

FINANCING THE JOB AHEAD

Address
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There is something fascinating, shining and romantic about a brand-new piece of farm machinery. Every man who ever had anything to do with a farm responds with heightened interest, a new glint in his eye, when he gets near one. But there is mighty little romance in the business of paying for it. There isn't any bright paint, color or motion or sex appeal in the subject I am to discuss today. About the most interesting claim that can be made on its behalf is that it deals with an important phase of the postwar conversion in which our individual lives, liberties and pursuits after happiness are so inseparably involved.

We are now in the period when postwar plans must be translated into action programs. It is a period of acute unrest and adjustment as one group jockeys with the other for advantage while our great industrial plant withdraws from war production and goes back to the production of goods for peaceful pursuits. The days ahead are packed with the most explosive elements with which this country's economy has ever been faced.

American farmers have come out of the war with the strongest financial condition of their history. Against the enormous financial backlog in agriculture is a pent up demand for many goods that have been scarce during the war.

Farmers can use their financial power for investment in better living on the farm, for increasing net returns and cutting production costs through better farming practices and the use of new labor-saving farm machinery. On the other hand the liquid assets in agriculture can be used to bid up the price of land and of articles which are still in short supply. If agricultural resources are used in the latter direction, the result will be hardship on farms for at least a generation to come. The decision rests with the farmers, themselves, and the choice they make during the next several months will influence their standard of living and their security for a good many years.

The total assets of agriculture rose from \$53.8 billion on January 1, 1940 to \$90.8 billion on January 1, 1945, and its net worth increased from \$43.8 billion to \$81.8 billion. During that period farmers' debts decreased from \$10 billion to \$9 billion. Thus a \$1 billion decrease in debt has been accompanied by an increase of \$37 billion in total assets and \$38 billion in net worth. Much of the dollar gain in agriculture has been due to higher inventory prices for real estate and personal property, but on the other hand a considerable amount has been due to an actual increase in asset volume.

The growth of liquid reserves in agriculture is only a small scene in the nation's financial picture. On June 30, 1945 bank deposits, exclusive of deposits banks held with each other, totaled \$137 billion. In addition to money on deposit a total of \$28 billion of currency was in circulation last month. This makes a total of about \$165 billion on deposit and in circulation. The total is still growing.

A review of the amount of money this country had to work with at the peak of business activity in 1929 gives an interesting contrast. Total currency in circulation in June, 1929 was \$4.5 billion, or 16 per cent of the present figure. Total deposits and currency on that date were \$55 billion, or only 34 percent of the supply available last summer.

There is nothing in the near future that seems likely to reduce the volume of money. A reduction could be accomplished by net decrease of public and private debt, but until that happens the money is here. Some of the \$90 billion worth of Government securities held by individuals and non-financial corporations will be sold to finance improvements and other purchases. Deposits will increase as bank credit is expanded to offset this, and in that process the total supply of money is likely even to increase for awhile.

This vast backlog of purchasing power packs a tremendous inflationary force. If it spends itself in the direction of rising prices, the road ahead will be lined with bankruptcy and financial distress. The most effective brake on price inflation would be an abundant and increasing supply of goods and service people want to buy. But we cannot suddenly increase the number of good farms. For that reason, farm real estate offers a peculiar problem. The only hope there lies in the self-restraint and judgment of the people, backed by the memory of what happened after the first World War.

Farmers seem to be taking a sensible attitude toward the new and different conditions that are coming in the period ahead. They are planning to get the labor-saving machines and facilities that are adapted to their needs, as they become available. Many of them expect to do what they should have done long ago to save and upbuild the soil. They expect radical changes in the business of farming. They are looking to manufacturers for new implements. With only 15 percent of the country's labor force at work on the farms, the nation's farmers last year used the power machinery they had or could buy, to turn out an all-time high volume of agricultural products. It took long hours, and many old people and women who should not have been there joined the farm labor force.

Good weather prevailed, but on the whole our war production has been a triumph for mechanized farming. Compared with what is coming, however, we haven't seen anything yet. Farmers are looking for many new machines, like the cotton-picker, which will be revolutionary in their impact.

The period ahead will see an increased need for more capital on American farms -- capital for such things as new machinery, soil conservation practices, better foundation livestock and improved crops. Agriculture in the past has lagged far behind industry in its use of capital. As a result, the spread between the net income of the farm worker compared with that of the industrial worker has become increasingly wide. Farmers in the years ahead will expect a standard of living comparable to that of workers in nonfarm pursuits. To approach this goal requires the use of more capital to increase the output and the net income of the individual farm worker. Capital for these purposes is productive capital and will continue to pay high returns on investment. On the other hand, capital that is spent to bid up prices of farm real estate above the level that can be sustained by normal income, is not productive. Neither is capital productive that goes to inflate prices of other capital goods or equipment. If farmers use their present backlog of purchasing power for such nonproductive investment, living standards on the farm in the long run will probably be further depressed rather than improved.

