

RESEARCH NEEDS TO HELP MEET CHANGING
FARM FINANCE CONDITIONS

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In partial fulfillment of the requirements for a diploma from the Graduate School of Banking sponsored by the American Bankers Association in cooperation with Rutgers University, I have been writing a thesis along the line of financing the dairy industry in Georgia. As I started working on this thesis, I witnessed something of the same confusion experienced by our friend getting his business adjusted in Washington. No specific information was available. No previous study with any degree of completeness had been made. In other words, if one of my banker friends in Georgia became interested in financing the dairy business in his area, and realizing he knew nothing about the dairy business, decided to write for a manual on how the dairy farmer could be wisely financed - there wouldn't be a place to write. Likewise, if an alert farmer interested in rounding out his farm program to give year-round employment, wanted to investigate the actual cost, returns, pitfalls, and soundest plan of financing such an undertaking.....neither would he be able to obtain clear, concise, accurate information assembled from the viewpoint of the farmer.

Dr. Frank King here tells me that so far as he has been able to learn, no research work, either at the College or at the various experiment stations in Georgia, is being carried on with the view of materially assisting the rapidly changing farm finance picture in Georgia.

The Federal Reserve Bank of Atlanta during the last two or three years has embarked on probably the most comprehensive agricultural finance research program in The Southeast. Due to the very nature of that organization and the purpose its research is intended to serve, though, there are two counts on which even its fine program fails to meet our needs: First, while many of its Data

will apply to Georgia and much study will be given Georgia's changing agricultural picture, in the main, its studies must be area wide and serve the entire sixth Federal Reserve District - consequently, its efforts and attention cannot be focused on the farm finance needs of Georgia alone. Second, research of the Federal Reserve Bank must serve primarily the viewpoint of its member banks - the lender - with only a left handed touch on the approach needed by the farmer - the borrower.

Most of us will not live long enough to make all the mistakes - so the wise procedure would seem to be to profit a little by the mistakes someone else has made. We can learn some of these by research.

At a luncheon for the 700 stockholders of the 100 Georgia Better Farms given at his Blue Springs Farms in June, 1946, about 18 months after the Georgia Better Farms program got under way, Mr. Cason Calloway stated:

"When I first began farming at Blue Springs, I undertook to secure budgets for the types of farming I expected to do. > That is, taking the poultry business as an example, I wanted to find a plan showing the number of hens I should have, what it would cost to buy them, what it would cost to construct the necessary buildings, what it would cost for feed, what it would cost to employ the necessary labor, pay for electricity, and so on; and how much I should get for the eggs and poultry I would sell - a plan that would show, first, the cost of starting in business, and, second, the figures on a year's operations based on reasonable expectancy.

I asked every college in agriculture and every state department of agriculture I could learn of where the English language was used for such plans, and I did not get a single one. Then we did all we could toward working up such plans for ourselves. I do not see how a farmer can hope for much success without a plan."

This is only one of many examples of the lack of adequate research in agricultural finance - and unfortunately far too many of these examples are

occasions where lenders are actually unable to obtain sufficient reliable information to fairly and accurately evaluate the possibilities of many farm loans. And where Georgia farmers cannot project the outcome of a certain type of farming with any reasonable degree of accuracy. And here I repeat Mr. Calloway's statement, "I do not see how a farmer can hope for much success without a plan."

Mills B. Lane, Jr., president of the Citizens and Southern National Bank, spoke recently to the Rotary Club of Savannah about Georgia's basic economic problems. In the course of his talk he pointed out that all three of Georgia's crops - cotton, corn and peanuts - are "problem Crops". That Georgia's per capita income is the lowest of all the states, its yield per crop is one of the lowest. That two-thirds of its farmers are tenants and one-half of them move every year. Mr. Lane continued:

"The answer to our problem is a blending of agriculture and industry to find a balance. Georgia's industrial future is being accelerated by the location of hundreds of small plants throughout the state. Its continued progress is assured by the fact that it will not be lacking in financial or industrial capacity." He hailed the erection of hydro-electric power plants on the Allatoona and Savannah rivers as assurance that the state will have adequate industrial power in the future. Can you imagine even one of these industries being successful today without being adequately informed regarding its finances - without having its financial program projected well into the future - and based on sound research.

Farming has been a poor way to make a hard living, but this is not because it is farming - it is because man has undertaken largely to make a living with his hands without multiplying himself by the use of machinery.

If you or I were given a farm today with a wheelbarrow, a pitchfork, a mule, a wagon and a plow, and undertook to make a living, no matter how industrious we might be, we would do well to make enough to eat.

