

LOOKING AHEAD WITH AGRICULTURE

Address

By

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## LOOKING AHEAD WITH AGRICULTURE

To expect a speaker or an audience to give lucid consideration to the agricultural outlook at a time like this is about as hopeful as to ask men whose homes are on fire to take time out to study plans for rebuilding the neighborhood. It is hard to put our hearts in it, and more than the fringe of our minds. The largest army we ever assembled on foreign soil is beating down the last defenses of a powerful foe who marched from his borders five years ago to conquer the world. Governments are tumbling. Mankind, in the desperate consciousness that chaos and darkness are the alternatives, is groping for a new and secure pattern of world organization. We go about each day's tasks and deal with its problems with our attention fixed on the rumble of the distant guns.

But life does go on, and we who are left at home must deal with its shapes today while events are moulding its pattern for tomorrow. So in the time allotted to me I shall deal briefly, and I am sure inadequately, with the performance of American agriculture during the war; the changes war has brought to the American farm; the nature of the postwar problems that will bedevil the farming business; and the place of the country banker in all of this.

The farmers of our country, your neighbors and mine, have produced more food each year of war than the year before. They made their record-breaking crops and brought unprecedented numbers of livestock through to market with far less labor of the kind normally depended on than in the years before the war and with far less new farm machinery to do it with. In 1944 they handled 50,000,000 more crop acres than they averaged in the prewar years and they produced 38 per cent more food than in the years 1935 to 1939. They did this by working longer hours and with the help of millions of women and children and of old men whose gnarled hands long since had earned retirement. The task they performed can be measured when we realize that between April of 1940 and the spring following our entry in the war more than four million

actual and potential farm producers disappeared from the labor force. It is cheap and inadequate even to try to put words to the magnificent performance of the farm men and women. To be sure they had powerful help from another source. The Lord had his arms about us, and covered the land with favorable weather during each one of the war years.

War has changed the situation of the farm families in many ways, some strengthening for the future, others loaded with seeds of future trouble. It will take only a moment to run over some of the changes.

Farm commodity prices and income have risen sharply. Costs have risen, too, and in time will catch up with the rise in prices but up to now the returns on the whole have produced greatly increased net income. In general, war demand has brought farm prices to levels which will not be maintained in postwar years.

Farmers as a whole have reduced their debts and built up reserves in cash in the banks, and in savings bonds. There are many individual exceptions, of course, but in general farmers have prospered. They have saved their money and paid their debts. In that respect, behavior during the present World War is in sharp and favorable contrast with that of World War I.

Land prices are up 42 per cent above the 1935-39 average. In many localities farms are selling at prices above the average that is likely to be maintained as commodity prices work back toward prewar levels. The volume of farm sales for the year ending March 1 was 10 per cent larger than at the previous peak in 1919. The red flag of danger overhangs this situation.

The farm plant has been expanded beyond the capacity needed to supply abundantly the peacetime domestic market and any normal export market that will be available. Farmers will face real need for acreage readjustment and in some areas and

crops the shifts will be drastic.

Because war production was paramount farmers have drawn on the soil fertility they had stored up in recent years, just as people draw out savings from the bank to meet emergencies. For a short run and to win a war they have turned from soil conserving to soil exhausting practices. Soon they will be turning back.

Agricultural equipment has run down and will need replacement. A mechanical revolution will be abroad through the land; the replacement of old implements with new will offer a great market for manufacturers. War will have given a great impetus to mechanical and technological change on the farms. Vast improvements in breeding and feeding methods are upon us. An example is soon in the swift development of hybrid corn for seed; its use has added 500,000,000 bushels to the annual corn crop with no increase in the land required and little in the labor.

War has vastly accelerated the movement of youth from the farms. Many will not come back. Look back through the years at the population trend in this country; In 1790 only 5 per cent of our population lived in towns of 2,500 and over. In 1940, 150 years later, 56½ per cent were urbanites in cities above 2,500. That percentage has increased sharply since 1940. The general trend is not likely to be reversed as efficiency in farm production continues to improve, and as more and more of the work once done on farms is assumed by factories and their workers who make continually better farm equipment, and who process the products of the farm.

