

April 1958  
 larger cities during 1956 and 1957. This probably reflected the greater lending capacity of smaller banks, which arose from an inflow of deposits, both from banks within and outside the District.

Business customers of banks in leading cities have brought about most of the recent downturn in loans. A drop off in business borrowing in the first two months of 1958 brought the total outstanding below the year-ago point for the first time since before World War II. In addition, loans to purchase and carry securities declined sharply in February after remaining stable during most of 1957. Consumers, however, increased their borrowings in late 1957 and reduced them about seasonally so far in 1958.

An examination of changes in business loans by industry reveals that sales finance companies have made much larger repayments of bank loans so far this year than they did in the like period of 1957. A decline in loans to these companies has accounted for almost half of the drop in total business loans. Some of this decline reflects a smaller need for credit because of lower automobile

sales. It is also likely, however, that sales finance companies are repaying loans with the proceeds of sales of paper in the open market. Similarly, public utilities have likely repaid bank loans with proceeds from security sales.

Food, liquor, and tobacco manufacturers have also reduced their borrowing somewhat this year. In addition, "miscellaneous industries," which include lumber, wood products, and furniture manufacturers have reduced their bank indebtedness appreciably. Textile manufacturers, on the other hand, have used more bank credit this year than last, and construction firms have borrowed more, whereas they made net repayments last year.

The decline in loans at banks in large cities probably reflects some weakening in business activity in the District. Part of the loan decrease, however, may have come about as borrowers obtained credit from sources other than banks. The strength in loans at all District banks, moreover, suggests that business activity has held up better in the District than it has throughout the nation.

W. M. DAVIS

## Farmers Use More Cash

Radical changes occurring virtually overnight on farms in District states have made farmers step up their use of capital. Only eighteen years ago, for example, mule power drove the region's farm plant. Now it is powered largely by engines; there are about 450,000 tractors in use on the 540,000 commercial farms. Eighteen years ago there were 6.5 million people on our farms; now there are 4.0 million; farmers, therefore, use labor less freely. On some commercial cotton farms in the Piedmont of Georgia and Alabama, farmers used 5,130 hours of labor for farming in 1940, but only 3,980 hours in 1956. Because farmers had less labor available they had to make it more productive. Finally, the average District farm became larger in the eighteen-year period—62 percent larger. Some farmers enlarged their units by buying or

renting from others who released land; in this way they shifted to engine power more economically than they could have otherwise.

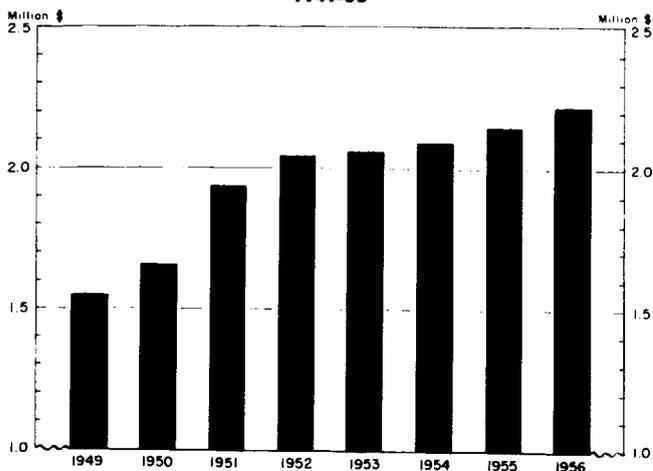
These events led to greater capital needs, which in turn caused financial problems. Farmers required more funds to buy assets like machinery, livestock, poultry, and buildings and to operate their farms. At the same time their economic risks increased because they had more fixed and operating capital invested and their costs rose. Farmers' need for more capital and the new structure of costs they are having to cope with are significant for two reasons: They are seeking more funds from those providing capital, and their response to the new cost structure is causing some important changes in our region's farm economy.

### Greater Capital Investment

When farmers substituted engine power for mule power they put much more capital into their businesses. Investment per farm operator in District states averaged about 3,500 dollars in 1940, according to the Sixth District Balance Sheet of Agriculture. By 1955, the investment averaged about 15,000 dollars. When the influence of rising prices is removed, the investments totaled 2,822 dollars and 5,338 dollars for 1940 and 1955, respectively. Farmers also invested more capital by committing more of their gross incomes for farm production. Outlays for production in 1957, for example, equaled 80 percent of gross receipts from marketings. Eight years earlier the proportion was 69 percent. This change came partly because farmers used more operating supplies. Between 1945 and 1956, for example, farmers on peanut-cotton farms in Georgia's and Alabama's southern coastal plains increased their total physical inputs for production by 45 percent.

