

THE BANKER AND THE FARMER

Address

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At the risk of being called a fatalist -- I really am not -- I want to point out that this country never has seen a "peace" time when forces beyond an individual's personal control exercised as powerful or complete control over his life as now. I use the word "peace" with hesitation; considerations of war and peace are all-pervading. The situation is hinted at in the remark so often made, that while war is unlikely, peace is even more remote.

These considerations are going to set the pattern of our lives for years ahead. We face years of high defense expenditures here and abroad, of a high federal budget, of taxes higher than we like. Even that prospect doesn't necessarily mean disaster; our national product is also very high. At its present rate, as much as one-fifth could be taken for federal cost, including armament and foreign disbursement, and we would still have 50 per cent more left for civilian, non-federal use, than we had in 1935. Obviously, if public expenditures of this magnitude are unavoidable, the important thing is to keep our national product high.

The forecaster is in bad repute, in the aftermath of the surprising election. So I'll make the period of my forecast short. All of us do some forecasting, or try to. We read signs, and try to interpret them. The danger is, of course, that we will be so busy reading the signs along the road that we may miss the curve. But the signs we can see point to a continued high level of business activity for some months ahead -- perhaps many months.

For the fifth consecutive month civilian employment in October was over 60 millions. It ran about a million workers over October of a year ago. Industrial production -- physical volume -- is running about 191 per cent of the average output in 1935-39. Personal incomes this fall are at an all-time high -- an annual rate of \$215 billions -- \$24 billions over the rate a year ago.

But this is precisely the time to look out for trouble. I hear it said that because organized labor and the farm vote were potent factors in the recent election, labor and agriculture in the months ahead are going to have their own way, without much restraint. Let me warn against that. Unless we are capable of real self-restraint we can easily find ourselves on the last joyride before a tailspin that can really hurt.

One of the St. Louis papers the other day carried a story under this headline: "WAGES STILL LAG BEHIND PRICES, U. S. NOTES AS UNIONS ASK HIKE." It was based on a computation of the Bureau of Labor Statistics purporting to show that average factory wages earned had failed by a slight margin to increase as much since V. J. Day in 1945, as had the cost of living. The difference noted was a couple of percentage points.

Overlooking for the sake of the argument the fact that the cost of living figures for 1945 were slightly phoney -- they were based in part on the so-called "fixed" prices, rather than the actual prices people were paying -- let me point out that you can prove anything you want by statistics if you choose a base period to suit yourself. A better comparison is with 1940, the period immediately before the war. Average weekly earnings of factory workers now are 114 per cent over those of 1940, while the cost of living has gone up 75 per cent. Real wages, therefore, are higher than they were just before the war. That's a good figure to remember. The fourth round of wage increases we hear so much about may be the breaking point. Now is the time for self-restraint and cool judgment.

The same warning holds good for business management. It holds for the farmers, too. In the long run, high inflexible support prices fixed by law can mean disaster. The disaster can strike fast and soon with perishable crops which cannot be stored, and over a longer period it can hit the storable crops, too -- corn, and wheat, and cotton.

But that is another story. This is a bankers' meeting, and you are concerned with the overall monetary picture. So I'm going to talk for a minute about money -- and as I use the term, it means bank deposits plus currency outside of the banks. When we look at the money supply, we see the startling changes that have occurred during and since the war.

Let's start a little back of that, at the peak of business activity in 1929. The nation's supply of money (bank deposits plus currency) then was \$55 billions.

In 1940 it was \$71 billions.

In 1945, \$175 billions (all-time high).

In 1947, \$165 billions (post-war low).

Now, \$170 billions.

Our money supply is two and third times the 1940 volume. For the nation as a whole, bank deposits more than doubled since the outbreak of the war. In Illinois the increase was slightly above the national average.

This increase was due to war financing. Money that was collected in taxes, or borrowed, was spent for war plants, for army camps, for food and materials at high prices. It was distributed throughout the country in the process, and found its way into the banks as added deposits -- the big banks, and the little banks, member banks and non-member banks, they all shared in the growth. This was a windfall increase. It had nothing whatever to do with the industry, or thrift, or ingenuity of the individual banker who received it. I suggest that we keep that in mind when we are discussing reserve requirements that may be needed to prevent still further expansion of deposits, of the money supply, from increased loans or a continued inflow of gold from abroad.

We need self-restraint, and calm, intelligent appraisal by bankers, too. We need to realize, incidentally, that since non-member banks shared in this windfall increase along with member banks, the responsibility for its management, too,

should be shared.

But that's getting off the track, The point I want to make next is that the nation's money supply, this high level of bank deposits, is with us to stay for quite a while. It will stay high until the total volume of public and private debt is reduced, or until the flow of gold runs away from rather than toward this country. I think it will be some time before marked changes in these respects occur.

