hollis Bill is worth the paper on which it is written. I do not believe that it gives the best thoughts of the distinguished Senator whose name it bears, and I do not think that he believes in it. I do not believe that he felt in his own mind that it is in the real interest of the farmers of this country."

HON. WILLIS J. HULINGS, OF PENNSYLVANIA:

"There are two lines of thought that are distinctly marked out upon this subject, and one is whether the Government shall give its aid to this great industry, or whether the farmer who is needing money, who is in debt, will contribute the funds with which to organize banks. The bill that is immediately under discussion now — the Hollis Bill — in my opinion, simply provides a great piece of machinery, starting out with a \$12,000 salary for a commissioner, providing for the employment of an army of employees, for plate glass, burglar-proof safes, and banking establishments, and the farmer is to foot the bill. It has no other purpose than to drive the great volume of farm loans into the control of the banking interest, and even then insists that the farmer, now so heavily in debt, shall furnish the money to start the bank. It simply suggests to the farmer that by pulling on his boot straps he can lift himself out of debt."

HON. EVERIS A. HAYES, OF CALIFORNIA:

"In the first place, let me speak of the so-called McCumber amendment. The McCumber amendment, if I understand anything about the Constitution, would be, as my friend from Georgia has said respecting the Hollis Bill, not worth the paper it is written on. I would like to know under what grant of power of the Federal Constitution Members of this House can find authority for putting the Government of the United States into the loaning business — under what grant of power we are going to give the farmers, a single class in this country, an axe and tell them to go ahead and knock down the doors of the Treasury and help themselves, for that is about what this McCumber amendment means."

HON. JOE H. EAGLE, OF TEXAS:

"Mr. Chairman, with reference to rural credits, there are two thoughts running through the country, and these are the same two thoughts running through the minds of the Members of this Chamber. One is the thought that the farmers ought to continue to pay for the use of money the enormous and prohibitive rates of interest at present charged against them on their mortgages, with abstract charges, with commission charges, and with renewal charges, which together constitute prohibitive rates, so as to keep the producing masses perpetually in bondage to the financial oligarchy of this country.

"Another is the thought that the farmer ought to have, when he has perfect security, the facility of obtaining a loan for his use and benefit by the aid of the Federal government, so that he himself may retain his annual increase of wealth and not be longer compelled to sacrifice it by excessive interest charge for the money he is required to borrow. I earnestly share the latter view."

HON. WARREN WORTH BAILEY, OF PENNSYLVANIA:

"But Mr. Chairman, there is a question in my mind whether the legislation here proposed is desirable from any standpoint. It certainly can not be desirable from the standpoint of the tenant farmer or from that of the farm laborer. It can not possibly help either. On the contrary, it must infallibly make the lot of both a little harder, for if this legislation shall accomplish anything it will stimulate speculation in farm land, and speculation in farm land will mean higher prices for it, higher rents demanded for its use, a longer and more difficult struggle on the part of the landless to obtain a solid footing on the soil."

HON. J. B. THOMPSON, OF OKLAHOMA:

"The Senate on last Thursday attached to the Agricultural Appropriation Bill what is known as the McCumber amendment. It is not all that I would wish it to be, but it is a long step in the right direction, and will result, in my judgment, in reducing the interest rates that our agricultural classes are compelled to pay. It is simple. There is no complex law or machinery to be put in operation, no set of red-tape rules and regulations whereby the farmer would be enmeshed and disabled from procuring a loan. It extends direct government aid to the agricultural and producing classes of the country the same as the Government has extended its aid to the commercial interests of the country in the Federal Reserve Act, and it has since the foundation of the Government extended direct aid to practically every other business except that of the farmer."

HON. S. F. PROUTY, OF IOWA:

"Now, I can not get myself to believe that the Hollis Bill amounts to anything. It seems to me that these fellows loan themselves their own money. If it is in a com-

munity where they have no money, they can not start these banks because they can not find the money to start them to run them. On the other hand, if it is in a community where they have plenty of money, they do not need this system at all. I think that if we ever do anything that is of real substantial benefit to the farming interests of the country we must do for them what we have done for the great commercial interests of this country—put the strength and credit of the Government behind it."

HON. PHILIP P. CAMPBELL, OF KANSAS:

"Mr. Chairman, the Federal Reserve Act places the Government behind the commercial interests of the country, issues and proposes to issue money into the hundreds of millions, and lends it to the banks for commercial purposes. No one should be shocked therefore when it is proposed by the McCumber amendment to place the Government behind a plan that proposes to finance or take up the securities of the farmers of this country and enable them to secure money that is placed at the disposal of agencies selected by the Government for the convenience and benefit of the farmers. I opposed the Federal Reserve Act, but that having been forced upon the country and having made more difficult the borrowing of money upon farm securities than ever before, I shall vote for this amendment."

HON. P. D. NORTON, OF NORTH DAKOTA:

"The Bulkley Bill has some merit. But the Hollis Bill proposed as a substitute is, in my judgment, an impractical proposition. The Hollis Bill will bring no relief whatever in this generation to the farmers of this country. (Applause.) I know that the McCumber Bill is a practical and workable bill. It is not in some important particulars as I would like to have it. Still it is a simple proposition. It involves the same business principles that are employed by every great insurance company in this country to-day making farm loans."



HON. ASBURY F. LEVER, OF SOUTH CAROLINA:

"Mr. Chairman, in another legislative body, consisting of ninety-six members, with only six of that membership present, I am informed, a great proposition, involving an entirely new departure in the legislation of this country, was inserted upon an appropriation bill as a rider. That bill came to this body. An attempt in a regular and orderly way was made to send that bill to conference, where the differences between the two Houses might be worked out in an orderly and proper manner. That request was denied. The bill was sent to a committee of this House which had no jurisdiction over it in the first instance, and whose members, as far as I know, with the exception of one, had never given any special consideration to the subject of rural credits, although most of its members were in favor of rural-credit legislation. That committee was asked in the course of 24 hours to present a workable, reasonable, and wise proposal to this House and to the country.

"The Committee met this morning at 9:30, and continued in serious and earnest deliberation until after 1 o'clock, when the pressure of time made it necessary that some report to the House should be made. We did what I think all sensible men under the circumstances would have done. We reported back to the House a bill which has been unanimously reported by the Committee on Banking and Currency of the Senate, after long deliberation, covering more than nine months; a bill which contains the essential features recommended by the Federal Rural Credit Commission, and a bill which has been worked out by the Banking and Currency Committee of the Senate."

HON. ROBERT J. BULKLEY, OF OHIO:

"The only propositions on which I differ from the Hollis Bill as now presented are broad questions of policy, which every member of this House can understand in short order.

"The first important amendment, taking the control of the system away from the Federal Reserve Board and lodging it with the Federal Farm-loan Board, is, I believe, a good amendment. I am for it.

"The second amendment, proposing that private banks may be incorporated to compete with the coöperative associations which we propose to incorporate, is an amendment to which I am opposed. I shall discuss it more fully under the five-minute rule, as time is short now.

"But the fundamental proposition that is wrong about this Hollis Bill as it comes to us from the Committee on Agriculture is that it lacks section 30. It lacks the substantial government aid which will be absolutely necessary to make a success of any rural-credit system in this country, as has proved to be the case in every country of the world." (Applause.)

HON. DUDLEY M. HUGHES, OF GEORGIA:

"I wish to say this, Mr. Chairman, that I favor the Caraway Bill. I shall vote for it as a substitute. It is a bill that is short and comprehensive, and it covers the entire ground. It is so plain that you are not forced to employ an array of counsel to have it explained.

"Mr. Chairman, I am opposed to the amendment of the bill as presented by the Agricultural Committee. When the bill is perfected, as it is said, I am in favor of placing dynamite under the bill with all the amendments and blowing it to atoms, and then agree to the Senate amendment, the McCumber Bill."

HON. JEFFERSON M. LEVY, OF NEW YORK:

"The Hollis Bill, on the contrary, is based on sound economic principles. No one can read it without being impressed with the care with which it has been drawn and the knowledge of the subject on the part of its authors. The principle involved is to provide the machinery by which permanent capital of the country may be made avail-

able to its agricultural interests, that the security which the farmer can offer, which is the best in the world, may be put in negotiable form whereby it may be utilized by investors, and the farmer thereby be benefited through a broad and national market."

HON. EDWARD KEATING, OF COLORADO:

"I refuse to play fast and loose with my platform obligations. I believe the people of this country want a rural-credit system which will force a radical reduction in their interest rates.

"More than a year ago I introduced such a bill. It provided that we should take the limit off the amount which an individual might deposit in the Government's postal savings banks, and that the money thus turned over to the Government should be loaned to the farmers of this country at 4 per cent.

"In operation, the system as suggested would be marvelously simple and marvelously effective as well."

HON. H. ROBERT FOWLER, OF ILLINOIS:

"Mr. Chairman, a rural-credit system without the aid of the Government and Government control of the stock is nothing but Greek to the farmers of this country. We already have loaning organizations throughout the country, and the farmers have been imposed upon by all of them to a greater or less extent. What the farmer needs is a system with a low rate of interest. Any system which does not begin with the farmer, stay with the farmer, and end with the farmer is not worth the paper it is written on. Any pussy-footing around in this House for the purpose of devouring national aid to a rural-credit plan will not be tolerated by the farmers and their friends."

HON. GEORGE A. NEELY, OF KANSAS:

"I am glad that Senator McCumber has put this amendment on this bill. (Applause.) I know that it is not

perfect. It looks to me as though its author had simply called in a stenographer and dictated it in an hour or so without giving the matter very serious consideration. But with all of its faults, with all of its failures, and with all of its shortcomings I am ready to vote for it and really start the ball of rural credits to rolling. (Applause.) And if you Democrats do not like that kind of hit-and-miss legislation why, in the name of heaven, do you not help us to get a committee organized for business and get a bill that is decent?"

HON. J. HAMPTON MOORE, OF PENNSYLVANIA:

"But even so, the farmer may yet ask to be 'saved from his friends,' because they are not unitedly representing his case. Some of them are proving too much. They are proving the farmer to be too downtrodden, too tax-ridden. While there is nonemployment in the great cities, due to the fact that we are suffering from low tariffs and are paying more for farm products than we ever paid before, 'the poor, downtrodden farmer' is apparently paying less for everything that comes out of the mill districts than he ever did before. While we are voting relief to the farmer, we are imposing increased taxation upon the man who dares to start our enterprises in the great cities."

HON. WILLIAM SCHLEY HOWARD, OF GEORGIA:

"Under that proposition, in the first place, you have got forty-eight different institutions issuing bonds in competition with one another, the bonds being placed on the market to be sold. Now, under these conditions you can not possibly put the farmers of this country and their securities on an equal basis. You have got too many banks of issue. The gentleman from Oklahoma has got the right idea about this banking proposition. All that the farmers want is a system by which they can go in and bring the collective credits of all the farmers together in one great institution, and have their debentures issued to the investing

public, and those debentures be as sound and good as State, municipal, county, or railroad bonds, and be sold at as low a rate of interest. The trouble about this method of procedure is that you can not explain any system. You have got no time to deliberate about this. Men are voting here to-night for measures that have not amortization in them."

HON. CARL E. MAPES, OF MICHIGAN :

"This bill proposes to put the great rural-credit system at its inception under partisan political control. It expressly provides in section 3 of the bill, page 50, that 'all such attorneys, experts, assistants, clerks, and other employees'—I am giving the language of the bill—'shall be appointed without regard to' the civil-service law or the regulations of the Civil Service Commission. A Federal rural-credit system, above every other, ought to be kept out of politics. One serious objection to the amendment as reported by the committee is that it creates another board, it creates another banking system without any corresponding benefits. It puts all of the employees of that system under the spoils system. It takes them out of the civil service by express enactment."

HON. THOMAS L. RUBEY, OF MISSOURI :

"I feel the same regret which has been almost unanimously expressed here this evening, that we have had to take so short a time for the discussion of such an important measure. This bill was referred to the Committee on Agriculture, and we gave to it as much time as we possibly could under the circumstances surrounding the case.

"There are two ideas represented here this evening. Some of you gentlemen are conscientiously opposed to government aid to rural credits. There are those who believe that a rural-credit bill without government aid will not amount to anything. I am in favor and have always been in favor of government aid in a rural-credit bill,

and I shall heartily support the amendment offered by the gentleman from Ohio."

HON. ROBERT L. HENRY, OF TEXAS :

"Mr. Chairman, we have before us to-day three concrete propositions: First, the McCumber amendment, which has come from the Senate, providing for direct loans to the farmers. Second, the Hollis Bill, which was reported to the Senate on last Saturday. In my judgment, this bill is a makeshift, an empty thing, a vacuous and spineless piece of legislation, and will wilt and crumble like a frogstool if government aid is not placed behind it. (Applause.) Second, this Hollis Bill sets up an alleged rural-credits system separate and apart from any source of governmental aid. Governmental aid is the one essential thing to make rural-credits legislation a success in this country, as it has proved to be successful in every other civilized country of the world where the government has fostered and aided the plan. Third, the Bulkley Bill is before us, and with Section 30 providing for government aid, the system is destined to be a success and will carry genuine relief to the American farmers. Section 30 is absolutely necessary and vital to give force and effect to the plan."

HON. J. THOMAS HEFLIN, OF ALABAMA :

"The McCumber proposition that came to this House was not considered by the Senate. There were only a half dozen Senators present, I understand, when it passed the Senate, and when it did come to us, the Senate, Democrats and Republicans, who really desired to have a rural-credits bill that had something in it, met, and the Committee on Banking and Currency over there unanimously, I am told, reported the bill that came to us; and the Committee on Agriculture, of which I am a member, unanimously reported that bill to this House; and since we have had it under consideration here I have voted for amendments to

perfect it, and stated in the committee that I would vote them. Mr. Chairman, we have put upon it the Bulkley amendment which I supported. (Applause.) It has got the government-aid proposition in it, and I want to say to gentlemen here if you vote for the McCumber substitute, you vote for something that is doomed, for the President has already said that he would veto it, and you know that it is useless to follow that crude and unfinished measure further, because the newspapers this morning said that the President would veto the McCumber Bill in its present shape. I do not know. I have not seen or talked with the President about this matter, but I do not believe that he would veto the Bulkley-Hollis Bill as amended."

HON. HORACE W. VAUGHAN, OF TEXAS:

"I do not wish to reiterate, but wish to say that while I favor legislation that will enable the farmers to organize coöperative credit associations in their respective communities throughout the country, and obtain such coöperation from the Government, under proper safeguards, as may be necessary to establish a credit system, adapted to the business of farming, that will furnish credit facilities for the man who has no land to mortgage as well as the man who has, I know that making provision whereby landowning farmers may, by mortgaging their land, obtain money at 5 per cent. will do a great deal of good. It will lower the interest rate the farmers have to pay. It will enable many to save homes from foreclosure. It will enable many to acquire homes."

HON. J. A. FREAR, OF WISCONSIN:

"Neither the McCumber Bill nor the Hollis Bill, in my judgment, are free from defects, but this seems to be the only chance of securing legislation on farm credits, and all defects can be corrected by proper legislation as soon as they become manifest. I am not willing to vote for the denatured Hollis Bill that proposes an expensive machinery

and maintains a corps of high-priced officials in order that farmers may borrow from other farmers or borrow from themselves. Farmers will never avail themselves of a law that only resolves itself in a mass of words used to authorize coöperation, but which does not carry any form of government aid as is proposed by the Bulkley amendment or the McCumber Bill. I believe either of these two latter measures can be made workable, and one or the other should be passed by the House."

HON. J. M. C. SMITH, OF MICHIGAN:

"Certainly we all have the welfare of the farmer at heart. One would think from the remarks made here on the floor of the House that there is no one loved so much as he. Being a farmer myself I may speak with a little more freedom than license would otherwise permit. What I say may be accepted or rejected if it does not coincide with the experience of others.

"The Republican national platform commits us to a rural-farm credit. Sooner or later this legislation must be enacted into law. The choice may be between the two methods above referred to, and I concede to the man who thinks that the Government should loan its money directly to the farmer his right of opinion the same as I myself might prefer government security instead of government aid. The question being what is the best way to accomplish the result.

"The subject is one of much interest. All the leading nations of Europe have a system of rural-farm credits. A commission was sent from this country to Europe to study farm credits, and have reported in favor of establishing rural credits here, and if it will be productive of the good claimed for it the date ought not to be far distant when some system of establishing farm credits should be enacted into law."

HON. GUY T. HELVERING, OF KANSAS:

"There is no future for agricultural credits, in my opinion, from coöperation without government aid, and for that reason I favor the McCumber plan, crude and faulty as it is, and, failing in that, I shall vote for the Bulkley Bill, for, although it falls far short of giving to the agriculturists the relief which they demand, and which I would like to see them secure, nevertheless it means a step in the right direction. We have promised the people to give to them legislation providing for rural credits. At the special session held in 1913 the Democratic Representatives went on record in a promise to give them such legislation before this Congress adjourned. I for one am not willing to violate that pledge, and I prefer to vote for this legislation now, and work to perfect it in the Sixty-fourth Congress, rather than to aid in defeating all legislation at this session and go back to my constituents and explain a pledge violation."

