

BANKING AND AGRICULTURE IN MISSISSIPPI

Address
by
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Probably in no other state in the Union would my subject today - "Banking and Agriculture" - be more appropriate than for the state of Mississippi. The right use of the land is vital to the health and well-being of the people anywhere, but it has an especial significance in Mississippi right now, where radical changes are coming in the mechanics of producing and in the market for the state's leading crop. Another fact has impressed me, too. The soil in the rolling hill sections of Mississippi is extraordinarily responsive to the right conservation and re-building treatment, just as, on the other hand, it is extraordinarily quick to wash away under bad treatment.

A friend in Oxford recently sent me the book "Mississippi's Wealth" published in 1947 by the Bureau of Public Administration of the University of Mississippi. The author, Robert Baker Highsaw, used this keynote sentence - "It is not too much to say that the life of Mississippi depends on the use of its soil." That the bankers realize this has been proved to me by the warm and friendly welcome they have given to the meetings we have been holding, in cooperation with Mississippi State College and your own State Association, in the northern part of the state during the last two years. Their interest is shown, too, by the farm program which, as your progressive young secretary, Leigh Watkins, informs me, the State Association is just launching to give active, aggressive, and steady assistance to farmers and to the Federal and state agencies and the individuals who are supporting and encouraging improved farming standards.

I suppose many people think that my talks to country bankers over-emphasize the importance of sound farming to sound banking. I doubt if over-emphasis is possible. Let me take just a minute to tell you why the Federal Reserve Bank is working with commercial bankers right here in Mississippi to encourage the fullest and best possible use of our agricultural resources. You can't, over the long run, have sound banks in a community whose economy is sick and failing. We are interested

in a sound banking system; we want, as you do, to have safe, growing and useful banks, and they can only flourish in safe, growing and productive communities. The banks of Mississippi can hold their share of the future high level of bank deposits in this nation only if the volume and the value of the state's production holds its own in relation to the volume and the value of the production of the country as a whole. And while we want to see decentralized and diversified industry grow in Mississippi, the nature of our resources is such that most of the volume and value of our production must come from the land. That income will surely fail unless the soil is held in place, and its fertility restored and continually renewed by a system of farming that uses the great natural advantages of the South to the full.

That's the whole story. To point it up, let's take a look at what has been happening to our bank deposits since Hitler moved into Poland, and do a little guessing at what is likely to happen to them in the future.

The growth in bank deposits over the war years was the most tremendous growth ever experienced in the financial history of this country. Over a six year period, total deposits of all insured State and National banks in this country more than doubled, rising from \$56 billion in December, 1939, to nearly \$150 billion in December, 1945. Bank deposits here in Mississippi multiplied even more, rising 264 per cent compared with 166 per cent for the country at large. Deposits of insured banks in Mississippi were \$205 million at the end of 1939, \$746 million at the end of 1945.

The reasons for this proportionately greater growth in deposits here in Mississippi are not difficult to find. As you know, it was due chiefly to these three factors: the higher farm income from increased farm production and higher prices for farm products; the great money flow from military payrolls and dependency benefits; and the higher industrial payrolls of war industry and new industry developed during the war. These three sources of revenue furnished an

excess of income over spending which was reflected in bank deposits in the state.

Looking again at these causes - increased agricultural income, war expenditures, and industrial growth - we see that the gains were due to what might be termed a "favorable balance of trade" for this state. As a result, a relatively high share of the increased deposits which were created largely by government borrowing from banks, came to rest in the banks of Mississippi.

So much by way of banking development during the war years. Next, let us take a quick look at what happened in 1946.

Bank deposits declined about \$12 billion during the past year due to the government debt-reduction program. This government retirement of debt resulted from repayment of most of the money that had been raised in the Victory Loan Drive. It actually cut \$15 billion from bank investments in government securities, but it was offset by the addition of some \$3 billion in new bank lending to private borrowers.

