

THE BANK OF NORTH DAKOTA:  
AN EXPERIMENT IN AGRARIAN  
BANKING

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**MY PARENTS**

## PREFACE

IN 1919 the farmer legislature of North Dakota made provision for a bank which embodied many novel features. Coming as it did at a time when the American people were earnestly engaged in an attempt to solve the rural credits problem it bade fair to command a good deal of attention and perhaps exert no little influence on future legislation.

Unfortunately the Bank was scarcely organized before it became the central issue in an exceedingly acrimonious political battle. Thereafter the Bank became the subject of many written articles. But, as might be expected, most of them betray a pronounced political bias and many are filled with the most extravagant statements which describe the Bank either as a notable success or a colossal failure depending upon the political persuasion of the writer.

The author was greatly attracted to the task of investigating the Bank's history because it appeared that the results of the North Dakota experiment were about to be lost under a welter of politically inspired propaganda. Society at no time can well afford to lose the lessons of experience; least of all when it is wrestling with a definite problem upon which a current experiment would throw some light. Hence it seemed particularly desirable that a scientific investigation of the Bank of North Dakota be made by one sufficiently detached from the state as to insure an open and unprejudiced mind. At first many misgivings were entertained concerning the practicability of attempting the task in a place so far removed from the state as New York City. Then came the suggestion that

such physical isolation might be an advantage to the investigator, since it would be easier for him to maintain an unbiased point of view. As the work proceeded the wisdom of the suggestion became manifest. No part of the work was more difficult than to keep the mind riveted to the ideal of impartial appraisal and interpretation of facts which could seldom be found free from partisan adornments.

A work of this kind is of little value if it is in any way warped by political bias. Hence the author has steadfastly striven to present the unvarnished truth as he was able to discover it from the material at hand. As might have been expected this course led to the necessity of recording some events which are not complimentary to the management of the Bank. But, as will later be pointed out in the text, its officers were working under the most adverse circumstances. Neither the Nonpartisans nor the Independents were able to withstand the political pressure under which they were compelled to labor. The wonder is that they were able to carry on as well as they did.

Since there is much to be praised and much to be condemned in the management of the Bank under both administrations it is difficult to see how this record and appraisal of the Bank's activities can be used by either political faction in North Dakota as a weapon against the other. On the other hand it is hoped that the facts and analysis here presented will prove helpful to the many earnest citizens, members of opposing political factions, who are seeking to improve the financial position of the North Dakota farmer.

The author is indebted to a number of individuals for material and information which they have generously afforded. In this connection should be mentioned President E. G. Quamme of the Federal Land Bank of St. Paul.

Secretary O. E. Dieson of the Minneapolis-Trust Joint Stock Land Bank; Dr. W. H. Steiner of the College of the City of New York; Hon. Thomas Hall, Secretary of State (N. D.); Mr. Lewis F. Crawford, Secretary of the Industrial Commission of North Dakota; and Bank of North Dakota officials of both administrations.

Professor E. R. A. Seligman, and Mr. J. H. Nelson of the *New York Journal of Commerce* have read the manuscript and have made valuable suggestions. Professor H. Parker Willis has given generously of his time to the reading and criticism of the manuscript at every stage of its development. The author wishes gratefully to acknowledge his indebtedness to him for invaluable suggestions and criticism.

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## APPENDIX A <sup>1</sup>

### FEDERAL LAND BANK ACTIVITIES IN NORTH DAKOTA

In accordance with the Federal Farm Loan Act the Federal Farm Loan Board was organized August 7, 1916. On March 1, 1917 the first charter was granted to a federal land bank; and on March 27, 1917 the first charter was granted to a national farm-loan association.

North Dakota together with Minnesota, Wisconsin and Michigan comprises the Seventh Federal Farm Loan District. The Federal Land Bank of St. Paul operates in this district. The following table shows the growth of its business in North Dakota.