HON. SILAS R. BARTON, OF NEBRASKA:

"Mr. Chairman, of all the do-nothing attempts of any legislative body I ever heard of has been the efforts of the Sixty-third Congress on rural credit. It has created two rural-credit investigating bodies; one took a junketing trip to Europe and reported a poor land-mortgage bill and said that personal credit could 'best be enacted by the various State legislatures.' The other was composed of members of the two banking and currency committees, known as the Rural Credit Committee. It, too, reported a land-mortgage bill, which was an attempt to bind the farmers to the Federal Reserve Board, a body which will for all time to come be dominated by bankers. But it failed to report a bill on personal rural credit, a system which has been tried for years in most European countries and proven most beneficial to the agricultural interest of those countries."

HON. CALEB POWERS, OF KENTUCKY:

"To-day's debate, Mr. Speaker, has vindicated the truth of all I said on the floor of this House less than one month ago. I then charged that the Democrat President of these United States had changed front on rural-credit legislation. Notwithstanding the fact that the Democratic platform upon which President Wilson was elected, and notwithstanding all he said in his message to Congress on December 2, 1913, I then charged that the President was now opposed to putting the Federal government back of rural credits. It was not the purpose of the Democratic party to enact any rural-credit legislation at this session of Congress, if at all. But thanks are due to that stalwart Republican, Senator McCumber, who put one over on his Democratic colleagues in the Senate a few days ago and attached a rider to the Agricultural Bill the House had passed and sent over there. The rider of Senator McCumber provided for putting the Government back of rural credits in the interest of the American farmers."

HON. OTIS T. WINGO, OF ARKANSAS:

"This gives the farmer no additional right, because he has a right to use his own money now. In other words, the Hollis Bill in effect tells the farmer that he needs 'lifting,' and that the Federal government very graciously extends to him the privilege of lifting himself by his own boot straps. I wish to say to those who propose the Hollis land-bank scheme that the American farmer has been fleeced too often in being induced to subscribe to stock in some corporation, which he is told is organized for his benefit, but which to his sorrow he has found is organized for the sole purpose of taking his money away from him. He does not intend to subscribe to any more stock schemes nor will he be satisfied with a profit-making, speculative land-banking system, by being told that it is a rural-credit system. He knows that such a scheme is not

a rural-credit system and will have nothing to do with it. I know that some farmers have been led into indorsing the Hollis-Bulkley Bill by explanations of it which have appeared in some of the farm papers. I have one of these indorsements to-day, which inclosed a newspaper clipping describing the Hollis-Bulkley Bill. This clipping states that under the Hollis-Bulkley Bill the rate of interest shall not exceed 5 per cent. This statement is false, for the limit that the Hollis-Bulkley Bill places on the interest rate is the limit of interest fixed by the law, which in my State would be 10 per cent."

HON. SCOTT FERRIS, OF OKLAHOMA:

"There are many weird rural-credit proposals now pending before Congress. There is much misinformation about this subject. Stripped of all details and stripped of all personalities, there is but one great question in this matter and that is, Shall the Federal government lend its strength, its stability and strong arm toward making a rural-credit system that will be workable, feasible, and of aid to the American farmers? It is not too much to say, and I do not believe it will be controverted by either friend or foe of this legislation, that practically every civilized country in the world is giving government aid toward a rural-credit system to encourage agricultural production. I think it will not be controverted that in order to have long tenure and a low rate of interest two things are of necessity to the farmer, who from the very nature of things can earn but slowly; the Government must place its strong right arm behind the proposal and see to it that a few scheming speculators do not outstrip the farmer."

HON. EZEKIEL S. CANDLER, JR., OF MISSISSIPPI:

"I strongly favor the establishment in this country of a rural-credit system which will not only give the farmers who own land relief, but I also go further, and favor giving to those farmers who are not so fortunate as to own

land a system of credits by which they can also secure relief. This class of farmers deserve our consideration, just as much as the farmers who are landowners. We must help, if we can, all classes of our farmers if we would bring about the greatest degree of prosperity."

HON. RALPH W. MOSS, OF INDIANA:

"I deny the fact, and if I had time I could prove it, that government aid has ever been able to reduce the interest rate of any country in the world below that which is afforded by private initiative. It is easily possible to show that banks, privately managed and endowed with private capital, without other vestige of government aid than that which comes from governmental supervision and control, have been able to give the farmers of a nation as low an interest rate as any government-aided institution in that nation was able to give them. I challenge any man to point out any concrete illustration of any nation on the face of the earth where governmental aid has been able to reduce the interest rate below that maintained by private initiative. This substitute is not a bill that has not been carefully considered.

"I am glad my friend from Ohio admits that it had been carefully considered. Of course it has been carefully considered, and if section 30 were in the bill I have no doubt he would be willing to accept it. The gentleman says he proposes to offer an amendment to strike out section 17. This is the compromise section which harmonizes the ideas of the commission with those of the committee. The gentleman is very willing to accept the fundamental principles enunciated by us, but eagerly desires to take away all of the administrative features that have been adopted by the United States commission. He would deny the power to any individual or to any association of persons to organize an independent bank in any State of the Union. In this method and by this amendment he would

stifle all competition among institutions which are organized to serve the interests of the farmers."

HON. EDWARD W. SAUNDERS, OF VIRGINIA:

"Mr. Speaker, I am profoundly convinced that the greatest blunder of the Sixty-third Congress has been its failure to deal effectively with the great subject of rural credit—and give the farmers both farm mortgage, as well as personal credit legislation. In part this failure is due to the fact that we have occupied too much time in the discussion of measures of doubtful value. One further explanation of this failure may be traced to the method of investigation pursued by the numerous investigating bodies created by this Congress."

HON. EDWARD E. BROWNE, OF WISCONSIN:

"Mr. Speaker, I am in favor of this bill because it will give the farmer a chance to borrow money on long-time loans at 5 per cent. interest.

"The Government in this bill is safeguarded so that it stands no chance of losing a dollar.

"This bill has already passed the Senate, and if we concur in it at this time it will become a law. A bureau of farm credits will be established in the Treasury Department, presided over by a commissioner of farm credits, and \$10,000,000 appropriated and loaned on gilt-edge farm security. When \$1,000,000 of this amount is loaned, bonds will be issued for that amount and sold, so the Government will not at any one time have more than \$10,000,000 invested.

"This bill is not perfect, and perhaps is not as good a bill as some of the others which have been introduced and which have been slumbering in the committees. But, in my opinion, with only two days remaining before Congress will adjourn, the substitution of any other bill for this one, or the amendment of this bill, will necessitate its going back to the Senate, where it will stand no show of passing."

HON. MARTIN D. FOSTER, OF ILLINOIS:

"There is no better security than land security. When the Federal Reserve Act was under consideration it was promised to the farmers of the country that at a later date this matter would be taken up by Congress and fully considered and a bill passed giving them the kind of credit that was necessary to carry on their business. It is the duty of Congress to carry out this pledge and to fulfill the demand made by the farmers everywhere for a credit system that will permit them to borrow money at a lower rate of interest and on more favorable terms than they are now able to do. As a rule they are not large borrowers, but desire to secure loans for the purpose of buying land, improving the farm, or to meet demands that are necessary until a crop can be made and the money secured by selling the product to meet their obligations. It is to be regretted that in this Congress it has not been possible to secure some system to aid the farmer so that he might meet his financial condition on more favorable terms."

HON. MOSES P. KINKAID, OF NEBRASKA:

"Mr. Speaker, the main difficulty is that the membership is divided into two schools as to what should constitute the fundamentals of a rural-credit act. The particular feature of this issue is whether middlemen shall be given the administration of the law with the right to a commission or compensation which will prevent a reduction of interest rates below what has now to be paid by farmer borrowers. It ought to be granted that it would be useless to pass a rural-credits act unless interest rates are to be materially lowered. Whatever kind of a bill may be passed useless overhead expenses should be avoided, otherwise the first and main purpose of such legislation will be nullified. For my part, while I do not regard the provisions of the McCumber Bill as complete as are desirable, I shall vote for it and otherwise give it my hearty support, because it

contains the very best it is possible to secure in the way of rural-credits legislation during this Congress, which will be extinct in a few hours.

"Mr. Speaker, a rural-credits law ought to have been passed two or three years ago, and there was a greater reason still why such relief ought to have been afforded a year ago, and naturally the demand has been more imperative for such relief at this session than ever. The demand for such relief has been increasing, because the subject has been all the time receiving greater and more widespread attention."

HON. RICHARD WAYNE PARKER, OF NEW JERSEY:

"Mr. Speaker, a joint committee of twelve Senators and Representatives has been ordered to report a system of rural credits 'adapted to American needs and conditions.' The country ought to know what this means, and we must judge what it may mean by what the two Houses have already done. In foreign countries local associations of farmers are formed to encourage husbandry and guarantee each other's loans. In this country the savings banks and building and loan associations that have sprung up everywhere have done much to give rural credit and afford farm mortgages at lower rates of interest. But a cry has gone up for more, that coöperation is not enough, and that the United States Government must find the money for these mortgage loans, even if it has to be borrowed on an issue of government bonds.

"This is a matter that the country must realize and consider, for the policy of government loans to private enterprise is becoming as real an issue as greenback or specie payments or free silver or the subtreasury schemes were in the past."

HON. HENRY T. HELEGESSEN, OF NORTH DAKOTA:

"I did not introduce this resolution because I had any pet plan for providing the country with a system of per-

sonal rural credits, but because I realized the vital importance of the proposition, and because I find that it is so little understood, not only by the people at large, but by those who are charged with the responsibility of legislating on the subject, that I thought it wise to provide for a hearing that would give all those who are interested in the subject a chance to be heard, no matter whether they be for or against the proposition.

"Such a hearing as I have proposed would give us the arguments on both sides presented by the best experts obtainable, and would, therefore, furnish us with the best possible basis for the drafting of a bill that would bring the necessary relief, and by having constantly before us the arguments of those who are opposed to the proposition we would be aided in drafting a bill that would not unnecessarily antagonize their interests."

HON. WILLIAM A. OLDFIELD, OF ARKANSAS:

"Congress should do two things in the matter of establishing a personal rural-credit system: First, establish a system which will create a piece of productive farm paper which is as good and sound as the farm paper created by the best of foreign personal rural-credit systems; second, create a healthy public sentiment among the investing classes for that paper. You must have buyers as well as sellers before you can do business. If I were to take a load of cotton to Des Moines, Iowa, I would have to dispose of it as souvenirs, as there is no commercial market there for cotton in the seed. But let me take it to my home city during the season, and the moment I reached the public square there would be buyers to meet me. Precisely the same thing is true respecting investments. In planning a system for this country it is important that one should know the reasons underlying the success of those foreign systems, but it is absolutely necessary that he should know all about the financial institutions and characteristics of our investing classes."



HON. ANDREW J. VOLSTEAD, OF MINNESOTA:

"Under the Federal Reserve Act more than a hundred million dollars will be constantly kept in the Federal reserve banks for the benefit of commerce. Why not contribute, if necessary, say, \$10,000,000 as a guaranty fund to aid agricultural credit? It could probably be made to pay the Government as large a return as the money contributed to the Federal reserve system. To the extent of such contribution the Government's liability would be limited. We certainly could do that if we can guarantee all the notes of the Federal reserve banks, a liability that is almost unlimited.

"If the dreams of those who have been the most enthusiastic in urging rural-credit legislation should come true, it would greatly aid, not only the farmers, but everybody else. The prosperity of the farm means prosperous merchants, mills, and mines. Instead of passing laws to take from the farmers the protection accorded other producers, instead of trying to cripple the rural route system which the administration appears to be bent on doing, it seems to me that we should do what we can to aid the farmers to secure equal treatment with other classes of our people."

HON. J. CHARLES LINTHICUM, OF MARYLAND:

"The Federal Reserve Act provides for loans whereby the farmer may borrow from the bank for a term of years; but the truth of the situation is that the banks do not want to lend to the farmer. The banks depend for their profit upon the constant investment of their money. If all their money was loaned out in long-time loans, it would not be possible to pay running expenses and the proper dividends. The banking system as now established is evidently for the commercial, business, and financial interests of the land. While I say it is the best system ever adopted in this country and the finest piece of constructive legis-

lation passed within the last fifty years, the fact still remains that even with the changes made in this system it does not serve the interest of the farmer, and the consequence is that not alone is it impossible for him to obtain money, but when he does obtain it it costs him a much larger rate of interest than it does the other pursuits of life."

HON. MAURICE CONNOLLY, OF IOWA:

"It is possible that in the State of Iowa there are a great many farmers who are no longer in the borrowing class, but, on the other hand, there are the young men on the farms who have the ambition to acquire their own farms and homes and who have the energy and character, if they are provided with an opportunity, to successfully carry through such a proposition. And there are many farmers who are now tenants, who have accumulated a sufficient sum to make a substantial payment on a farm, who would be greatly encouraged under facilities that could be offered in a proper rural-credits bill that would insure them a low rate of interest and, under the amortization plan, a long number of years in which to pay off the obligation."

HON. CHARLES H. SLOAN, OF NEBRASKA:

"A great deal has been said about the *Landschaft* and other rural-credit systems in Europe. We could safely investigate and consider them, but should not be guided or controlled by them. America's situation is different from that of any European country. Our ways are not their ways, nor are their conditions ours. We can safely trust our Representatives to take account of our conditions and legislate in the interest of our people for the purpose of rectifying and changing those conditions, if they should be changed. Our legislation should be based upon our own history and present state of development and future conditions desirable to be brought about. Past and foreign

precedents and practices may be shackles for our limbs instead of walls for our protection. The oxgoad will not control the spirited horse, nor the equine reins direct an automobile."

HON. WILLIAM S. GOODWIN, OF ARKANSAS:

"Mr. Speaker, I think the failure of this Congress to enact a rural-credit law approaches almost a tragedy in our economic life. I do not believe that the attention of the American farmer has been directed to any one national legislative matter so much as upon the subject of rural credits unless it be that other question which many consider of even greater importance — the distribution and marketing of farm products — which goes as a handmaid to the subject of rural credits. I have not thought for the past few months that Congress would enact this law at this session, and yet in my opinion there has been no legitimate excuse for this failure. We know the unfortunate disagreement existing between the Members who compose the Banking and Currency Committee — their failure to get together and agree upon a given proposition. When a great question like this is demanded by the people Members composing a committee should abandon their pet theories and bills, make common sacrifice, though not too much in principle, and agree upon a sound economic measure that the agricultural people may have what they demand and what has been promised to them."

### III

*The Federal Government Should Render All the Aid That is Necessary to Provide Agriculture With Adequate Credit at a Low Rate of Interest.*

The above proposition will be discussed under the following general heads:

1. The kind or form of aid rendered by the national Government is immaterial if it be sufficient and efficient.

2. Forms of government aid.
3. Some arguments in favor of government aid.
4. The use of the funds of the Government to purchase farm-mortgage bonds, as proposed in the Sub-committee Bill, is not the best plan of government aid, viewed from the Government's standpoint. Neither will it render the most effective aid to the farmers.

