

WHY BANKS SHOULD BE INTERESTED IN IMPROVED AGRICULTURE

Address

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## WHY BANKS SHOULD BE INTERESTED IN IMPROVED AGRICULTURE

It isn't difficult to understand why Missouri banks are interested in agriculture. Except for St. Louis and Kansas City, most Missouri banks operate in communities whose principal industry is agriculture. Even the city banks are indirectly dependent on agriculture.

Agriculture and improved agriculture are something different. There is a tendency to think of farming as a combination of brawn, sweat, and soil that produces raw products which end up in the food and apparel necessary for city living. But good agriculture, safe agriculture, is more than that, and it is time nonagricultural groups wake up to the fact. The preservation and improvement of our agricultural resources are vital to the future strength of our nation. They are vital to sound country banking in the future. Although we have recognized that soil is the basis of all farm production, we have been primarily interested in what the soil produced and have given too little thought to how production affects the soil. Our interests have been in "taking from" the soil with very small emphasis on "giving back".

It is gratifying that Missouri bankers are giving an entire day of this conference to the study of improved agriculture with emphasis on soil conservation and balanced farming. You are in excellent position to assume leadership in a program of Missouri agricultural improvement. Your sponsorship of soil conservation and balanced farming as an association program is evidence of your sincerity of belief in better farming.

Dean Miller and Jim Burch in their discussions have vividly shown how the adoption of soil conservation practices under balanced management can create a greater total production per farm, lower costs and a higher net income per farm, and a favorable balance of the soil fertility ledger. The big job now is to spread the gospel to more and more Missouri farms. It's a long and difficult program of education, but don't let that fact for a moment discourage your efforts.

Let me now become more specific on why banks should be interested in improved agriculture. Let's think of improved agriculture in terms of saving soil resources, using them properly, and re-building them. Just how does the soil affect banks? Bankers are dealers in money. They are supposed to understand their wares. For this reason I shall attempt this presentation on a dollar and cents basis.

Improved agriculture for the individual farmer means a higher total production at a lower production cost per unit, and a higher net income. This same principle is applicable to an entire agricultural community. As each farmer in a community adopts a balanced and soil-conserving plan of operation with the resulting improvement in his net income, he exerts a rising influence on the over-all community income level. Maximum income of an agricultural community can be attained only when every individual farmer making up that community has adopted a balanced plan of operation which assures his maximum production at minimum cost. Increased income for the farmers in an agricultural community directly affects its urban income. The earnings of merchants and professional men who make up the business interests of country towns - a term which describes the homes of most Missouri banks - are directly dependent on the earnings of the farmers in the trade territory. Therefore, the increased farm income that results from improved farming practices raises the net earnings of the urban interests that serve the farmers.

So conservation farming under a balanced-management plan of operation will directly improve the income levels and living standards of both rural and urban residents of a community. It will broaden the field for service and strengthen the income of the local bank which is an integral part of any community. Banks, then, have a dollar and cents stake in improved agriculture quite in addition to their natural interest in community welfare.

This interest in better farming extends indirectly to city banks even though they may have no direct contacts with individual farmers. City bank services to business interests which depend on a farm retail outlet are affected by the purchasing power of the farmer which is dependent on net farm income. Through their correspondent relationships with country banks, city banks share in the higher bank earnings resulting from higher farm income.

Therefore, from a dollar and cents viewpoint the entire banking system has a vital interest in improved agriculture. Banks grow strong on the food of business activity. Agricultural income exerts an important influence on the overall scale of business activity. Building a stronger agriculture through improvement in farm practices will contribute to stronger business activity and a stronger banking system.

Missouri bankers as well as all bankers in agricultural areas are concerned over the growth in the volume of credit supplied to farmers by Government agencies. This problem may be more closely tied to proper soil management than many of us have recognized. Government aid is often sought when a business or industry fails to produce sufficient income to provide minimum living standards of the operators. Many of the Government agricultural aid programs, at their inception, were the progeny of unprofitable farm operations. Experience shows that once introduced they are not easily removed when farming returns to a profitable basis. This has been particularly true of farm credit assistance.

Fairly recent history indicates that when farming became unprofitable, farm credit frequently has become difficult to obtain, and farmers have turned to Government for help. Their plea in such instances has usually been met by the organization of a new agency to supply credit with Government funds to tide the farmer over the emergency. Witness the advent of the emergency crop and feed

loans section, the Federal Intermediate Credit Banks, the Regional Agricultural Credit corporations, the Production Credit system, and the Farm Security Administration, to mention just a few. Once established, however, most of the Governmental farm credit agencies have built up a clientele and a sufficient volume of business to perpetuate their existence long after the emergency which led to their creation has passed.

