

BANKING      TRENDS      AND

AGRICULTURE

Remarks by

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Connecting these two subjects has been an exasperating exercise for me. There is a special circle in hell reserved for program chairmen who ask for titles of talks six months before the occasion -- even though they may be prompted by long and sad experience with speakers who leave preparation of the talk itself to the last moment. Somehow by requiring them at least to think of a title, they have a feeling the speaker is committed to that extent ..... and he is. Unfortunately titles are easier than speeches. At the time Ralph and I agreed that this might be an appropriate subject, neither of us -- especially me -- had a very clear idea of what might be involved, but it did seem like a catchy title.

Whatever difficulties I have had, though, in relating these two, it is not a great deal different than the lengths bankers and ranchers must go to find common understanding. Both parties have difficulty sometimes remembering that references to "my security" by the country banker and to "my cattle" by the rancher are to the same critters -- and that the fortunes of both parties rise or fall with their joint skill.

Knowledge of the changing conditions which at any particular moment operate to limit the number of choices open to the rancher and banker is essential to a mutually profitable relationship, and these choices have been

drastically altered in the last few years for both. There is a surprising parallel in the principal conditions that have brought this about for the two industries. These, I think, are the most important.

(1) Perhaps least apparent, but with immense importance, is the degree to which both industries are directly caught up in world markets. The flow of world trade, and the national interest of the United States, as seen by Congress and different Administrations, are as important in today's complex environment to the rancher and country banker as the weather, and may even appear as unpredictable at times.

At the time I joined the Fed slightly more than two years ago, one of our major preoccupations in the formulation of monetary policy was the near crisis facing the British pound. We watched its condition as anxiously as a doctor ever watched the fever chart of a very sick patient. I commented to this effect in a series of talks I gave that summer around Minnesota on a tour with the Minnesota Bankers Association, pointing out that who would have thought ten years before that the plight of the pound sterling would affect interest rates in Sleepy Eye, Minnesota. But surely it does. And so do many other forces operating in the international sphere. Our balance of payments; attacks on gold; the desperate search for new ways to achieve international monetary liquidity; the flow of Eurodollars among central banks of the world -- all of these things, and many more, have to be taken into account in setting the framework of U. S. monetary policy, which in turn affect the rancher and banker. At times it becomes difficult to reconcile purely domestic policy goals, whether they be money policy or farm policy, with an external objective like the position of the U. S. dollar

against other currencies, but the effort has to be made. Nor can we disregard it without dire consequences. It is a situation that has no end, for it is essentially caught up in the processes of reasonably free markets that change daily - even hourly. There is no target in the sense of a final goal, a point at which we might relax and feel that the job is done.

In the world-wide fight against hunger and for men's loyalties, U. S. food is a potent weapon. By the same token, American agriculture affects and is affected by the world community. Our agricultural commodities are a major contributor to our trade surplus, and they are the best long-run hope for our balance of payments. Our agricultural exports have increased each of the last eight years to nearly 6.7 billion in fiscal 1965-66, or 25% of all of our exports. It must also be remembered that about three-fourths of our agricultural exports involve cash, and the proportion of cash sales is increasing faster than the government aid programs. As a percentage of total farm marketings, exports have increased from 12% in 1958 to 17% in 1964.

Against this, imports have been relatively static, and in 1966 were \$2.3 billion less than the value of our agricultural exports. The general composition of imports has changed. Just over one-half of the imports are directly competitive in some degree with U. S. farm products, with the balance made up of such supplemental products as rubber, coffee, cocoa and bananas.

Meat imports, which are, I understand, of particular interest to this group, have fluctuated all over the lot, from a high of \$343 million in fiscal 1963 to \$222 million in fiscal 1964, then back to \$334 million in 1966.

How much injury is being done to the domestic livestock producer by the current level of imports is a subject on which there is a variety of opinions. At one extreme there are those who argue that it is the major depressant of beef prices. At the other end are those who argue with equal conviction that beef imports, consisting as they do of lean beef, help bolster the fat cattle market by supplying an outlet for the trimmings from the choice carcass, which would otherwise have to be rendered instead of being used as an extender to ground beef. In the delicate balance of component prices for a beef carcass, a change in the price relationships affects the over-all price -- or so goes the argument.

I don't know the answer to this question, or to the questions concerning the import effect on dairy products, sugar, cotton and other agricultural commodities. Nor have I mentioned it to rub salt in any wounds some of you believe you may have because of this subject. But I am saying that the total agriculture trade of the United States is enormously important in world trade, and ultimately to our national prosperity.

We have just completed the so-called Kennedy Round, which involved revision of tariffs between the United States and other non-Common Market countries, and the European Common Market, or the E.E.C., European Economic Community, to call it by its formal name. One of the hang-ups was our insistence that agricultural tariffs in Europe be reduced, and that the E.E.C. pick up part of the world food aid responsibility. This will permit U. S. agricultural products to compete in the European market, and is one of the considerations for our agreeing to drop tariffs on certain industrial imports. Domestic and international objectives have to be balanced within

the broad limits of our national interest. It is not a perfect process -- nor, as I said, is it one that is ever finished.