1. *The kind or form of aid rendered by the national Government is immaterial if it be sufficient and efficient.*

In discussing the above proposition, it will be well to keep constantly in mind the two great practical results to be obtained, namely: adequate credit and cheap interest. It is wholly immaterial what form of aid shall be rendered, providing the aid brings the desired results. It is not a question of the kind of aid, it is a question of the sufficiency and efficiency of the aid. The great controversy has been over the use of government funds or the extension of the Government's credit. Yet aid in both of these forms might be extended and still not provide the farmers of the United States with adequate credit at a low rate of interest. And it is possible that without doing either, the Federal government may create a system of land credit that will enable the farmers of the United States to obtain an abundance of credit at the lowest rate of interest. The Sub-committee Bill provides for the use of the Government's funds in purchasing shares of stock in the banks to be established and in buying the bonds of these institutions. But these banks into which the Government is to put its money and whose bonds it is to purchase, are to be organized purely for the profit of the share-holders; they are to be owned and operated by money lenders; and conducted solely without any altruistic object. They can not be economically operated, which the authors of these bills virtually admit from the fact that these banks are authorized to charge the farmers 1 per cent. annually upon the amount of their loans, simply to pay the administration

expenses. Before the farmers accept anything just so it has "government aid" labeled upon it, they had better give serious study as to what effect certain proposed government aid will have upon the interest rates which they will have to pay. On the other hand, some people are ready to accept any kind of land-credit legislation that does not involve the use of the Government's cash or its credit. It is true that European countries have been liberal in the use of their funds in organizing and founding land-credit institutions. But it is doubtful if the funds granted have been a controlling factor in the amount of credit these institutions have extended or in the rate of interest they have charged. It was not the \$2,000,000 granted by France to the *Crédit Foncier* which made it the greatest land-credit bank in the world. Special privileges made this institution what it is to-day. With these special privileges, and without the \$2,000,000 the *Crédit Foncier* still would have become a great land bank. With the \$2,000,000 and without the special privileges, the *Crédit Foncier* would not be a model from which other nations are copying. The *Landschaften* of Germany by almost universal consent have been, all things considered, the most successful farm-mortgage credit institutions which have ever been devised. But the amount of governmental funds granted to these institutions has had little, if anything, to do with their success. The *Landschaften* have been able to command adequate credit for the farmers of Germany, because their debentures were issued under conditions, prescribed by the governments, which made these debentures absolutely secure, and they were able to grant credit at the lowest rate of interest, generally as low as the Imperial Government could borrow money, because their securities were safe and their administration expenses were light. The government aid which will serve the farmers best, is that aid which will enable them to offer to the public securities which are absolutely safe, through an in-

stitution that can be economically administered, and in which investors will have perfect confidence. If the Federal government will create land-credit institutions for the farmers of the United States which can be economically operated, and in which the public will have implicit confidence, and then see to it that farm-mortgage bonds shall be issued under such conditions and restrictions as will make them safe, a stream of credit will flow from these institutions, in volume great enough and in price cheap enough, to meet every demand of agriculture and to supply every need of the farmers. Economy of administration, safety of securities, confidence in the institution — these three mean abundance of credit on the best terms. Some are advocating that the Federal government shall guarantee the payment of the mortgages of the farmers. But if the Federal government will guarantee the land banks, which it brings into existence, there will be precious little need of any government guaranty for the farmers' mortgages. The farmers' mortgages are all right. The danger is that the Federal government will permit banks to handle these mortgages which never can gain the confidence of investors. The Federal government may create institutions which will impose excessive administrative charges upon the farmers and thus add materially to the interest rate. Many able statesmen seem greatly disturbed for fear a few millions of dollars will be taken out of the national treasury to aid in establishing adequate credit facilities for our farmers; but they seem utterly oblivious about the millions which are to come out of the pockets of the farmers in excessive and unnecessary charges for operating expenses. Think of the difference between 1 per cent. and one-half of 1 per cent. per annum for administrative charges on \$2,000,000,000 in loans which the farmers will want to borrow under our new land-credit system. The difference is \$10,000,000 a year. In the eyes of some, this is a small matter, as it comes from the earnings of our farmers.

But coming from the Federal treasury, it might, to their minds, endanger the national credit and weaken the very fabric of our government! The author of this volume is not afraid to use the credit or the cash of the Federal government to insure the success of our land-credit institutions. Whatever credit or cash is necessary for this purpose should be forthcoming. He believes, however, that too much prominence has been given to the abstract question of "government aid," and that too little attention has been given to the kind and character of aid that should be given. Whatever may have been said by those in authority, or out of authority, against the use of the credit or cash of the Government to promote land credits, when the final test comes all proper and needful aid will be granted. It is not possible that the American Congress will stand on a mere quibble, and refuse to give all the financial aid that is necessary to make the great undertaking a success. The important question now is to get a clear understanding of what aid is needed, and the best way by which to render this aid. This is the task that is now before us.

#### 1. Forms of Government Aid.

The Federal government may render aid to agricultural credit in the following ways:

- (1) By legislation.
- (2) By supervision.
- (3) By management or control.
- (4) By special privileges.
- (5) By use of its credit.
- (6) By appropriation of its funds.

The Federal government may use its credit and funds in extending aid in any of the six ways above enumerated. This distinction might be made: in one case, the Government may extend credit or use its funds directly; in another case the credit and funds may be used indirectly. The real controversy is not in the use of the credit of the Government or the appropriation of its funds. The dispute

is over how these funds shall be used. This point will be fully discussed. It is important that the friends of rural credit legislation, and they are numerous on both sides of the "government aid" controversy, should get clearly in their minds that after all the contest over "government aid" is in a great measure a "distinction without a difference."

(1) *Aid through legislation.* There is no controversy over the proposition that the Federal government should render aid to agricultural credit through legislation. The national government might leave the field to the State governments. The United States Commission, the American Commission, the Committees of Congress, and the President, have all recommended national legislation. The National Grange, the Farmers' Union, the Agricultural Press, magazines, newspapers of all kinds, students of political economy, and leading citizens, favor national legislation to provide our farmers with proper credit facilities. Public sentiment favors national legislation as against State legislation. There is no doubt that sooner or later Congress will enact a law, establishing a national system of land credit. In doing so, the national government will assume a new responsibility. That responsibility can not and will not be discharged without the use, directly and indirectly, of both the credit and the funds of the national government. If by national legislation we create new institutions, we necessarily stamp upon them the good faith and credit of the United States. The Federal government must enforce and administer the laws it enacts. To enforce and administer laws, requires the expenditure of money. The very first step to be taken — the enactment of a national law to promote rural credits — implies new duties and responsibilities for the national government and additional appropriations out of the national Treasury.

(2) *National Aid Through Supervision.* There is unanimity on the proposition of Federal supervision. The

Commission Bill, the Sub-committee Bill, and the Senate Committee Bill, all create, under some name, some kind of a Federal bureau, and confer upon it the authority to supervise the land banks to be organized. In assuming the responsibility of supervising these institutions the Federal government lends its credit to them. The Government by supervision, in an important way, gives the public a guaranty that such institutions are honestly conducted, and that they fully comply with all the laws and regulations made to protect the public. By supervising them, the Federal government gives them a certificate of good character. A land-credit bank, organized under a national law, doing business under the general direction of a Federal bureau, subject to inspection and surveillance of Federal officers, rightfully in the public mind, has the endorsement and approval of the Federal government, and this means the credit of the United States. Furthermore, in the supervision of these institutions, the funds of the United States will be used directly. The three "officially endorsed" bills all propose to create some kind of a Federal bureau to supervise our land-credit banks. There must be a head to this bureau. He must be paid a high salary. There must be numerous high officials. There must be a large number of experts, inspectors, special agents, clerks, messengers and other employees. They must have a building in which to work. There must be heat, light, fixtures, furniture, apparatus, stationery, postage, equipment, traveling expenses, and expenses along many other lines. The amount which the Federal government will expend in supervision can not be accurately estimated. It will not be insignificant and it will grow from year to year.

(3) *Government Aid through Management or Control.* The Federal government may render aid through the management or control of the land-credit institutions. Management or control is something more than general supervision or regulation through statutory provisions and rules

and regulations. Purely private, profit-sharing, joint-stock land-mortgage banks are placed under the general supervision of a department or bureau of the Government and are regulated by general statutory enactments. Such institutions are strictly private corporations, organized for profit, owned and operated by private capital, and in no sense are expected to serve the public good, to any larger degree than corporations engaged in all kinds of private business enterprises. In public or semi-public land-credit institutions, the Government does more than supervise and regulate through general statutes. In these institutions, through the appointment of the officers and directors of the institutions or part of them, or by the actual participation by government officers in the management thereof, the Government actively participates in their control and management. Government aid through participation in the control and management of the institutions has been common with European nations, and has contributed perhaps as much toward the success of their land-credit systems as the actual money appropriated out of the public treasuries for their benefit. This form of government aid apparently has been given little serious thought by students of the subject in this country. Of course, all public or semi-public land-credit institutions are either partially or entirely controlled and managed through government officials. Elsewhere in this volume it has been shown that the bulk of the land-credit institutions of Europe are public or semi-public institutions. It follows, of course, that the vast majority of these institutions are not simply under the general supervision of government bureaus, but the governments assume a part or all the responsibility in their management. The *Landschaften* of Germany are not private institutions. It is frequently said that they are associations of borrowers. In a sense, this is true. They are more than this. When Frederick the Great founded these institutions, membership therein was made compulsory upon

the owners of farms within a certain class. Some of the important officers of the *Landschaften* are selected or chosen, subject to the approval of the Government. Indeed, the officers of the *Landschaften* have the status of public officers, and exercise governmental executive and judicial power. The *Landschaften* are not simply supervised by the Government; they are in a large degree, government-controlled institutions. In Germany the State, Provincial and District Mortgage Credit Banks, the Land Improvement Funds, the Land Improvement Annuity Banks, the Provincial Aid Banks, the Rent Charge Banks, and the Imperial Insurance Institutions are all government-controlled institutions.

The *Crédit Foncier* of France is in part actually controlled by the French government. The President of France appoints its president and two vice-presidents. Three of the directors must be chosen from the Ministry of Finance. Revenue officers aid in conducting its business transactions.

The Chilean Land Mortgage Bank, one of the greatest mortgage-credit institutions, is not only owned by Chile, but is, of course, controlled and operated by the government. Austria has seventeen Provincial Land Banks, controlled and operated by the Provincial governments. The Australian States have founded land-credit banks which are managed and controlled through public officials or officers appointed by State officials.

There is abundant precedent for governmental control. Where government control is exercised, generally the government furnishes part or all the capital. This, however, is not always the case. Neither is it essential to the exercise of such control. In founding our land-credit institutions, three ways are open. These institutions may be (1) strictly private institutions, subject to general supervision; (2) public or semi-public institutions, under part or complete control of the government, with the capital fur-

nished in whole or in part by the government; and (3) a public or semi-public institution under the control of the government, with capital furnished by borrowers, or secured from other private sources. If purely private, profit-sharing institutions shall be established, the government will not, of course, assume control and management thereof. If on final consideration, Congress shall decide in favor of establishing non-profit-sharing land-credit institutions, then, of course, the Federal government should assume a responsibility in the management and control of these institutions.

(4) *Government Aid through Special Privileges.* One of the most effective ways the national government may render aid to farm-credit institutions is by granting them special privileges. European countries, practically without exception, have resorted to this method of aiding their land-credit institutions. France granted the *Crédit Foncier* a monopoly in making farm-mortgage loans for twenty-five years. Summary proceedings were authorized to settle the title to property about to be mortgaged. The institution was permitted to use revenue officers free in making collections. The *Landschaften* were authorized to resort to special proceedings in collecting interest on principal and in foreclosure proceedings. It is not probable any one will advocate that land-credit banks, in this country, should be allowed to follow any summary proceedings in foreclosure suits. In this country, every man must have his day in court. The Commission Bill, the Sub-committee Bill and the Senate Committee Bill propose to grant special privileges in three important ways, as follows:

- a. In the exclusive use of the name "National," to designate these banks from all others.
- b. In making their bonds a legal investment for certain funds.
- c. In exempting the banks, their bonds, notes and mortgages from all Federal, State and local taxation.

a. *Aid through the exclusive use of a name which indicates that the institution is authorized, supervised and intimately connected with the national government.* The Commission bill authorizes the organization of National Farm Land Banks, and prohibits other farm-loan companies from using the word "National" as a part of their name or title. The exclusive use of the word "National" is a very valuable privilege to grant to a private banking institution. To the average citizen, this word means very much. By allowing the exclusive use of its name, the Federal government grants its good faith and credit. There are forty-eight States in the Union. Some of them are great in population, in wealth, in resources, in the extent of their commerce and in the magnitude of their industries. But none of them in any line compares with the national government. We have many States. We have one nation. Everywhere the power of the national government is recognized. The institution that goes forth bearing its name, carries with it a part of its power, prestige, influence and credit. In this name, the public has confidence and the exclusive right to its use, confers a privilege of substantial monetary value. The authors of the Commission Bill propose to freely grant private banking institutions the exclusive right to use a name which carries with it the good will of the Government, but strenuously oppose the use of the credit of the Government to insure the farmers of the United States adequate credit at a low rate of interest.

b. *Aid by making farm-mortgage bonds legal investments for public and trust funds.* One of the effective ways to aid farm-mortgage credit is by statute to make farm-mortgage bonds legal investments for trust funds and for certain funds belonging to the Government. This is a special privilege European countries almost without exception grant to their public or semi-public, non-profit-sharing, land-credit institutions. This special privilege is not generally

granted to the bonds of private, joint-stock profit-sharing institutions. Cahill in his report (S. Doc. 17, 63rd Congress, page 71) referring to the mortgage-bonds of the joint-stock land-banks of Germany says: "The bonds of these banks with the exception of those issued by the six Bavarian banks, do not possess the privilege of being recognized as trustee investments." The three officially endorsed bills all confer special privileges upon the bonds to be issued by the proposed land banks, although these banks are purely private, joint-stock corporations. The Commission Bill makes the bonds issued by the land banks available as legal investment for various public and trustee funds. The Sub-committee and the Senate Committee bills authorize the trustees of the United States Postal Savings depositories to purchase Federal farm-loan bonds in lieu of United States bonds or other securities for the purpose of investing postal savings funds. To say by statute, that the bonds issued by these banks, shall be placed upon a par with government bonds is conferring a most valuable privilege. To declare by law, that certain securities issued by a private banking institution shall be regarded as a safe investment for funds held in trust by individuals and public officers, in effect, is a guaranty of their payment. To authorize public officials, to invest government funds in these bonds is to say to private investors, do likewise. But these provisions serve another purpose. They make a market for these bonds. Through these provisions, these land banks will sell many of their bonds. The special privilege thus conferred upon these private land banks is government aid of the most substantial character. If our land-credit institutions were public or semi-public corporations, if they were non-profit-sharing, if they had an altruistic purpose, then, of course, there could be no valid objection to giving their mortgage bonds special privileges. But European nations have recognized the impropriety of giving the securities of one private in-

stitution recognition above another. Generally speaking, the American people are opposed to granting special privileges to private corporations. The difficulty is that the "officially endorsed" bills create private, profit-sharing banks, and apply to them the privileges European countries have as a rule extended only to non-profit-sharing institutions, operated in the interest of the public. The way out is not to withdraw the special privileges, but change the character of the institution. It is appropriate to confer special privileges upon a public or semi-public institution, created and managed for the public good. It is doubtful whether or not the national government can with propriety and safety extend aid of this kind when the benefit from such privileges must necessarily in part inure to capital invested in purely private corporations.

c. *Government Aid through Exemption from Taxation.* The three "officially endorsed" bills exempt from Federal, State and local taxation:

1. The farm mortgages and the farm-mortgage bonds issued thereon; 2. The land banks, their capital stock, reserves, surpluses, undivided profits, and the income therefrom.

There are two propositions involved in this — one proposes to exempt the farmers' mortgages and the bonds issued thereon from taxation; the other to exempt the banks and all their property, except real estate, from taxation. The object of the tax-exemption provision is to reduce the rate of interest paid by farmers on farm mortgages. Evidently, if the farm mortgages and the bonds issued thereon are both subject to taxation, there can not be a low rate of interest maintained for farmers. As has been said, to tax the farm, the farm mortgage and the farm-mortgage bond would be triple taxation. Apparently there is general approval of the idea to exempt the mortgages and bonds from taxation. But the Federal government thereby takes vast revenue from the State and local governments.

Here again appears an inconsistency on the part of those who so vehemently oppose government aid by use of the Government's funds or credit, but do not hesitate to force the States and local governments to relinquish revenue and credit to make the land-credit institutions successful. It must also be borne in mind that to relieve one class of property from taxation always places an additional burden upon other property. So in the end, somebody must pay the bill. In Europe, generally only non-profit-sharing institutions are exempted from taxation. However just and necessary it may be to exempt bonds and mortgages from taxation, the proposition to exempt profit-sharing banks from taxation is wholly unwarranted. This is not done in Europe. The object of this provision is to induce capital to invest in the stock of land banks. It is entirely too remote to say that the farmers will get the benefit of the exemption to banks. Such will not be the case. It is a very great privilege to exempt private property of any kind from taxation. Only non-profit-sharing institutions, or property used for religious or philanthropic purposes should be exempt from taxation. It will be profitable to ascertain what is the practice in some of the European countries.

The sixteen State, provincial, and district mortgage-credit banks of Germany are exempt from stamp duties. In enumerating the distinctive features of these banks, Mr. Cahill, Senate Document 17, page 57, says:

"Exemption from stamp duties as a rule, and often from court fees."

In view of the proposition to exempt mortgages, bonds, and also the capital and surplus of the banks and the income therefrom, from all Federal, State and local taxation, it will be well to bear in mind that this privilege is not generally extended to European land-credit institutions except to purely non-profit-sharing or benevolent institutions.

The Provincial Mortgage Institute of Lower Austria,



though a public, non-profit-sharing institution, is not exempt from taxation. This is shown in the statement referring to this institution by Friedrich Redl, a Director (S. Doc. 214, page 198, 63rd Congress), in which he says:

"A government tax of one-half per cent. is levied on the coupons of the bonds; this tax is borne by the institute."

