"A FEW IDEAS, COMMENTS AND SUGGESTIONS"

OFFERED BY

GEO. R. JAMES

TO THE JOINT CONVENTION OF THE BANKERS ASSOCIATIONS

OF

ARKANSAS, MISSISSIPPI AND TENNESSEE

AT

MEMPHIS, TENN., MAY 25, 1932.

* * * * * * * * *

* * * * *

* *
My friends, it has been quite a few years since I have had the pleasure of attending a convention of the bankers of the Tri-States, but in that interim much of my time and thought have been devoted to your interests. In my official capacity as a member of the Federal Reserve Board my efforts have been expended in studying and trying to aid the economic problems of the South.

Now, as I look back over the past twenty years, I am wondering if in that time any real progress has been made. We have certainly witnessed some extremely spectacular episodes and have watched the pendulum swing from one extreme to another. We have tried many "noble experiments", passed innumerable laws, been through a "new era", and have enjoyed an orgy of spending borrowed money, such as the world had never dreamed of.

Certainly the pages of our financial and economic history of the past twenty years will make interesting reading for coming generations. I only hope that historians will record the fact that many heads were bowed in shame over the disgraceful happenings in high financial circles during this eventful period. But, thank God, there were bankers in this country who, through all the wild and reckless epidemic of speculation that followed the world's greatest war, maintained their honesty, integrity and ability. What a tremendous debt of gratitude we owe to those bankers who lived up to their responsibilities as custodians of the funds and the credit intrusted to them. Those were the men who at the outset of America's great joy-ride used every possible effort to slow down - if not stop - the mad race to ruin. Their voices were as the voice that cried out in the wilderness - either unheard or unheeded. Now, they are the ones
who are looked to for leadership in the trying and difficult task of removing the wreckage and rebuilding our communities. It is to these men I am appealing at this time - begging them to courageously face facts as they are - not as we would like them to be - and urging the use of backbone instead of the wishbone that has been our controlling factor for the past few years.

As I view the situation now, I see a general level of prices that are fairly comparable with the price level of twenty years ago. The agricultural price level is some lower than it was then, made so entirely through irresistible forces of the law of supply and demand. In many respects we, in the Memphis trade territory, are called upon to meet conditions that are far more serious and that carry far less in natural resources with which to rebuild, than were available when we were digging our way out of the depression of 1907, or the yellow fever difficulties of 1878 and 1879.

Then, this City of Memphis was the center of the hardwood lumber industry of the nation. Back in 1913, when we were trying to persuade "The Reserve Bank Organization Committee" that Memphis was the logical location for a Federal Reserve Bank, our spokesman (our beloved and now sadly missed and much needed leader, - Charley Mooney), pointed out the fact that at that time Memphis was leading the country as a producer of foreign exchange, growing out of our exports of cotton and lumber. As I recall it, of the volume of export business then, some forty-five per cent came from cotton and about fifty-five per cent from the lumber.
Of course, we still have the cotton – some more than we had then – but the timber is gone and our habit of attempting to grow cotton on land that should only be growing timber is very largely responsible for our present deplorable condition. We have an over-production of cotton while we have to buy coal and other fuel on some of our plantations and farms right now.

Many of you here will recall how, back of 1914 anyway, our farmers supplemented their farm income by cutting staves, spokes and cross-ties during off seasons. This supplemental resource having been exhausted, we seem now to be dependent upon borrowings from Uncle Sam to provide any and all deficits and to enable us to keep right on spending regardless of income.

The fact is, my friends, the South has been kept poor ever since the Civil War trying to carry along, (and keep alive with the "MORPHINE OF CREDIT"), those so-called farmers who are producing 125 pounds or less of lint cotton per acre. No matter what the price of cotton may be those folks never produce as much value as they consume. Aside from the economics there is a social situation involved that puts women and children in a condition that is little short of abject slavery.