	<i>National farm loan associations chartered</i>	<i>Loans made</i>	<i>Total amount loaned</i>	<i>Average loan</i>
November 30, 1917 .....	46	—	\$1,825,600	—
November 30, 1918 .....	155	3,685	10,324,300	\$2,801
November 30, 1919 .....	173	5,475	16,783,600	3,065
December 31, 1920 .....	175	6,566	21,616,900	3,202
November 30, 1921 .....	187	6,924	23,570,900	3,404
December 31, 1922 .....	191	8,521	31,578,000	3,706
April 1, 1923 .....	189	9,078	34,225,400	3,770

The following table gives a detailed summary of the work in North Dakota of the Federal Land Bank of St. Paul from the organization of the Bank to October 31, 1922.

<sup>1</sup> Appendix A is based on the first six annual reports of the Federal Farm Loan Board, and the tables were compiled from data taken from them and from correspondence with the Federal Land Bank of St. Paul.



Number of borrowers .....	7,778
Amount applied for .....	\$30,859,895
Amount granted .....	\$27,760,650
Total acres mortgaged .....	1,854,670
Appraised valuations:	
Land .....	\$60,961,520
Buildings .....	\$17,356,052
Total .....	\$78,317,572

The amount of money loaned by federal land banks in the three states which have received the largest total loans from these banks is shown in the following table. From the beginning North Dakota has been among the three states enjoying this privilege.

		<i>National farm loan associations chartered</i>	<i>Loans made</i>	<i>Total amount loaned</i>	<i>Average loan</i>
	Kansas .....	81	—	\$3,594,000	—
1917	North Dakota .....	46	—	1,825,600	—
	Washington .....	96	—	1,781,850	—
	Texas .....	280	5,250	13,568,461	2,584
1918	North Dakota .....	155	3,685	10,324,300	2,801
	Montana .....	122	2,934	7,321,790	2,495
	Texas .....	331	10,945	31,408,401	2,870
1919	Iowa .....	138	2,539	17,995,150	7,087
	North Dakota .....	173	5,475	16,783,600	3,065
	Texas .....	342	13,796	40,816,066	2,958
1920	Iowa .....	141	3,382	24,124,350	7,133
	North Dakota .....	175	6,566	21,616,900	3,292
	Texas .....	343	16,263	48,514,291	2,983
1921	Iowa .....	141	3,923	27,604,750	7,037
	North Dakota .....	187	6,924	23,570,900	3,404
	Texas .....	365	24,825	74,366,791	2,996
1922	Iowa .....	148	5,015	34,540,550	6,887
	North Dakota .....	191	8,521	31,578,000	3,706

## APPENDIX B<sup>1</sup>

### JOINT STOCK LAND BANK ACTIVITIES IN NORTH DAKOTA

The Federal Farm Loan Act of 1916 made provision whereby ten or more natural persons might form a corporation under federal charter to be known as a joint stock land bank, "for carrying on the business of lending on farm mortgage security and issuing farm loan bonds." These joint stock land banks are private institutions, and the government is not, as in the case of federal land banks, permitted to subscribe to the capital stock. However, they are supervised by the federal farm loan board, inspected twice yearly by its examiners, and their appraisals are under its control. While the amount of business that they may do is limited to a smaller percentage of their capital than is the case with federal land banks, yet in other ways they are less restricted. The amount that they may loan to an individual, the use to which the funds will be put, and the occupation of the borrower are not so restricted as in the case of federal land banks. Joint stock land banks are not permitted to charge more than six per cent interest. They may do business in the state in which their principal office is located and in one contiguous state.

To the present only one joint stock land bank has been chartered to operate in North Dakota. The Minneapolis Trust Joint Stock Land Bank of Minneapolis, Minnesota,

<sup>1</sup> Sources of information used in the preparation of this appendix are, the Federal Farm Loan Act, a folder furnished by the Minneapolis Trust Joint Stock Land Bank entitled "Minneapolis Trust Area in North Dakota", and correspondence with the above named bank.

chartered May 2, 1922 and may operate in both Minnesota and North Dakota.