In Italy the long-time loans, made by savings banks, are not exempt from taxation, as is shown by the statement of a director of the Florence Savings Bank, before the United States Commission. After referring to the rate of interest charged, he says: "To this must be added a charge for income tax." (S. Doc. 214, 63rd Congress, page 41.)

That the savings banks of Italy and long-term mortgages made thereby are not exempt from taxation, is shown by the following statement printed in the evidence taken by the United States Commission (S. Doc. 214, page 97, 63rd Congress). Referring to annual payments made by borrowers, it is said:

"The annual payments comprise the amortization installment, interest, income tax, commission, and management expenses, which must not exceed 45 centimes on each 100 francs of the loan, and lastly, the mortgagor's share of revenue and stamp duties which are paid on his behalf directly by the institution."

That the mortgages taken by the Hungarian Land Credit Institution, are not exempt from taxation is shown by a statement made by Count Hoyos, director, in questions and answers printed in Senate Document 214, page 158, 63rd Congress, as follows:

"Q. What would your institution charge for making the loan?"

"A. Nothing."

"Q. Every person who comes to you and applies for a \$10,000 loan, you give him \$9,900 and you keep \$100 as a guaranty fund?"

"A. We only keep \$10 in cash for the guaranty fund."

One hundred dollars, of which \$10 is in cash and \$90 on paper, to be called in when losses occur, constitutes the guaranty fund. Thus the cash payments are \$10 for the guaranty fund and \$70.70 for government taxes."

Borrowers from the joint-stock profit-sharing banks of Germany are not exempt from taxation, on their mortgages. The President of the Bavarian Council of Agriculture in discussing the costs of securing loans from these institutes (S. Doc. 214, page 268, 63rd Congress) enumerates among these costs:

"The stamp duty collected by the German Empire, amounting to one-half per cent., as well as the imperial 'Talon-tax,' an annual tax of about one-fiftieth per cent."

The Credit Union of Württemberg (Germany) is not exempt from taxation although it is a non-profit-sharing institution, in the sense that all profits ultimately go to the borrower. The managing director (S. Doc. 214, page 301, 63rd Congress), says:

"Stamp taxes are payable on the bonds of the association. The Association also pays an income tax on its net annual earnings. The total tax for 1912 was 60,000 marks. The item of taxes is charged against the cost of administration."

The Rhenish Mortgage Bank (Germany) is not exempt from taxation. This is shown by a statement by Mr. Wolff (S. Doc. 214, page 322, 63rd Congress), as follows:

"The cost of selling is, tax to government, one-half of 1 per cent.; commission, 1 per cent.; commission for agent, one-fourth of 1 per cent."

There are fourteen land-credit associations which make loans on first mortgages in Denmark. In 1912 they had \$440,860,000 in outstanding loans. These institutes are similar to the *Landschaften* of Germany and are free from stamp taxes.

The Prussian Central Land Credit Joint Stock Company

of Berlin, one of the largest mortgage banks in the world, in 1911, paid in State and local taxes alone (not including national taxes) £22,801, or \$110,812.<sup>1</sup> This was about one-third of the administration charges of this great mortgage company. There is no precedent among European governments for the exemption of profit-sharing banks from taxation.

Aside from the question of the propriety of exempting private banks from taxation, there is also the important question of the constitutional power of Congress to exempt farm mortgages, farm-mortgage bonds, and the national land banks from taxation by the States and local governments. This is an important and interesting problem and should be thoroughly considered before final action is taken thereon. To aid the Members of Congress and others who are interested in land-credit legislation the author of this work prints herewith, as Appendix "A," a discussion of this constitutional question prepared by Mr. H. W. Edgerton, Research Assistant, Legislative Reference Division, Library of Congress, under the direction of Hon. Herbert Putnam, Librarian.

(5) *Government Aid through Extension of Credit.* The Federal government may extend its credit directly or indirectly. As heretofore indicated, the Federal government will extend its credit in every single step taken to establish a national system of rural credits. In enacting a national rural credit law, in establishing national rural credit institutions, in giving these institutions the exclusive use of the name "National," in assuming to supervise, regulate or control them, and in all kinds of special privileges granted them, the Federal government is using its credit to aid these institutions. It may be said that this is indirect use of the Government's credit. Nevertheless, it is real, substantial, effective. In principle, there is no real difference

<sup>1</sup> Cahill's Agricultural Credit and Coöperation in Germany, Senate Doc. No. 17, 63rd Congress, p. 74.

between direct and indirect aid. In both cases, the Government recognizes the necessity of the aid, and the obligation, the power, and the ability of the Government to render it. There is a principle of law that one can not do indirectly that which he is prohibited from doing directly. If there is any real, substantial, and satisfactory reason why the Federal government should not extend direct aid to promote agricultural credit, then the same objection could be urged against extending indirect aid. If it be admitted that the Federal government must use its credit, in this great national undertaking, the manner in which this credit is extended is a question of policy, and not of principle. The conclusion is inevitable, that the Federal government should extend its credit directly so far as it may be necessary to insure the success of our land-credit institutions. The real problem is, not shall the Government use its credit, but in what form shall the credit be extended. In deciding this question, we should have this fact constantly in our minds, viz.: That the amount of credit and the rate of interest obtained under any system of land-credit depend upon the absolute security of the mortgage bonds. These bonds, running for a third of a century, or longer, can not be sold in large quantities at a low rate of interest, if there be any question about their payment. These bonds must be made secure. It would be a great public calamity, to bring into existence land-credit institutions, authorized to issue farm-mortgage bonds, to run for from 35 to 60 years, with any doubt as to their payment. The United States can not afford to do this. If Congress shall create land-credit institutions, those institutions must not be permitted to issue bonds or debentures about the payment of which there can be the slightest question. This is due to the farmers, to investors, to the great industry of agriculture and to the nation at large. It is almost as essential that farm-mortgage bonds shall be good as it is that we shall have a sound currency system. Unsound

currency in circulation could be little worse than the distribution of insecure farm-mortgage bonds among the people. Money must be good or it will not circulate freely. Likewise, farm-mortgage bonds must be good or they will not sell. Mortgage bonds are not money, but as they have been issued by European land-credit institutions they are just as secure. In establishing a new system of banking and currency, every precaution was taken to make the new currency good beyond question. Back of our new currency were placed the capital, reserves, and resources of the member banks, the capital, reserves and resources of the Federal reserve banks, and finally the guaranty of the Federal government. No one questions the wisdom of this legislation. All recognize that there must be no question about the quality of our circulating medium — it must all be as good as gold. As the national government made its new currency good — so it must make farm-mortgage bonds good, and should not permit them to be issued under any other conditions. Frederick the Great made the debentures of the *Landschaften* of Silesia good. He did it by making all lands of a certain class stand as security for all the debentures issued. These lands with unlimited liability stood as security for every debenture issued. The Federal government, if it acts at all, must act wisely. The United States — the richest and most enlightened nation of the world, can certainly do as well as Frederick the Great did a hundred and fifty years ago. There is one way the Federal government may make farm-mortgage bonds good; it may guarantee their payment. This many other nations have done. This the Federal government should do unless it can devise some other method equally effective. It may not be necessary that the United States shall pledge its credit to secure the payment of the bonds issued by land-credit institutions, but it is incumbent that the Federal government shall devise some means, method, or scheme whereby these bonds may be issued under con-

ditions which will make them a perfectly safe investment. Those who oppose the use of the Government's credit, to secure the payment of farm-mortgage bonds, should set themselves to the task of devising the plan by which these bonds may be issued with absolute safety without the Government's guarantee behind them. There are ways this may be done. There are certain risks in every line of business. Likewise there are certain risks in the farm-loan business. There may be a bad title, or over-appraisement; forces of nature may destroy the value of the land; floods, drouths, insects and disease may cause failure of crops; dishonesty and fraud may cause losses. These things will not be general, but they will come now and then. General financial conditions, business depression, low prices of farm products, may affect the value of land and the ability of farmers to pay. Preparation must be made to meet such emergencies. Institutions issuing farm-mortgage bonds must have a fund set aside for this purpose. This is called a reserve, guaranty or insurance fund. Any land-credit institution is sound that has a sufficient reserve fund to meet losses when they come. All that is necessary to make the farm-mortgage bonds absolutely safe is to require the accumulation of an ample reserve, guaranty, or insurance fund to meet all possible losses. Now, the Federal government has the power to see that this is done.

(6) *Federal Aid through the Use of Government Funds.* There are a number of ways by which governments have used their funds in aid of agricultural credit. Among these may be mentioned the following: (a) direct loans, (b) by donations or gifts to land-credit institutions to enable them to supply money cheaper or in more abundance, (c) by subscription to the capital stock of land banks, (d) by giving money to land banks to be used as a reserve, guaranty or insurance fund. Bills were introduced in the Sixty-third Congress proposing that the Federal government use its funds in many different ways, in the aid of

agricultural credit. The National Grange and the Farmers' Union endorsed the general proposition to use the cash of the Government to provide ample and cheap credit for the farmers. The United States Commission and the American Commission reported against the proposition. The Senate Committee on Banking and Currency reported against it. The Sub-committee on rural credit of the two Houses reported a bill which authorized the Federal government, under approval of the Federal Reserve Board, to purchase not to exceed in any one year, fifty million dollars' worth of farm-mortgage bonds. The Sub-committee of the Senate subsequently withdrew its endorsement. In both the Senate and House there was a great division of sentiment. The McCumber amendment was placed as a "rider" upon the agricultural appropriation bill. This amendment provided for the use of \$10,000,000 as an operating fund, with which to make loans to farmers. This brought the question of the use of the cash of the Government in aid of agricultural credit directly before the two Houses of Congress. The House, following the recommendation of the Committee on Agriculture, eliminated the McCumber amendment, but amended the Senate Committee Bill, by inserting the bond-purchasing proposition embodied in the Sub-committee Bill. In lieu of all these propositions, Congress appointed a joint-committee composed of Members of the House and Senate to report a bill to Congress not later than January 1, 1916. Thus the Sixty-third Congress adjourned, with the proposition to use the cash of the Federal government in aid of agricultural credit still undetermined. When the Sixty-fourth Congress shall convene in December, 1915, the contest will be renewed.

3. *Some Arguments in Favor of Government Aid.* Some of the arguments in favor of the use of government funds or its credits to aid agricultural credit will be presented under the following heads:

- (1) The importance of agriculture.
- (2) Danger of centralization of population in town and cities.
- (3) Farm credits a means to promote a national policy.
- (4) Lack of credit.

(1) *The Importance of Agriculture.* In determining the extent to which the Federal government should use its credit or cash in aid of agricultural credit, the importance of agriculture as an industry must be taken into consideration. Agriculture is our chief industry. It is a fundamental industry. Through it comes the food-supply for our population. Our population is rapidly increasing. At the rate of increase heretofore maintained, within a half of a century we will have 200,000,000 people in the United States. These people must be fed. This food must come from the farm. Even in peace we should not depend on other countries to feed our people. But war may come, when food can not be obtained abroad. The welfare of our people, the independence of our nation, the very life of the Republic depend upon the growth and development of agriculture. There is now a clamor for better provision for our national defense. There is a demand for a large increase in our army and navy. In a measure, at least, these demands will be met. Five hundred million dollars expended in this direction would not go very far. But an army and navy would be of little use, unless the soldiers and seamen are properly fed. A larger army in the field and a greater navy on the sea would not uphold our nation's honor long, if our people at home were suffering for food. An adequate supply of food-products is essential to our nation's greatness, our national defense, and national existence. To promote the prosperity and expansion of the industry which supplies us with food, we may wisely use whatever cash or credit that is necessary. It should also be remembered that the prosperity of all other industries depends largely upon agricultural prosperity. The farm-

ers constitute more than one-third of our population. The wealth they produce is distributed to all. A very large percentage of our population is engaged in industries and occupations which draw their support almost entirely from agriculture. Any benefits or advantages bestowed upon farmers quickly and certainly pass to others. Cash from the National Treasury which adds to the productiveness of the farm flows out into all other channels of trade, commerce and industry, and finally comes back to the Federal government in increased volume. There is no better way to strengthen the national credit than to use a part of it in providing adequate credit for agriculture. There is no saner or wiser way to increase the cash in the National Treasury than to use a part of it in providing ample credit facilities for our farmers. To withhold whatever cash or credit that may be necessary to insure the success of this great national undertaking, will limit and dwarf the very sources of national credit, and the evil consequences therefrom will be visited upon all our people.

(2) *Danger of Centralization of Population in the Towns and Cities.* The drift of our population to our towns and cities has become a national menace. From 1900 to 1910, our rural population increased 11 per cent.; our urban population increased 34 per cent. In these statistics there is a warning to those entrusted with the power of directing our national policies. These statistics point the way; they suggest the proper course to pursue; they remind us that every legitimate and proper means should be used to prevent the over-population of our towns and cities. Ten per cent. of our people now reside in three of our great cities — New York, Chicago and Philadelphia. Thirty years ago there were two men in the country to produce food for every man in the city; now one man in the country must produce surplus food for two men in our towns and cities. But the strength and stability of our nation, the character of our citizenship, the physical, in-

tellectual, and moral development of our people, in a measure, depend upon the keeping of a larger percentage of our population engaged in agricultural pursuits. The Constitution confers on Congress the power, and the duty to provide for the general welfare. This duty should not be shirked and this power should be used whenever the general welfare is in jeopardy. Congress may, and should, use the funds in the National Treasury to provide for the general welfare. Whatever promotes the general prosperity of agriculture will tend to hold our people on the farm. The experience of other countries demonstrates that proper credit facilities will contribute largely to agricultural prosperity. The lack of credit, at reasonable cost, hinders agricultural development, lessens the profits of farmers, makes the farm less attractive, and drives farmers into other occupations. The want of credit is a potent factor in centralizing our population in our great centers of trade and commerce. This condition must be reversed. Where now there is a lack of credit, a supply of credit must be provided. To attain this end, the Federal government can not justly or wisely withhold its credit or its cash.

(3) *A National Policy to Be Promoted.* Back of this movement to organize farm credits, is a national policy. No government has ever established a system of farm credits merely as a gift to its farmers. The rights of our farmers, their interests and their welfare can not and should not be ignored. But the object of rural credit legislation, is not merely to give farmers something more than others have. True, the farmers have a right to ask better credit facilities. As a matter of pure justice they are entitled to more credit and cheaper credit. Our present credit institutions do not give farmers their just share of the credit power of the country. Agriculture pays a higher rate of interest than other industries pay. Our farmers have less credit and pay higher rates of interest than the farmers of European countries. As a matter of right our

farmers are entitled to relief. But European countries gave their farmers credit to carry out a great national policy, deemed essential to the national welfare. The farmers profited thereby. Through their prosperity, these nations were strengthened. All their people shared the benefits. Why should the Federal government concern itself about rural credits? Why should we enact national legislation on the subject? Why not leave the farmers to their fate? Why not let each State care for its own farmers? The reason is obvious. The subject is nationwide in its influence. At last, we have recognized that the public good may be promoted by giving our farmers adequate credit, at reasonable cost. The man who looks upon the agitation for better credit facilities for agriculture, as merely a movement to give a bonus to our farmers, has a narrow and erroneous conception of the subject. If not to inaugurate a new national policy, it is to reënforce an old one. The national government following the lead of other nations, proposes to utilize credit, as a means to encourage agriculture and promote its development. It is not a question of satisfying the farmers. It is a question of aiding all, through aid to the farmers. We may well hesitate to vote money out of the National Treasury simply to benefit the people in a particular business. When, however, a national policy is involved, the Federal government can not withhold its credit or its cash merely because those employed in a certain business, or residing in a certain section, will receive direct benefit thereby. Every year the national government is using hundreds of millions of dollars in promoting national policies which confer direct and special benefits upon only a part of our people. We do not, however, on this account, abandon our national policies and refuse our appropriations.