Now I am getting a little nearer to the subject I really want to talk about. Even though the total level of deposits stays constantly high, there will be significant changes in their ownership and location. Deposits will shift between communities and districts in accordance with changes in the relative value and volume of the production of the districts. That in turn depends largely on how fully and wisely the human and physical resources of the areas are used.

Bankers are interested in this question. So is the Federal Reserve System. For healthy, growing banks need healthy, growing communities. And the reverse is true.

Now we have rich resources in Illinois -- raw material, plants, land, timber, and the hands and the capital to work them with. I can't talk about them all, so since the 44 Illinois counties in the Eighth Federal Reserve District are largely agricultural, I'm going to talk for a moment about how the wise use of our land and our capital can help keep our production and our income high and incidentally, help hold our bank deposits. This may be an old story to some of you. We have worked with the Illinois Bankers' Association to spread it through southern Illinois.

In cooperation with the Land Grant Colleges and soil conservation technicians, we have analyzed a large number of farms in our district where complete farm conservation and balanced use programs have been carried out or are well underway, and where accurate records have been maintained to show what the improvement program has cost and what the effect on yields has been. It would take too long to summarize all of them, so I have combined the records on three

farms typical of those we studied, one in Missouri, one in Indiana and one in Illinois. Striking an average of these three farms gives us a farm of 200 acres which, before the improvement program was undertaken, yielded total production worth \$1,665 a year at pre-war prices then prevailing. On each farm, improvement programs were completed which included changes in field layout, soil conservation structures, application of needed minerals and construction of necessary farm improvements.

When the improvement program was completed, annual crop production had reached a value of \$3,902 calculated at exactly the same pre-war level of prices. Production after the program was two and one-third times the production before the program began. In order to bring about the 134 per cent increase in the production on this average 200-acre farm, a total of \$6,730 was invested over a ten-year period. Fifty-nine per cent of the amount went for minerals, 23 per cent for erosion control, 10 per cent for fences, 5 per cent for building repairs and 3 per cent for ponds. The bulk of the investment was made in the first three or four years.

The increased production for the ten-year period was worth \$18,255 valued at the same pre-war average prices, which can be traced directly to the \$6,730 capital input for farm and soil improvement. The farmers received \$2.71 increased income for every dollar invested in the improvements.

In Kentucky, where tobacco is an important crop, we studied five farms where similar programs had been completed and accurate records kept and we found that \$2.14 was returned for every dollar invested in farm and soil improvements even though building expenses were unusually large. Other studies made in the cotton-growing part of our district showed increased returns averaging \$2.50 per dollar of improvement expense.

We are convinced that capital is invested safely when it enables an operator to use his land fully and wisely in producing what it is best fitted

to grow while conserving and upbuilding its soil. If the capital is borrowed on the right terms, it can be repaid out of the increased yield from the land. If the owner has it to invest, he will reap a generous return on his investment. In either case the operator will turn his land over to his successor in a condition that will insure continuing productivity. I believe that the same general principle applies to the management of land for crops, grass, or growing timber, though the application of that principle will vary widely.

I have talked about the place of the banker in improving soil productivity. Productivity also is increased by mechanization which means more capital per worker. The high volume of production per worker in farming which marks this country's agriculture has resulted because farmers, year by year, have commanded more and more capital per worker. As a man gets more and better tools to work with, he manages more land and works it better; his unit costs go down, and the farm yields higher returns and a better living. This trend is going to continue; it is inevitable. It means better homes and a better life for those who remain on farms.

Certainly in the Corn Belt there is no lack of capital at the present time. Mechanization in Illinois largely is an accomplished fact. Back in 1946, 96 per cent of the plowing and disking in Illinois was done by tractor power, 94 per cent of the small grain was harvested by tractor, and 75 per cent of the corn was mechanically picked. Since 1946, mechanization has continued as fast as machinery has become available.

The problem is not so much getting capital for mechanization and soil improvement, as it is setting up financial programs in such a way that farms can be passed in good condition from one generation to the next. It is a problem, too, of financing new farmers with sufficient working capital to farm with maximum efficiency, and in such a way that the soil and its productivity is maintained.

There is capital enough for these purposes not just in the United States as a whole but in the very communities where the need is greatest. The challenge confronting us is to develop techniques that will fit the needs and the repayment potentialities of the land and that will justify the investment.

To do this requires some changes in the forms of farm mortgage credit. Farm mortgage loans have largely been geared to an exploitive system of farming. Today there is no excuse for continuing many of the farm real estate mortgage loan practices which actually encourage poor land use. The fault rests mainly with farm appraisal policies, the slide rule method of loan amount determination, and the requirement that the annual loan balance must become successively less from the time a loan is made.