(2) Moving from world markets to the home front, we find both the banking industry and U. S. agriculture caught up in broad domestic economic policies, whether they are on the fiscal side or the monetary side. Fiscal policy refers to the interaction of tax revenues and government expenditures, while monetary policy relates only to the supply of money and credit. These policies, set by Congress and by agencies, sometimes seem to originate on the dark side of the moon, when viewed from Main Street or Horse Prairie. Generally they are reasoned changes, though, and represent compromises of broad public opinion. With many I disagree, and I'm sure that I speak for most of you -- but I have learned a certain respect for people who have to iron out these compromises, because the pressures that can be brought to bear from within and without the government are enormous.

Monetary policy was forced to be contractive last year, because of the threatened outbreak of inflation. Something had to be done, and although there were fiscal steps taken to curtail expenditures and to increase some taxes, the fiscal moves were inadequate, which threw the burden on monetary policy. Inflation was curbed, but at quite a cost. The cost to banks was in the disruption of normal rate relationships and competitive patterns. Some customers of banks were hurt worse than others. Agriculture on the whole fared reasonably well. Money was available, even if at a higher cost; but because of the shortage of money, residential construction was virtually stopped. Fortunately, the contraction coincided with a period of high farm income, so country banks were in reasonably good position to take

care of their customers -- much better, in fact, than their city cousins. However, agriculture became more seriously affected in the latter part of the year when the volume of new money for farm mortgage loans failed, for the first time in five years, to match the volume of the comparable period of the preceding year. Farm mortgage loan commitments in the fourth quarter of 1966 were probably half of the fourth quarter of 1965. The Farm Credit System was forced to curtail its lending activities through PCA's and the Federal Land Bank, as part of the general program of fiscal restraint designed to protect national money markets. This period illustrated a point many of you, who have had to go looking for a new bailer in the middle of the haying season, can well appreciate -- and it is this: that in times of heavy demand and short supply, availability of a product is more important than the price. Then there are only two considerations: first, that you can secure the commodity (be it money or the bailer), and that you pay no more than the market price existing at that time. There were industries, or companies within those industries, that were unable to borrow money at any price during the period of tight money -- a period of credit stringency I hope we never have to see again.

You might ask: what difference can national economic policy possibly have on the Montana stockgrower? Well, the correlation between beef consumption and per capita income is perhaps the best illustration. The increases in beef consumption always paralleled the changes that have taken place in per capita personal income. Between 1950 and 1966, beef consumption went from 63 pounds to 103 pounds per person. At the same time, per capita personal income went from \$1,496 to \$2,940 -- the last being

expressed in constant dollars -- which is a kind of dollar, I might add, that very few of us have had any experience with, especially in U. S. agriculture.

It should be obvious that the U. S. cattle industry has a real interest in a good mix of monetary and fiscal policies -- those policies that together make up U. S. economic policy. Full employment and sustainable economic growth -- the objectives of economic policy -- mean expanding markets for you.

(3) Thus, we can see the common interest of bankers and ranchers in the outside influences on their operations. Now to some of the internal similarities affecting both industries:

Though they are suppliers of needed products with high market acceptance, the banker (with his credit) and the rancher (with his beef) have had the devil's own time matching supply and demand on the one hand, and price received and price paid on the other. Again, a few facts will probably suffice to illustrate the problem.

During the period I mentioned of increases in beef consumption paralleling increases in personal income, the price of choice steers went from 30¢ in 1950, admittedly a high year, to 25½¢ in 1966. In only two of these years, 1951 and 1952, was the 1950 price exceeded. These are October figures. During the same period, 1950 to 1966, the index price of goods and services purchased by agriculture went from 256 to 334 (a 30% increase), and the price-parity ratio has gone from 101 to 80 (a 21% decrease). On most any comparison we want to make, there is no denying that the squeeze is on the rancher.

While on the face of it, the banker has been able to increase his rates, as I'm sure many of you can confirm, the cost of his money has gone up, too. No longer can he depend upon demand deposits, on which he must pay no interest, to supply his inventory. Instead, he has been forced to buy money through time deposits, on which interest at various rates, depending on the classification of the account, has to be paid. This has put a squeeze particularly on the country banker, who cannot adjust the composition of his "inventory" with the same ease of his city cousin, who may have access to national money markets, or in any case, larger regional markets.

(4) To make the game even tougher to play, we face the fact that new products and new sources of competition are predictable only in the certainty of their appearance. You never know from which direction you're going to be hit in either industry, nor is there any practical way to limit either the invention of new products or competition. The banking industry must compete with the Farm Credit System for agricultural lending; with savings and loans for savings dollars; and last year, of course, was competing directly with the money markets themselves to which the saver was turning, bypassing banks, S&L's and other traditional savings institutions, in order to buy bonds and other securities at the attractive yields.