From the viewpoint of inflation dangers, farm real estate is probably the number one problem in agriculture. To date the over-all increase in price has not been alarming. In most areas the number of transfers have not been unusually high, and in general the use of credit in connection with farm sales has been nominal and reasonable. However, many factors are at work which tend to push up the price of land. Lower interest rates, longer term farm mortgages, the desire to hedge against inflation, price support programs, veterans who wish to become farmers, and the enormous supply of money are all forces in a market in which the supply of desirable farms is limited. These inflationary forces are not limited to real estate. They can exert a disastrous influence on the price of such items as farm machinery if everyone tries to buy at once, before the manufacturers hit their stride.

Most business men, and all the labor leaders I ever talked with believe that farmers should produce to capacity; they oppose crop curtailment and restrictions. Farmers do not like them either, and I dare say would not be asking for them if business management and labor would only measure up to their joint responsibility to keep a high and unrestricted flow of the implements of production moving out to the farmers. Maximum production of industrial products at reasonable cost per unit to supply the demand without price inflation can be the most important contribution of industry and labor to a brighter future for American agriculture.

From industry's viewpoint, a liberal supply at reasonable prices will mean a continued market and the opportunity to operate at maximum production for years to come. The contrary policy of scarce goods at inflated prices will dissipate farmer savings, inflate farm production costs, and narrow the market not only now but for a long time ahead.

Included in the total net worth of agriculture are about \$16 1/3 billion in cash and Government bonds, which means that many farmers have cash on hand to satisfy their demands for goods which have been in short supply during the war. Credit, however, is not out of the picture, and the enormous equities that farmers have built up during the war period provide a base for a sound expansion in the volume of farm credit -- sound, that is, if it goes for productive purposes.

It seems to me that farmers in the years ahead are going to expect and obtain credit on a more realistic basis than they have been accustomed to in the past. The now capital needs in agriculture will probably generate demand for a greater total volume of farm credit than has been generally used. An increased use of credit, if confined to productive purposes, can contribute greatly to better living on the farm.

I believe that farm credit should develop into three rather broad classifications with clearer lines of distinction between the types than has been true in the past; and that all types of farm credit should be more closely tied to sound operating plans than has been the case with cast credit practices. In the first category are the long term credit needs of farmers for farm real estate finance. I am not thinking of credit to enable farmers to purchase land at inflated prices, but rather credit that will enable farmers to balance their system of farming, to conserve the soil and maintain its productivity. This means credit for soil-saving practices such as terracing, waterways, etc., credit for fences to adjust the layout of the farm to the topography of the land, credit for new and modernized buildings to bring about maximum efficiency in farm living and livestock production, credit for farm ponds and water systems, electrification, and many other things that make for better living and more efficient production.

Second, will be longer term credit for the operating capital needs of farmers similar to the term loans which have been developed and successfully applied in the nonfarm industries. This type of credit will be used for further mechanization, for increasing the number and quality of foundation livestock, and for equipping the farm home with modern household appliances. It will mean term loans based on a plan that may require from one to five years for ultimate liquidation.

I think loans of this kind will be made by commercial banks and other lenders for the term necessary to meet the requirements of the individual farm, and on a basis much better adapted to actual farm needs than has been provided heretofore.

Third, is the production type of credit for recurring expenses such as feed, seed, labor and fertilizer that make up the annual expenses for production on a farm. This type of credit is self-liquidating and in general will require terms of one year or less depending on the type of enterprise. I believe that interest rates on all three types of credit will tend to be lower and more in line with the risk involved than farmers have enjoyed in the past.

A good example of what I am thinking about for farm real estate finance, the loans of the first class, has recently been worked out by a group of bankers at St. Joseph, Missouri. The farm lands of that area are naturally fertile and rolling. Farmers have carelessly exploited the original productivity of the land through heavy row-crop production with up-and-down hi plowing. This has resulted in tremendous soil losses from erosion; it is estimated that much of the area has already lost approximately half of its original top soil.

St. Joseph bankers recognized the menace of such a system of farming not only for the future of the farms themselves, but for their town which is largely dependent on the income from the surrounding agriculture. They have developed a loan which is based on a sound farm plan worked out by their county agent. To present their plan to the public, they have taken for their example a 267-acre farm with 168 acres of crop land. This farm is naturally fertile soil but about half of the original top soil has been eroded. The estimated normal value of the farm in its present condition is \$85 per acre, or a total value of \$22,695.