(4) *Lack of Agricultural Credit.* In discussing the question of government aid, the absence of agricultural credit must be taken into consideration. The credit power

of the country is in the control of our banks. They extend comparatively little credit to farmers. In another chapter entitled "Discriminations against Farmers," statistics along this line have been quoted. In this connection they may be repeated in part. Our banks have \$2,132,000,000 in capital stocks. Their loans on farm lands amount to \$542,115,491; they have loaned upon real estate other than farm lands \$2,965,000,000. These figures show that the credit power of existing banking institutions has been used to improve and develop the real estate of towns and cities rather than for the improvement of the farms. The Secretary of Agriculture, in his 1914 report, estimates that our banks have loaned to farmers in short-time loans, on personal security, \$1,750,000,000. According to these official statistics our banks have in loans and investments, in bonds and other securities, \$20,873,000,000. Less than one-ninth of their credit power is extended to farmers, though they constitute one-third of the population. The report of the Comptroller of the Treasury for the fiscal year ending June 30, 1914, shows that our banks had in loans and in investments, in stocks and bonds, \$9,711,000,000. In round numbers, one-half of the credit power of our banking institutions has been extended to corporations; one-tenth, in all kinds of loans, to farmers; and nine-tenths to non-farmers. Now, it is not necessary to criticize our bankers. Certainly they have no ill-will against the farmers. This flow of credit to our cities, into the channels of trade and commerce has been natural. The cities, the corporations, trade and commerce have out-bid agriculture for credit. The merchants, the manufacturers, the middle-men, the promoters, the traders, the speculators have been in close touch with our credit institutions. The farmers live in more remote sections, and besides they have been busy on their farms. Credit does not follow the flag. The channels into which it flows are determined by profits, not by patriotism. The currents in which credit has been flow-

ing for many years can not be easily changed. It is as difficult as it is to change the natural course of a stream of water. Rivers seldom change their channels. Sudden changes are rare, and are usually the result of high-water or an over-flow. To aid navigation, the national government, through appropriations from its national treasury, sometimes finds it necessary and wise to change the course of a river. For long years past our national credit has been flowing away from the farm into the city, out of agriculture into trade, manufacturing, and commerce. We can not wisely wait for a freshet, a flood, or an earthquake to change the channels in which credit is flowing. As the Federal government uses its cash to change the courses of rivers in the interest of commerce and navigation, so it should use its cash to change the current of credit toward agriculture, and thus add to the productiveness of our farms and to the prosperity of our people.

4. *The use of the funds of the Government to purchase farm-mortgage bonds, as proposed in the Sub-committee Bill, is not the best plan of government aid, viewed from the Government's standpoint; neither will it render the most effective aid to the farmers.*

#### OUTLINE OF DISCUSSION

1. The bond-purchasing provision in the Sub-committee Bill not mandatory.

2. Bond-purchasing proposition will not (a) materially increase credit power of land banks or (b) cause any reduction in interest on farm loans.

3. Bond-purchasing proposition not supported by the experience or practice of other nations.

4. How funds or credit of the Government may be used most effectively to aid agricultural credit.

(1) *The bond-purchasing provision in the Sub-committee Bill is not mandatory.* The bond-purchasing provision of the Sub-committee Bill is found in Section 30, and is as follows:

“That the Secretary of the Treasury shall, upon application of one or more of the Federal land banks herein established, and upon the recommendation of the Federal Reserve Board, purchase from Federal land banks farm-loan bonds not previously issued or sold, in an amount not to exceed \$50,000,000 during any one year, and shall pay for the same out of any money in the Treasury not otherwise appropriated.”

The whole matter is left to the discretion of the Federal Reserve Board. The Secretary of the Treasury can purchase no farm-mortgage bonds, except upon the recommendation of the Federal Reserve Board. This board will decide whether or not bonds shall be purchased and the amount of bonds that may be purchased. Neither the farmers, the land banks, nor the public generally will have anything to say. The whole proposition will be controlled by the judgment and discretion of the Board. The amount purchased “during any one year shall not exceed \$50,000,000.” There is a maximum but no minimum limit. This doubt and uncertainty will be embarrassing. The Government will purchase bonds only in an emergency. It will buy only when other investors do not buy in large enough quantities. It will be in the farm-mortgage market only when there is an over-supply of bonds. The Government will be irregular in its bond-purchases. All this doubt, uncertainty and irregularity will be confusing, if not absolutely demoralizing to the business. It will be embarrassing to the Government, unsatisfactory to land-credit banks, and lead to endless complaints, criticisms, and dissatisfaction among farmers. To make the bond-purchasing proposition valuable, it should be mandatory in some form. The Government should be required to buy a certain amount of bonds annually. Otherwise the moral effect of its action will have slight influence. Besides, the Government is not to buy these bonds as a permanent investment. It might have fifty million dollars' worth of

bonds to-day and none to-morrow. The Government would buy not to keep but to sell. This kind of bond-purchasing would not develop confidence in farm-mortgage bonds.

(2) *Bond-purchasing proposition does not (a) insure adequate credit or (b) a low rate of interest.* The bond-purchasing provision in the Sub-committee Bill, if adopted, would not insure adequate credit. It has already been pointed out that it would not be mandatory upon the Government to buy any of these bonds, and that the amount of bonds the Government would buy would be entirely at the discretion of the Federal Reserve Board. There would be no positive assurance of any purchases. But assuming that the Government would annually buy a reasonable amount of these bonds, still this would not guarantee adequate credit for agriculture. The only way to insure adequate credit through a bond-purchasing proposition is to make this provision mandatory, and require the Government to purchase all bonds not wanted by other investors. This would be equivalent to the Government undertaking to loan directly to the farmers all the money needed. To understand clearly what will be the effect of the bond-purchasing proposition on the amount of credit extended by the banks, it must be borne in mind that the safety of the farm-mortgage bonds is the one thing that will induce investors to put their money into them. The public will not invest in long-time farm-mortgage bonds, about the safety of which there is any question whatever. The purchase of these bonds by the Government does not add anything to their safety. The fact that the Government purchases these bonds might give others confidence therein, but does not make them any more secure. If the Government desires to do something that will insure ample credit, it must adopt some plan that will make the farm-mortgage bonds an absolutely safe investment. This will bring ample credit to the farmers; this will induce investors, large and small, to purchase these bonds. Nothing else will. It is idle to

talk about selling two or three billion dollars' worth of farm-mortgage bonds, unless their safety is assured. And it would be wrong for the Federal government to allow them to be issued under conditions which would call in question their safety. The farmers and their friends who are trying to secure legislation in their interests, should get clearly in their minds, above all things else, that the one essential thing is the safety of the bonds. If no other way can be devised, the Federal government should guarantee their payment. This will remove all doubt about their payment, and secure ample credit for agriculture. If, however, the Federal government does not want to directly guarantee the payment of farm-mortgage bonds, then, instead of investing its funds in farm mortgages, in an uncertain, and irregular way, it should appropriate sufficient money to form the basis of a guaranty or insurance fund, which in itself would make the farm-mortgage bonds secure, and thus insure their sale in quantities large enough to meet the demand for farm-mortgage loans.

(b) *The purchase of farm-mortgage bonds will have no material effect in reducing the rate of interest on farm mortgages.* In determining the way government credit or government funds shall be used in aid of agricultural credit, the main objects in view must be kept constantly in mind. The objects of such aid, as has been repeatedly stated, are to increase the amount of credit and guarantee a low rate of interest. Obviously, therefore, government funds should be used in a manner that will most effectively contribute to these two ends. In another chapter the question of interest has been fully discussed. It has been shown that the rate of interest will be affected by statutory provisions, by the character of the bond-issuing institution, whether public or private, by economical administration, by the number of bond-issuing institutions, their capital and reserve funds, by uniformity in interest rates, by absence of competition between bond-issuing institutions, and above all by



absolute security in farm-mortgage bonds. The mere fact that the Federal government buys farm-mortgage bonds in no way adds to their safety. The capital of the bond-issuing banks is not increased thereby. The administrative expense would not be reduced. The character of the bond-issuing institutions would not be changed. It would not make interest rates uniform over the entire country, or prevent bond-issuing banks from competing with each other in the sale of their bonds. Strange to say, the bond-purchasing proposition would tend to increase interest rates. By purchasing farm-mortgage bonds, the Government places itself in the same position as private purchasers. The interest of the bond-purchasers and the farmers are not in all respects identical. The investor wants the bonds to bear as high a rate of interest as possible, because the interest on the bond determines the annual earning power of his money. But the bond interest rate controls the mortgage interest rate. The bond can not bear a high rate of interest unless the farmers pay a high rate of interest. To an extent, there is a conflict of interest between the farmers who borrow and all who invest in their securities. In becoming a bond-purchaser, the Federal government would place itself in a position adverse to the farmers. Financially the Government would profit by a high interest rate on farm-mortgage bonds, which would mean a high interest rate on mortgages. The only ways the Government can use its credit or its funds to materially affect the rate of interest is to guarantee the payment of the farm-mortgage bonds, or to use its funds in some system of direct loans, or in providing capital or reserve funds to secure the payment of the farm-mortgage bonds.

(3) *The bond-purchasing proposition is not supported by the experience and practice of other nations.* In deciding upon the best plan for the use of the credit or funds of the national Government in aid of agricultural credit, the experience of other nations should be given great

weight. No new plan should be tried if others have proven successful. It is never wise to try an experiment in a vital matter. In great undertakings, when immense interests are at stake, it is not wise to take too many chances. If Congress shall decide to use either the credit or the funds of the Federal government to promote agricultural credit, it should follow the example set by other nations, and adopt a method that has proven safe for these governments, and successful in providing farmers with proper credit facilities, at reasonable cost. It is clearly within the facts to say that there is not a single land-credit system in the world that owes its success to the purchase of farm mortgage-bonds by the Government founding it. This is a matter of such supreme importance as to demand a careful examination of the precedents of other nations.

(a) *Germany.* All students of European rural credit systems recognize that, all things considered, Germany has provided her farmers with the best facilities for credit. She has led all other nations in this field. Her land-credit institutions are the oldest. She has been liberal in the use of government credit, and government cash, in aiding them. She has used her credit and cash in different ways. But neither the Imperial government, nor the provincial governments have purchased farm-mortgage bonds as a means to insure the success of any of her numerous land-credit institutions. There are eight different kinds of land-credit institutions in Germany. The *Landschaften*, the state and provincial mortgage-credit banks, the joint-stock mortgage banks, the savings banks, credit for land improvement, Prussian aid banks, rent charge aid banks, and insurance institutions. Neither the Imperial government nor the provincial governments have used their funds largely to aid the *Landschaften*. In no case have the governments aided the *Landschaften* by purchasing their debentures. The aid extended has been advancement for organization purposes, and contributions to their capital or reserves. There

are thirty-seven joint-stock mortgage banks in Germany. These are strictly private, profit-sharing institutions. They have an enormous business which is largely confined to loans on town and city property. They have not been aided in any way by the use of the funds of the Imperial or provincial governments. There are sixteen state, provincial or district mortgage banks. These are all public institutions. The state or provincial governments do not aid them by purchasing their bonds, but guarantee the payment of their bonds. There are over 3000 savings banks in the German Empire, exclusive of branches. The great bulk of these are public institutions founded by state, provincial, and local governments. They loan extensively on farm-land mortgages and some of them issue farm-mortgage bonds. The governments do not purchase these bonds. They do guarantee the payment of their liabilities. Speaking of the savings banks of Prussia, numbering, in 1911, 1711, Cahill (S. Doc. 17, 63rd Congress, page 76), says:

“The great majority of savings banks are communal, district or urban and are public institutions, established, supervised or managed, and guaranteed by these governments.” In Prussia, there are five Land Improvement banks. These are public institutions, and the bonds are guaranteed by the states or provinces. There are eleven Prussian Provincial Aid banks. These are public institutions and the bonds are secured by guaranty of the provinces. There are seven Rent Charge banks. These are government institutions. Referring to their bonds, Cahill (S. Doc. 17, 63rd Congress, page 94), says: “These bonds rank as government securities.” There are thirty-one public insurance institutions which make loans for agricultural purposes. They issue long-time bonds. Being governmental institutions, all their obligations are secured by the state. These comprise all the land-credit institutions of Germany. All these concerns are public institutions, except the joint-stock mortgage banks, and only

9 per cent. of their loans are made upon farms. Hence, practically all of the farm-credit institutions of Germany are public institutions with their bonds secured by the state, provincial or local governments. In no instance has the Imperial government, or the state, provincial or local governments undertaken to insure the success of any of their land-credit institutions by the purchase of their bonds. When funds of the governments have been used it has been in contribution to the organization expenses, operating funds, the capital, reserve or guaranty funds. Germany has, however, insured the success of her farm-credit institutions by seeing to it that the bonds or debentures of these institutions were issued under conditions and circumstances which made them a perfect type of security. The debentures of the old *Landschaften* were made secure by the principle of unlimited liability. Some of the new *Landschaften* have abandoned the unlimited liability requirement and make their debentures secure by reserve, guaranty or insurance funds. The bonds of all the other credit institutions in Germany, not including the joint-stock mortgage banks, established generally for urban loans, are issued under the guaranty of the state, provincial or district governments. There is no record that any material loss has come to the governments by reason of this guaranty. The bond-purchasing proposition has no support from the example of any of the German governments.

(b) *France*. The land-credit system of France is largely centered in one institution, the *Crédit Foncier*. The statesmen, economists and students of France spent more than a quarter of a century in the active study and discussion of various farm-credit propositions. After all this discussion, she gave the *Crédit Foncier* \$2,000,000 in cash, conferred upon it valuable privileges, assumed partial governmental control, and placed such restrictions and limitations on its methods of business, and required it to have capital and reserves sufficient to insure the payment of its

bonds. The French government in establishing this great mortgage-credit institution did not resort to a bond-purchasing proposition. It is true, that in passing the original law relating to land-credit, France did authorize the state or central government to buy the debentures of her land banks. But after a number of banks had been organized under this law, France decided to change her system. The *Crédit Foncier* absorbed the other land-credit banks. So far as known, the authority of the government to purchase bonds was never exercised under the original law.

(c) *Austria-Hungary*. In Austria there are provincial mortgage institutions in all the crown provinces except two and these are all governmental institutions and the bonds issued by them are guaranteed by the provinces.

The chief farm-mortgage credit institutions of Hungary are the Hungarian *Boden-Credit Institute*, which the state endowed with \$245,000, the *National Land Credit Institute* for small land owners, which the state also gave \$245,000, and the *National Federation of Hungarian Land Credit Institutions* which was endowed by the state with \$1,960,000 in cash, and also with \$2,450,000 in valuable securities as a fund to guarantee the payment of its debentures. Neither Austria nor Hungary has invested in the debentures of her land-credit institutions.

(d) *Russia*. The emancipation of over 22,000,000 serfs in Russia led to the establishment of the *Peasants' Land Bank*. Russia endowed it with an annual subsidy of \$2,575,000. Through this bank the government has carried on a vast business. It is a government institution and its bonds are virtually government securities.

(e) *Italy, Switzerland, Denmark and Sweden*. Italy, Switzerland, Denmark and Sweden have developed successful farm-credit institutions. None of these governments has adopted the policy of purchasing the bonds or debentures of these institutions as a means to insure their

success. Switzerland has twenty-eight land-credit institutions, owned or operated by the state, whose debentures are, of course, guaranteed by the state. The *Mortgage Bank of Berne* was given \$1,400,000 as a part of its capital by the Cantons. Its farm loans are made through the communes, which guarantee the payment of the loans. The *Canton of Vaud* purchased 11,000 shares of the *Mortgage Bank of Vaud*. The total shares were 19,500. The *Canton* invested in these shares \$110,000. The *Canton* guaranteed a 4 per cent. dividend on the stock of the bank. So the *Canton of Geneva* through its communes supplied the foundation capital for the *Land Credit Bank of Geneva*. The obligations of the *Mortgage Bank of St. Gall* are guaranteed by the *Canton*.

The fourteen land-credit associations of Denmark are patterned after the German *Landschaften* and the government does not purchase their bonds as a means to promote their success. Denmark advanced \$5,360,000 without interest to found the *Mortgage Bank of the Kingdom of Denmark*. This bank is designed as a central institution for the *Landschaften*. It buys their debentures. Denmark makes annual appropriations out of the treasury, amounting in 1909 to \$1,720,000, to be lent to small-holders.

The *Swedish General Mortgage Bank* was endowed at its founding with \$2,144,000, and in 1890 the bank was given a subsidy of \$8,040,000 in government bonds. This is a central institution to aid the ten local landowners' mortgage associations in the sale of their debentures.

(f) *Egypt, Japan, Philippine Islands, Australian States*. The *Agricultural Bank of Egypt* is controlled by the state. The *National Bank of Egypt*, closely connected with the state, owns one-third of its capital stock. A 3 per cent. dividend is guaranteed on the stock by the government, and when necessary to sell its bonds at a reasonable rate of interest, the government guarantees their payment.

Japan guaranteed a 5 per cent. dividend for ten years on the stock of the Kwango Ginko, or central land-credit bank of Japan. It also gave a subsidy of \$4,980,000 to the forty-six local or district land banks, called the Noko Ginko.

The capital of the Philippine Agricultural Bank, to the amount of \$500,000, was contributed by the Insular government. This institution is controlled and operated by the government.

South Australia, Western Australia, New South Wales, Victoria, Queensland and New Zealand through state land-credit banks or direct appropriations make loans to farmers.