The kind of a standard of living this nation is going to produce in the years ahead, and particularly the comparative returns farmers are going to have, is involved in this question of population balance. Farm-trained boys who went away to war should be helped to establish themselves back on the land if that is what they want to do. But extreme caution should be used in organizing general "back to the land" movements for veterans or anyone else.

There are a few signs of the impact on the American farm of war and of our increasing industrialization. It is time to turn now to look ahead with agriculture into the peace years, although we may need to return to one or two of the points just mentioned and fill them in with greater detail.

The big question that confronts the farmers is the question that lies ahead for the whole economy. Agriculture is one member of one body. It cannot be healthy if the rest of the body is sick. Conversely, the rest of the body will be stricken if agriculture is ailing. For a vigorous, healthy agriculture this country will need a high rate of employment and purchasing power in the cities. High wage earnings and strong demand and healthy prices for farm products go hand in hand. The 64 dollar question for agriculture as well as the rest of us is whether we can maintain a high national income based on reasonably full employment at good wages earned by high production.

Even under that desirable condition, 325 million crop acres will do the trick instead of the 375 million acres used with the nation at war. And let's not kid ourselves about developing a vast foreign market for the products of our farms. Except for specialized products, this highly industrialized nation is going to find it exceedingly difficult to take export markets away from industrially backward nations which must sell raw materials abroad to pay for their industrial imports.

The adjustment of our farm acreage to peacetime needs is one of the big problems of reconversion. At the same time it offers a magnificent opportunity for us to begin to handle our land as it should be treated. We should have more grass farming and less row cropping on hills and slopes, and we should devote a large part of the product to better home living on the farms. We can get trees started growing again on the hillside where they ought to be. We can increase the production of the farmed acres and at the same time produce more wholesome food for stronger bodies if we

develop a planned program for replacement of essential minerals in the soil. Nitrogen need be no problem; plants take it from the air and store it in the ground. Man can do the same thing. We are fighting this war with nitrogen extracted from the air in factories built all over the United States. There need be no shortage of that essential plant food. We have a much more important and challenging problem with the development and future use of our phosphate resources. That is an interesting by-path, but time draws it shut.

We are facing terrific political and economic battles over farm prices. For two years beginning with the January 1 following the date on which the President or Congress declare the hostilities in the present war have terminated, direct government price supports are guaranteed for most of the important farm products. In addition, legislation has sought to provide many indirect price supports. Of the 166 farm commodities produced commercially in this country, a large number have been guaranteed support through loan and purchase programs at 90 or 92½ per cent of the parity price, and many leaders in Congress are currently striving to push that level higher.

It is going to be a job of some magnitude to maintain these guarantees. I wouldn't want it. I believe in the use of moderate price supports to cushion the shock of readjustment from war demands, but I am afraid of the consequences of the tendency to shove the supports up and up to higher levels.

The mechanics for making good on those guarantees may roughly be classified as of two kinds. The common method is for government agencies to loan or buy at such a rate that the market holds to the desired level. We are familiar with that operation from the days of the Farm Board to now. The process works fine in its early stages; the trouble comes when stocks are released. Eventually the agencies must dispose of parts of their holdings at home and abroad, and it may be at the cost of great loss as well as unwelcome disturbance to current markets. The second method may be to let

producers sell at the current market, whatever it may be, and make up the difference below the guaranteed price by a direct payment to them.

Plenty of trouble is ahead in the administration of these guarantees, as well as plenty of cost to the Treasury. Director Byrnes of the Office of War Mobilization has just recommended an appropriation of two billion dollars for the effort, but neither he nor anyone else has a clear idea of how long that sum will last.

In the long run a healthy condition can come only from (a) a strong, wide, active domestic market based on high non-agricultural production, and (b) adjustment by farmers to produce what such a market wants and will take at a remunerative price. I am of the opinion that no matter what political party is in power the Federal Government will be an active partner in the adjustment, which will be especially severe and difficult in some areas and with some crops.

Those who expect to see an enlarged demand for agricultural commodities, at least in the immediate period after the close of the war, lay great emphasis upon the needs for food in various of the war-torn countries. I would like to strike a note of caution against too great dependence upon foreign demand for American agricultural commodities after the war. Agricultural production will be one of the first to be restored when peace comes. Moreover, there are large stocks of foods that have been accumulated all over the world and once shipping is released most pressing needs can readily be taken care of. Over a somewhat longer period, say five years, the world promises to be beset with commodity surplus problems that will be as acute as those between the two world wars.