People think of the banking industry as a staid, conservative one. It is not. Nor does it have exclusive rights in the credit field. The fertility of imagination of American business is marvelous to behold, and, of course, is the source of our economic strength. But when it is turned against our own particular product, it can be a fearsome thing. I

suspect that both industries are subject to upper limits on price as a means of widening profit gaps. Certainly this is true of the banking industry, and I believe it is true of the livestock industry. Pressure to find new protein sources to feed the people of the world, most of whom run a real risk of dying of starvation or malnutrition before living out what we consider a normal life span -- is putting American inventiveness to work. Protein extenders for native cereal grains have already been devised. They are generally soybean derivatives -- even fish meal flour is now a reality. It is not much of a step from these to meat analogs, which is a fancy way of referring to products which would supply many of the taste and nutrition elements of meat. While they are not directly competitive now, and may not be for years to come, they constitute a real check on price increases, for it is axiomatic that almost anything becomes palatable at a price - even in these days of affluence.

(5) Both rancher and banker are dependent on technology and education for increasing their profits. This means an attack on costs, rather than dependence upon price relief. You can control your costs, but you can't do much about your prices. After all, prices are set by market forces, and I hope always will be, for both industries -- at least to the degree consistent with other economic objectives. You can do something about costs through technology and education, but I'm afraid understanding of or our dependence on these two is hardly universal in either industry.

By this time, it should be perfectly obvious to you that I have convinced myself that the fortunes of banking, at least as they exist in much of the Ninth Federal Reserve District, are parallel to those of agriculture.

There are lessons each can take from the other, and there are even a few areas that can be profitably explored together. The process of self-examination has started in banking, which is producing dramatic results. I think ranchers must start looking inward instead of outward. I don't think you're going to get price relief in the amounts you all wish for, and some of you may even expect as your due. Product competition and area competition will limit this for you, as it does for every other industry; but an attack on your own unit cost structure can provide the profit recovery you seek.

I suspect the addition of more land is hardly the answer. Land costs have increased dramatically, and are continuing to do so. Interest and property taxes have increased, but the principal of the loans has increased faster -- which is another way of saying that land costs have increased faster than interest and taxes. And loans must be repaid. Under our income tax laws, loan repayments have to be made generally out of after-tax dollars, except to the degree you are able to generate depreciation from improvements. Viewed this way, the income tax becomes another indirect but real cost in expansion through land acquisition. No, your success will be the result of making what you have produce more. Range improvements through fertilizers; fencing and water development; production improvement through quality breeding programs; labor elimination through mechanization of more and more operations -- these are the ways you can physically improve your operation -- and certainly through the land grant colleges, the experiment stations, the research efforts of national farm supply corporations; the knowledge is there for no more than the cost of a 5¢ stamp. And generally, these expenditures are deductible.

To support this program, credit, when and in the form you need it, must be supplied. I'm not sure the commercial banking system in its present form will be adequate to meet credit demands of agriculture in the future. I see no reason why one-stop financial services cannot become a reality, with all of the credit needs of the rancher supplied through a single budgeted source. There are encouraging signs that this will come about. The Farm Credit System, with its mix of Federal Land Bank and PCA loans, is an approach. One of the major banking groups in this district has set up an affiliate to eventually provide a broad spectrum of credit to agricultural customers.

Missing so far is some form of equity or capital financing, which would shift a part of the outside financing from the creditor category to that of a stockholder. The mix of ordinary loss and capital gain is an attractive one to many investors. There is at least one nationally marketed investment plan that offers just such a program, even though limited to participation in the breeding herd. I must confess the problems of designing an over-all pattern are appalling; but so are the fixed obligations of principal and interest that have to be met every year and in increasing amounts as farm debt increases. I can think of nothing sillier than the comfort some draw from the fact that agricultural land has appreciated as fast or faster than agricultural credit. It is the same cold comfort to the ranch enterprise that life insurance is to the insured, for both must be terminated to collect.

Most important of all perhaps is the increased attention being given to cost and yield analysis. I'm sorry, but I do not believe that it is

enough for the modern farmer or rancher to seek satisfaction from the broad humanist values of being a tiller of the soil, values usually summed up in the terms, "family farm" or "ranching is a way of life". I think there should be a reasonable correlation to a profit-oriented business.

Essential to a profit-oriented business is the analytical process. There are success stories being reported in most of the farm journals of men who have applied the technique of management accounting to their operations. The computer, summed up under the heading of EDP, or electronic data processing, will be the long-run savior of agriculture, as it is proving to be to the banking industry. This does not mean every ranch has to have a computer. Far from it. Banks that have computerized their own operations find that they have idle time on their computers, as have many other types of business corporations. Nor are you limited to these sources of computer capacity. Some of the universities in the district have started programs. The Federal Intermediate Credit Bank of St. Paul has a program in its initial stages for PCA's. We hope to publish a survey of the application of electronic data processing to agriculture sometime later this spring, and will make copies available to any of you who might want them. The more progressive banks in the district are becoming interested in these programs, because it is in their economic interest to improve your profitability.

And that really is what this talk has been about. The bell that tolls for thee also tolls for the country bank in much of the United States, and certainly in this district. The understanding of what we can change -- and what we cannot -- is essential to our economic survival. And surely there are enough of the former to assure success.