(g) *Mexico, Argentina, Chile, Uruguay and Costa Rica.* Mexico neither guarantees nor purchases the bonds of her land banks. Un Banco Hipotecario Nacional is the chief land-credit bank of Argentina, and its notes are issued under guaranty of the government. The one great land bank of Chile is the Chilean State Land Mortgage Bank. It is a government institution and its securities are issued under government guaranty. Uruguay guarantees the bonds of her principal land bank, the Banco Hipotecario, and Costa Rica has a state land-credit bank. It may be said that Chile has at times purchased bonds of the Chilean State Land Mortgage Bank, but as this is a state institution, and the bonds are guaranteed by the state, it is evident that the purchase of these bonds by the state has had no material influence in the success of this institution.

This brief review shows that no government has ever adopted the policy of purchasing the bonds or debentures of its land-credit institutions. For over a century, the best minds of Europe, as well as of other countries, have studied the principles of land credit. Land-credit institutions have been established that have stood every test. Systems of land-mortgage credit have been founded which have survived business depression, hard times, commercial cataclysms, revolution, and war. They have safely passed through every crisis. Governments have used their funds

to aid in their organization, supervision and control. They have frequently subscribed to their capital stock, voted them gifts, donations, and subsidies, endowed them with large sums in cash and bonds, and contributed millions of dollars to their reserve, insurance and guaranty funds. State land banks have been created and operated by governments. Departments and bureaus have loaned funds appropriated from the public treasury. Communes, cantons, administrative districts, provinces, states, kingdoms, and Imperial governments have freely given their guaranty for the payment of their bonds and debentures. All this has been done without serious loss or embarrassment to any government. The actual losses have been insignificant. The credit of no government has been impaired. The taxpayers have not been burdened. No great abuses have developed. Other lines of business have not suffered. Above all, the methods used have proved successful. Investors have trusted agriculture. Credit in abundance, at low rates of interest, has been extended to farmers. The United States should profit from the experience of other nations. In the use of its cash or credit, in this great undertaking, this nation should select methods that have been tried and tested. The bond-purchasing proposition is new. It has not been used by any other government. Its success is a matter of conjecture. No one knows what it would cost. No one can tell to what extent it would furnish credit to our farmers. But it has been presented in good faith. It has the endorsement of the Sub-committee on rural credits. This gives the plan prestige. Members of Congress dislike to vote against the report of a committee. The joint-committee will doubtless take in consideration this endorsement. There is imminent danger that a mistake may be made. The principle of "government aid" may be won, and the substance lost. The situation is critical. All who are interested should do their utmost to understand this great proposition, and then

contribute all in their power to its correct solution. For this proposition involves the cash and credit of the nation, the growth and expansion of agriculture, the success of our land-credit institutions, and the prosperity of our farmers.

(4) *How the funds or the credit of the Government may be used to aid farm-mortgage credit.* Having taken the position that the use of the funds of the Federal government in the purchase of the bonds would not insure the success of our land-credit institutions and was not wise from the view-point of the Government, it now remains to determine in what way or ways the cash or the credit of the national Government may be most wisely used.

(a) If private joint-stock banks shall be created to operate our land-credit system, the Federal government must use its funds to whatever extent may be necessary to provide these banks with proper capital. This principle was recognized in the Federal Reserve Act. The Government having determined the amount of capital the Federal Reserve Banks should have, Congress authorized the Secretary of the Treasury to subscribe for the United States any balance the national banks did not subscribe. The Sub-committee Bill and the Senate Committee Bill direct the Secretary of the Treasury to subscribe any balance which private capital may not subscribe. The national banks furnished the required amount of capital. The Secretary of the Treasury did not, therefore, exercise the authority given him. Under the Sub-committee Bill and the Senate Committee Bill the minimum capital stock of each of the twelve district banks must be only \$500,000. Should either of these bills become a law it is not probable the Government would be called upon to use its funds to purchase stock in these banks. It has been shown elsewhere that the twelve district banks with a total capital stock of only \$6,000,000 would not be sufficient to insure adequate credit. If the twelve district-bank plan should be adopted the capital of each of these banks should be not less than \$5,000,000 and

the Federal funds should be used, if necessary, to secure this capital.

(b) The Government should use its credit or its cash, to whatever extent may be necessary, to insure the payment of the bonds issued by our land-credit banks whatever may be their character.

Three principal methods have been used to make farm-mortgage bonds or debentures absolutely secure. These are:

*First.* The method adopted by the old *Landschaften*, viz.: the unlimited joint and several liability of borrowers.

*Second.* The guaranty of a local, provincial, state or Imperial government.

*Third.* Through the creation or accumulation of a special fund, called a reserve, guaranty or insurance fund, sufficient to meet all possible losses.

Any of these methods may be used. One of them must be used, if our land-credit system shall be successful.

*First. Unlimited Joint and Several Liability.* The bonds or debentures of land-credit institutions may be made secure and safe by making all borrowers jointly and severally liable for each other. Experience has demonstrated that borrowers may safely assume this liability. For more than a century this method has been tried. It has proven successful. Borrowers have never lost thereby. In law, the liability is unlimited. In practice, it costs borrowers nothing. The reason is this: All borrowers are required annually or semi-annually to contribute, in addition to payments of interest, amortization fees and administrative charges, a small amount which is set aside as a reserve, guaranty, or insurance fund. The actual losses on farm loans have been small and land-credit associations have had no trouble in accumulating ample reserve funds to meet all losses. It is the general belief that the farmers of the United States would hesitate to borrow were they required to assume any liability for defaults of others. This

feature will probably not be incorporated in our land-credit system. Nevertheless, farmers could well afford to accept this method of making all their securities perfectly safe, rather than have them placed on the market, under conditions which would leave any doubt whatever of their payment.

*Second. Government Guaranty of Farm-mortgage Bonds.* It has been shown elsewhere that it has been the common practice for communal, provincial, state, and national governments to guarantee the payment of the principal and interest on farm-mortgage bonds or debentures. This guaranty has been extended only to public or semi-public institutions. Generally speaking, private joint-stock land banks, organized for profit, are not in a position to ask this kind of government aid. However, if the United States shall decide in favor of only private institutions as the instruments to operate its land-credit system, government guaranty should not be discarded on account of this fact. The necessity for government guaranty exists regardless of the kind of institution created. Indeed, public or semi-public institutions need the credit of the Government behind them less than private institutions. Investors naturally have more confidence in public or semi-public institutions. Further, without any legal guaranty, the public would regard the Government as responsible for the securities issued by institutions owned in whole or in part, or controlled or managed partially or entirely by public officers, or bank officials appointed by the Government. It has been said that the farmers of the United States would not readily accept the unlimited liability feature of some of the European rural credit institutions. The Government is just like the farmers. As one farmer does not like to go security for another, so the Federal government does not like to go on the bond of all its farmers. But as has been pointed out, the unlimited liability feature of European land-credit institutions has cost borrowers prac-

tically nothing. Likewise, government guaranty has cost the governments little. The explanation is this: in both cases ample provision is made to meet all losses through a special fund, to which all borrowers are required to contribute. As a matter of fact, in every system of land credit, every borrower pays his due proportion of losses incurred through the default of all others. He must do this by special payments made regularly and set aside for this purpose, or he must do it through higher interest rates, commissions or some other form of charges. The loan institution, whether private or public, an individual, co-partnership, association, or corporation does not pay the losses. The lender assumes there will be losses. On this account, in some form, he charges every borrower a little more than he otherwise would. Accordingly an institution that makes loans upon doubtful security, upon which losses are frequent, charges all borrowers a high rate of interest. Those who are good pay the defaults of others. Ordinary commercial banks expect certain annual losses from unpaid loans. These losses are made good by charging those who do pay a higher rate of interest. To some extent, this accounts for the fact that banks in old settled communities loan at a lower rate of interest than banks in new countries. On an average, the banks in old settled countries loan on better security, and their losses from bad loans are less. But suppose the Government would make loans direct to farmers, or guarantee the payment of farm-mortgage bonds, and pay all losses out of the national treasury, without requiring borrowers to contribute annually to the reserve fund. The Government must secure its funds through some form of taxation, and the farmers constituting a large percentage of our population would pay their share of the tax. In the end, therefore, fix it as we may, the system must be self-supporting. Money can not be obtained without payment to investors of reasonable interest, the administrative expenses must be met, and all losses

must be made good. Every borrower must pay his proper share to sustain the system. It is just as essential and just as legitimate, that every borrower pays his share of losses as it is that he pays his share of administrative expenses, or the principal of his debt.

The losses of farm-mortgage credit institutions, organized and supervised by governmental authority, have been insignificant. In the first place, those institutions are organized under laws, which restrict, limit and regulate them. They are supervised by governmental authority. Public or semi-public institutions are partially controlled by government officers. Safeguards of every kind are thrown around them. Their books and their business methods are subject to rigid inspection. Precautions of every kind are taken. Finally every loan is secured generally by a farm worth double the amount of the loan, as appraised by the officers or agents of the loan institution. Though there is some danger of depreciation, the value of farms fluctuate less than that of any other kind or character of property. Over appraisal is possible, but unless fraud is practiced, it would be rare, indeed, that a farm would be appraised at more than double its value. Besides, generally speaking, farm lands of every class and in every State, will continue to grow in value. This must be the necessary result of growth in our population, and of expansion in our industrial and commercial forces. It must also be remembered that under modern systems of organized land-credit, the principal is paid by annual or semi-annual payments. Every year the principal debt grows less. This system largely offsets any danger of losses from over appraisal or from any shrinkage in the value of the mortgaged property. Why all this discussion? It is to enable us to get a correct conception of what risk the Federal government would take in becoming guarantor for the payment of the farm-mortgage bonds to be issued by our land-credit institutions.

Off hand, the proposition for the National Government to assume the guaranty of one, two or three billions of dollars' worth of farm mortgage-bonds, seems exceedingly dangerous. After one has studied the history and experience of other governments in making such guarantees, after one fully comprehends the methods used to reduce losses to the lowest limit, and the ease with which land-credit institutions provide a fund sufficient to meet all losses, he will recognize that the monetary liability assumed would be comparatively insignificant. It is not a question of possibility of financial loss. It is all a matter of policy. Would government guaranty of farm-mortgage bonds lead it outside of the realm of its proper, wise, and legitimate functions? In conclusion, on this topic it may be said that by no other method can the Federal government insure for the farmers adequate credit at a low rate of interest, with so small expenditure of money and at such little risk.

*Third. Bonds secured through Reserve, Guaranty, or Insurance Funds.* The bonds or debentures of land-credit institutions may be made safe through the accumulation of a special fund, commonly called a reserve, guaranty or insurance fund. All borrowers are required to contribute to this fund. Sometimes a certain amount is taken out of each loan when it is made, and invested in some safe interest-bearing security, or loaned upon gilt-edged security. In other cases, borrowers are required at all interest payments, to pay a small fraction of 1 per cent. on the amount of their loans. In some institutions when the guaranty fund equals a certain percentage of the outstanding bonds, no further contribution thereto is required. The amount of the reserve fund varies in different institutions according to the requirements under various laws. In percentage, the reserve, guaranty or insurance fund ranges from 5 to 10 per cent. of the outstanding bonds. The accumulation of a reserve fund is compulsory, and is required by all institutions, whether under government guaranty or not.

This subject will be further considered under the following heads:

- (a) National Appropriations to the Reserve Fund.
- (b) Management of Reserve Fund.
- (c) Reserve Fund should be held in Common.

(a) *National Appropriations to the Reserve Fund.* If for any reason Congress shall finally decide against the policy of government guaranty of farm-mortgage bonds, then the next best way to make farm-mortgage bonds absolutely secure is for the Federal government to make a liberal appropriation to the reserve fund of our land-credit institutions. Even if the Federal government should undertake the guaranty proposition, it would still be wise to make a special appropriation to the reserve fund to be safely invested, and thus accumulate a fund amply sufficient to meet any liability that might arise under its guaranty. If our farm-mortgage bonds do not have the guaranty of the Government, the reserve fund must be so large as to preclude all questions of the safety of farm-mortgage bonds. The reserve fund should be increased from year to year until it amounts to at least 5 per cent. of the outstanding bonds. When the fund reaches the required amount, contributions to this fund should cease from those who have prior thereto paid into the fund. And as new funds come in from new borrowers all unnecessary reserve funds should be returned to contributors, or credited on their mortgages, giving preference in the order in which they became borrowers.

The Federal government should provide one-half of the guaranty fund. The other half should be contributed by borrowers. The appropriation may be by a lump sum at the inception of our institutions or an annual and continuing appropriation might be made through a certain number of succeeding years. If it be decided that the reserve fund shall within, say ten years, amount to 5 per cent. of the outstanding bonds, the amount of the annual appropriation should be large enough to provide the necessary amount.

Of course, there can be no important losses paid until the time comes to redeem the first series of bonds issued. These bonds are expected to run at least thirty-five years. In the meantime, practically the only losses to be paid out of the reserve fund would be to meet defaults in interest payments. It must be borne in mind, that the reserve fund will be invested, and drawing compound interest. It will thus add to itself rapidly. It does not seem wise that borrowers should contribute their full share to the reserve fund at the time of securing a loan. If one-fifth of 1 per cent. shall be paid annually by each borrower at the end of 25 years he will have contributed 5 per cent. of the amount of his loan to the reserve fund. This would insure that the borrower at the end of twenty-five years would have a fund equal to 5 per cent. of the outstanding loan. In the above calculation, no consideration is given to the fact that reserve funds would be added to annually by the interest thereon. Furthermore, every borrower will pay off a part of his loan every year. Every year an amount of bonds will be redeemed equal to the total annual amortization payments. It is plain that if each borrower is reducing his debt annually by from  $\frac{1}{2}$  to 1 per cent. and is paying one-fifth of 1 per cent. on the face of his mortgage to the reserve fund, it will require much less than twenty-five years to accumulate a 5 per cent. reserve fund.

(b) *Management of Reserve Fund.* The land-credit institutions of Europe generally allow each institution to retain the management, control, and custody of its reserve fund. An improvement might be made on this system, by requiring the reserve funds to be placed in the control of the government. Borrowers are required to contribute to this fund as a guaranty against (1) their own defaults, (2) against the mistakes, bad management, or fraud, or corruption of the owners or managers of the institution, and (3) as against events beyond the control of either borrowers or bankers. The fund is created to protect invest-



ors against loss. The fund belongs morally at least to investors. The fund is to secure the bonds or debentures. Bondholders have a lien on this fund superior to the claims of other classes of creditors. It is a sacred fund, and every precaution should be exercised to keep it inviolate. Bondholders will suffer as often from the mistakes and mismanagement of the managers of land-credit institutions as they will from loss in payments by farmers. Why then should this fund be left in the custody of the land banks — when one of the objects of creating the fund is to provide against the mistakes and in some cases the wrongful acts of their officers or managers? To leave this fund in the custody and control of the banks also diverts it from its true purpose and design. Especially is this true in private, profit-sharing land-credit institutions. Because in all joint-stock profit-sharing institutions the reserve fund adds to the value of the stock held by shareholders. In other words, it is used for speculative purposes. This is wholly at variance with the true purpose of this fund. Borrowers pay to the reserve fund — as an insurance against loss — which may be chargeable to them, to the bank, or to events for which no one in particular is responsible. To utilize this fund for any other purpose, is, in a sense, to take money from the farmers under false pretenses. There is only one way to make sure that this fund shall not be diverted from its legitimate purpose and that is to take it out of the control of the land-credit institutions and place it in the hands of the Government or in the control of some duly authorized agent, designated, approved or appointed by the Government. One way would be for the Government to designate some bank or trust company as the legal depository for this fund for each land bank, requiring such depository to furnish ample security therefor.

That the Government or some fiduciary agent should have the custody of the reserve, insurance or guaranty fund, is supported by the fact that land banks are not allowed to

have the custody of the farm mortgages on which the bonds are issued. These mortgages are the primary security for the payment of the bonds. To insure investors against loss from the wrongful acts of land banks and to give confidence to investors, land banks are usually required to deliver the mortgages upon which bonds are issued into the possession of a fiduciary agent as the representative of the bondholders. If the farm mortgages should be taken from the custody of the land banks, so should the guaranty fund. The mortgages, it is true, are the chief security behind the bonds. However, mortgagors, except when unlimited liability is required, are only required to pay their own notes. Assuming, therefore, that some mortgagors will not pay their loans in full, the only way to meet these losses is from the reserve or insurance fund. The reserve fund is what prevents failures, and bankruptcy of land-credit institutions. It is the one fund that meets losses. It belongs to investors as much as the mortgages upon which bonds are issued. If, therefore, it is wise to require land-credit institutions to surrender the custody of the mortgages upon which they issue bonds, they should also relinquish control of the reserve fund. While the reserve, insurance or guaranty fund is not the principal security for the bonds, it is a supplemental security, which meets all losses, and is the only fund especially set apart for that purpose. To take it out of the control of the land banks, would give greater protection to investors, add to the safety of land banks, and instill larger confidence in our land-credit institutions.