The county agent, in cooperation with the operator, has worked out a water management plan for the farm along with a crop rotation and fertilization and liming program, to stop erosion and rebuild the productivity of the soil. It is a ten-year program with most of the work being done the first four years after purchase. During the ten-year period it is estimated on the basis of present costs that in addition to the purchase of the farm, the operator will need a total of \$9,714 to establish a complete balanced farming and soil conservation program on the farm.

The loan provides for a disbursement schedule throughout the ten-year period as farm improvements are completed. The farm plan, in addition to working out the estimated cost, sets up a schedule of anticipated increased income that should accrue during the ten-year period as a result of the improved practices.

The expectation of increased yields is based on actual results on a nearby experiment station and on neighborhood farms. The estimate of increased income is based on 15-year average prices for the period 1925-1939, which figures corn at 73 cents, wheat 96 cents, oats 40 cents, alfalfa \$12.50, and pasture at \$1.50 per animal unit per month.

Increased income figured on this basis adds up for the ten-year period to a total of \$15,655 as against a total cost of \$9,714. If all the increased income were applied as repayment, the conservation portion of the loan would liquidate itself within a 7-year period. To allow some leeway, the St. Joseph farm loan plan establishes repayments on the loan at 75 per cent of the anticipated increased income. At this rate the loan will liquidate itself within the ten-year period. St. Joseph bankers have recognized that soil-saving and soil-building practices add to the value of the farm real estate security and are willing to accept it as such.

The farmer can repay the rehabilitation portion of t from income created by the expenditures, and at the end of the ten-year period his farm will be at maximum production, soil losses will have been stopped, and the net income based on average prices will have been raised by \$2,000 per year. This represents the most realistic and constructive approach to farm mortgage credit that has come to my attention. It is new and in some respects revolutionary, and in my opinion will help set the pattern for much farm real estate mortgage credit in the years to come.

What St. Joseph bankers have done in the longer term land improvement field can and I think will be done in the operating capital credit field, and that is where you men are particularly interested. Here as in the case of farm mortgage credit, I think the start should be a sound plan for the individual farm. In other words, the farm machinery dealer will need to sit down with the farmer to consider his over-all equipment needs. The advice of the county agent, if it is available, would be invaluable. If bank credit is involved, the banker or his agricultural representative should sit in. The machinery and equipment needs will be determined by the operating plan of the farm, which includes a careful estimate of the normal income and expense in connection with the operation. The need for household appliances should be taken into account.

On this basis the farmer will have an opportunity to determine the kind and amount of equipment he needs, and he will be protected against buying more equipment than his potential ~~earnings~~ justify. The credit terms will be worked out to meet the repayment possibilities of the operation involved. Farm machinery that is sold and financed on such a basis will represent a productive investment for the farmer, eliminate much of the collection difficulties of the machinery company or the local banker, and will create a sound market for replacement items and repairs for years to come.

I think we must get away from the type of machinery sales where loose credit terms are the determining factor in the sale, and in which specific crops, which in many instances are already pledged to other purposes, are taken as additional security. The American farm must be further mechanized and from the dealer's viewpoint the market is almost unlimited. The process of mechanization can be advanced more rapidly, however, if both sales and credit are adapted to a plan that meets the need of the individual farm.

The third type of credit I mentioned, which is the annual self-liquidating type of production loan, will probably undergo less change in the future than any other type of farm finance. Bankers generally have favored this type of loan and are already in the position to meet the need.

I think, however, that as we go along, there should and will be a greater tendency to keep production credit separate from the operating capital type of loan. That is the job ahead in farm finance as I see it.

The financial position of agriculture at present is perfectly set for adopting that kind of credit. Whether or not we can immediately develop such a realistic approach to farm credit transactions depends on the amount of restraint that farmers, manufacturers, laborers, and others are willing to exercise to overcome the many inflationary tendencies in the picture today. If enough common sense and self-restraint are exercised, big dividends to all will accrue in the years ahead. If, on the other hand, the liquid reserves of agriculture are wasted in an inflationary spiral with a companion growth of unsound credit, the whole process of postwar adjustment will be retarded and we may be faced with another generation of financial distress in agriculture such as characterized the inter-war years when two million farms were lost to former owners through foreclosure.

We all have a stake in which way it goes.

Extraordinary good sense and leadership will be called for if we are to avert an inflationary blow-up by making this reconversion period one in which maximum production of industrial goods matches the full production of America's agriculture.

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