Progress is being made in setting up machinery to study and deal with some of the international problems of food and agriculture. An agreement for the establishment of the permanent organization of the International Food and Agricultural Administration is now being submitted to the governments of the United Nations.

The primary objective of this international institution will be to make recommendations to participating governments to adopt programs and to cooperate in ways designed to increase the consumption of food and agricultural commodities and thereby improve nutritional standards for the peoples of the world. A great deal of study is being given to the position of major agricultural commodities which enter into international trade, and no doubt international conferences will be held to consider problems and to reach agreement on measures of international cooperation with respect to those for which postwar adjustments will be most acute.

In the foregoing remarks I have attempted to indicate that the forces which will determine the future of farmers are national and international in scope. While farmers can do much at home, the solution of many special problems affecting agriculture can only be made at the national level and through international cooperation. Country bankers should be sympathetic to the efforts of those engaged in formulating these national and international programs. As a national policy, we are interested in providing an abundance of agricultural production at prices that will not jeopardize the living standards of American farmers. In many commodities the protection of the general public requires that large stocks be carried to guard against unfavorable weather and crop failures. Farmers alone should not be expected to bear the costs in the depressed prices that such stocks are likely to produce and that their carrying charges involve. This is a protection for consumers as well as farmers, and its cost should be a common responsibility.

A moment ago I indicated that land prices will bear watching. This is where bankers can help keep on the brakes. The farmer who goes into postwar years with a heavy debt for land bought at advanced prices has two strikes on him to start. But you can't hurt a man much who is out of debt, particularly if he has reserves of government bonds or money in the bank.



Farm mortgage debt has been reduced a billion dollars in the last four years. Payments are still whittling away at the mortgages. Let me tell you, as an example, what has been happening in the St. Louis Land Bank district, which includes the states of Illinois, Missouri, and Arkansas. In one fiscal year the farmers of those states have paid \$42,105,000 on their land bank and commissioner loans. Look at the trend. On June 30, 1942, the total mortgage debt was \$227,845,000. One year later, it was cut to \$183,435,000. One year later, last June, it had been cut to \$159,179,000. In the past year, 12,858 mortgage loans were repaid in full.

The country bankers are interested in everything that happens to agriculture on the farm or in the market place. They differ greatly in the extent to which they work at it. But every good and healthy thing which bankers can do for agriculture, for their communities, and for their own farm credit business is being done somewhere by some bankers. The problem is to get those practices more widely used.

In many counties, local bankers have cultivated farm loan prospects so successfully that Production Credit Associations have had no chance to get started. In many places, the banker is a member of the board of supervisors or an officer of the Soil Conservation district. Many banks have developed organizations which work with farmers closely, know their operations, and show them how to use credit to increase their income.

There is going to be plenty of use for farm credit in the years ahead, and the banks are going to have a lot of money to lend. Farm homes, equipment, and plants need replacement or repair. The decision as to who furnishes the credit, makes those loans, rests more in bankers' hands than many are willing to recognize. At that, banks will handle most of it.

I am going to venture now upon a topic about which considerable heat has been generated - the relationship between country bankers and their principal short-term

farm credit competitors, the Production Credit Associations. I believe that the Farm Credit system is here to stay but that it should be a cooperative system, with the lending rate to farmers fixed by the cost of money plus the cost of efficient administration. For obvious reasons, it is better to have the retail distribution of credit in independent hands than to permit it to become a direct government function.

The American Bankers Association and state associations have held a spotlight on the points where the government gives direct financial aid to the P.C.A.'s. I think that's a healthy thing and that country bankers and their associations can be depended on to keep it up. But self-analysis is healthy, too. Many country banks over wide areas have not fully reflected in their rates on farm loans the reduced cost of money and the reduced yield they can get from other securities that are available for bank investments. Many have made little or no real effort to develop the farm loan business of their communities, though they are pained if the borrowers go elsewhere.