Is not then the folly of extending production credit to this class of people perfectly obvious? Is it not perfectly clear to you, individually and collectively, that our country cannot possibly prosper until we learn the absolute necessity of following the Divine injunction to "replenish the earth and subdue it".

One of the South's greatest agricultural leaders, Dr. J. W. Fox,
once said - "THE SECRET OF SUCCESSFUL FARMING IS TO HAVE RICH LAND and THEN CULTIVATE IT". I commend this thought to you and earnestly suggest you keep it in mind when you are granting loans.

More than thirty years ago I heard Dr. Cyril G. Hopkins, then Dean of the University of Illinois and one of the greatest authorities on soils of all time up to now, make the statement that "ANY MAN ANYWHERE WHO MAKES SOIL RICH WILL GET RICH IN MAKING IT SO, WHEREAS, ANY MAN ANYWHERE WHO TRIES TO GET RICH OUT OF RICH LAND WILL LEAVE HIS FAMILY A HERITAGE OF POVERTY".

It was Dr. Hopkins' statement that aroused my interest in agriculture and caused me to seriously study at least some of the phases of it. About the first thing I learned was the importance of agriculture to my home territory. Do you, my friends, realize that it is the ONLY foundation upon which this section of the country can build prosperity? Please let me impress this thought upon you. It is vital to us and to our children that we create and foster a successful agricultural program - and I don't mean "maybe" or "some time". I MEAN WE MUST BEGIN RIGHT NOW. And such a program MUST INCLUDE REFORESTATION!

Let us take as a slogan and an inspiration the immortal words of Abraham Lincoln, who, in an address before the Wisconsin Agricultural Society on September 30, 1859, said in part:

"Population must increase rapidly - more rapidly than in former years - and ere long the greatest of all arts will be the art of deriving subsistence from the smallest area of land. No other human occupation offers so wide a field for the profitable combination of labor and intelligent thought as agriculture".
This statement is as true now as it was when it was made and in my judgment it is as sound as gospel.

With intelligent handling, the soils of Arkansas, Mississippi and Tennessee can produce the necessities of life as prolifically and at as little expense as can any other section of the earth's surface. There is absolutely no reason why either of these States should send a single dollar away from its borders to pay for anything whatsoever in the way of standard feeds and foods. For more than twenty years your associations, through your agricultural committees, have been preaching the gospel of having the farms of the South make a living at home and then raise cotton. Such a program provides without doubt the ONLY SALVATION of our cotton growing territory.

You gentlemen, as the custodians of the funds and credit of your various communities, are certainly responsible for at least making loans that will be repaid. Therefore, there can be no question but what you are justified in seeing that such loans as you make go to people who are able, not only under GOOD conditions but under ALL conditions, to produce a crop that will enable them to repay their borrowings.

It looks as if the people of the South are rather loose in their estimates and judgment about credits. Justification for this idea is to my mind presented by an editorial which appeared in our "Old Reliable" Commercial Appeal on February 26th, 1932, reading as follows:

"The Farmers Pay Up".

"The Department of Agriculture is not dissatisfied with the manner in which American farmers have kept faith with the government. For, although prices of farm products have been
low, farmers have paid back more than half the $49,000,000 lent them by the government last year to help them raise their crops. Southern farmers have led the list in repayments, Louisiana farmers having paid back 65.7 per cent of the moneys borrowed and Arkansas farmers having repaid 65.6 per cent. The way Arkansas, hardest hit by the drouth, has recovered is remarkable and admirable.

"The government is probably not at all fearful about the safety of the $50,000,000 to be loaned to farmers this year. For the farmers have shown themselves to be first-class risks."

Can you by any stretch of your imagination regard customers as "FIRST-CLASS RISKS" who pay only half, or 65.7 or 65.6 per cent, of their borrowings? How long would your banks last with such customers and how long can the government credit carry such losses? Are not these figures at least part of the answer to "why so many country banks have failed"? Are not these very loans themselves contributing factors in the unsatisfactory prices?

