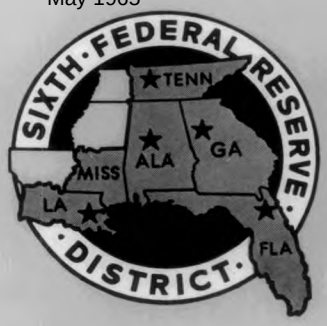
May 1965



Monthly Review

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Also in this issue:

Federal Reserve Bank of Atlanta

Indebted Cotton Farmers Our Poor Relations: Fact or Fantasy?

Our ideas about economic and credit conditions frequently fall short of reality, usually because we are not intimately acquainted with the specifics involved. If you were to ask the average person to give his impressions of the debt status of cotton farmers, he might begin his answer somewhat like this: Well, cotton is grown in the South, so cotton farmers must be southerners. They probably are rather unhappily tied to landlord financing and to merchant and dealer credit, which they use to purchase the necessities of life—seed, fertilizer, and food. Usually, if they are tenant farmers, they find themselves in debt at the end of each year. In fact, it seems to me that the landlord's situation is only slightly less oppressive than that of his tenants. Because he ordinarily stakes everything on a single cash crop that is plagued by wildly fluctuating prices, he also probably sinks into debt quite frequently.

This answer would have been most accurate some thirty years ago. However, cotton farming and the economic status of cotton farmers are quite different today. New facts have been made available recently that enable us to compare commonly accepted views about the debt of cotton farmers with their actual status. This information was obtained from a survey of farm debt in 1960 that was conducted by the Census Bureau in cooperation with the Federal Reserve System, the United States Department of Agriculture, and the Farm Credit Administration.[1] Information from this survey enables us to answer such questions as: How heavily indebted are cotton farmers? Do they borrow as much as other types of farmers? Are most of the indebted cotton farmers in the South? What sources of credit do they use? What are the characteristics of the typical borrower?

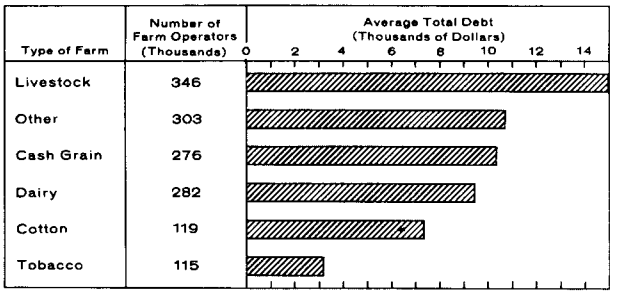
Debt Not Universal

Contrary to our average observer's general impression, not every cotton farmer is continually burdened with debt. When the survey was made in November and December 1960, only about 54 percent of the nation's 219,000 cotton farm operators were indebted. Although this percentage reflected the traditional lull in farm borrowings that occurs "between crops," it was, nevertheless, rather low relative to that for other types of farmers who pay on debts in the fall and winter. Thus, proportionately fewer cotton farmers were indebted than were cash grain farmers, livestock operators, and other farmers with field crops, fruits and nuts, and vegetables. Furthermore, their debts were generally smaller: On the average, cotton farmers owed about $7,300, compared with about

[1] The 1960 Sample Survey of Agriculture provided the first comprehensive survey of total farm debts. The first article on the survey was published in the *Federal Reserve Bulletin* for December 1962. Definitions of debt and other pertinent information about the survey are contained in that article and in a statistical handbook, *Farm Debt, Data from the 1960 Sample Survey of Agriculture,* Federal Reserve Board of Governors, 1965.

$10,300 for cash grain farmers and others with seasonal credit needs (Chart 1). The smaller average debt owed by cotton farmers, of course, strongly reflects the relatively small scale of their operations. Although farm consolidation has led to an increase in cotton acreage over the years, the average cotton farmer in debt operated 265 acres in 1960, while those without debt operated 151 acres on the average.

Chart I: Average Total Debt of Indebted Commercial Farm Operators, 1960



Moreover, when we cast cotton farmers' aggregate indebtedness against that of other farm operators in 1960, we see that they owed only 5 percent of the $16.8-billion total farm debt outstanding with farm operators in 1960. A small increase in this ratio occurs when we include the $256 million owed by landlords of cotton farms in the total. Cotton farmers owed about the same proportions of real estate and non-real estate debts as most other major types of farmers. In the fall of 1960, about 60 cents out of each dollar of indebtedness was for real estate, while 40 cents was for non-real estate.