(c) *Reserve Fund Held in Common.* Whatever may be the character of our land-credit institutions, the reserve fund should be held in common. Whatever other diversity there may be, there should be centralization, unity and common ownership in the reserve, guaranty or insurance fund. To this fund every borrower should contribute a like percentage on his loan, and the land-credit institutions should be required to pass these funds on to the proper custodian.

If Congress shall make the mistake of creating a multiplicity of bond-issuing land banks, then the only hope for uniformity in interest, and for equality in land-credit facilities is to tie these institutions together with a common reserve fund large enough to make all their securities absolutely as good as the bonds issued by the Federal government. This proposition is new in land-credit legislation. So far as the writer knows it has never been followed by any nation. Neither to his knowledge has it been proposed in any bill heretofore introduced in Congress. The Sub-committee Bill and the Senate Committee Bill do, however, contain a provision akin to it. This is the provision which requires the twelve bond-issuing district banks to be ultimately liable for the payment of the bonds issued by any or all of the other banks. And this is one of the wisest provisions found in these two bills. But the Senate Bill authorizes the establishment of any number of bond-issuing banks, independent of the twelve district banks. The twelve district banks would in no way be responsible for the obligations of the independent banks. Neither would the independent banks be responsible for each other's debts. A common reserve fund would also be similar to the principle of guaranty of bank deposits, already adopted in some of the States. Every commercial bank, whether State or national, is expected to maintain a reserve and accumulate a surplus. A bank's capital, reserve and surplus are supposed to protect depositors. Generally they will. But banks do fail. Depositors lose heavily. Even where losses are light, the delay means ruin to many depositors. To provide against a catastrophe to a community and to protect individual depositors from irreparable loss, States have required banks to make contributions to a guaranty fund. If the Federal government shall through legislation establish a national system of land credit, millions of our citizens will hold the bonds of these institutions. Hundreds of millions of dollars' worth of these bonds will be in cir-

ulation. Investors are entitled to protection. A common reserve fund will afford this protection. Assuming that occasionally a land-credit bank might fail — it is better to distribute the loss among all our land-credit institutions. Losses will come only after the Government has taken every precaution and exercised the highest diligence to prevent them. But when losses come, the burden then should be distributed over the largest possible area, and among the largest number of persons. All our land-credit banks must be linked together by a common reserve or guaranty fund. All mortgagors must contribute to this fund. Through it they will be united. Though divided by obligations to different institutions, they will be united through a fund that will give them all credit, on practically equal terms. The reserve will not be the property of the land banks. It will belong to those whose earnings are united in its making. And the Federal government must contribute a just share to this fund. If the Government shall refuse to guarantee the bonds issued by all our land banks, it can well afford to aid the farmers in building up a guaranty fund large enough to insure the safety of all our land-credit institutions. Thus the common reserve fund will unite our farmers in a common undertaking for the benefit of all; it will bind our farmers more closely to each other; and the participation by the Federal government in contributions to this fund will bind our farmers more closely to the Federal Union, strengthen their love and appreciation therefor and enlarge their admiration for the principles of free government.

APPENDIX

APPENDIX "A"

LIBRARY OF CONGRESS  
WASHINGTON

April 9, 1915.

My dear Mr. Morgan:

The enclosed legal brief\* has been prepared in our Legislative Reference Division in response to your verbal request of March 17.

Very truly yours,  
HERBERT PUTNAM,  
Librarian.

(1 enclosure)

CONSTITUTIONALITY OF EXEMPTION OF STOCK IN  
RURAL LAND BANKS AND OF FARM MORTGAGES  
FROM TAXATION, IN PROPOSED LEGISLATION  
REGARDING RURAL CREDITS.

By H. W. Edgerton, Research Assistant,  
Legislative Reference Division,  
Library of Congress.

NOTE

The courts seem never to have had occasion to pass directly upon the constitutionality of so wide an exemption from State

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\* Constitutionality of exemption of stock in rural land banks and of farm mortgages from taxation, in proposed legislation regarding rural credits.

Hon. Dick T. Morgan,  
Room 490,  
House Office Building.

taxation, by Federal authority, as is here contemplated. The decisions on related points are well calculated to lead in different minds to different conclusions as to the validity of the exemptions. Principles, it would seem, must therefore be largely relied on.

In the first part of the following discussion, certain principles which bear more or less directly upon the question are presented, supported by the citation of authorities. In the second and third parts some of the points which might be urged in arguing for or against the constitutionality of the exemptions are suggested.

The cases cited herein may be found at length in:

Thayer, Cases on constitutional law. v. 2.

Cooley, Constitutional limitations. 6th ed.

Watson, The constitution.

Willoughby, The constitution.

Gray, Limitations on taxing power and public indebtedness, and other treatises on constitutional law.

## PRINCIPLES AND AUTHORITIES

### PART ONE

As an example of the proposed exemptions the exemption provisions contained in Senate 5542, Sixty-third Congress, Third Session, as reported to the Senate from the Committee on Banking and Currency, are given below. This bill provides in Section 29:

"That every Federal land bank and every farm loan association, including the capital stock and reserve or surplus therein, and the income derived therefrom, shall be exempt from Federal, State, and local taxation, except taxes upon real estate held, purchased, or taken by the said bank under the provisions of Sections seven and fifteen of this Act. First mortgages executed to farm loan associations or to Federal land banks under the provisions of this Act, and eligible as security for the issue of farm loan bonds shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, and local taxation."

"Farm loan bonds issued under the provisions of this Act and the income derived therefrom shall be exempt from Federal, State, and local taxation, and such bonds shall be a lawful investment for all fiduciary and trust funds."

I. Neither Congress nor a State legislature is forbidden by the Federal Constitution to make voluntary exemptions from the operation of its own tax laws. Congress may therefore refrain, and, so far as the Federal Constitution is concerned, so may State legislatures, from taxing the stocks and mortgages in question. In particular the Fourteenth Amendment is not an obstacle to such exemptions.

"The oft-repeated phrase, that the Fourteenth Amendment was not designed to interfere with the tax systems of the States, is an accurate index of the value of that amendment as a restraint on the power of exemption. Of course, if a case of exemption amounting to flagrant confiscation should arise relief might be had under the clause forbidding a denial of the equal protection of the laws; and in this respect, perhaps, the Fourteenth Amendment may be regarded as being an express embodiment of the vague limitation the possible existence of which has been suggested. But mere inequality, will not of itself be sufficient to invoke the protection of the amendment."

Gray, James M., Limitations of Taxing Power and Public Indebtedness, § 1323, p. 656.

Magoun v. Illinois Trust and Savings Bank, 170 U. S. 283, 299. An inheritance tax law of Illinois was attacked on the ground among others that the exemptions contained in the act brought it into conflict with the Fourteenth Amendment. The court upheld the validity of the statute and said:

"Nor do the exemptions of the statute render its operation unequal within the meaning of the Fourteenth Amendment. 'The right to make exemptions is involved in the right to select the subjects of taxation and apportion the public burdens among them, and must consequently be understood to exist in the lawmaking power wherever it has not in terms been taken away. To some extent it must exist always, for the selection of subjects of taxation is of itself an exemption of what is not selected.' Cooley on Taxation, 200."

People ex rel. The Brush Electric Manufacturing Company v. Wempel, 29 N. Y., 543. A New York statute exempted manufacturing corporations from certain taxes. The Brush Electric Manufacturing Company was held to be a manufacturing corporation and entitled to the exemption.

II. As a general rule Congress can not exempt particular objects from taxation by the States.

This is, of course, clear. The right of a State to impose taxation can not be limited from above except where State taxation would be inconsistent with the Federal Constitution. In M'Cul-

loch v. Maryland, 4 Wheat. 316, Judge Marshall, though he held unconstitutional the Maryland tax law which was before him, said of the States' power of taxation:

"It is obvious, that it is an incident of sovereignty, and is co-extensive with that to which it is an incident. All subjects over which the sovereign power of a State extends, are objects of taxation; but those over which it does not extend, are, upon the soundest principles, exempt from taxation. This proposition may almost be pronounced self-evident." (See opinion, p. 429.)

III. The fact that an institution is created by the Federal government or even that it is a government agency does not finally preclude the States from taxing it. Congress may grant the States power to tax it and taxes imposed pursuant to such a grant are valid.

The Act of 1864 revising the National Bank Act provided for certain taxation of National Banks by the States; and it is provided by the Rev. Stat. (§ 5219) that:

"Nothing herein shall prevent all the shares in any association from being included in the valuation of the personal property of the owner or holder of such shares, in assessing taxes imposed by authority of the State within which the association is located; but the legislature of each State may determine and direct the manner and place of taxing all the shares of national banking associations located within the State, subject only to the two restrictions, that the taxation shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individuals of such State, and that the shares of any national banking association owned by non-residents of any State shall be taxed in the city or town where the bank is located, and not elsewhere. Nothing herein shall be construed to exempt the real property of associations from either State, county, or municipal taxes, to the same extent, according to its value, as other real property is taxed."

In *Van Allen v. The Assessors*, 3 Wall. 573, the Supreme Court held invalid a tax imposed by the State of New York on shares in National Banks on the ground that the State levied no tax on shares in State banks and that the act of Congress authorizing taxation on National Banks was therefore not complied with. But the Court said:

"Although it has been suggested, yet it can hardly be said to have been argued, that the provision in the act of Congress concerning the taxation of the shares by the State is unconstitutional. The suggestion is, that it is a tax by the State

upon the bonds of the government which constitute the capital of the bank, and which this court has heretofore decided to be illegal. But this suggestion is scarcely well founded; for were we to admit, for the sake of the argument, this to be a tax of the bonds or capital stock of the bank, it is but a tax upon the new uses and new privileges conferred by the charter of the association; it is but a condition annexed to the enjoyment of this new use and new application of the bonds; and if Congress possessed the power to grant these new rights and new privileges, which none of the learned counsel has denied, and which the whole argument assumes, then we do not see but the power to annex the conditions is equally clear and indisputable."—3 Wall. 583.

In *National Bank v. Commonwealth*, 9 Wall. 353, the Supreme Court held that, since the intent of Congress as manifested in the National Bank Acts was not defeated, the Kentucky Statute levying tax on shares of stockholders but collecting it from the bank itself was valid.

IV. But when the Federal government creates an institution for government purposes, or gives an institution the character of a government agency, there are serious limitations, unless Congress removes them, on the power of the States to tax it.

"One of the implied limitations 'on the power of States to tax' is that which precludes the States from taxing the agencies whereby the general government performs its functions. The reason is that if they possessed this authority it would be within their power to impose taxation to an extent that might cripple, if it did not wholly defeat the operations of the national authority within its proper and constitutional sphere of action."—*Cooley, Constitutional Limitations*, 6 Ed. 589.

In *M'Culloch v. Maryland*, 4 Wheat. 316, the Supreme Court held that the State of Maryland was without authority to impose a tax on the notes issued by the United States Bank in Maryland. The argument was that Congress clearly had the implied power of creating the bank; that "a power to create implies a power to preserve"; that "a power to destroy, if wielded by a different hand is hostile to, and incompatible with these powers to create and to preserve," that a power to tax is a power to destroy; and that "where this repugnancy exists that authority which is supreme must control." The sovereignty of a State does not extend to the means employed by Congress to carry its powers into execution.

"States have no power by taxation or otherwise to retard, impede, burden, or in any manner control the operations of the

constitutional laws enacted by Congress to carry into execution the powers vested in the general government."

In *Railroad Company v. Peniston*, 18 Wall. 5, it was said of the rule exempting Federal agencies from taxation:

"The reason of the rule marks its limitations. The National government must be free to use such means as it selects, to carry out its functions, else it can not exist. When a State tax impairs the efficiency of any instrumentality which Congress selects to carry out the legitimate purposes of the Federal government, it is unconstitutional. When it does not have that effect, it is within the competency of the State to impose it."—18 Wall. 17.

"It is, therefore, manifest that exemption of Federal agencies from State taxation is dependent, not upon the nature of the agents, or upon the mode of their constitution, or upon the fact that they are agents, but upon the effect of the tax; that is, upon the question whether the tax does in truth deprive them of power to serve the government as they were intended to serve it, or does hinder the efficient exercise of their power. A tax upon their property has no such necessary effect. It leaves them free to discharge the duties they have undertaken to perform. A tax upon their operations is a direct obstruction to the exercise of Federal powers."—18 Wall. 36-37.

The outlines of the rule and its application to the present matter can best be considered by reviewing first, the kinds of institutions or agencies which have been held to be entitled as government agencies to some exemptions from State taxation; and second, the kinds of exemptions from taxation to which Federal agencies have been held to be entitled.

a. What constitute government agencies for purposes of tax exemption.

1. The old United States Bank. *M'Culloch v. Maryland*, 4 Wheat. 316.

2. Present national banks. *VanAllen v. The Assessors*, 3 Wall. 573. The State tax on National Banks was held invalid as being outside the authority conferred by Congress. It was held that the State had no authority to tax the shares of a government agency such as a national bank, except as Congress especially conferred such authority.

*Owensboro National Bank v. Owensboro*, 173 U. S. 664. A Kentucky Statute imposing "a franchise" tax on national banks in Kentucky was found to have no warrant in the authority given the States by the National Bank Act. The tax was accordingly held to be unconstitutional on the ground that the

banks were government agencies and could be taxed by the States only in ways which Congress had authorized.

*Third National Bank v. Stone*, 174 U. S. 432. A tax on the franchise and property of a national bank was again held unconstitutional because the act of Congress had not authorized such taxation.

3. Companies having franchises conferred by Federal government.

*California v. Pacific Railroad Company*, 127 U. S. 1. The Central Pacific Railroad Company and other companies which held charters granted by Congress contended that their franchises were not subject to assessment and taxation by the State of California. The Supreme Court upheld their contention on the ground that the franchises represented power conferred upon the railroads and by the Government of the United States. "The power conferred emanates from, and is a portion of, the power of the government that confers it. To tax it is not only derogatory to the dignity, but subversive of the powers of the government, and repugnant to its paramount sovereignty."

4. Federal Officers.

*Dobbins v. The Commissioners*, 16 Pet. 435. A captain of the revenue-cutter service stationed in Pennsylvania was assessed for county taxes on the salary he received from the government. The Supreme Court held that a Federal salary was not subject to State taxation. The tax was regarded as an interference by the State with the discretion of Congress in fixing the salaries of its agents.

5. United States Bonds.

It is entirely clear that States can not tax in any way bonds of the Government of the United States.

*Weston v. Charleston*, 2 Pet. 449. To tax government bonds would be to tax the exercise of the borrowing power of Congress and no power of Congress may be taxed by the States.

6. Institutions organized primarily for profit are *not* entitled to the benefit of exemption as government agencies.

*Osborn v. The United States Bank*, 9 Wheat. 738. The Supreme Court in an opinion by Chief Justice Marshall held void a tax imposed by a State upon the bank of the United States. But Chief Justice Marshall speaking for the Court delivered an important dictum to the effect that the bank would not be exempt from State taxation, if essentially a private enterprise for private profit.

"The foundation of the argument in favor of the right of a State to tax the bank, is laid in the supposed character of that

Institution. The argument supposes the corporation to have been originated for the management of an individual concern, to be founded upon contract between individuals, having private trade and private profit for its great end and principal object. If these premises were true, the conclusion drawn from them would be inevitable. This mere private corporation, engaged in its own business, with its own views, would certainly be subject to the taxing power of the State, as any individual would be; and the casual circumstance of its being employed by the government in the transaction of its fiscal affairs, would no more exempt its private business from the operation of that power, than it would exempt the private business of any individual employed in the same manner. But the premises are not true; the bank is not considered as a private corporation, whose principal object is individual trade and individual profit; but as a public corporation, created for public and national purposes."—9 Wheat. 859.

b. What taxes are within the exemption from State taxation to which an agency of the Federal government is entitled.

1. Taxes on the franchises granted by the Federal government.

California v. Pacific Railroad Company, 127 U. S. 1. In holding invalid a California tax on the Federal franchises of railroads the United States Supreme Court pointed out that a franchise, whether to act in a corporate capacity or to operate a railroad, necessarily emanates from public authority and continued:

"In view of this description of the nature of a franchise, how can it be possible that a franchise granted by Congress can be subject to taxation by a State without the consent of Congress? Taxation is a burden, and may be laid so heavily as to destroy the thing taxed, or render it valueless. As Chief Justice Marshall said in *McCulloch v. Maryland*, 'the power to tax involves the power to destroy.' Recollecting the fundamental principle that the Constitution, laws and treaties of the United States are the supreme law of the land, it seems to us almost absurd to contend that a power given to a person or corporation by the United States may be subjected to taxation by a State."—127 U. S. 41.