In my judgment, you are fully justified in demanding of your borrowers that, along with their applications for a loan, they present a budget of their actual and possible income as well as their estimated and probable expenditures. That such a budget should show a reasonable margin of excess income over the estimated amount of the expenditures before you make loans to the customers is, of course, self-evident. Such a policy enforced throughout the territory would go a long, long way toward putting the cotton producing industry on a basis of at least reasonable prosperity.

Incidentally, by requiring also a statement from all of your borrowers on the forms suggested by the Federal Reserve Banks, you would go a long way toward making the paper in your portfolios eligible for rediscount at a Reserve Bank and thereby materially increase the liquidity
of your banks.

Of course, I am assuming that the production loans extended by the government through the Department of Agriculture are merely temporary and that this menace to the welfare of our entire country will not be long continued. But if governmental aid is to be continued in an effort to care for the inefficient farmers on poor lands, why should not this credit be expended in a reforestation scheme, since by so doing there would be a chance of getting a real return of and on the money loaned and at the same time cut down the over-production of cotton? Those of you who have a desire to see your communities made prosperous for the future should study the plans and work for reforestation in New York State and then get busy with your influence and leadership at home.

My attention was called a short time ago to what I would term an inspired editorial which appeared in the Staple Cotton Review for February, 1932, and headed "Taxes". I am so thoroughly impressed with the sound logic and splendid advice given in this editorial that I am taking the liberty of making it a part of my address. The editorial reads as follows:

**TAXES**

"The State of Mississippi is today facing one of the gravest situations in its history. The origin of the trouble is not difficult to determine. Revenue problems have vexed mankind continuously since the dawn of civilization. There is no such thing as the ideal state in which nobody spends more than he earns and everybody lays aside something for a rainy day. Such conditions exist in story books but not in real life. This is no more true of people as a whole, in their collective capacity, than it is true of them as individuals. But there is this important difference; within the limitations of our several capacities we may govern our
personal affairs as we please; with the affairs of the people collectively, as a state, we have no such right or discretion.

"The trouble with Mississippi, as with many other States, is that legislatures, through a long period of years, have failed to provide sufficient revenue to meet the appropriations which they have made. The responsibility is purely legislative, hence the disastrous results must lie at the legislative door. But the people themselves are largely to blame. They have persistently demanded appropriations, and with equal persistence they have protested against the imposition of taxes necessary to meet their demands. Legislatures have weakly acceded and the State is facing the consequences.

"Mississippi's general fund revenues have equalled general fund appropriations only six times during the past 30 years. During the past six years appropriations have increased nine and one-half millions of dollars, while revenues have increased only three millions. There is no mystery about the present situation, though the simple facts of the case are all but lost sight of in the din and confusion of trying to find a remedy.

"This is not politics. It is business. And it is peculiarly the business of every man and woman in the Delta, of every bank and of every organization such as ours. If we would pay proper attention to our local tax burdens we would find one important contributing factor to our present local distress. But this as a people we refuse to do, until conditions become acute, and then it is usually too late. We are today only reaping what we have sown."

Let me again repeat this statement - "Mississippi's general fund revenues have equalled general fund appropriations only six times during the past thirty years". JUST THINK OF THAT, MY FRIENDS! Then, too, "During the past six years appropriations have increased nine and one-half millions of dollars while revenues have increased only three millions". WILL THIS OVER IN YOUR MINDS!

Surely the writer of the editorial was correct in saying "There is no mystery about the present situation, though the simple facts of the case are all but lost sight of in the din and confusion of trying to find a remedy".
All of us who try to think straight and who have a desire to deal fairly with our fellowmen know that we cannot as individuals or collectively as firms, communities, states or as a nation continue very long as a self-respecting people with our expenditures exceeding our income twenty-four years out of thirty.

Let me again urge you gentlemen, because of your responsibility as bankers and as leaders in your respective communities, to insist upon having those who borrow from you present a balanced budget. You should also use your influence in this regard as far as possible with the public officials in your respective territories. I am satisfied that if you established such a policy of demanding these budgets you will have your eyes opened as to what has happened and is happening to the people of the South through their over-indulgence in credit.