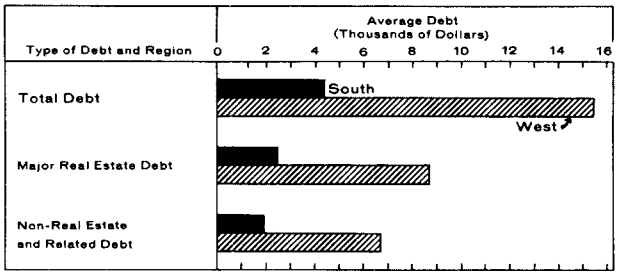
South Versus West

In the past three decades, cotton farming, long the special province of southern growers, has moved West. Greatly enhanced by an expansion in the supply of water made available for irrigation, the West has become an important cotton-producing region and a powerful competitor of the South. By 1960, the West (defined for purposes of the survey to include Oklahoma and Texas, states traditionally classed as southern cotton-producing states) was producing 55 percent of the nation's cotton crop.

Indebted cotton growers were more numerous in the South than in the West in 1960, but their debts were smaller. When the survey was made, there were 52,000 cotton farmers in the West, and 32,000 of them were indebted. Although they accounted for only about one-fourth of the nation's 119,000 indebted cotton farmers, western operators owed 57 percent of the total farm debt of cotton farmers, while southern growers owed 43 percent. The proportions were similar for major real estate indebtedness and non-real estate and related debt.

Moreover, the average total debt of a western grower was almost four times larger than the average for a southern grower—about $15,500, compared with about $4,300 (Chart 2). Western growers in debt, of course, had larger farms and earned sizable incomes. In fact, when the survey was made, they operated half of the land farmed by indebted cotton farmers and received more than half of the cash receipts earned by this group. The cash receipts of all cotton farmers accounted for 7 percent of the national total in 1960.

Chart II: Cotton Farms with Debt: Average Debt, by Region, 1960



Cotton Farm Operators with Debt, by Region, 1960*

	South	West**	United States
Number of Indebted Farm Operators (000)	87	32	119
Percent of Total	73	27	100
Size of Farms			
Number of Acres Operated (Millions of Acres)	16	16	32
Percent of Total	50	50	100
Average Acres Operated	184	500	261
Farm Income			
Net Cash Farm Income of Operators (Millions of Dollars)	130	154	285
Percent of Total	46	54	100
Average Dollar Income per Farm	1,504	4,792	2,396
Off-Farm Income of Farm Operators and Family (Millions of Dollars)	80	66	146
Percent of Total	55	45	100
Average Dollar Income per Farm	926	2,057	1,233
Farm Debt of Indebted Operators			
Total Debt of Operators (Millions of Dollars)	371	498	868
Percent of Total	43	57	100
Average Total Debt per Farm	4,283	15,450	7,313
Major Real Estate Debt of Operators (Millions of Dollars)	211	282	492
Percent of Total	43	57	100
Average Major Real Estate Debt per Farm	2,436	8,737	4,145
Non-Real Estate and Related Debt (Millions of Dollars)	160	216	376
Percent of Total	43	57	100
Average Non-Real Estate and Related Debt per Farm	1,847	6,713	3,167

*Totals may not add because of rounding.
**For purposes of this study, the West was defined to include Oklahoma and Texas, which usually are considered southern cotton-producing states.

Growers Borrow from Traditional Credit Sources

After noting that cotton farmers were enlarging their farms and otherwise responding to advanced cotton technology, a casual observer may have reasoned that they were drawing borrowed funds from new or different outlets. He also probably speculated that farm specialization would logically cause them to seek across-the-board financing from one source. Contrary to this conception, however, the survey reveals that cotton growers in 1960

were utilizing many credit sources. Furthermore, most of them have traditionally served cotton growers.

Long-term Credit Cotton growers' major real estate indebtedness indicates their reliance on creditors of long standing—the Federal land banks since 1916, commercial banks for an even longer time, and, of course, individuals, such as farmers, who sold them farms. Overall, most cotton growers with major real estate debt in 1960 were financed by Federal land banks, commercial banks, and individuals. Almost a third of the operators with major real estate debt that year had borrowed funds from Federal land banks. Individuals selling their farms and obtaining a mortgage were creditors of about one-fourth of the borrowers, while commercial banks were third in numbers of borrowers with major real estate debt. In the South especially, the Farmers Home Administration and insurance companies also had served numerous borrowers.

Cotton farmers indebted solely to insurance companies for major real estate debt in 1960 owed the largest aggregate amount—about $136 million. Federal land bank debtors owed the banks $108 million; debtors to individuals from whom the farm was purchased under a mortgage owed about $92 million; and those who purchased under land contract owed about $44 million. Cotton farmers indebted to commercial banks owed about $47 million for major real estate debt.

