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REMODELING THE BARN

Address of M. Monroe Kimbrel, Chairman of the Board, The First National Bank, Thomson, Georgia, before the 13th National Credit Conference Sponsored by the Credit Policy Committee of The American Bankers Association, La Salle Hotel, Chicago, Monday Afternoon, January 23, 1961. Mr. Kimbrel is chairman of the Federal Legislative Committee of the A.B.A.

There is no magic about credit. It is a powerful agency for good in the hands of those who know how to use it. Credit is equally dangerous in the hands of those who do not understand it. As we meet here early in 1961, it is appropriate to survey the farm scene and appraise the credit outlook for farmers.

Farmers' prices and incomes in the aggregate in 1961 will remain at about the levels of the last two years, according to the United States Department of Agriculture. Heavy supplies will remain the dominant feature in the agricultural situation this year. As I see it, therefore, the farm economic outlook is favorable in a negative way.

When we take a worm's-eye view of the huge pile of farm surpluses, however, we are not comforted. Seen from that angle, our farm economy is in serious trouble. Consider our stocks of grain: At present, the Commodity Credit Corporation owns about 1.2-billion bushels of wheat, or enough to supply domestic needs for two years. It owns about 1.3-billion bushels of corn, or enough for domestic needs in one-third of 1961. This mountain of grain is not only a headache to handle physically--store, rotate, safeguard, and the like--it is devilishly costly. The storage bill for wheat for September 1960, for example, was about $17-million and for corn it was $16-million. Furthermore, farmers continue to produce large crops of both wheat and corn.

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Even the most casual observer can see from such facts that the national farm economy is out of kilter and that farmers must make some adjustments in operating and financing their farms--that, in effect, they must remodel the barn.

Although there probably are numerous features which could be changed or remodeled in these structures, I shall stress only three principal features: (1) the farm economy's financial needs are related to the large farm surpluses, the methods used for dealing with them, and the inroads made upon them; (2) major adjustments must be made on farms not only to reduce surpluses, but paradoxically to increase the individual farmer's productivity; (3) pressing farm financial questions and desirable renovations in farm operations and financial techniques require some intensive research in farm finance.

Renovating the National Granary

To reduce or remove the surpluses of wheat and some other farm products and reduce governmental costs incurred by surpluses is the immediate problem. It also is the major remodeling job in the farm economy. The speed with which the national granary can be altered and the tools chosen for doing it, of course, affect the outlook for agriculture and for farm credit. If farmers decide to plant less corn, for example, their needs for operating funds could diminish.

Past experience in curtailing farm surpluses provides little or no hope for a prompt and dramatic solution to the surplus problem. Secretary Benson struggled to reduce surpluses during recent years by applying both short- and long-run measures provided by Congress. He made progress with some commodities but lost ground with others. The measures that were available to him--such as selling surpluses for foreign currencies, selling them at bargain prices at home and abroad, and donating food to needy persons at home and abroad--probably will be the principal ones available to his successor during much of 1961.

New alternatives may be devised by Congress this spring, but the new alternatives as well as the old ones probably cannot be quickly put in force on a massive scale. All told, therefore, we may not see surpluses significantly reduced in 1961.

Although the surpluses may not diminish, a favorable export balance for agriculture could check their growth. Fortunately, the outlook for farm exports is favorable. The United States Department of Agriculture reports that total farm exports for the fiscal year 1961 may equal or exceed the record high $4.5-billion total a year earlier. Wheat exports should equal if not exceed the record 550-million-bushel export in fiscal year 1957. Tobacco exports in the current marketing year should increase 5 per cent above those a year ago. Cotton exports, however, may be down slightly from the probable 7-million-bale export total for the past marketing year.

On balance, farmers may be unable to alter the national granary or otherwise remodel the barn sufficiently in 1961 to rid themselves of surpluses. Although farmers may not begin much carpentry this year, some new blueprints may be proposed, drawn, modified, and accepted. We recognize this will be an extremely difficult process.