In the long run, the institution will get the farmer's business which puts out the most effort and intelligence to get it. Each competitor has some advantages - they are not all on one side. To speak plainly, there are bankers who see their competitors' advantages so clearly - advantages such as freedom from taxes and a subsidized interest rate - that they fail to capitalize on their own great natural advantages.

It is true that Production Credit Associations are helped out with a backlog of income from bonds the government has advanced them. But how many bankers have sat down to analyze the process by which bank deposits have been increased from \$60 billions to more than \$105 billions in four years, and by which banks have increased their holdings of government securities from \$17 billions to about \$69 billions in the

same period? Income from government securities has become a major source of banks' revenues, amounting to perhaps 40 per cent in 1943.

The head start they get from government favor may not be the only reason why government lending agencies have been able to grow in many localities. For example, they have tried to fit the credit they offer to the farmers' needs. Here are some of the things their defenders credit them with having done:

- (1) They made many loans to farmers when some bankers were fearful of farm credit.
- (2) Loans have been made at lower rates than had customarily been offered by banks.
- (3) Disbursements, repayments, and maturities have been fitted to the farmers' production schedules.
- (4) They have assumed an understanding and sympathetic attitude toward the farmers.
- (5) They "sell" their service.

Many of these competitive agencies originated because and at a time when there was genuine emergency need for a source of credit to supplement banks. Surely we have learned a lesson from that experience that will help us prevent a recurrence of such an emergency in the farm credit field.

The subject of interest rates merits some analysis. The P.C.A. is allowed by law a 3 per cent interest margin above the cost of its money. Its subsidy income amounts to roughly one-half of 1 per cent, and service fees add an additional 1/2 to 1 per cent. This gives it a total of 4 to  $4\frac{1}{2}$  per cent on the average dollar outstanding in loans to be used to build reserves and to pay expenses other than the cost of its money. Many of these associations follow a more expensive operating procedure than most banks. But from these sources they have been able to pay expenses, absorb

losses, and build some rather sizeable reserves. There is room to question whether the banking system has been as prompt as it might have been in adjusting interest charges to farmers in line with the general trend of interest rates and security yields over the past fifteen years. The effective rates the farmer pays the P.C.A. will average 5 per cent or above. Does a comparison of that rate with the yield of other investments of country banks indicate that it is an impossible rate to meet? Many banks are meeting it. Many a country banker who set a 6 per cent rate for his farmer customers hasn't had to worry about P.C.A. competition.

The Production Credit Association has introduced practices many banks have found worthwhile - adapting loan disbursement schedules to the seasonal need of the farmers, timing repayments to the sale of farm products, and matching loan maturities to the completion of the farm operation financed. Farmers have liked these features; they represent an effort to fit farm credit to the interest and well-being of the farmer borrower. These are service features that any bank can adopt, and many bankers have been enlarging their farm loan portfolios by their practical application.

The Cleveland Federal Reserve Bank recently published the results of a study it had made of changes in commercial bank farm lending practices in the Fourth Federal Reserve district during the past decade. It found a direct relationship between the adoption of new practices in the farm lending field and increases in loan volume. Banks which lengthened the time of their loans, which adopted or increased the use of amortization and chattel mortgages, and which lowered interest rates, showed increases in loan volume, both in the real estate and short-term farm credit fields. By contrast, banks whose policies remained unchanged, or moved counter to these new lending practices, experienced loan volume reductions.

The farmer is a pretty smart business man. He is a man of the outdoors, leads a rather simple life, is fundamentally honest, and possesses an undying loyalty to his

friends. Probably no one reacts more favorably to kind, understanding, and sympathetic treatment than he does, and he is worthy of such considerate treatment. Banks are in a position, because of their intimate knowledge of local people, to offer farmers just as understanding and sympathetic a business deal as any government agency, and with a promptness and a personal touch that no such an agency can match. I believe the heads of most country banks are aware of this fact but they do not make all the contact with the borrowers; a review of the attitude of each employee who deals with farmer borrowers might profitably be made. It might develop that a simple training course in public relations would be beneficial.