These debt aggregates, of course, obscure significant differences in cotton farmers' average indebtedness to their credit suppliers. Insurance company debtors in 1960 owed the companies about $26,000, on the average, compared with about $7,500 owed to individuals on mortgages. Again, western growers had larger average debts than southern growers, reflecting, of course, variations in farm sizes, farm valuations, and farm incomes. Judging from their average incomes, however, western growers with major real estate debt in 1960 had the greatest potential for repaying their debts.

Creditors have been relatively conservative in their long-term lending to cotton growers, judging from the survey data. The ratio of total debt to income for cotton farmers with major real estate debt is the smallest among the ratios for the major types of farmers. Furthermore, the ratio of major real estate debt to the value of land and buildings owned is also the smallest for cotton growers. Variations occurred among the specific credit sources, however. Measured by the lending ratios, individuals and insurance companies were the most liberal creditors for cotton farmers with major real estate debt, while Federal land banks were the least liberal. This pattern prevailed in both the South and West.

Short-term Credit With respect to production credit, many cotton farmers have relied for years on merchants and dealers to supply "furnish," *i.e.*, food, seed, guano or fertilizer, plows, and other personal and production items, when the crop season opens in the spring. Such debts would not be paid until after harvest in the fall. This may seem a bit out of date to many of us. Yet, surprisingly enough, the survey data indicate that merchants and dealers still were providing substantial short-term financing to cotton growers in 1960. Although the size, value, and techniques of cotton farming operations have changed considerably during the transition from the mule-power age to the mechanical age, merchants and dealers evidently stand ready to supply cotton farmers with funds to finance the purchase of machinery, fuel, fertilizer, spray materials, and the other production requirements of a modern farm.

Merchants and dealers were top-ranking suppliers of funds for non-real estate and related financial purposes in 1960. While almost 60 percent of the nation's indebted cotton farmers owed funds to merchants and dealers, the South contained about three such debtors to each one in the West. In the aggregate, cotton farmers owed merchants and dealers about $243 million, a total significantly higher than the $174 million they owed commercial banks and the $89 million they owed the credit co-operatives known as production credit associations. The average amount owed to merchants and dealers, however, was relatively small, compared with the averages for debts owed to other primary sources of short-term credit, because many of the farmers indebted to them were southern operators with small farms. Cotton farmers' debts to merchants and dealers were $2,000, on the average, in the fall of 1960. In comparison, their debts for production requirements to commercial banks and production credit

Cotton Farm Operators with Major Real Estate Debt, by Source of Debt, 1960

Source of Major Real Estate Debt	*Number of Farm Operators*	*Farm Operators with Debt to Specified Source*		*Amount of Major Real Estate Debt Owed to Each Source*	*Proportion of Debt in*	
		*Total Debt**	*Non-Real Estate and Related Debt*		*South*	*West*
	(000)	*(Millions of Dollars)*		*(Millions of Dollars)*	*(Percent)*	
Federal Land Banks	14	178	36	142	31	69
Farmers Home Administration	5	35	7	29	79	21
Insurance Companies	5	262	80	181	52	48
Commercial and Savings Banks	8	72	18	54	37	63
Other Institutions	3	47	13	34	26	74
Individual Sellers by Mortgage	11	205	67	138	26	74
Individual Sellers by Land Contract	2	90	21	68	13	87
Other Individuals	1	9	1	7	43	57

*Totals may not add because of rounding.

Cotton Farm Operators with Non-Real Estate and Related Debt, by Source of Debt, 1960

Source of Non-Real Estate and Related Debt	Number of Farm Operators	Farm Operators with Debt to Specified Source: Total Debt*	Farm Operators with Debt to Specified Source: Major Real Estate Debt	Amount of Non-Real Estate and Related Debt Owed Each Source	Proportion of Debt in: South	Proportion of Debt in: West
	(000)	(Millions of Dollars)		(Millions of Dollars)	(Percent)	
Production Credit Association	11	153	65	89	44	56
Farmers Home Administration	5	35	10	25	27	73
Insurance Companies	1	26	8	17	6	94
Commercial and Savings Banks	24	304	130	174	36	64
Other Institutions	7	97	42	56	25	75
Merchants and Dealers	58	506	263	243	48	52
Other Individuals	22	118	54	64	39	61
Miscellaneous	14	166	83	83	32	68

*Totals may not add because of rounding.

associations were about $4,500 and $6,000 per farm, respectively.