Meanwhile, the surplus inventories and the large farm output in prospect for this year must be financed. This, of course, requires a terrifically large volume of funds. Farmers in the nation owed about $11.3-billion in short term debt on January 1, 1961--a sizable total to roll over during the year. By January 1, 1962, they may owe even more short term debt. Farm real estate debt outstanding, which has increased each year since 1947, now totals $13.1-billion; and a further small rise is likely in 1961.

In my opinion, our nation's credit system will meet the needs for financing farm surpluses and likely farm operations this year with little strain and at slightly lower interest rates. In the first place, some principal farm lenders have more investable funds on hand. Life insurance companies, for example, had 4 per cent more assets in October 1960 than in December 1959. Although the total of bank deposits and currency, seasonally adjusted, in the nation is below that of a year ago, it has been rising recently, and bank credit has increased. Furthermore, commercial banks have larger amounts of loanable reserves on hand than in earlier months. Reflecting these changes in credit availability, short term rates on farm mortgages will decline slightly this spring, although little softening in them was reported through the second quarter of 1960.

New Floor Plans

Farmers collectively may not renovate our figurative national barn drastically in 1961, at least until appropriate blueprints are drafted and accepted. They may, however, individually make some alterations, especially to their financial structures.

What would the commercial farmer want to incorporate in his barn? He probably would plan a structure which provides strength and protection; one sufficiently large yet free of waste space and outmoded machinery; also, one flexible to use yet specialized enough for his business.

Several trends in data on farm capital and credit suggest that many farmers are remodeling their farm businesses and significantly changing their financial structures. First, they are investing more capital for farm production. In 1960 the average farmer used about $35,000 of land, machinery, livestock, and other production assets per farm, or $21,000 per farm worker; in 1950 his investment in such assets was about $17,000 and $10,000, respectively, and in 1940 only $6,000 and $3,400. Then too, farmers borrowed more. Their average farm mortgage loan from life insurance companies totaled about

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$9,800 in 1950, compared to $20,000 in 1960. They also are using much more working capital, and they require more medium term credit to finance it. These trends and demands will persist this year and affect the farm credit outlook to some degree.

I believe farmers need help from commercial bankers to accomplish their business goals, and I know we can help them. Consider the opportunity with me for a few minutes. I'm still a young man, but I can remember when farming was a hip-pocket wallet-sized operation with land the major asset and operating and working capital having the lesser role. A dairyman near my home today, however, may have $85,000 invested in his farm with $35,000 of it working capital, and he probably uses $1,500 for operating capital each month. These are big investments which entail big risks. This farmer obviously wants a capital and credit structure designed for large investments and attendant risks in his modern operation. This farmer wants commercial-type financing, perhaps a line of credit to gain flexibility, perhaps term credit to acquire needed working capital, certainly not loans due on demand when the funds, we know, are used for longer term purposes. This farmer, I think, is entitled to commercial credit adapted for farming in this modern day.

When farmers fix over their barns, they often make them sufficiently flexible for their current operations, yet easily altered for meeting future needs. Similarly, modern farmers look for flexibility in their financial plans. Modern farming demands much more intensive financial planning than did the one-mule operation, and to an increasing extent farmers seek financial counseling from specialists in farm credit. To some degree and in some places their search for it may lead them into financial connections at large banks employing farm specialists, rather than at small banks in rural areas as in the past.

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Because many commercial farmers want larger and larger operating loans, they frequently seek funds outside of their local communities. A farmer does this, perhaps, because the loan's purpose has become more complex or the risks on it more difficult to assess, not because the loan exceeds the rural bank's legal loan limit. The loan may require closer analysis and more precise servicing than a traditional crop loan, and sometimes this may be accomplished more readily at larger banks, especially where loan officers or specialists in farm finance can give farmers close attention. Nevertheless, the small independent bank can provide service locally if a larger bank will participate in its farm loans.

Just as farmers must remodel barns to eliminate wasted space and outmoded machinery, so they must modernize their financial management: comptrollership, to use one word, must be brought to the farm. Farmers are pressed to keep more comprehensive farm accounts so they can run their businesses more astutely. We find, therefore, that farm records, record analysis, and farm accounting are gaining in status. Present-day farm owners, however, still urgently need training to become topnotch financial managers. Can commercial bankers help them acquire financial skills? I believe we can--first, by our own willingness to learn about farm business analysis; second, by adding farm specialists or consultants to our staffs on a full-time or part-time basis; third, by friendly and detailed attention to our farm customers.