Farmers were responding to economic forces when they

**Farm Production Expenses**  
 Sixth District States  
 1949-56



### Distribution of Physical Inputs for Production Farms in Selected Areas of the Southeast

1947-49 and 1956

(Percent)

Physical Inputs	Cotton Farms						Peanut-Cotton Farms,	
	Southern Piedmont			Delta			Sou. Coastal Plains	
	1947-49	1956	1947-49	1956	1947-49	1956	1947-49	1956
Land and buildings . . .	16	17	12	10	11	13	11	10
Farm machinery . . .	15	21	15	33	14	23	14	23
Other capital . . .	3	2	2	2	2	2	3	3
	18	23	17	35	16	25	17	26
Family labor . . .	25	20	34	24	4	5	40	31
Hired labor . . .	17	15	18	7	51	28	7	6
Purchased feed, livestock, seed . . .	7	7	8	8	5	8	9	10
Other goods and services . . .	17	18	11	16	13	21	16	17
	66	60	71	55	73	62	72	64
Total . . .	100	100	100	100	100	100	100	100

Source: "Farm Costs and Returns, Commercial Family-Operated Farms by Type and Location, 1956," USDA, June 1957.

pumped this new capital into their farm units. War-born needs for food and fiber in recent years impelled many farmers to increase their capital investments. During the Korean War, for example, farmers in Louisiana's rice belt planted new rice land to provide rice for Asian customers. Also farmers used more capital on their farms because returns on it were high. In parts of the southeast in 1949, net income for family labor and capital used ranged from 10 to 20 percent of each dollar invested in the business, according to research by the United States Department of Agriculture. Returns were near the high end of the scale for farmers who had little capital invested and who were using family labor extensively. With labor thus under-employed, its productivity was low and that of the capital in use was high. Many farmers decided it would be profitable to use more capital and raise the output of their labor.

Capital investments in District farms also grew rapidly after 1952 because farmers were troubled by an adverse price-cost relationship; the prices they received for their products declined, whereas those they paid rose higher and higher. Caught in that vise, they used more funds to raise output and reduce unit costs. Finally, because farmers used more engine power, their operating costs became a larger part of their total costs. They had to meet that new cost structure by injecting more capital into their businesses.

#### Effects of Investment

One of the most important results of the increased capital investments was higher output per worker. Production per hour of man labor on peanut-cotton farms in the southern coastal plains, for example, rose 48 percent between 1949 and 1956. A 91-percent gain was achieved in the period on large cotton farms in the Delta of Louisiana and Mississippi. Meanwhile costs per unit of production on these farms declined or held stable. Output increased most on crop farms, where engine power is quickly and readily translated into larger yields per acre. Use of more capital is less effective in raising the man-hour output for livestock; the production cycle is slower for some livestock products; also, engine power is further removed from the

finished product. Nevertheless, capital investments have helped District farmers lift output per man-hour for all livestock products by about a fifth since 1949.

Although farmers realized greater efficiencies in production by using more capital, they also incurred more economic risks. They need large incomes to protect their heavy investments in their physical plant; if their income fails, as when drought cuts yields, it quickly creates a financial strain for them. Also, farmers' total costs are higher and the pattern of costs is different. Thus they quickly suffer losses from declining prices for their products.

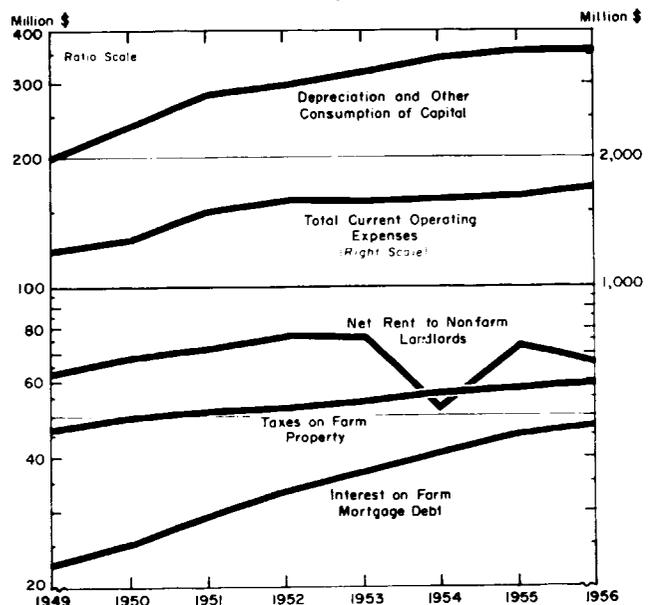
#### New Structure of Costs

Costs bulk larger in District farmers' plans for production than ever before. For one thing they must plan on heavy expenditures to operate their businesses; total outlays for farm production grew 44 percent between 1949 and 1956. Three-fourths of these total costs stem from purchases of items used in current operations; depreciation charges add 16 percent, taxes 3 percent, rent to nonfarm landlords 3 percent, and interest on farm mortgage debt 2 percent. Out-of-pocket costs are largely for feed, labor, and repairs and operation of capital items.

Although operating expenses are still rising, the increase has slowed since 1951. Depreciation and interest costs are showing the greatest growth. This is seen clearly when farm expenses are related to cash receipts from marketings; current operating expenses, for example, soak up half of farmers' cash receipts but when depreciation and interest are added, the total soaks up 80 percent of receipts. On commercial cotton farms in Georgia's and Alabama's Piedmont and in the Delta of Louisiana and Mississippi, the proportion is 70 percent.