Cotton farmers indebted to major short-term creditors differed little, if at all, as to age and time on their present farm, but their farms varied considerably with respect to the value of land and buildings. Debtors to merchants and dealers in 1960 were operating farms valued at about $65,000 on the average, a value influenced considerably by large growers in the West. Those who owed individuals were operating farms with relatively small valuations of about $30,000 per farm, while growers indebted to production credit associations and commercial banks had units valued at approximately $91,000 each. These average values indicate that many farmers utilizing merchant and dealer credit in 1960 had sufficient financial resources to obtain production financing from commercial banks and production credit associations if they had wished. Possibly, cotton farmers were receiving certain services from merchants and dealers that are not ordinarily provided by other credit sources.

Landlord Debt Landlords are still important in the financing of cotton production. In 1960, 171,000 of the 219,000 commercial cotton farmers were using rented land. Altogether, they rented 25 million acres, with an average acreage of 148 acres. However, only 51,000 farmers had an indebted landlord. On 39,000 farms, one or more of the landlords had major real estate debt, and there was at least one landlord with non-real estate and related debt on 29,000 farms. When the survey was made in 1960, the indebted landlords owed about 29 percent of all farm debt outstanding on cotton farms.

As in earlier years, relatively few cotton farmers renting land in 1960 had paid their rent in cash. Typically, the renter had given the landlord a share of his crop sales. This share covered about 85 percent of the total rent, while the other 15 percent was paid in cash.

Landlord indebtedness was largely for major real estate purposes, such as buying and improving land and buildings. They obtained financing primarily from insurance companies, Federal land banks, and commercial or savings banks. Non-real estate financing was obtained mainly from commercial and savings banks and from merchants and dealers. Landlords' indebtedness was relatively well margined in 1960, judging from survey data indicating that their rental receipts exceeded their total indebtedness

Commercial Cotton Farm Operators, 1960

	South	West	United States
Number of All Cotton Farm Operators (000)	167	52	219
Percent of Total	76	24	100
Net Cash Farm Income of All Cotton Farm Operators (Millions of Dollars)	243	272	515
Percent of Total	47	53	100
Value of Land and Buildings Operated by All Cotton Farm Operators (Millions of Dollars)	3,633	5,722	9,355
Percent of Total	39	61	100
Value of Land and Buildings Owned by All Cotton Farm Operators (Millions of Dollars)	1,711	2,942	4,653
Percent of Total	37	63	100

Note: For purposes of this comparison, the West is defined to include Oklahoma and Texas, which usually are considered southern states.

Cotton Farms with Rented Land, 1960

Selected Characteristics	
Number of Farms (In Thousands)	
Total	171
No Landlord Debt	120
With Landlord Debt:	
Any Debt	51
Major Real Estate Debt	39
Non-Real Estate and Related Debt	29
Total Acres Rented (Millions of Acres)	25
Average Acres Rented (Number of Acres)	148
Land and Buildings Rented, Average Value (In Dollars)	27,548
Rent:	
Total (Millions of Dollars)	417
Landlords' Share of Farm Sales (Millions of Dollars)	354
Cash Rent (Millions of Dollars)	63
Total Rent (Average in Dollars)	2,440
Landlord Debt:	
Total (Millions of Dollars)	256
Major Real Estate Debt (Millions of Dollars)	212
Non-Real Estate and Related Debt (Millions of Dollars)	44
Landlord Debt: (Per Farm with Such Debt)	
Total (In Dollars)	5,058
Major Real Estate Debt (In Dollars)	5,445
Non-Real Estate and Related Debt (In Dollars)	1,532
Debt Per Indebted Landlord Per Farm (In Dollars)	4,310

by about 60 percent. Broadly viewed, the landlord indebtedness on cotton farms in 1960 suggests that landlord financing for modern farming relates more to obtaining larger farm units and needed volumes of production supplies than to simply satisfying the minimal needs of their tenants as in earlier years.

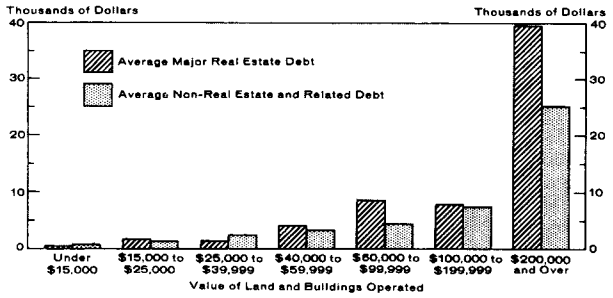
Farm and Farmer Characteristics and Debt

Not too many years ago, most persons thought of the typical cotton farmer as eking out a living from a cotton patch on his small farm. Furthermore, he was thought to command relatively few borrowed financial resources. Facts from the 1960 survey, however, require us to alter that image. Although many indebted cotton farmers still were operating small units and owed small debts, many others had large farms and owed substantial sums. Furthermore, relationships among farm value, income, and debt were exerting a strong influence on cotton farmers' debt position in 1960, according to the survey data. The higher the valuation of an indebted cotton farm, the larger the operator's income and the larger his debt. However, only when farms were valued at more than $200,000 did debts increase significantly (Chart 3).