Two general types of emergencies have led to the entry of Government into the farm credit field. Both are economic. One occurs when economic forces adversely affect the income of the entire farming industry. The other is generated by uneconomic practices or by an exploitive system of farming which gradually depletes soil resources and fertility to such a degree that more and more individual farm units become unprofitable. Banks must develop their farm services so as to meet both these emergencies.

I don't need to dwell long on the first type of emergency, where the entire agricultural industry is subjected to the forces of adverse economic readjustments. The unfavorable position of agriculture in the early 'twenties following World War I and the general collapse of the early 'thirties illustrate this type of emergency. I am convinced that, with proper cooperation, the banking system and the Federal Reserve banks can meet the problems of that emergency type better in the future than we have met them in the past.

Actually, during those years of trial, banks were recording the experience on which subsidized credit agencies were later to develop a program and sell their services to farmers without having shared the risks incident to that experience. The banking system had sufficient resources to handle the situation in the 'twenties and even in the 'thirties. It lacked the experience necessary to the formulation of a longer-term constructive loan program that would result in proper distribution of its resources.

On the basis of the experience gained during the 1930's, the entire banking system, including the Federal Reserve System, must give further study toward the development of a program that will result in all units of the banking system - country banks, city banks, and Reserve banks - working smoothly together so that its resources are available to the areas of greatest need. I believe that such a program can be developed, and that the American farmer will not need to look toward Government credit agencies to supply his legitimate need in periods of severe economic depression.

My greatest fear of further inroads of Government credit into the banking field lies in the second type of emergency. This is not a temporary emergency incident to the readjustment of economic forces. It is an emergency developed over a long period of years through a gradual process of soil depletion resulting from exploitive farm practices. We must work out a control over soil productivity losses, or its consequences will control us for all time to come.

An example of this emergency can be found in certain sections of the Old South, where continued application of exploitive farming has reduced large areas to poverty and pity. And we don't need to go that far away from home for our object lessons - plenty are to be seen within a few miles of Columbia. To bring this problem closer home I dare say that any banker in this room can drive into the farm community he serves and find individual farms that through ill-use have been reduced in productivity to the point where they will no longer provide **the** operator and his family with even a minimum standard of living. Such farms have either been abandoned, absorbed into adjoining units of higher productivity, or they are being operated through a continuous injection of Government aid through credit, direct grants, or direct relief to the operators. Each year the ravages of erosion and excessive cropping are relegating more farms to this unfortunate

group. The unusually high farm income of the war years has tended to obscure the process on many of these farm units, but a return to a more normal farm income situation will place many of them on a loss basis.

Every time a once productive farm falls into this submarginal emergency classification a community asset is converted into a community liability. Credit alone cannot solve the problem. A long and socially costly program of restoration of productivity is needed. Such a farm tends to detract from, rather than add to the community living standard. As more farms are reduced to this emergency group the community economy is weakened. As a community becomes weaker economically, its bank cannot escape the weakening influence. Sound farm credit opportunities will decrease, the deposit level of the community will likely follow a similar pattern, and general business activity will tend to contract.

Government credit agencies such as the Farm Security Administration thrive, and will continue to thrive, in areas that continue to be subjected to exploitive farm practices, on a job the local bank cannot do. This is good reason why banks should be interested in improved agriculture. Constructive efforts on the part of banks to encourage and promote soil conservation and balanced farming in their communities can have a tremendously beneficial effect on the preservation and restoration of soil resources. This program, with aggressive support, can go a long way toward eliminating the need for further socialization of farm credit. Your interest as an association in balanced farming is evidence that you appreciate the sickening consequences of soil erosion and exploitive farm practices, and their ultimate repercussions in the banking system. Regardless of the effort you put into this program, you will be repaid over and over again.