These are merely conventional loan practices that have persisted for years and are generally adhered to today. They worked reasonably well in the days when farmers first needed farm mortgage financing, and when farm land was new. The farmer, through annual liquidation of a part of his soil capital, could retire a loan with reasonable certainty. But only virgin soils could withstand such a shock and even when farm ownership was accomplished by the credit route, the farm when paid for often was actually worth less than when it was bought.

As time went on, however, and land values increased, mortgage debt rose and soil productivity declined. Conventional loan practices had an increasingly vicious effect on soil productivity. Today we have reached a point where it is difficult for a tenant farmer to buy a good farm. New land is no longer available, and in most instances the prospective farm owner can only buy a farm which is already badly run-down. Further exploitation under heavy mortgage debt makes eventual farm ownership a doubtful possibility. The average farm buyer today must conserve what topsoil remains and rebuild soil productivity to a level that will produce sufficient income to furnish a reasonable standard of living before he can

safely retire debt.

Farm mortgage loan policies must be adjusted in line with conditions if the use of credit is to be a sound aid to individual farm ownership. Necessary adjustments in farm mortgage credit policies are relatively simple. We must first recognize that the real value of a farm, irrespective of its sale price, actually increases or declines depending on the kind of practices followed on it. To recapitulate:

1. Land appraisal must be adjusted to recognize the increased real value that is added by proper soil conservation and improvement practices.
2. Disbursement schedules on farm mortgage loans must be changed from the conventional practice of one lump sum disbursement for each mortgage loan, to a flexible disbursement program under which funds can be advanced to the borrowing farmer over a period of years for conservation and improvement costs in addition to the initial disbursement for purchase of the land.
3. The repayment program must be more nearly geared to the income pattern of the particular farm that is financed. Where heavy investments for soil improvements are required, these costs will usually exceed the added income they produce for a period of two or three years. Repayments therefore will need to be light in the early period when costs are high and returns low, and heavier in amount as the income increases from the improvement investments. Actually, in many farms which require heavy improvement outlays, the year-end balance of the mortgage debt may actually increase for a period of two or three years while the productivity level of the farm is being rebuilt.

I do not want to leave the impression that the farm improvements ahead of us can be paid for only by the use of credit. American farmers have come out of the war and through the early post-war years in the strongest financial position of their history. Total farm assets rose from \$54 billion on January 1, 1940,

to about \$122 billion on January 1, 1948, and farmers' net worth increased from \$44 billion to about \$113 billion. During that period, farmers' debts decreased from \$10 billion to \$9 billion. Thus a \$1 billion decrease in debt has been accompanied by an increase of \$68 billion in total assets and \$69 billion in net worth. Much of the dollar gain in agriculture has been due to higher inventory prices for real estate and personal property; however, by keeping the value of land constant and holding other valuations to the 1940 level, farm equities have increased \$20 billion. For example, cash, deposits and Government securities owned by farmers have increased by over \$17 billion.

It has been argued that these amazing financial gains by farmers are the result of a relative price level that has increased the cost of living more rapidly than workers' compensations. I do not want to prolong the discussion as to whether farm prices have gone up more than wages, for it could go on all night. I said a moment ago that by <sup>1940</sup>~~1939~~ standards, factory workers are considerably better off now than before the war. Whether wages or farm prices have gone up the most depends on the date taken as a base. One statement often made is that 23 per cent of a worker's disposable income was spent for food in 1935-39, against 28 per cent in 1948. That looks like food costs had risen faster than income. But a point often forgotten is that people are eating more than before the war. In 1947 meat consumption per person was 23 per cent more than in 1935-39; per capita fluid milk consumption was up 18 per cent, fruit consumption 22 per cent, and vegetable consumption 12 per cent. Consumption of all foods per person in 1947 was 16 per cent more than in 1935-39. While we may be spending a larger proportion of our income for food, we are eating more, and I think undoubtedly we are choosing more expensive foods as well.

As has been pointed out in your discussions, the turn in post-war farm prosperity has been reached. Net farm income in 1948 is expected to be \$1.6 billion less than in 1947, and is expected to decline further in 1949. Farm prices have

declined about 8 per cent since last July. Meat supplies are expected to be short in early 1949, but with the enormous corn crop, hog numbers in late 1949 are expected to be materially higher than now. Marketings at that time will be accompanied by substantially lower prices.

I think, therefore, that we have reached the place where a new relationship between bankers, particularly country bankers, and their farm customers is essential to the future welfare of bankers and farmers alike.