The close association between cotton farmers' income and debt may also be illustrated by classifying indebted farmers according to gross farm sales. Indebted cotton farmers in the top economic class—$20,000 or more in value of farm products sold—operated farms valued at about $211,000 and had total debts outstanding of about $28,000 per farm. In the lowest economic class—$50 to $4,999 in gross sales annually—farms were valued at about $11,000 each and carried total debts that averaged about $1,400 per farm.

Although small cotton farmers owed some debt, farmers in the upper economic strata who operated farms valued at $40,000 or more owed about 85 percent of the total debt outstanding in 1960. However, only about one-third of the indebted operators were in that group. Those operators also owned most of the wealth that supported

Chart III: Cotton Farms with Debt: Average Major Real Estate Debt and Average Non-Real Estate and Related Debt, by Value of Land and Buildings Operated, 1960



these debts since the value of their farm land and buildings accounted for 85 percent of the total valuation.

Large Farms and Large Debts in the South Contrary to the general impression that all cotton farms in the South are small and have low values and small debts, many farms in that region are in the upper economic groups and earn incomes and carry debts on a par with their western counterparts. True, there were about 61,000 indebted cotton farms in the South in 1960 in the lowest economic group—those who earned $50 to $4,999 in annual gross sales. Moreover, the number in that economic class was about seven times the number in the West. Yet, also in the South, there were about 6,000 indebted cotton farms in the top economic group. There were about 15,000 farms in that group in the West.

Farms in the highest economic class had large valuations in both South and West. For the South the average valuation per farm was about $179,000, compared with about $225,000 in the West. Debt per farm for this income group was about the same size in both the South and West—approximately $30,000 and $27,000, respectively. Although cotton growers in the lowest economic group

Cotton Farm Operators, by Economic Class of Farm, 1960*

Region and Economic Class of Farm	*Number of Farms*		*Average Total Net Cash Income*		*Average Value Per Acre Operated*		*Average Total Debt of Farms with Debt*	*Ratio of Real Estate Debt to Value of Land and Buildings Owned*
	Without Debt	*With Debt*	*Without Debt*	*With Debt*	*Without Debt*	*With Debt*		
	(000)		*(Dollars)*		*(Dollars)*		*(Dollars)*	*(Percent)*
South								
Gross Sales of:								
$20,000 and over	3	6	10,231	9,430	163	190	29,847	22
$5,000 to $19,999	12	19	5,147	3,887	134	161	5,650	16
$50 to $4,999	66	61	1,428	1,243	135	110	1,176	15
All Classes	81	87	2,272	2,430	142	156	4,283	19
West								
Gross Sales of:								
$20,000 and over	7	15	16,193	10,948	320	259	27,032	14
$5,000 to $19,999	8	9	4,609	4,525	182	231	7,268	17
$50 to $4,999	5	8	2,312	1,843	76	174	3,212	13
All Classes	20	32	7,899	6,849	246	250	15,450	14

*Totals may not add because of rounding.

in both regions had small debts, the smallest debt average was in the South where most of the small farms were located.

Operators' Tenure Whether individual cotton farmers were indebted and how much they were in debt depended to an important degree upon their ownership status or tenure. While less than half of the tenants and full owners were indebted when the 1960 survey was made, almost three-fourths of the part owners had debts. Moreover, both indebted tenants and indebted full owners owed proportionately less of the total debt outstanding than did part owners, reflecting differences in numbers of debtors, as well as the average size of debts for the three groups.

In aggregate terms, indebted tenant operators on cotton farms were about as numerous as part owners in 1960, and they were more numerous than full owners. Tenant operators with debt numbered about 54,000, compared with 42,000 part owners and 22,000 full owners. The tenants owed much smaller total debts than the full owners or part owners, a relationship that may stem partly from the typical tenant's inability to keep pace with modern farm technology and expand his income. Tenants with small incomes and small debts were largely in the South, and about half of them were Negroes. While tenant operators of cotton farms with debt generally had earned little and owed little in 1960, some indebted tenants were in the highest economic class with $20,000 or more in annual gross sales and owed relatively large debts.