Just a brief word now on how a bank can finance the costs incidental to the adoption on an individual farm of a complete soil conservation and balanced farming program. As of today, providing credit necessary to the orderly completion of the balanced farming plan is not a serious problem. Farmers are in excellent financial circumstances and farm income of recent years has greatly inflated the average farmer's ability to repay debt. For these reasons the unusual expenses involved in making such adjustments can largely be paid with cash on hand or by borrowed money which can be repaid on a short-term basis. A return to a more normal farm income situation, which is bound to occur as soon as the very abnormal demand for food by a war-torn world subsides, will pose a more difficult problem. Increased production to meet war demands can only have resulted in an increased rate of soil depletion. Thus, the need for soil conservation and balanced farming practices will be even more acute when the war is finally won than it is today. Credit necessary for individual farmers to complete balanced farming plans in the postwar years will likely be repaid under a much less favorable farm income situation and will probably be repaid over a much longer term than would generally be required today.

This program you are undertaking is not altogether a short-time affair. It will provide many loan opportunities for banks. Bank credit must be geared to the long-time aspect of the program. Loans must be developed that will provide the farmer with sufficient funds to complete the program. The unusual costs incident to a given farm's adoption of the program will vary according to the degree of erosion and fertility depletion and to its topography. On farms of level to slightly rolling topography the problem is primarily one of rearranging the cropping program and supplying through lime and fertilizer the deficiencies of the soil. Such farms do not present a serious problem of long-term credit in making the change.

A much different cost problem is presented on farms of more rolling topography where not only has vital soil fertility been depleted, but where much of the precious topsoil has been removed, the ridges separated by ditches, and the hill-sides lined with gullies. Not only must cropping be rearranged and deficient elements supplied, but in many instances terracing, soil-saving dams, and other mechanical structures must be employed to effectuate total erosion control. The unusual costs involved in revamping this type of farm may be relatively high and under a normal farm income situation may present a credit problem of a five-year or even a ten-year term. Fully increased production resulting from the improved practices would likely be relatively slow and gradual in development. If the unusual costs incidental to this type of program are supplied by bank credit, the bank can probably look forward to a two-to-five-year period when the amount of the loan would be increasing with very little, if any, repayment. If the work is properly done, and properly maintained, however, there should follow a period of years of increased production that can be expected to amortize the original costs. Don't overlook the point that ultimate amortization of the costs may require up to ten years or longer from the date of inception of the program. If the farmer and the banker will sit down and work out a program on that basis, then I believe that banks can develop a real volume of conservation credit, to the common benefit of the farm, the bank, and the community.

The question of ownership and equity will be a factor in adapting loans to unusual conservation costs. The number of years of ownership, the amount of farm mortgage indebtedness, and the operating assets and indebtedness will directly affect the conditions of credit extension for promotion of improved practices. If the farm is just being purchased, a different set of circumstances may be presented according to the amount of cash the purchaser has to invest. Probably the most

difficult problem is encountered if the farm is being purchased under a farm mortgage commitment of maximum amount. To my knowledge no one has yet offered a loan wholly adapted to that situation. The maximum farm mortgage loan approved by most reliable farm mortgage loan companies is 75 per cent of the appraised normal value of the farm. It would appear that a lender who has advanced that amount of money on a given farm could well afford to advance the additional amount necessary to guarantee that his investment be protected from the ravages of soil erosion and bad soil management. Such an additional loan would need to be worked out carefully for each individual purchaser on a balanced planning basis, and disbursements would need to be made in accordance with the plan. The additional amount of the loan for conservation purposes might be made a part of the regular mortgage loan with repayment on an amortized basis as a part of the over-all loan. The farm mortgage contract would clearly state the conservation agreement and be subject to legal action if the contract were not fulfilled.

My point in this whole discussion of credit is to indicate to you that it is a complex problem of many ramifications. If banks are to meet the challenge they must lay their plans well. Each farm is a separate problem which makes flexibility of credit imperative. The conservation loan will vary greatly as to amount involved, disbursement schedules, term and plan of repayment, and the type of security selected. Variation is mandatory if the individual farmer is to be served by a loan fitted to his peculiar needs, a condition fundamental to a successful borrower-lender relationship. I don't think we have given the credit aspects of this whole program sufficient thought. We don't yet have the answer. We must give the problems further study and develop plans today for constructive use tomorrow.

I believe banks can and will meet the challenge. I believe that it is a challenge as well to the Federal Reserve System and to the other supervisory

agencies of state and federal governments. Certainly there is nothing in the history of the last 25 years to make most of us feel complacently sure that we have done our best to develop a credit service adapted to the needs of an improved and improving agriculture. I congratulate the officers of the Missouri Bankers Association for their foresight in devoting this day to the problem, and share with you a feeling of pride and satisfaction that we have here radiating out from the University of Missouri the services that can show us the way.

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