

FEDERAL FARM LOAN ACT

New Credit System Based on "Special Privilege" and "Government Monopoly"

"The practicability of the act must depend in large measure on the competency and wisdom of the Federal Farm Loan Board." This is the opinion of Mr. Kingman Nott Robins, treasurer of the Associated Mortgage Investors, Rochester, and vice-president of the Farm Mortgage Bankers' Association of America, of the United States Loan Mortgage Act. Mr. Robins continues:—

"The new Federal Farm Loan Act is the result of an agitation which has in this case, as in others, demonstrated the underlying differences between two schools of thought in this country. One school, which, in this instance, includes bankers and practical men of affairs generally, has held that whatever deficiencies there have been in the existing machinery of farm finance have been due, not so much to inadequate or incompetent machinery, as to defects in the credit risk itself and in the laws under which the machinery must operate. The other school reflects in its approach to the problem the widespread distrust of business men as a class, and the feeling that additional machinery must be created to serve the farmer.

"Both schools agree that new legislation is desirable, but differ as to what should be its intent and character. The recommendations of the Farm Mortgage Bankers' Association of America quite fairly represent the ideas of the first school in their recommendations of October, 1915, to the joint congressional committee on rural credits. In these recommendations they pointed out the desirability of 'removing the obstacles, legal and otherwise, which prevent the farmer's paper from reaching the investment market generally in such form, on such terms, and from such a source as to make it at least as acceptable in the matter of assured security, convenience of handling, and convertibility as any other investment of equal intrinsic merit.'

Issuing Bonds Against Mortgages.

"To that end the association recommended, 'if constitutional,' federal incorporation and regulation of federal land banks, after the precedent of the National banks, these banks to have the privilege of issuing bonds against mortgages as collateral, and to have a minimum capital stock of \$500,000, and provisions in the regulations governing such banks, making their service available only in such states as should make their title, collection and other laws conform to a given standard of safety for the lender and economy and convenience for the borrower.

"This is a very brief summary of the proposals, but indicates the belief of the association that existing agencies would best serve the purpose required if only they were granted proper laws under which to operate and freedom from the many handicaps, chiefly legal, under which they now labor.

"It may be added that in view of the fact that existing agencies have an outstanding investment in farm mortgages, according to current estimates, of \$3,500,000,000, there is a fair presumption that they are competent and responsible, and that they are entitled to at least the opportunity to prove their efficiency under proper laws without being put at a disadvantage by government.

"The other school of thought concerned with rural credits has been represented by spokesmen who have advocated everything, from laws simply enabling co-operative borrowing, which are undoubtedly desirable, to unlimited loans of government moneys at 3 per cent. The law is essentially a compromise between the conflicting recommendations, and is now the target of the criticisms of all concerned.

Pros and Cons of the Federal Farm Loan Act.

"Since the machinery provided by the law is not yet in operation, consideration of it must be based on personal opinion and theory, in the light of past experience. With this limitation in mind, I have undertaken to classify the principles underlying the provisions of the bill, dividing them into what I may call, for lack of better terms, 'Advantageous' and 'Disadvantageous'—advantage being used in its broadest sense to include both the public interest and the interest of the parties directly concerned.

"I state what I conceive to be the disadvantageous principles first:—

"1. The element of special privilege is fundamental to the act in its provisions:—

"(a) For the exemption of the securities issued by the federal land banks from all taxation. By this provision the farmer's obligation is granted a differential of as much as 2 per cent. per annum in some states, such as Ohio, over the obligation of any other class in the community. The burden of taxation of which the farmer is thus relieved is obviously shifted to other classes of the population.

"(b) For the payment out of the public treasury of the small army of officials and employees provided by the act.

"(c) For the use for an indefinite period of public funds without interest to capitalize the banks.

"(d) For the substitution of the credit of the United States government for farm credit in so far as the unthinking public is led to believe that bonds termed in the act 'instrumentalities of the government of the United States' are actually the obligation of the government, and in so far as the United States government may feel called upon to make good the obligation thus implied, in case of loss on the actual security.

Ignores Economic Law.

"2. Economic law is violated by the provisions for:—

"(a) Restricting the loaning operations of the joint stock banks to arbitrary geographical limits. This ignores a fundamental principle of investment selling, viz.: that an agency manned by men of good reputation in their own community can command much greater confidence than an equally reliable agency in another community. The law, however, forbids the utilization of this principle in the organization of well-managed joint stock banks in the great money markets of the country to loan wherever there is demand for their funds, e.g., California can borrow only through local channels instead of directly from Chicago.

"(b) Fixing the maximum interest rate by statute. The law of supply and demand will control the rate in any event, and a fixed maximum may conceivably render the act inoperative in the communities most in need of increased facilities. The experience of the states with usury laws is evidence of this contention.

"(c) Joint guarantees, putting good, bad and indifferent securities in the same category, penalizing the good for the advantage of the inferior.

"3. The general public is disadvantaged by:—

"(a) The shifting of taxation from the farmer to other classes of the population.

"(b) The dilution of government credit.

"(c) The erection of a new bureaucratic system without civil service or other hindrance to political exploitation.

"(d) The inflationary tendency of the act with regard to land values—a potent element in raising living costs.

Some Further Objections.

"4. The act fails to serve its purpose in the following particulars among others:—

"(a) Restrictions on loaning are such that, according to good authority, only about 52 per cent. of the farmers of the United States can qualify as borrowers.

"(b) This 52 per cent. constitute that element of the farmers already best taken care of by existing agencies—no provision is made for farmers who have not already security worth double the amount of the loan asked for. The landless man, the tenant, and the farmer and farmer's son with small savings, who want to establish themselves on the land, are not served by the new machinery.

"(c) There is no provision for the straight term type of loan now most in vogue with farmers. The amortized loan is compulsory. Experience in the United States has not evidenced a demand among farmers for the amortized loan. They prefer a loan carrying privilege of prepayment in whole or in part, but without mandatory repayments, so that they can pay according to the season. Why should a farmer, who is a business man, and who makes his borrowed money earn him more than the interest he pays, want to be compelled to return his loan in dribbles, leaving his chief source of credit, his farm, encumbered meanwhile? Surely the farmer who makes such use of borrowed capital is to be encouraged, and represents a type of farming ability far higher and more to be desired than the farmer who, to save his farm, must get out of debt, because he cannot earn current interest on his investment, whether his investment be his own money or borrowed money.

"To argue that the system is necessary because farmers cannot make their land investment earn adequate interest is