The principal Government credit competitor of commercial banks has devoted a lot of effort toward "selling" its services to the farmer, and it is confronted with a situation today in which it is likely to try to "sell" more aggressively than ever. Right now the P.C.A. problem is loan volume. Outside of its subsidy income, it depends entirely on income from agricultural loans for existence. It has expanded its personnel and field offices to the maximum the increased year-to-year income would support. Recent legislative efforts have focused so much public attention on it that in most cases it realizes that it must operate on income from loans and save at least an amount equal to the subsidy income to add to reserves or risk increased public disapproval.

Thus the pressure of increased operating expenses and decreased loan income is forcing the P.C.A. into one or all of three possible "outs". It must increase loan balances by increasing the volume of higher risk loans, it must reduce service, or it must increase interest or service charges. The first two possibilities are probably in the process now, and the third is more than a mere possibility. Here is a real opportunity for bankers. First, they must develop a sound credit-service program and then "sell" that service to the farmer. With all the natural advantages that banks

possess, and with the present limited scope of the competitors' operations, an aggressive and effective presentation of superior bank credit facilities can speedily relegate government short-term credit agencies to a more or less fixed "standby" position in the field of farm finance.

There is more danger that farm production loans will be made without the right assurance of repayment than that they will be made at too low an interest rate. There is always danger in a debt that is incurred without a reasonable plan for paying it off. Banks have plenty of money to finance all sound needs for agricultural credit. The banking system as a whole will continue to hold these great sums of deposit money. They will not just melt away. Shifts will take place between areas and from bank to bank, but the volume of bank deposits as a whole will remain high until there is a net reduction of government debt, or large shifts of gold from this to other countries. Gold movement after the war is much more likely to set in again toward the United States. It is unlikely that bank deposits in agricultural communities will go back to pre-war levels as long as national totals remain high, although the tremendous deposit expansion can be fully held in country banks only if agricultural income is well sustained in the postwar period.

If conditions in agriculture are depressed, farmers and others in agricultural communities will curtail expenditures and allow their cash balances to decline somewhat in line with reduced volume of operations. Thus from the standpoint of maintaining deposits which constitute the primary source of funds for loans and investments, the country banker is vitally interested in promoting the income of his farm customers. To do this the individual banker, through his own efforts and those of his national organizations, should support national policies designed to sustain and expand production and employment in industry and to assist farmers in making adjustments to peacetime conditions of demand. On a local level, it means also that he must en-

courage farmers to adopt more efficient methods and see that they are provided with the credit necessary for their introduction. That is an old story for most of the country bankers who are present, I am sure.

Now in conclusion, I want to say a word to bankers as leaders of public opinion in their communities. In the community all elements are one - the banker, the merchant, the factory worker, and the farmer all must be strong together. That is also true for the nation. The most important factor in national strength is high, well-distributed national income achieved by abundant production. The farmer prospers if his customers are working regularly at high wages; workers in turn are bolstered by the purchasing power of a strong, productive agriculture.

Some day we may not only give intellectual support to these truths, as I think many do today; we may shape our lives according to them. No bank or business can be strong when its surrounding territory fails; no institution or community lives by itself. The day must come when we recognize also that no nation and no race lives by itself. Many of the things I have talked about tonight seem trivial against the background of world disorder so vast and so terrific that if continued or repeated it threatens the very roots of organized life on this planet. All our banking problems, all our economic difficulties, all our national struggles are phases of the great problem of how men can learn to live together in organized society, using the fruits of their invention to enrich human life, not to destroy it.

Is a system of organized fair play throughout the community, the nation, and eventually the world too much to hope for? In spite of evidence to the contrary, the hope persists that it is not. At heart I believe most of us react to the sickening clash and disorder about us much in the way H. G. Wells expressed himself twenty-five years ago. Looking out on the wreckage of the last war he wrote in his chapter on

Princes, Parliaments and Powers this parenthetical observation:

"Yet in the background of the consciousness of the world, waiting as the silence and moonlight wait above the flares and shouts, the hurdy-gurdies and quarrels of a village fair, is the knowledge that all mankind is one brotherhood; that God is the universal and impartial Father of all mankind; and that only in that universal service can mankind find peace, or peace be found for the troubles of the individual soul."

We need unity in this country - unity that is based on tolerance and understanding of the other fellow's problems. I know of no group which for its size and number can do as much to promote that unity as the country bankers of America.

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