Although the average debts of tenants were generally small, their aggregate debt bulked relatively large in the total owed by all cotton farmers. Tenants owed about $103 million in 1960, almost as much as the full owners but much less than the approximately $500 million owed by part owners.

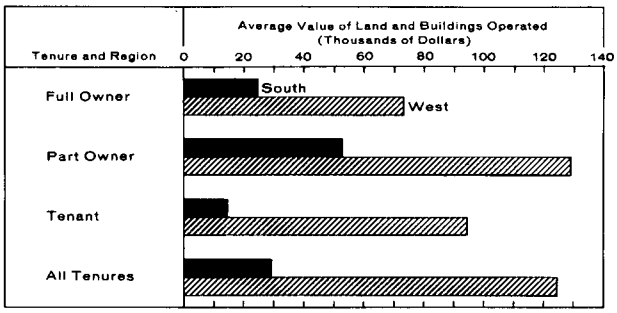
It would be natural for most persons to assume that indebted cotton growers who were full owners earned the largest incomes, owned the most valuable farms, and owed the largest debts in 1960. The survey data reveal, however, that the indebted part-owner group owed relatively larger debts and possessed a substantially higher debt-repaying capacity. Farmers who were part owners typically had larger annual gross sales than either full owners or tenants, and their farms were more highly valued. Their average debts also were larger, principally because they owed more non-real estate and related debt. They also were younger men who had been on their farms for fewer years than the farmers in the other two groups, which may partly explain their larger average debts.

The average indebtedness of part-owner operators was also closely related to the operator's economic class and generally was about as large as the debt owed by full owners in the same economic group. Part owners in the top economic class had average major real estate debt outstanding of about $17,800; it was about $3,800 for the middle class, and about $1,600 for the lowest class. The averages for non-real estate and related debt outstanding were about $11,100, $2,700, and $1,300, respectively. The average debt for full owners was larger only for the major real estate debt of those in the two upper economic groupings. Although tenant debt averages were approximately the same as those for part owners in the two upper economic groups, they were only half as large in the lowest economic group because tenants had no major real estate debt.

The income received by indebted cotton farmers who were part owners justified in some degree their relatively large debts. For part owners with debts, the total value of farm products sold was about $20,000, on the average, compared with $11,000 for indebted full owners and $6,700 for indebted tenants. Off-farm income added about $1,900 to this total for part owners with debt, which was about the same amount that was earned by full owners but well above the $500 average earned by tenants.

Part owners' relatively strong potential for liquidating debts was also indicated by the valuations of their land and buildings. The average valuation of their farms was about $82,000 in 1960, compared with $44,000 for full owners and only about $24,000 for tenants. In the West, the farm valuation for indebted part owners was about $129,000, compared with only about $53,000 in the South (Chart 4). Relatively liberal lending by creditors

Chart IV: Cotton Farms: Average Value of Land and Buildings Operated by Indebted Operators, by Tenure and Region, 1960



to indebted cotton farmers who were part owners was reflected in the ratios of total debt to net cash farm income and value of land and buildings owned. These ratios were higher than those for full owners and tenants.

Survey data on the debts and incomes of indebted cotton farmers who were part owners reflect in some degree the economic pressures that have prevailed in the cotton-production economy in recent years. An urge to enlarge farm operations and to borrow more to do so has often been felt more strongly by younger men who own some land than by older, more settled farmers or by tenants with limited potential. Younger men have invested borrowed capital heavily to expand their farms and otherwise make them more productive. Full owners probably had borrowed less and had smaller debts outstanding in 1960 because they were older, operated smaller farms, and perhaps reacted more conservatively to borrowing for the purpose of expanding their units.

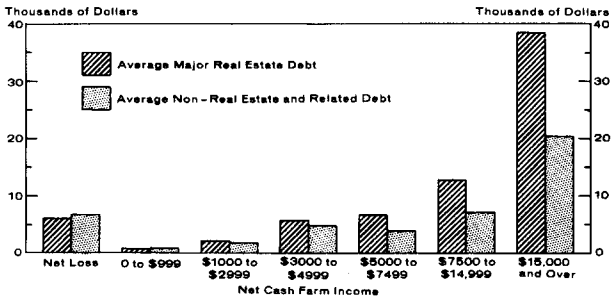
Operators' Farm Income and Debt Indebted growers with the highest average incomes had large farms and were rather heavily indebted. However, only 8 percent of the indebted cotton growers were at the top of the income scale, that is, with $7,500 or more in net cash farm income. Significantly for farm creditors, these opera-

tors owed almost two-fifths of the total debt and received about two-fifths of the gross farm income obtained by indebted cotton growers. Their relatively high potential for debt repayment was indicated by their low ratios of debt to value and debt to income, which were even lower than those of indebted cotton farmers with only modest net incomes.