Many of the current farm loan policies and methods of appraisal are geared to row crops, mule power, and annual systems of farming that begin in

the spring and end with harvest in the fall -- a complete cycle in less than a year. Finance methods and evaluations based on this type of farming are likely to prove inadequate in the light of the character of the changes in farming -- from annuals to perennials and from crops to livestock. Moreover, on many farms the credit requirements have changed from the finance of a crop to the finance of an entire farm program covering a period of years.

This is the new day!

Farming in the South is changing faster than even before, faster than in other sections of the nation. But, the fact that the net income per farm in Georgia gained more slowly than the other Southern States from 1940 to 1946 should put us on guard to see whether or not some of the changes being made in her agriculture are paying dividends.

Agriculture is coming more and more under the influence of economic principles that apply to business and industry. Total farm income today is determined more by the dollars invested than by the number of acres cultivated.

It may, for instance, come somewhat as a surprise to know that Georgia's farmers ^{of these} make a higher return on their capital investments in farming than do the farmers on the Corn Belt.

Dr. Ted W. Schultz, professor of Economics at University of Chicago, in a recent study of the farms in the Piedmont Belt of Georgia finds these farms would return more than twice as much additional revenue for each added dollar invested in farm capital as would the farms in the Corn Belt. These Corn Belt farmers have a high standard of living due to their good earnings, too, but largely because of their adequate capital investment.

From these statements may be drawn two significant conclusions: First, if Georgia farmers would expand their capital investments they would increase their net earnings. Second, with greater capital investments and larger net earnings, Georgia farmers would be better credit risks for banks and other lenders and would contribute more abundantly to the general prosperity of the community.

Georgia's farmers are doing a good job, when compared with the nation's best farmers. Georgia is a good state in which to farm. The fact remains, however, that low capital investment per farm in Georgia is today a paramount factor in limiting per farm and per capita income.

In what, one may ask, should Georgia farmers make additional investment? For the majority, the answer seems to be -- land reclamation, pastures, livestock. Farm earning power is increased by year-round efficient use of labor. No difference between farming in Georgia and in the East and Midwest is greater than the division of labor between crops and livestock. Farm animals provide money-earning employment during the winter months.

As a management factor, this division of labor is vital because it determines, for the typical farm, the number of money earning work days in the year -- to say nothing of the added income derived from the more complete use of land, other resources, and capital investment. Crops should be balanced with animals. Too often the all-crop farmer is a part-time farmer. >

To borrow a statement from Dean Chapman: "No institution in Georgia now offers work in any phase of agriculture leading to the doctor's degree. The sums spent for higher education in the East and Midwest are, to Georgians, unbelievable. In these states, facilities for agricultural research seem to be unlimited. Georgia is still investing less in agricultural research than even the more progressive and prosperous states of the South. It is worth noting that the main differences between farming in Georgia and the East and Midwest deal with the business aspects of farm management -- including maximum use of the results of agricultural research."

The questions then arise, will farmers make use of this research? **When** valuable information is developed, how long will it take farmers to accept **it?**

Elections are far enough behind us for all political pollsters and experts to have been properly put in their places. They aren't however, **the**

only authorities who have been wrong. Some experts said:

In the early '30s: "North Georgia farmers will never spend their time raising chickens."

Even into recent years: "Fertilizer won't pay on pastures. Nitrogen? Ridiculous!"

In the early '40s: "Hybrid corn may be all right for the Corn Belt, but it won't work in the South."

Until a year or so ago: "100 bushels of corn an acre is impossible."

In the mid '30s: "Number of farmers who can afford electricity is close to saturation point."

Still at it: "Farm mechanization will throw millions out of work."

All through the '30s: "A man can't rebuild his land and make a living at the same time."

According to the theory of aerodynamics, and as may be readily demonstrated through wind tunnel experiments, the bumblebee is unable to fly. This is because the size, the weight and the shape of the body in relation to his total wing-spread make flying impossible.

But the bumblebee, being ignorant of these scientific truths, goes ahead and flies away - and makes a little honey everyday. Like the bumblebee, some of you, I know, are going to say we will never get farmers to accept and put into practice these scientific truths we propose to unveil.

But Georgia farmers are becoming increasingly interested in agricultural research. In its sixtieth annual report, the Georgia Experiment Station says: "The results of the research work are being used by greatly increased numbers of the people of the state." Greater numbers visited the Georgia Experiment Station during the 1947-48 fiscal year than any year of its existence. Greater numbers of Georgia farmers have shown more interest in the work of the Station.