Other changes in costs joined with the rise in depreciation. Feed costs have a larger role on many District farms. With livestock and poultry production up in recent years,

Production Expenses of Farm Operators  
Selected Items  
Sixth District, 1949-56



**Distribution of Farm Cash Expenses**  
Sixth District States  
1949 and 1956

Item	1949	1956
	Percent of Total	
Current operating expenses . . . . .	79	76
Feed purchased . . . . .	16	21
Livestock purchased . . . . .	4	5
Seed purchased . . . . .	5	3
Fertilizer and lime . . . . .	17	16
Repairs and operation of capital items . . . . .	19	20
Miscellaneous . . . . .	14	15
Hired labor . . . . .	25	20
Total . . . . .	100	100
Depreciation and other consumption of farm capital . . . . .	13	16
Taxes on farm property . . . . .	3	3
Interest on farm mortgage debt . . . . .	1	2
Net rent to nonfarm landlords . . . . .	4	3
Total production expenses . . . . .	100	100
Amount (000,000 dollars) . . . . .	1,544	2,218

Source: "Production Expenses of Farm Operators by States," and "The Farm Income Situation," AMS, USDA.

21 cents of farmers' current expense dollar goes for feed; in 1949 feed took 16 cents of it. Machinery costs have become more important in total costs on most farms since 1949. Labor costs, however, now have a lesser place. Family and hired labor used on Piedmont cotton farms, for example, declined from 52 percent of all costs in the 1947-49 period to 31 percent in 1956. Farmers now pay out 20 cents of their current expense dollar for labor, compared with 25 cents in 1949.

Farmers find this new cost structure troublesome and difficult to combat. In past years their major variable cost was labor. They rolled with the punch from lower prices by taking less pay for their labor; sometimes they continued producing for awhile even though prices for their products fell drastically. With labor now less important in their costs, however, they cannot as readily absorb lower prices. Also, the feeds, fuel, fertilizer, poisons, and other items farmers are using more heavily are rigid cost items. They must be used to gain high yields, yet once farmers commit them for production they become sunk or fixed costs. A new firmness exists in farm costs because irrevocable cost items have a larger place in farming. Farmers, therefore, have higher and more inflexible break-even points. Many small cotton farmers and other farmers with small units find the new costs especially worrisome because they cannot effectively use more capital to raise their output.

**Farmers Seek Additional Capital**

Farmers can prosper only as they earn larger returns for their labor. Not only must they further enlarge their farm units by adding land, livestock, and the like, they must continue spending heavily for current operations to maintain their yields. Thus they need adequate working capital.

Some farmers obtain working capital within their own businesses; they set up reserves for depreciation or they commit more of their gross receipts for current farm expenses. Some adjust their spending for farm and home

items; they maintain their outlays for production but forego new television sets, radios, stoves, automobiles, and the like.

Many farmers are asking for more operating funds from off-farm sources, especially from commercial lenders. Bankers find District farmers demanding larger operating loans. Farm production loans made to cotton farmers by banks in 1956 averaged 772 dollars in size, up 162 percent from the average in 1947. Furthermore, farmers are seeking longer terms on the larger amounts they are borrowing.

Commercial lenders do not supply all the credit farmers use because the risks on individual loans frequently are very great. The risks sometimes stem directly from the new cost structure; large cash costs, for example, increase the risk of loss from crop failures or declines in prices. These risks are pushing some farmers to seek operating capital from merchants like feed and fertilizer dealers and manufacturers. In these cases, farmers often enter production contracts with the suppliers that transfer risks of lower prices, death losses, faulty management decisions, and the like to them.

Broiler growers are successfully adopting that technique. Their variable costs per pound of broiler, that are mainly for feed and chicks, are a large part of their total costs and also bulk large against the price of broilers. Thus a dip in broiler prices may quickly cause a loss. Broiler producers fear that. Even though some of them have some financial resources to absorb losses from declining prices they do not relish taking the risk. They often prefer to produce broilers for feed dealers, manufacturers, and others on contract and to use operating capital supplied by such firms. Other broiler growers having surplus labor but little or no funds also obtain working capital from feed firms under contract and thereby raise their labor productivity.

**Looking Ahead**

Lenders serving the District's farm economy are certainly helping to build its potential. Farmers needing both fixed and operating capital, of course, depend upon them for financial aid. High variable costs and fluctuating prices may induce growers to obtain funds for their operations by producing in an integrated program. Broiler producers have already done this effectively. Some hog growers, egg producers, and cattle feeders with surplus labor and skill at husbandry may seek funds that way. Crop farmers too need more operating and other capital. They will accumulate some themselves; banks will supply some; and business firms will supply some. Thus present-day costs in farming will cause some changes in our traditional farm businesses.

Fortunately changes in our farm economy, taken broadly, are more easily made than in some other regions. Farmers here are not as limited by climatic conditions, soils, and markets. The District's favorable environment for farming makes necessary adjustments easier and assures our farm economy a better future. As farmers' needs for capital are satisfied, the pace toward that better future is quickened.

ARTHUR H. KANTNER