As logic would suggest, much of the debt on cotton farms in 1960 was owed by farmers with relatively large incomes. The indebted cotton growers earning an average of $3,000 or more in net cash income owed about 55 percent of the total debt outstanding. Another fourth was owed by growers who received from $0 to $3,000 in net income, a group that included about seven-tenths of the indebted cotton farmers in 1960.

Growers with large farms, however, were not automatically assured of large incomes. Net losses were incurred in 1960 by about one-tenth of the indebted cotton farmers, primarily part owners and tenants. In these cases, both the farms and the debts were relatively large (Chart 5). The operators with losses in 1960 owed about one-fifth of the total debt outstanding on cotton farms: one-sixth of the major real estate debt and one-fourth of the non-real estate and related debt.

Chart V: Cotton Farms with Debt: Average Major Real Estate Debt and Average Non-Real Estate Debt, by Net Cash Farm Income of Operator, 1960



Operators' Off-farm Income and Debt That cotton farmers might make ends meet by earning off-farm income seems sensible to the average person who reflects on the cotton farmer's income plight, especially in the South. This option, however, may either have a minimum potential for many growers or be ignored by them. According to the survey data, commercial cotton growers without any off-farm income in 1960 owed about one-third of the debt outstanding on cotton farms. Although many indebted cotton farmers and their families earned some off-farm income that year, the amounts earned by farmers who were low on the economic scale were relatively small and, therefore, were only of modest economic benefit to the operators. On the other hand, indebted cotton growers who received $2,000 or more in off-farm income were principally those with large farms who also had earned large net cash farm incomes. Moreover, operators in this group owed almost two-fifths of the total debt outstanding on cotton farms. These comparisons suggest that the indebted commercial cotton farmers who obtained the largest off-farm incomes were sufficiently skillful to also operate farm-related or nonfarm enterprises or to make nonfarm investments that produced additional income.

Cotton Farm Operators and Non-commercial Farm Operators with Off-Farm Income, 1960

Off-Farm Income of Operator and His Family	*Cotton Farm Operators*		*Non-commercial Farm Operators*	
	Without Debt	*With Debt*	*Without Debt*	*With Debt*
	(Percent)		*(Percent)*	
No Off-Farm Income	35	37	4	1
$1 to $499	33	22	5	2
$500 to $999	12	13	17	8
$1,000 to $1,999	4	12	24	17
$2,000 to $4,999	10	9	32	41
$5,000 and Over	6	7	18	31
All	100	100	100	100
Total Number (000)	101	119	529	457

Debt Ratios When the survey was made, most cotton farmers with major real estate debt had low debt-to-value ratios: About half had ratios below 20 percent and four-fifths had ratios below 50 percent. The operators in the two lowest ratio groups were older, on the average, and, as might be expected, had been on their farms longer, had repaid most of their major real estate debt, and had larger net worths than operators in the group with the higher ratios.

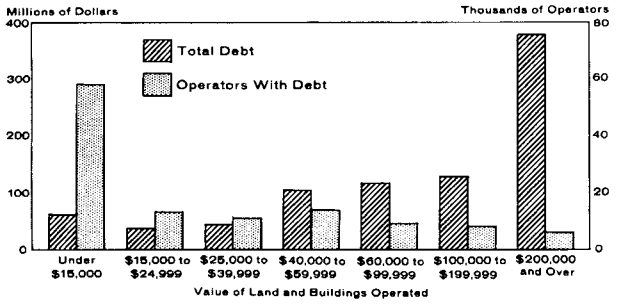
Creditors were relatively liberal lenders to farmers who operated large units but owned only a small portion of the land they operated. In 1960, the debt-value ratios were higher for such men than for those who owned most of the large units they operated. Similarly, farmers with large cotton farms and large gross farm incomes carried more debt per dollar of farm receipts than did farmers operating on a small scale.

In Perspective

Do the survey data support our average observer's notions about cotton farmers' debts? To a certain extent they do. In 1960, many tenants did have debts outstanding during November and December, a period when cash crop debts normally reach a seasonal low. At the same time, most indebted tenants received only small incomes and had small debts. Furthermore, merchant and dealer credit was being extensively used in the cotton-production economy by both tenants and owners. Surprisingly enough, farm owners apparently were outpacing tenants in the use of such credit. Although the basic purposes of this credit probably were virtually the same as those for "furnish" in earlier times, the large amounts owed to merchants and dealers in 1960 and the number of farm borrowers may not have been fully anticipated prior to the survey. Landlords also had a significant role in providing capital to the cotton-production economy and proved to be more important debtors than the average person might have expected.