That was the deposit trend for the nation - \$12 billion, or 8 per cent, decline in 1946. I do not have the figures at hand for all of Mississippi, but in our Eighth Federal Reserve District part of Mississippi, the northern end of the state, year-end figures showed deposits had increased \$14 million, instead of declining. In this area an expansion of loans more than offset the reduction in government deposits, which did not affect country banks as sharply as it did city banks.

I see nothing in the near future that seems likely to reduce the volume of bank deposits materially for the country as a whole. A reduction could be accomplished by a net decrease in the amount owed to banks by government and private borrowers, but further reduction in the public debt will at best be slow and gradual, while private borrowings are likely to increase. The government debt from now on can be reduced only as we have Treasury surpluses, and they will come

only when the government collects more in taxes than it spends. Your guess is as

good as mine on when that will happen, and how much it will amount to.

A shift in ownership of government securities from banks to private investors could cause a drop in deposits, but the trend is likely to be the other way, as you will realize if you examine in your minds the plans which you know your depositors are making for the use of their funds. They have building or improvement plans in mind, or purchases to make when prices suit them better, or when the things they want become more plentiful.

Now, to catch up with some of you who have run ahead of me on this last point and are thinking that such purchases will draw some of the deposits out of the region, I agree with you. But this transfer of balances can be offset to the extent we create new wealth from the production of goods and services here in Mississippi.

The huge new war-debt-created volume of money - three times the amount we had in 1929 - is going to be with us for a long time to come. Under any realistic definition, our money supply includes the bank deposits, not merely currency in circulation which appears to have reached a peak. It looks like the \$28 billion odd in currency and coin now being toted around, used in daily exchange and hidden in clocks, mattresses, and safe deposit boxes, has proved sufficient. There is a pretty good chance that some of those \$20 bills may even come right back through your teller's windows and add to your reserves.

What about the longer-run factors? At what level will bank resources be in 1950? In 1955? I have indicated my belief that they will remain high for the nation as a whole. There will be shifts from region to region, from bank to bank. We are concerned today with the question whether the banks of this area, which have seen their bank deposits more than treble, will now see them slip back to the old levels. I, for one, do not expect that to happen. I do expect that in spite of all we can do, the banks of the Mississippi valley will lose some deposits to

banks elsewhere, but the levels will still be very high compared with pre-war.

The future of these deposit levels can be influenced by what bankers do with their resources in these crucial years just ahead. That, of course, depends upon the men right here in this room. I realize you cannot personally or collectively hold back the rising floods of the "Father of Waters", and that the sun does not appear from behind the clouds nor the heavens pour down rain at your beck and call. Decisions in Moscow, Paris or London, in the houses of Congress, in the board rooms of great corporations or in labor union halls, will help determine whether Mississippi suffers or prospers in the years ahead.

But communities that have attained a sound economic balance have a record of holding together through the tough years and making up for it in the years of prosperity. This vast money supply can go into destructive uses, in bidding up the price of land or goods in short supply, and in inventory speculation. Or it can be used constructively to safeguard our resources and increase their productivity. As bankers, we have a great responsibility and a considerable influence in helping determine how the money is used. We can look the other way while savings and proceeds from loans move into speculation or are spent for non-productive, inadequate returns. Or we can help build up the surrounding lands and make them productive through investments which will pay for themselves and build a richer community.

Bankers as individuals and in group associations are a potent force for community strength wherever they use the powerful influence which is theirs. We have in this state some outstanding country bankers who are leaders in making their communities more productive. You know who they are better than I do. They exert indirect influence by their counsel and their example. They exert direct influence by the loans they make. Over the years their work will mean larger and sounder bank deposits for their own institutions. There will be need for many bankers like that in the agricultural sections of the United States in the years ahead.