A commercial farmer cannot succeed if he devotes less time to financial planning in 1961 and in future years than he has in the past. He must give more time to it. Because pressing needs for capital and credit in farming exist, each farmer must have plans for allocating those resources skillfully in his interest and in the public interest. First, many farmers must change their farms to produce new products, serve new markets, incorporate new technologies, and install labor-

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saving devices. Then too, numerous farmers who own efficient productive units, which should be preserved for the next generation, are along in years--in Georgia in 1954 one-third of the farmers were over 54 years old, and in 1959 Georgia farmers averaged 51 years. Appropriately financing the transfer of highly capitalized farms from the old operators to new operators and preserving the family farm as an efficient production unit require an extremely good financial plan. All these forces will be creating demands for farm credit in 1961, and I believe our nation's financial system should accommodate the justifiable credit requirements.

Secondly, our national desire for economic growth, stressed repeatedly by President Kennedy, can be fulfilled only if farmers continually increase their productivity. This, in turn, depends upon adequate financing for the daily operations of the farm economy as well as for necessary adjustments in farm businesses. The new Administration undoubtedly will emphasize farm finance as one key element in adjusting individual farms and the total farm economy to current realities.

We also may expect more farmers to seek bargaining power through cooperatives as a means for combating the persistent cost-price squeeze that plagues them. Cooperatives may be broadened in scope, become larger, and provide more services. Undoubtedly this will require additional funds for working capital and fixed investments. Presumably farmers won't be able to supply all of the new funds and, therefore, will tap off-farm sources for capital.

Taken altogether, farmers' numerous demands for capital will generate considerable pressure on the nation's creditors this year, especially on those supplying working capital. Farmers not only will be looking for funds from commercial banks and other short term lenders in 1961; they'll be looking for improved financial services and financial counsel. I believe long term

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farm lenders also can expect a continued demand for loans, especially for repairing, renovating, and improving land and buildings.

To this point, I have emphasized farmers' probable demands for capital and credit in 1961 and their likely plans for remodeling their businesses. But my appraisal of the outlook for farm credit would be incomplete, I believe, without considering the growing role that research in farm finance must have in resolving farm problems. Such problems, of course, stem largely from the adjustments facing farmers, farm lenders, and others serving the farm economy.

As 1961 begins, farm specialists and observers visualizing the needed farm adjustments are asking some significant questions about farm finance. They ask, among other things: (1) Can farmers improve their use of the capital they now control? (2) Can farm financial management be strengthened by new techniques or new aids for farmers? (3) Can farmers obtain the financing they want and require? (4) Are the credit institutions that now serve agriculture adequate for meeting the financial needs of commercial farmers? (5) In what respects do credit institutions seem inadequate and where are inadequate or poorly adapted credit facilities located?

Surely, such searching questions cannot be answered without intensive research and analysis. Furthermore, the remodeling required in the farm economy involving capital and credit is too complex and extensive to be based on hunches and guesses. Financial procedures must be developed which fill the requirements not only on farms but in the national economy as well. The procedures also must be workable for those supplying capital in the farm economy. This is being recognized more generally by persons interested in agriculture; thus research in farm finance is being increased by federal, state, and private agencies. I believe bankers should support this work with their active interest and encouragement. I believe, too, we should furnish some guidance for it by consultation and collaboration with the research workers.

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I have not spoken in wholly pessimistic terms about the farm financial outlook today. True, major economic adjustments in the national farm economy lie before us and, figuratively speaking, the barn probably won't be remodeled much this year. Demands for funds which stem from the farm surpluses, therefore, will not diminish in 1961. On the positive side, however, farmers probably will be adequately financed in 1961 at an interest cost slightly below that of 1960. Also, many farmers will push ahead successfully with renovations in their business and financial structures.

Finally, farmers, farm creditors, and research workers will begin necessary analyses of farm finance and farm adjustments.

Let me conclude with this question: Farmers and the farm economy in 1961 and in years to come will be financed somehow by some one; will commercial bankers work hard enough to retain their dominant role in financing farmers?

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