I remember back in the dark days of 1914 a crowd of us in Memphis, who were vitally interested in the welfare of this same trade territory, got busy and joined the hands of the Department of Agriculture, the Agricultural Colleges of our three States, and the Extension Forces of the various railroads, and then under the leadership of the Extension Department of the International Harvester Company, conducted a campaign of fact-finding that produced some very startling, as well as some very beneficial, results. The campaign was carried on in 120 counties in the three States adjacent to Memphis with each county taken as a unit. Figures were compiled showing the exact amount of products shipped and marketed outside the boundaries of the county, and a like tabulation was made of all of the merchandise, food supplies, etc. brought into the
county. I am sorry I have not available some of those old figures to show you at this time, but indeed you may take it from me that they were eye-openers.

Among other facts developed, was that the farmer or planter in our territory who bought the meat used for food on his place PAID TEN PROFITS on top of the cost of production, in spite of the fact that it was demonstrated over and over again that cattle, hogs, sheep and goats could be produced in Arkansas, Mississippi or Tennessee just as well and just as cheaply as they could be on any other part of God's earth.

My friends, we should go back to these same methods again, for evidently the words of Hosea - "My people are destroyed for lack of knowledge" apply with as much force today as they did some four thousand years ago, when they were written. It is time to quit kidding ourselves and wasting our time looking for some financial wizard to hand out a panacea for our ills. Our debts got us into trouble and the only way out is through economy, thrift and self-denial, for nations, states and individuals.

Not long ago my attention was called to some statistics referring to the automobiles in these three States. These tabulations showed that for the State of Arkansas the items of depreciation, tires and gasoline on the 220,000 registered motor vehicles in the State amounted to approximately $69,600,000, whereas the lint cotton value of the 1930 crop in Arkansas was approximately $42,000,000. For Mississippi, the figures showed a registration of 237,094 motor vehicles in 1930, and
here the estimated depreciation, cost of tires and the gasoline bill amounted to $73,108,000 as against the lint value of the 1930 cotton crop of $75,000,000. In my own State of Tennessee, there appeared to have been registered 368,000 motor vehicles in 1930. The depreciation, gasoline and tire bills for the State was estimated at $114,541,000 with the value of all farm crops of the State for 1930 figured at $130,559,000.

Please do not misunderstand me. I have no fault to find with the automobile per se, but in the light of these figures I cannot help but realize the all-important part credit plays in making it possible for these machines to operate, nor can I ignore the part the automobile is playing in the economic life of the Tri-State territory.

So, it is to you as custodians of the credit of this territory that I present these figures in the hope that you - each one of you - when you go home from this convention will attempt to make a survey within your own county and then very frankly lay before your people the facts as you find them.

This is no time to be timid or discouraged but on the contrary it is the time to display real courage and leadership. Even if poor (and in many cases no) management has wasted our natural resources, depleted our soil fertility and caused us to spend borrowed money until it looks as if a large part of our lands must change ownership through foreclosures of mortgages or forfeiture under tax liens, the fact remains that the land is still here, that our experiment stations and extension forces can and will show how easily good management can rebuild our
soils, AND WE NOW HAVE JUST AS MANY PEOPLE AS WE EVER HAD. So, starting at the scratch, so to speak, just as our forefathers did after the Civil War, we have right before us a golden opportunity for acquiring a competence, with far less deprivation and danger of disease than had our parents, who carved this country out of a wilderness.

After all, each generation must learn its own lesson and seemingly adversity is the only teacher that can really be effective. I am sure there are a good many of us whose education was acquired in the school of hard knocks who can appreciate what Shakespeare had in mind when he said:

"Sweet are the uses of adversity,
Which like the toad, ugly and venomous,
Wears yet a precious jewel in his head;
And this our life exempt from public haunt,
Finds tongues in trees, books in the running brooks,
Sermons in stones, and good in everything.
I would not change it."

I THANK YOU.