The Minneapolis Trust Joint Stock Land Bank does not make loans throughout the entire state of North Dakota, but so far has confined its operations to fourteen counties lying in the Red River Valley. It is said that these fourteen counties constitute more than twenty-six per cent of the farming area of North Dakota. The fourteen counties are: Barnes, Cass, Cavalier, Grand Forks, Griggs, Nelson, Pembina, Ramsey, Ramson, Richland, Sargent, Steele, Traill, and Walsh. The following table shows the amount and nature of business done by the Minneapolis Trust Joint Stock Land Bank in its first year of operation.

Number of loans .....	540
Acres covered .....	140,628
Amount of loans .....	\$3,249,100.00
Average size loan, about .....	\$6,000.00
Average loan per acre .....	\$23.10
Average value of land in area per acre (1919) ....	\$68.60

## APPENDIX C<sup>1</sup>

### THE WAR FINANCE CORPORATION AND NORTH DAKOTA

Originally created as a war agency, as its name implies, the War Finance Corporation was empowered by the Congress in March, 1919, to assist in the task of reconstruction and readjustment. It was authorized, in order to promote commerce with foreign nations through the extension of credits, and to aid in the transition from the conditions of war to the conditions of peace, to make advances not exceeding \$1,000,000,000 to American exporters and American banking institutions for the purpose of financing the exportation of domestic products. This authority was exercised until May, 1920, when the activities of the Corporation were suspended.

In the autumn of 1920, when the collapse in commodity markets became acute, the question of our exports again became a matter of general interest; and the Congress, in January, 1921, adopted the following joint resolution directing the activities of the Corporation be resumed:

That the Secretary of the Treasury and the members of the War Finance Corporation are hereby directed to revive the activities of the War Finance Corporation, and that said Corporation be at once rehabilitated with the view of assisting in the financing of the exportation of agricultural and other products to foreign countries.

<sup>1</sup> This appendix is made up of various paragraphs and statements taken directly from the fourth and fifth annual reports of the War Finance Corporation. The last sentence in the appendix is the only exception. It is taken from correspondence with the War Finance Corporation under date of May 5, 1923.

In view of the terms of the resolution, the evident intent of Congress, and conditions throughout the country, the directors of the Corporation, in resuming operations, concentrated their efforts in the beginning largely on the development of methods for the financing of exports of agricultural commodities.

With the development of the activities of the Corporation, it was increasingly clear that export financing alone would not be sufficient to meet the needs of agriculture. On account of the changed situation in Europe and of the conditions existing in this country, we were confronted with the necessity of selling our staple agricultural products more gradually than in former years; and it became more and more apparent that provision must be made for the carrying of our commodities in larger quantities for a longer period of marketing.

Not only was the market abroad slow, but it was demonstrated, after careful inquiry, that our own merchants and manufacturers were operating on the basis of the lowest possible stocks, and were buying only to meet current demands. This naturally resulted in forcing large quantities of raw materials, which normally are carried by mills, wholesalers, jobbers, and retailers, back upon the original producers and the banks which do their financing. The producers were unable to market their products as rapidly as formerly, large numbers of them were unable to liquidate their loans, and an unusually heavy burden was imposed upon the local banking institutions, seriously straining their resources and facilities. A condition of acute distress developed in the agricultural sections of the country, and if disaster was to be averted extraordinary action was needed to meet the situation.

After a careful study of the whole problem, certain amendments to the War Finance Corporation act were pro-

posed, considered by the Congress, and embodied in the agricultural credits act of August 24, 1921. The act broadened the powers of the Corporation, and gave it authority to make advances not only to exporters and banking institutions, but also to dealers in, and handlers of, agricultural products, including cooperative associations, for the purpose of financing the carrying of such products until they could be exported or sold for export in an orderly manner. Such advances may be made until July 1, 1922, for periods not exceeding one year, but the time for payment may, in the discretion of the Corporation, be extended for periods not exceeding three years from the dates upon which the advances were originally made.