For the relation of agriculture to the rest of the economy is changing radically, and further radical changes are ahead of us. In 1943 and 1944, only 15 per cent of the nation's labor force produced the all-time record crops which fed and clothed this nation and its own and allied vast war machines. This increasing productivity per worker in farming has resulted because farmers, year by year, command more and more capital per worker in the form of machines and land. As one pair of hands gets more and better tools to work with, their owner manages more land and works it better; his unit costs go down, and the farm yields higher returns and a better living per worker. This trend is going to continue; it is inevitable. It means better homes and a better life for those who remain on the farms. It also raises the question whether the growth of decentralized industry throughout rural America will be rapid enough to absorb the workers who are released from the farms as mechanization proceeds.

I do not think this development necessarily will be troublesome. It is a question of right human behavior. Think what it would mean if all our population at home became educated to want and demand a full, healthful, rich diet! You know we can keep 10 to 13 times as many people alive on an acre in cereals as can be fed on the livestock products from that acre, but we are not likely to do that in this country. The trend is the other way. We could use our farm resources fully, with more workers than are now employed in agriculture, if all our people could buy and consume the dairy-and-livestock diet necessary to maximum health.

And right here I want to speak of the splendid program to promote pastures and develop dairy and other livestock that is going on in some areas of Mississippi. During the past weeks I have driven over much of the northern half of this state. I have seen, as you have, the damage done by row-cropping hills and slopes that should be covered by grass. Where the soil is held in place, where its mineral richness has been restored, where adapted seeds and crop rotations are used, we have advantages here for low-cost livestock production which we have been slow to

see.

In this state we have natural conditions suitable for all-year-round pasture farming with nutritious grass and legumes marketed as livestock products to supplement the income from cotton of which Mississippi will continue to be a leading producer. In spite of these advantages the fact challenges us that the South buys year after year a large part of its dairy and livestock products from the colder states up north where costly barns and indoor feeding are necessary a considerable part of each year.

I could talk to you all night about the amazing opportunities all around us to build safer and more profitable farms on the ruins of the old ones simply by using the land right. Soil conservation and the kind of farming that goes with it are not only right morally - they pay big dividends in dollars and cents. I don't believe there is any place I have ever seen where the land is more responsive to good treatment - or to bad treatment, either - than right here in Mississippi. We can use a lot of the capital and labor we have here in putting complete soil-and-water-use programs in effect on individual farms. We have the capital, the tools, the "know-how", the minerals, and the seeds and plants with which to work a farming revolution here.

Furthermore - and it has taken a long time for me to build up to this point - every dollar of new capital invested in completing a soundly-conceived conservation farming plan will repay the investor or lender well through increased yields and lower production costs. The farmer or land owner or mortgage lender will have a better farm 5 or 10 or 20 years hence than he has today to operate or to secure his loan, an assurance now altogether lacking in American agriculture.

I could give you many illustrations ranging from single cases to surveys that cover thousands of farms, all showing that farmers who do the best job of maintaining their soils make the best incomes. But I know that many of you here today are familiar to some extent with the individual case histories we have presented

at the meetings such as those I mentioned earlier. Therefore I am going to confine my examples to four farms located in this state, one in the Black Belt, one in the Brown Loam hills, one in the Coastal Plains area and one in the Mississippi delta.

In making these studies, we were very conservative in the formula we used to convert the increased yields into dollars. We used average prices received by farmers for the period 1925-1939, which put cotton at 11¢, corn at 73¢, oats at 40¢, alfalfa hay at \$12.50 and pasture at \$1.50 per mature cow per month, to compare the value of production before and after the conservation plan was in effect. This gave a uniform and fair basis for comparison, although I hope you will not take the figures as our forecast of what prices are likely to be.

First, let me tell you about a ten-year improvement program on a 145-acre farm in the Black Belt. A total of \$8,832 of new capital was required to install a sound land use and balanced system of farming. This outlay averaged \$60.91 per acre on land that without treatment was valued at \$20 per acre. A high percentage of the cost went into the mineral program, with only \$17.12 representing permanent improvement to the land. Despite this unusually high investment, however, in the ten-year period, \$12,430 in new income could be traced to the \$8,832 investment, or nearly \$1.50 for each \$1.00 invested. Calculated on the same low average price basis, the income from the farm was increased by \$1,711 with an annual maintenance cost of \$600.