Consideration of direct banker-farmer relationships logically begins with the country bank. Every country bank which has not already done so should give thought to planning, organizing and activating a specialized farm service program. Programs of that kind fall generally into two categories. Some are organized for direct loan solicitation. Others take an indirect approach to loans through helping in the sound economic development of the community's farm resources. The latter type of program is gaining in popularity, and many that were organized originally on a straight solicitation basis have drifted toward the complete community service and development approach.

Many banks have found that a specialized farm service department offers opportunity for income in addition to loan earnings. Some country banks handle at least a portion of their trust funds through this department. Other banks have developed farm management services as a part of the farm department. They provide direct management on a fee basis for non-resident land owners or local businessmen who own farms but need technical advice in operating them.

City banks, even though they do not make many loans directly to farmers also have a definite stake in banker-farmer relations.

I recognize the many worth-while services which city banks provide their country correspondents. It is no criticism to point out that they provide these services at least partly because of their interest in the country bank balances.

for obtaining and retaining country bank accounts. It seems reasonable to suggest, therefore, that city banks which are properly desirous of holding maximum country bank balances, should for that reason be anxious to provide services that are of maximum helpfulness to country banks.

A moment ago I mentioned that many country banks are swinging away from direct farm loan solicitation toward an indirect type of business promotion through a constructive community development program. A parallel is the case of the city bank which, observing the experience of these country banks, has shifted, or I should say, raised the level of its approach to the country bank from direct personal solicitation to the indirect approach which helps the country bank meet its day-to-day problems in an increasingly effective way.

I believe, therefore, that a city bank can well afford to employ some traveling representatives who really know farming and farm credit as well as county bank operations, to call on country banks. I am thinking of men who are capable of sitting down with the country banker and intelligently discussing with him the day-to-day problems of servicing and developing the rural community. A few city banks in the Eighth District are employing men to this type, and I have observed that country bankers get real inspiration and help from their calls.

So that's the first element which I think should go into the city bank's plans for service to country banks - let them have at least one or two representatives who understand agriculture, farm credit and country bank operations from the ground up. Men of those qualifications are difficult to obtain. It may be necessary to employ men who have the agricultural background and who understand farm loan extension and then train them in country bank operations.

A second way for city banks to improve their service to country banks is to stand back of the country bankers with participating funds for farm loans, sharing with them the heavier lines of credit that may exceed legal loan limits.

past, but a better and more general understanding might greatly broaden this service in the event of future need. A city bank staffed with some men well trained in agriculture would certainly have a better understanding with the country bank on what constitutes sound farm loans. Such a city bank would be in a strong position to extend ready help in case of need.

More and more bankers are coming to realize that there is nothing in the past repayment record of farm borrowers that would set them apart as a high-risk group, even counting in the experience of the worst farm depression in history. With proper interbank organization and adequate staffing, commercial banks can handle the sound farm production loans and a reasonable portion of the farm mortgage loans without government support and subsidy. If country banks individually will organize good farm service departments, and if city banks will adjust some of their activities a little more toward the country bank's needs and viewpoint, there is no real need to fear further inroads of competitive government-sponsored agencies.

Every living thing, every human institution, changes. The business of banking must change too, to keep up with changing conditions. There is little in the future picture to lead one to believe that bank resources will not remain high, and that banks will not continue to be in excellent financial position to serve the sound credit needs of the nation. That includes the farmer, too. To serve him, country bankers and their big city brothers, too, need to know that end of their job. Reliable farmers are entitled to credit for productive purposes, credit that is tailored to fit their peculiar needs. Banks have the best opportunity to serve that need directly. If they fail to take advantage of it, they will still finance agriculture, but it will be largely through the purchase of low-yield government-supported bonds or debentures.

In this whole discussion, I have not mentioned the facilities of the Federal Reserve System as a source and support for bank liquidity. I am not sure

that bankers generally are aware of the changes that have been made in the law to liberalize the loan and discount powers of the Reserve System - changes which place it in strong position to support the commercial banking system if and when help may be needed again.

The local banker controls most of the financial pipelines in his community. He has its deposited funds at his disposal. Two general courses are open to him. He may concentrate his investments in low-risk, low-yield outside securities. This is an easy way. For a time it may provide sufficient income to satisfy the bank's needs. But it will not set the banker up as a useful citizen or the bank as a source of full public service in the community.

On the other hand, he may carefully direct excess local capital first into investments that build and encourage the sound economic development of the community. This means sound loans to farmers and local business to create greater efficiency and rising community income. That is not the easiest way - real success is seldom easy. But it offers the only way for banks to realize their full potential in this or any other field of service. A clear field and easy success are just not going to fall in our laps - we must work for them.