The act also empowered the Corporation to make advances to "any bank, banker or trust company in the United States," or to cooperative associations of producers, which may have made advances for agricultural purposes, including the breeding, raising, fattening, and marketing of live stock, or may have discounted or rediscounted notes, drafts, bills of exchange or other negotiable instruments issued for such purposes. Such advances may be made for periods not exceeding one year, with discretion in the War Finance Corporation to renew them for periods not extending beyond three years from the dates on which the advances were originally made. In exceptional cases, the Corporation was authorized to purchase from domestic banks, bankers, or trust companies paper secured by agricultural products, including live stock; and it was further authorized to purchase, sell, or otherwise deal in acceptances, adequately secured, issued by Edge Law banking corporations, to assist them in promoting the exportation of agricultural and manufactured products.

The act provided that all advances shall be made upon promissory note or notes, or other instrument or instru-

ments, in such form as to impose on the borrower a primary and unconditional obligation to repay the advance at maturity, with interest as stipulated therein, and shall be fully and adequately secured in each instance by indorsement, guaranty, pledge, or otherwise. The aggregate amount of advances made and paper purchased and outstanding at any one time was limited to \$1,000,000,000, and the Corporation was authorized to issue its bonds to the extent of three times its capital stock, or \$1,500,000,000.

The Corporation is not authorized under the law to deal directly with individual producers. It is reaching the farmer not only through cooperative associations but also through their local banking institutions.

Altogether, the corporation has authorized more than 6,600 loans to banking institutions for agricultural purposes. Of these, more than 5,500, or approximately 83 per cent, represent advances to State banks, and 1,100, or 17 per cent, to national banks. In terms of dollars, the loans to State banks, amounting to \$135,430,000, constitute 80 per cent of the whole, and the loans to national banks, totaling \$32,828,000, 20 per cent. Thus the corporation has provided during the emergency a rediscount facility especially needed by banks in the country districts not members of the Federal reserve system, enabling them to meet the agricultural needs of their communities in a way that otherwise would not have been possible.

A special feature of the work of the War Finance Corporation during the past year was the financing of cooperative marketing associations.

During the current season the corporation has approved loans totaling \$114,000,000 to 24 cooperative marketing associations in 18 States to assist in the orderly marketing of 1922 crops.

During the season of 1921-22 the corporation authorized

loans totaling \$64,000,000 to 19 cooperative marketing associations in 15 States to assist in the orderly marketing of the products of their members. Of this amount, only \$19,198,000 was actually called for by the associations, although the entire amount was available to them. It developed as the season progressed that the local banks were able and willing to take care of their needs to a greater extent than had been anticipated.

The Corporation has actually advanced \$20,729,685.16 to banking institutions and cooperative associations of producers in the State of North Dakota, under Section 24 of the Act.



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## VITA

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The author was born near Cedar Falls, Iowa, December 27, 1894. His early education was obtained at a rural school and in the Iowa State Teachers College High School. In 1912 he entered Iowa State Teachers College and received the degree of Bachelor of Arts in 1916. During the year and a half thereafter he taught in the High School at Sioux Center, Iowa, resigning in December, 1917, to enlist in the United States Navy, where he was commissioned an ensign and sent to sea aboard the U. S. S. Glacier. In January, 1919, the war emergency being over, he petitioned the Navy Department to release him from active duty and at once entered the graduate school of Columbia University. In February, 1920 he received the degree of Master of Arts from that institution and spent the remainder of the academic year as a member of the Faculty of the University of Vermont. The following year he served as an instructor in Money and Credit in the University of Pennsylvania. In 1921 he was appointed to his present position of instructor of Economics in Columbia University. He has attended lectures by Professors R. E. Chaddock, W. C. Mitchell, H. R. Seager, E. R. A. Seligman, V. G. Simkhovitch, and H. P. Willis; and has been a member of the Economics Seminar directed by Professor Seligman, as well as the Banking Seminar directed by Professor Willis.