Let's contrast the heavy investment and relatively slow returns on the Black Belt farm with the record of a farm in the Brown Loam hills. Those of you who don't live in the Brown Loam hills but have driven through that area of Northwest Mississippi will remember it as a badly gullied section that gives the appearance of having been completely ruined. Actually, despite the scars of exploitive practices and the badly gullied condition of the land, the soils in this area are just as responsive to good treatment today as they have been to the abusive treatment of the past. On a 584-acre farm in the Brown Loam hills, a six-year program

of complete soil conservation and improvement was carried out at the total cost of \$7,834, or only \$13.41 per acre, of which \$6.37 represented permanent improvements to the land. The returns during this six-year period in which the program was being installed and which can be traced directly to the improvement investment amounted to \$12,527. Here again is a \$1.50 return for each \$1.00 invested, but in this instance, the return was realized in only a six-year period. The annual increase in net income resulting from the improvement program on this farm exceeds \$2,000 at the same low level of 15-year average prices we used throughout in making these comparisons.

The Coastal Plains area farm, one with which many of you are familiar, is the story of a 102-acre upland cotton farm located in Lee County. Cotton fields gave way to Jersey cows, pasture and supplemental feed crops. The annual value of production, calculated at average prices, more than doubled from 1940-1946, and the gross return from labor increased from \$1.74 to \$4.72 per man-day of work. In the nine-year conservation program, \$10,617 of new capital was required for pasture development and improvement, specialized dairy equipment, farm buildings, drainage and erosion control structures and for commercial fertilizers in the feed crop program. This, as in the previous cases, was a substantial investment per acre, but when calculated at those average prices, the increased value of feed crops, cotton and pasture produced as a direct result of the soil improvement and diversification program totaled \$15,425. Again, approximately \$1.50 was returned for each dollar invested. The farm was appraised at \$27.00 per acre when the improvements were begun. Permanent improvements totaling \$52.82 per acre were added and the appraised value increased to \$79.82 per acre. I am told the farm would easily sell for \$125 per acre today.

Finally, I want to give you a record of sound land use and soil improvement on the Mississippi delta. Many of us have thought of the Delta area as just one

vast expanse of level fertile soil of highly uniform capability. Actually, there is wide variation in soil type and land use capability on Delta lands. The 640-acre farm which I want to tell you about now is one of the most interesting of all the individual case farm records we have analyzed.

Prior to 1942, when the present owner assumed operation of this farm, it produced annually 200 acres of cotton, 80 acres of corn, and lesser acreage of other crops among which was 40 acres of permanent pasture. One-hundred and eighty acres were idle. Under a proper land use program, the idle land and 40 acres of wooded land have been brought into production. Today, the cotton acreage has been increased to 236 acres; corn acreage has been reduced; and oats and pasture acreages have been materially expanded. Per acre yields have increased tremendously; cotton, for example, from 161# to 456# per acre. Under the right land use and with the proper balance of soil improvement and cropping practices, the value of production has increased from an annual total of \$5,154 prior to 1942 to an average annual production during the period 1942-1946 of \$19,330. The five-year improvement program required a total investment of \$17,625 of new capital for fertilizers, cover crops, drainage, terracing and pasture improvement. During that same five-year period, increased production calculated at average prices, has totaled \$70,880. In other words, in the five-year period for every dollar invested in improvement practices, there has been in excess of \$4 in return.

These case farms from the four major soil areas of Northern Mississippi tell a striking story of the tremendous volume of new income that Mississippi can enjoy from increased farm earnings if an intelligent program of soil management is followed.

These studies and a pile of other evidence prove to me that, morals or ethics aside, from a cold business standpoint, the man who controls a farm cannot afford not to start now on a complete and integrated program of conservation farming.

They prove to me that bankers can finance farm improvement plans on a sound basis that will enable the farmer to repay the borrowed money from increased income earned directly by the improvement investments.