2. Taxes on the business, and operations of a government agency.

*McCulloch v. Maryland*, 4 Wheat. 316. In holding invalid a Maryland tax on the notes issued in Maryland by the United States Bank, the Supreme Court emphasized the fact that:

"This is a tax on the operations of the bank, and is, conse-

quently, a tax on the operation of an instrument employed by the Government of the Union to carry its powers into execution. Such a tax must be unconstitutional."—4 Wheat. 436.

3. The shares of stock in government agencies—specifically banks—have been treated differently in the decisions regarding the old United States Bank and decisions regarding the present national banks.

In *McCulloch v. Maryland*, 4 Wheat. 316, 436, the Supreme Court, while it held void a tax imposing a direct burden on the operations of the Bank of the United States, was careful to point out that the opinion,

"does not extend to a tax paid by the real property of the bank, in common with the other real property within the State, nor to a tax imposed on the interest which the citizens of Maryland may hold in this institution, in common with other property of the same description throughout the State."

In other words the character of the bank as a government agency did not preclude the State from taxing its shares of stock in the hands of its share-holders. No permission from Congress was necessary to make the imposition of such a tax valid.

It was accordingly held in two cases in the Supreme Court of South Carolina that the State might impose taxes on shares and dividends.

In *Bulow v. Charleston*, 1 Nott and McC. 527, it was decided that a tax on shares of stock in the United States Bank held by individuals was valid; and in *State ex rel. Berney v. Tax Collector*, 2 Bail. L. 654, the same conclusion was reached with respect to dividends.

In decisions under the National Bank Acts it has been held on the contrary, that the States are without power to tax stock in national banks, except in the way, and to the extent, which Congress has authorized.

4. With respect to the property of government agencies the decisions are not altogether in accord.

In *McCulloch v. Maryland*, 4 Wheat. 316, the Supreme Court clearly expressed its opinion that the real property of the United States Bank might be taxed by the States without Congressional permission. (Quotation is given above.) And it was not suggested that there was any difference in this respect between the real property and personal property. The effect of the decision was simply that the *operations* of the bank might not be burdened by State taxation.

With respect to institutions which derive their character as government agencies from a Federal franchise, the Supreme

Court in the latter half of the nineteenth century has held, in entire accordance with the opinion of *M'Culloch v. Maryland*, that the property both real and personal of government agencies may be taxed by the States.

In *Railroad Company v. Peniston*, 18 Wall. 5, the Supreme Court held that "real and personal property of the agent" might be "taxed in common with all other property in the State of a similar character. It is impossible to maintain that this is an interference with the exercise of any power belonging to the general government, and if it is not, it is prohibited by no constitutional implication."

"A very large proportion of the property within the States is employed in execution of the powers of the government. It belongs to governmental agents, and it is not only used, but it is necessary for their agencies. United States mails, troops, and munitions of war are carried upon almost every railroad. Telegraph lines are employed in the national service. So are steamboats, horses, stage-coaches, foundries, ship-yards, and multitudes of manufacturing establishments. They are the property of natural persons, or of corporations, who are instruments or agents of the general government, and they are the hands by which the objects of the government are attained. Were they exempt from liability to contribute to the revenue of the States it is manifest the State governments would be paralyzed. While it is of the utmost importance that all the powers vested by the Constitution of the United States in the general government should be preserved in full efficiency, and while recent events have called for the most unembarrassed exercise of many of those powers, it has never been decided that State taxation of such property is impliedly prohibited."—18 Wall. 33.

But the personal property of the present national banks, which Rev. Stat. § 5219, does not expressly authorize to be taxed but the taxation of which is nowhere expressly forbidden, has been repeatedly held to be exempt from taxation.

*People v. National Bank*, 123 Cal. 53.

*Rosenblatt v. Johnson*, 104 U. S. 462.

Mortgages held by national banks were decided to be exempt from State taxation in *First National Bank v. Krieg*, 21 Nev. 404.

5. Taxes on the salaries of Federal officers.

*Dobbins v. The Commissioners*, 16 Pet. 435.

6. It has been held in several cases that the present national banks are exempt from *all* State taxation, except such taxation as Congress has authorized.

In *Owensboro National Bank v. Owensboro*, 173 U. S. 664, in holding invalid a Kentucky "franchise" tax on national banks the Supreme Court quoted from *Davis v. Elmira Savings Bank*, 161 U. S. 283, to the effect that national banks were government instrumentalities and that any State action which impaired the efficiency of those government instrumentalities was void. The Court proceeded:

"It follows then necessarily from these conclusions that the respective States would be wholly without power to levy any tax, either direct or indirect, upon the national banks, their property, assets, or franchises, were it not for the permissive legislation of Congress. The first act providing for the organization of national banks, passed February 25, 1863, c. 58, 12 Stat. 665, contained no grant of power to the States to tax national banks in any form whatever. Doubtless the far-reaching consequence to arise from depriving the States of the source of revenue which would spring from the taxation of such banks, and the error of not conferring the power to tax, early impressed itself upon Congress; for the following year, act of June 3, 1864, c. 106, 13 Stat. 99, power was granted to the States, not to tax the banks, their franchises or property, but to tax the shares of stock in the names of the shareholders. This provision subsequently was amended and supplemented in various particulars, act of February 4, 1868, c. 6, 15 Stat. 34, and the result of this legislation is embodied in Section 5219 of the Revised Statutes."—173 U. S. 668.

The Court here quoted Rev. Stat. § 5219.

"This section, then, of the Revised Statutes is the measure of the power of a State to tax national banks, their property or their franchises. By its unambiguous provisions the power is confined to a taxation of the shares of stock in the names of the shareholders and to an assesment of the real estate of the bank. Any State tax therefore which is in excess of and not in conformity to these requirements is void."—173 U. S. 669.

The theory expressed in this case, that the States can not tax government agencies except by special permission of Congress, is clearly in conflict with the view of *M'Culloch v. Maryland*.

This case was followed in the *Third National Bank v. Stone*, 174 U. S. 432, and its authority seems to be established.

V. Congress may probably by legislation make certain extensions of the rule exempting government agencies from taxation.

This may perhaps be put on the general doctrine of implied powers established by *M'Culloch v. Maryland*, and held in that



case to justify the establishment of the United States bank. The right to exempt from taxation when desirable for the execution of a purpose within the Federal authority is hardly a stronger application of the principle of implied powers than, for example, the right to condemn land. Of this latter right the Supreme Court said in *United States v. Gettysburg Electric Railroad Company*, 160 U. S. 668, in holding that Congress might authorize the condemnation of land, in its own discretion, for purposes of a national park,

"It is, of course, not necessary that the power of condemnation for such purpose be expressly given by the Constitution. The right to condemn at all is not so given. It results from the powers that are given, and it is implied because of its necessity, or because it is appropriate in exercising those powers."—160 U. S. 681.

The extension of the rule of exemption from taxation may take the form:

a. Of a congressional declaration that an institution which might not otherwise be thought a government agency is such an agency. The courts will, of course, pass upon the validity of the exemption and no doubt there are limits on the power of Congress to make a thing a government agency by merely declaring it so; but to quote from *United States v. Gettysburg Electric Railway Company*, 160 U. S. 668, 680:

"It is stated in the second volume of Judge Dillon's work on *Municipal Corporations* (4th ed. § 600), that when the legislature has declared the use or purpose to be a public one, its judgment will be respected by the courts, unless the use be palpably without reasonable foundation. Many authorities are cited in the note, and, indeed, the rule commends itself as a rational and proper one."

b. Of the erection of particular exemptions from taxation by express enactment:

"from the line of decisions in the national bank cases, and from the reason of the rule which exempts Federal agencies, it is probable that Congress may, by express legislation, exempt from State taxation so much at least of the property of such corporation as is actually used in the Federal employment and necessary to the discharge of such employment."—Gray, James M., *Limitations of Taxing Power and Public Indebtedness*, § 774.

In *Thomson v. Pacific Railroad*, 9 Wall. 579, in which the Supreme Court held that a railroad engaged in the service of the Government was not by that fact alone exempt from State taxation, the Court said:

"We do not doubt, however, that . . . Congress may, in the exercise of powers incidental to the express powers mentioned by counsel, make or authorize contracts with individuals or corporations for services to the government; may grant aids, by money or land, in preparation for, and in the performance of, such services; may make any stipulations and conditions in relation to such aids not contrary to the Constitution; and may exempt, in its discretion, the agencies employed in such services from any State taxation which will really prevent or impede the performance of them."—9 Wall. 588-589.

In *Northern Pacific Railroad v. Carland* (Mont.), 3 Pac. 134, the Supreme Court of Montana held that Congress could include in the grant of a right of way an exemption of the right of way from State taxation. Such an exemption was enforced and a State tax in conflict with it held void.

In *City and County of San Francisco v. The National Bank*, an exemption of the personal property of a national bank from State taxation was put upon the ground that the effect of Rev. Stat. § 5219 is to create such an exemption. 92 Fed. 273.

VI. Certain activities which Congress has power to regulate are, by that fact, exempt from State taxation.

This has been several times held of inter-state commerce. In *Gloucester Ferry Company v. Pennsylvania*, 114 U. S. 196, the Supreme Court held void a Pennsylvania tax upon the foreign corporation whose only business in the State was the receiving and discharging of inter-state passengers. The Court says of inter-state commerce:

"The power to regulate that commerce, as well as commerce with foreign nations, vested in Congress, is the power to prescribe the rules by which it shall be governed, that is, the conditions upon which it shall be conducted; to determine when it shall be free and when subject to duties or other exactions. The power also embraces within its control all the instrumentalities by which that commerce may be carried on, and the means by which it may be aided and encouraged."—114 U. S. 203-204.

In *Minot v. Railroad Company*, 2 Abb. (U. S.) 341, Fed. Cas. 9645, a State tax on the rolling stock of railroads was held void as interfering with inter-state commerce.

VII. Property held in the name of the United States is none the less exempt from State taxation because it is held in trust for private persons.

For example, in *United States v. Rickert*, 188 U. S. 432, it was held that lands allotted by the United States to Indians

and not yet conveyed, but held by the United States in trust for the Indians, could not be taxed by a State.

## PART TWO

Suggested points for a Brief in favor of the Constitutionality of the proposed exemption.

1. The Constitution does not require these shares and mortgages to be taxed. See I above.
2. The exemption of agents of the Federal government from taxation is plain on principle and on authority of decided cases.
  - a. Principle. See IV above.
  - b. Authority. See IV a and IV b above.
3. The proposed banks will be government agencies.
  - a. In § 29 of S. 5542 mortgages executed to the banks are expressly declared to be instrumentalities of the government of the United States. A declaration of this kind has weight. See V a above. The proposed organizations can not be said to be "palpably without" the sphere of government agencies.
  - b. That the banks may be authorized or created by Congress for the contemplated purposes—the encouragement of agriculture and the like—is not understood to be questioned. It is hardly more doubtful than the constitutionality of the department of agriculture. It may be implied from the first and last paragraphs of § 8 in Art. I of the Constitution and it is made clear by the case of *M'Culloch v. Maryland*. And whatever is duly created by Congress for the accomplishment of a purpose which Congress is authorized to accomplish, performs a government function and is logically a government agency.
  - c. It has been repeatedly decided by the courts that institutions of quite as little public character as these banks are government agencies. See IV a above.
4. The exemptions which it is proposed to enact are less inclusive than those which the United States Supreme Court has declared government agencies are entitled to in the absence of any enactment. The States are permitted, in S. 5542, to tax the real estate of banks; while the Supreme Court has laid it down that without congressional permission no State tax can be imposed on government agencies. See IV b 6 above.
5. The legislature which creates a government agency is in the best position to judge what exemption from taxation the proper execution of its functions requires. Therefore, even if the proposed exemption were wider than those which would arise without enactment, the validity of the exemption under

the rule that agencies of the Federal government may not be hampered by the States should be recognized.

6. If, as is provided in § 18 of S. 5542, the mortgages in question are assigned in trust to an officer of the Federal government in his official capacity, they become entitled to exemption from State taxation on that account. See VII above.

## PART THREE

Suggested points for a Brief against the Constitutionality of the proposed exemption.

1. Taxation is confessedly an incident of sovereignty. Judge Marshall, in *M'Culloch v. Maryland*, agreed that "all subjects over which the sovereign power of a State extends are objects of taxation, but those over which it does not extend are upon the soundest principles exempt from taxation."

The proposal, then, is to raise a numerous and powerful body of corporations scattered through the States and remove them from the sovereignty of the States.

2. The Federal Constitution should not be taken to authorize such a step on the part of the Federal government unless the authorization is fairly clear. And it is by no means clear. The enumeration of powers of Congress in § 8 of Art. I makes no provision for the exemption of anything by Congress from State taxation. Neither does the Constitution at any point provide that agencies created by the Federal government and serving it shall be ipso facto exempt from State taxation. Moreover, § 10 of Art. I enumerates various things which States are forbidden to do. The 2d paragraph of this section specifically forbids the laying of duties on imports or exports without the consent of Congress; but there is no corresponding provision regarding the taxation of agencies which serve the Federal government.

3. The argument for the constitutionality of the exemption must rest upon *M'Culloch v. Maryland*, the cases which purport to follow it, and the reasoning which supports it. Does the authority of these cases, and particularly of *M'Culloch v. Maryland*, cover the present case?

a. The proposed banks would be far less truly government agencies than the United States bank whose position Marshall was considering. Seven million dollars' worth of the thirty-five million dollars of stock in the United States bank was subscribed and paid for by the Government of the United States (Act of April 10, 1816, § 1: 3 Stat. 266). The funds of the rural land banks are to be private funds. Judge Marshall him-

self, speaking for the court in *Osborne v. United States Bank* (9 Wheat. 738, 859) said that institutions organized primarily for private profit would be completely subject to State taxation in spite of being organized and used by the Federal government.

b. An institution may be wholly subject to the sovereignty of a State, or in a greater or less degree relieved from such sovereignty. The present proposal is to remove the banks completely from the sovereignty of the States with respect to taxation, with the sole exception, in the case of S. 5542, of taxes on their real estate. In *M'Culloch v. Maryland* the operations only of the United States bank were held to be so removed from State sovereignty that they could not be taxed. The court was far from making any such proposition as to shares of stock in the hands of individuals, or any of the bank's property real or personal. The implication in the opinion that none of the bank's property and no interest of individuals in the bank was exempt from taxation is clear.—4 Wheat. 436. See above IV b 3.

c. It appears from the opinion in *M'Culloch v. Maryland* that the Court which rendered it believed not only that the States had power so far as the Constitution was concerned to tax the property and the stock of a bank which was a government agency, but that the power could not be modified by Federal action. This appears notably in the last paragraph of the opinion. It is there said: "This opinion does not deprive the States of any resources which they originally possessed. It does not extend to a tax paid by the real property of the bank, in common with the other real property within the State, nor to a tax imposed on the interest which the citizens of Maryland may hold in this institution, in common with other property of the same description throughout the State." (4 Wheat. 436.) In other words, to prevent the States from taxing the real property—or, so far as appears, the personal property—of the bank or, to prevent them from taxing its shares, *would* deprive States of resources which they originally possessed. This, of course, neither the courts nor Congress can constitutionally do.

d. Undoubtedly it has been held in later cases that the property, real or personal, of government agencies is exempt from State taxation unless Congress permits it to be taxed. But the contrary has also been held, as in *Railroad Company v. Peniston*, 18 Wal. 33. And it is fairly clear that the erroneous decisions which exempt all the property of government agencies except so far as Congress has authorized their taxation, would not have been rendered but for the mistaken belief that *M'Culloch v. Maryland* so required.

Further, while it has been decided in various cases that shares of national bank stock in the hands of individuals may be taxed only in accordance with the permission of Congress, and language has been used to the effect that Congress might exempt such shares altogether from taxation, it is very doubtful whether a complete exemption of shares of stock from State taxation by act of Congress, such as the proposed legislation contemplates, has ever been undertaken and upheld.

4. There is a fatal defect in the reasoning on which the constitutionality of wide exemptions of government agencies from State taxation is supported.

The power to tax, it is said from *Marshall to Cooley*, involves a power to destroy. At the very least it involves a power seriously to hamper. For this reason, it is contended, agencies which the Federal government uses in the execution of any of its functions must be immune from taxation by the States. Probably this theory in its application to Federal agencies was never consistently entertained. Certainly it was not by Justice Marshall, since he allowed that the real property and the shares of stock, at least, of these agencies, were subject to State taxation. If taxes on the "operations" of an institution might hamper or destroy it, so might taxes on its property or its stock.

But the theory, fundamental to the support of the exemption, that the power to tax involves a power to destroy, is, in the United States, simply untrue. It is flatly contradicted by the established principle of tax cases and numberless public service rate cases that a legislative body whose power to tax is unquestioned may not proceed to confiscate, or even to render wholly unprofitable—or even to reduce profit to an unreasonably low point. The assumed necessity of exempting government agencies from taxation in order that their existence and prosperity may not be imperiled has no foundation in fact.

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