It has heretofore required about 10 years to put the results of a research project into general practice, but this period is being shortened

considerably due to the practice of farmers, extension specialists, county agents, vocational agricultural teachers and Farm and Home supervisors, and vocational trainees keeping in close contact with the work of the Experiment Station. This may be illustrated by the fact that less than five years after the introduction of Truhart Perfection Pimiento pepper, more than 80 percent of Georgia's 20,000 acres of canning peppers were planted to the new variety. Similar results were experienced with Sanford wheat, and will be achieved with Empire cotton. These are only a few of the examples of acceptance by farmers of research findings in other agricultural fields.

Out of Spartanburg has come news of another tribute to research. The hull of the cottonseed is destined to overcome its hitherto lowly stature and become a raw material of worth to industry. Its potential value lies in a chemical it contains which is used in the manufacture of nylon and in petroleum refining. The mechanical extraction of the chemical has been perfected through a process evolved by Dr. Henry Edwin Shiver, a chemistry professor at Converse College.

Scarcely half a century ago cotton seed and hulls were considered worthless and were burned as trash. The wonders of science never cease. In This instance we have one more example of how research can help enrich the South. We discover that we have by no means exhausted the potential wealth which can come from our soil and that our quest for it - through the channels of research - can repay us in handsome dividends.

There is an urgent need for a better understanding between farmers and credit men. Farmers need to know the value of a steady flow of income throughout the year when making application for credit. Lenders need to know the problems farmers have in developing a program that brings in returns throughout the year. Farmers need to know the difference in value of certain types of security and lenders need to know how to value this security. Lenders need to know how to evaluate the ability of a given farm production program to repay loans.

Those familiar with this problem feel that lenders have with the

farmers a field that has never been fully explored. They believe this is due largely to the fact that too few farm credit men have been trained in agriculture ^{or have any practical knowledge} alone. Research is needed for a better understanding of these problems.

Doubtless much of the credit for Georgia's farm progress should go to the lenders, and, if Georgia is to continue to improve the efficiency of her farming operations and increase the income of her farmers, lenders must finance the greater part of it. Insofar as operating credit is concerned the finance of Georgia's agriculture is in your hands. Few people can be more effective in guiding the progress of Georgia farmers than the group here. Conversely, no other group can as effectively check farm progress. Lenders may be faced not only with the problem of meeting their customers' present needs but with that of helping to bring about changes in farming that will permit a more effective use of capital.

I dare say that changes in farm organization and techniques are taking place so rapidly that it is virtually impossible to keep up with them from behind your desk. Perhaps there has never been a time when visits to farms and experiment stations could be more helpful in making sound farm loans than in this evolutionary period. Never a time when research can be of more value.

The prudent lenders need, the responsible and progressive farmers need, the colleges and schools of our state need - and sorely - the benefits and advantages of a well planned and aggressively pursued research program in farm finance. The College of Agriculture would welcome such a program; the Department of Agricultural Economics here at the University would cooperate to the limit with this research work.

For maximum results, this study should be instituted with the thought of making it a sustained project through the years. From the beginning, even the initial program should be developed for a period of not less than 5 years. It would be an error of judgment to attach less importance to farm finance which, we are agreed, is still one of the major considerations in the farm picture today.

Even one full time man here at the college doing basic agricultural credit research could certainly go a long way toward our objective. I am advised such a man could probably be employed, the necessary equipment and supplies furnished, travel expenses provided and clerical assistance assured for \$8,000 to \$10,000 a year.

Dr. George H. King, Director of the Georgia Coastal Plains Experiment Station at Tifton says, "It is generally agreed that for every dollar invested in agricultural research at least \$25 is secured in increased income. There are also many intangible returns, such as improved health conditions due to more adequate and higher quality foods, and the social implication following increased income, that cannot be estimated in dollars and cents. Agricultural research has paid handsome dividends in the past and points the way to even brighter achievements in the future."

I hope you see what I'm trying to say. None of us know of any other sound investments today producing that much return. Realizing our needs here in Georgia, surely we will not let this bargain pass. We have an obligation to our communities to help farmers become more efficient in this new day in Georgia's Agriculture. We are entrusted for a few years with the plans for and the welfare of our agricultural economy. Shall we live up to this great trust? Nothing on today's horizon offers greater returns on our investment than research to help meet Georgia's changing farm finance conditions. The opportunity, the responsibility and the challenge are ours.