Intuitively, we might have assumed that the farmers with the largest incomes and the largest and most highly valued farms owed the largest debts and the largest proportion of the total debt (Chart 6). A significant impression gained from the survey data is that most of the debt of cotton farmers was owed by farmers in the top income classification. Furthermore, these large operators

Chart VI: Cotton Farms: Total Debt and Number of Operators with Debt, by Value of Land and Buildings Operated, 1960



who produce most of the cotton had obtained large-scale financing and were using it effectively; in the aggregate, they were earning considerably more income with the aid of their borrowed capital.

On the other hand, some preconceptions may have to be modified. Although the South contained more indebted cotton growers, some of them with large debts, the western cotton region took the lead with larger farms, larger average debt, and larger total debt in 1960.

While farm credit institutions belonging to farmers had received their support, competing lenders had successfully retained much of the cotton farmer's credit business. Contrary to general belief, however, commercial banks were not financing a major portion of cotton growers. Evidently, nonbank financial sources, drawing funds from places often far from the cotton regions, are the paramount credit sources of the cotton economy.

That cotton farmers had obtained their financing from a variety of sources may be significant in the cotton economy's overall credit structure. With several sources available, growers not only may be able to tap distant pools of funds, but desirable competition may be fostered among local creditors serving cotton growers.

ARTHUR H. KANTNER

Profits Jump at District Banks

The past year was an unusually profitable one for District member banks. Net income after taxes jumped 16 percent to $133 million, after gaining only about 5 percent in 1962 and 1963. Bank returns on both capital and total assets were slightly higher than in 1963. However, the average of individual bank ratios of profits to total assets declined fractionally.

What accounts for the rise in net income in 1964? In a word—revenue. Banks boosted total revenue so sharply that it more than offset the continued rapid advance in costs. The sources of last year's increases in revenue and costs may be easily determined by viewing a table of income and expenses, such as Table I. Additional information is provided by the average operating ratios of individual member banks, shown in Table II.

Asset and Portfolio Shifts Raise Revenue

How did banks increase their total revenue last year? They accomplished this feat mainly by shifting their asset structure and by changing the composition of their portfolios.

The largest single source of the increase in revenue was interest and discount on loans. A sharp upsurge in the demand for funds allowed banks to place a greater proportion of their resources in loans. Increasing substantially as a percentage of total assets, loans rose sharply to account for 54.1 percent of total deposits. At the same time, bank investment in securities and in nonearning cash assets declined, relative to total assets, although the dollar amount increased somewhat. The average rate of return on loans is generally about twice that on securities; thus, last year's increase in revenue from loans can be explained mainly by the shift in asset structure, although a small rise in the average return on loans was a contributing factor.

Interest and dividends on securities provided a smaller portion of the rise in revenue. The increase in this measure resulted largely from changes in portfolio composition. Banks expanded their holdings of U. S. Government securities slightly last year, although such issues declined relative to total assets. At the same time, bank holdings of other issues advanced substantially. The expanded portfolios were weighted more heavily than earlier

Table I
Income and Expenses, Sixth District Member Banks[1]
(In Thousands of Dollars)

	1963	*1964*	*Dollar Change*
Operating revenue:			
Interest and dividends on securities	150,493	165,323	+ 14,830
Interest and other charges on loans	395,716	457,088	+ 61,372
Service charges on deposit accounts	43,543	48,237	+ 4,694
Trust department revenue	21,017	24,183	+ 3,166
All other operating revenue	18,987	21,840	+ 2,853
Total	629,756	716,671	+ 86,915
Operating expenses:			
Salaries	163,101	179,301	+ 16,200
Officer and employee benefits	19,748	22,832	+ 3,084
Interest on time and savings deposits	135,569	160,236	+ 24,667
Net occupancy expense of bank premises	27,751	31,087	+ 3,336
All other operating expenses	107,546	125,085	+ 17,539
Total	453,715	518,541	+ 64,826
Net current operating earnings	176,041	198,130	+ 22,089
Recoveries, transfers from reserves, and profits	15,961	17,280	+ 1,319
Losses, charge-offs, and transfers from reserves	37,635	43,698	+ 6,063
Net income before related taxes	154,367	171,712	+ 17,345
Taxes on net income	56,982	59,038	+ 2,056
Net income	97,385	112,674	+ 15,289
Cash dividends declared	39,575	43,099	+ 3,524
Number of Banks	467	502	+ 35

[1] Based on a tabulation of annual income and dividend statements.