I have talked a great deal about banking and farming today, but I do not want to be accused of making a one-sided plea for an agricultural economy. Nothing is more important to this region or to the nation than a sound balance between agriculture and industry.

I repeat - and it cannot be repeated too often - we can make progress only by industry and agriculture developing and working together. This question of whether we get into trouble because farm income falls and farmers quit buying, or because factories lay off workers and quit making goods to trade for farm products, is a good deal like the question of which comes first, the hen or the egg. I have quit arguing about it. It takes two healthy legs to walk far and fast, and we want them both to be strong. Each is essential to the other.

Generally speaking, agriculture will fare better in an expanding economy, with other groups in our national life busy producing goods and services to the best of their ability and capacity, than it will under conditions of curtailment, unemployment, and falling non-agricultural production and purchasing power. Conversely, the rest of the economy is better off when agricultural production is high, and prosperous farmers are exchanging their abundance on a fair basis for the products of others.

This concept of the beneficence of an expanding economy has just been confirmed by a scientific study. Let me read you a sentence that introduces a 500,000 word report on the U. S. economy entitled "America's Needs and Resources" which was just completed two weeks ago after three and a half years of full-time work by a staff of 27 economic experts of the Twentieth Century Fund:

"If we can continue to spread the benefits of a constantly increasing productivity in the U. S., we can go on to economic and cultural heights as far - and farther - above those of today as those of 1947 are beyond the imaginings of our great-grandfathers back in 1840."

Think of the tremendous meaning our support of full production on the farm and in the factory has for Mississippi - for America!

It is important that we take care of those who are displaced on the farms by providing jobs in stable rural industries. But it is also true in Mississippi that as we put increasing acres back into useful production and shift to crops that pay larger dividends per man hours of labor we can support more population on the farms. While honoring and granting to industry its rightful place, let us not forget the great basic resources of this state - resources of which to be proud - the friendly climate, millions of acres of tillable soil, and abundant rainfall and waterways.

This problem of the development of our agriculture and of our other resources is as broad and as deep as is the problem of improving the character of human life itself. Time is running on, and I have not even mentioned the highly important subject of timber which in 1945 contributed 14 per cent of this state's total revenue. It is being demonstrated that high yields and safety both can be found in intelligently managed pine and hard-wood timber lands. Nothing has been said about the fundamental importance of this program of land and water management to wild life, fish and game. I know that you are aware of it and in counting the dollars and cents value of your loans you will not overlook these broader implications for human well-being.

In conclusion: I have talked about the condition we find our banks in today and have reviewed some of the reasons for it. I have rambled a good deal in trying to bring you ~~the picture~~ of agriculture and industry working side by side for a full

production as a means of keeping our banking resources at their present levels, or even expanding them in keeping with the sound balanced growth of the community and nation.

Though prospects are that bank deposits in the nation will continue to remain fairly near to their present high levels, I have pointed out their maintenance in Mississippi is going to depend, in the long run, upon the relative position of our economy compared with that of the rest of the country - upon the degree of economic balance attained here - an economic balance which depends heavily upon the development of our agricultural assets.

I am not afraid of the future and its implications. But I know there is no substitute for efficient production, which can be secured by the intelligent use of plenty of capital per man in the form of land, tools, buildings, lime and fertilizers, and livestock. Nothing can take the place of good management of our soil and water resources.

Mississippi is a predominantly agricultural economy. More than ever a sound and expanding agriculture is the cornerstone for building her future bright. I have emphasized that our enormous money supply may be used destructively in bidding up land and equipment prices, or constructively in carrying out complete programs of soil and water management, and for equipment, electrification, homes and farm buildings which increase the efficiency and comfort of farming. The bankers, the men in this room, can exert a powerful influence to guide the flow of investment into productive channels. Banking and agriculture are inseparable in Mississippi. In the long run your agricultural resources are your bank resources. You have done much, but there is still more to do.

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