THE BANKER AND MISSOURI AGRICULTURE

Address by
DELOS C. JOHNS
President, Federal Reserve Bank of St. Louis

At the Fourth Annual
Missouri Bankers Association
Agricultural Short Course Dinner
Tiger Hotel, Columbia, Missouri
Wednesday evening, September 19, 1951

THE BANKER AND MISSOURI AGRICULTURE

This evening you have heard a thoughtful discussion of national farm policy and national farm problems. We shall undertake now to talk about some problems of farm finance right here in Missouri and to bring into sharp focus one phase of the national picture.

When I was asked to speak to you this evening and began to think about a title for my talk, it was not hard to decide on one thing I wanted to talk about - the teamwork of Missouri bankers and Missouri farmers. It seemed appropriate to underline a fact that you already know - the fact that this teamwork has already proved successful, and that its roots lie deep in the mutual interests of bankers and farmers. The best title that occurred to me was "The Banker and Missouri Agriculture", which carries along the idea of mutual and successful cooperation.

This audience, of course, does not have to be told that bankers have a direct interest in agriculture. Your very presence here at the Agricultural Short Course clearly indicates your realization of that fact. You all know that farming is big business in Missouri, and that bankers make a direct contribution to it and reap direct benefits from it. Cash farm income in Missouri in 1950 ran well above one billion dollars - a big figure even in these multi-billion-dollar days. Practically every Missouri bank had a hand in getting that income for Missouri farmers.

Almost half the farmers of the state borrowed short-term money from Missouri banks at one time or another during 1950. A substantial number of others obtained farm real estate financing from Missouri banks. And the great majority of the farmers of Missouri kept funds on deposit with the banks of the state in 1950 - deposits which were doubtless larger on the average than in 1949 since farm income increased considerably from 1949 to 1950.

As a result of progressive Missouri-banking's recognition of its interest in agriculture, a gratifying number of banks have added trained farm specialists to their staffs so as to serve the farmers in their communities even better than before.

The fact that Missouri's bankers advanced credit to more than half of Missouri's farmers in 1950, the fact that many Missouri banks now have trained farm specialists serving on their staffs, the fact that this agricultural short course has brought so many bankers here, all bear true witness to Missouri-banking's desire to do a job for Missouri-farming. These things, I know, give great satisfaction to every forward-looking banker in the state. A recent disclosure which highlights the high degree of cooperation between bankers and farmers in this state gives cause for even greater pride than any of the points cited so far.

All of you probably have heard or read statements to the effect that the severe floods of last July damaged the credit standing of many farmers in flooded areas to such a degree that they would be unable to secure credit from normal sources for next year's production. That may be true of some areas, but it clearly is not true of Missouri. Interviews have been had with people in every bank in the 26 counties of Eighth District Missouri affected by the 1951 floods. There were practically no reported instances where bankers felt that their customers would be deprived of normal production credit as a result of flood damage. And we were very much gratified to learn from the University's surveys of flood damage that practically every Missouri farmer who had been contacted expressed full confidence that his credit needs would be satisfied during the coming crop year from normal credit sources. This is indeed an outstanding example of mutual confidence and a strong testimonial to banker-farmer cooperation in the "Show-me" State.

Now, having indicated the high degree of teamwork between banking and farming in Missouri, I want to stress a particular farm credit area where improvement in cooperation can still come. And like most cooperative endeavors, improvement can come from both sides - from banking and from farming. I refer to what might be called intermediate-term farm credit. As to short-term farm credits and long-term credits, lending institutions have made great progress in developing new techniques to keep pace with the changing needs of agriculture as its technology changes. By and large banker-farmer understanding in these fields is about as good as it could reasonably be.

Less progress has been made, however, in the intermediate credit field, and the need for such credit has grown. At this conference you have listened to cases which fall in this intermediate field. You have seen at first hand some farms where such credit is called for. As an illustration let me recall your attention to the case study of the Wood farm. In this case, the farm was bought for $15,000. Over a seven to eight year period additional investment - fences, fertilizer, soil saving structures and buildings - is planned in the amount of $10,500. Another $2,500 is projected for home improvements; and, since a modern farm requires substantial investment in livestock and machinery, nearly $12,000 additional is to be invested in these items.

Here, then, is one farmer with an investment already made and contemplated, totaling about $40,000. Of this, considerably less than half represents the original value of the farm. The balance is for improving land and buildings and for capital needs for operations. This is a case study, of course. Many farms do not require so much capital input. But this is not an isolated case; there are many farms in many Missouri communities where such needs do exist.

The credit needs on the Wood farm which were most difficult to meet were those for farm improvements - for the chicken house, terracing, outlets and fencing. On the whole these were expensive items, and returns from them usually accrue over a number of years. The operation can be conducted without such improvements, but it cannot be conducted as sucessfully over a long time without them. Professional farm managers tell us, and I believe correctly, that failure to put in these improvements would mean that the productivity of the farm unit, and the farm income base, would not be enlarged as rapidly as is possible and desirable.

At the Federal Reserve Bank of St. Louis we have been aware for a number of years of the fact that intermediate-term credit for agriculture, such as that illustrated in the Wood case, presents problems somewhat different from those presented by short-term and long-term credits. Our staff has spent considerable time in analyzing these problems and in trying to devise plans and procedures which will aid in their solution. Their experience and study have led us to several major conclusions about intermediate-term credits.

First is the obvious point that credit, borrowed capital, usually can cut the length of time necessary to bring a farm to full production. This is, of course, an almost obvious conclusion inasmuch as the economic role of credit is to put funds at the borrower's disposal so that he can obtain goods or services in the present rather than be obliged to wait until he can obtain them from his own income resources. There is an almost startling aspect of this conclusion, however, in that the length of time required to bring a farm to full output can often be cut by several years if credit is made available. And when credit is available the farmer is able to realize a larger income more quickly, thus making the credit itself a better risk and at the same time raising the general economic level of the community.

Second, it seems clear that any advance of intermediate-term credit should be based upon a soundly planned improvement program, laid out in fairly detailed form. This is the farmer's primary responsibility but he can draw upon an ample source of technical talent in the agricultural agencies to help him. The county agent, the resources of the state university, the Federal agencies and the farm association representatives all stand ready to give him aid in this field.

Third, it is believed that the farm improvement program should be accompanied by a detailed financial plan - an orderly, well-conceived plan for disbursements of funds for the cost of the improvements and for repayment of borrowings out of resulting increased income. Let me stress the desirability of having this plan in detailed form. Again the primary responsibility is the farmer's, but here the banker can offer great assistance, particularly the banker who has a trained farm specialist on his staff.

With these elements intermediate-term credit can be granted, and granted wisely. Working together, the farmer, the farm technologist and the banker can agree upon a management and financial plan that will result in a better farm unit, more money for the farmer, more production for the community, and more deposits in the bank. Multiply the individual case by the thousands of farms in the state which, given improved management and more capital input, are potentially far more productive than now, and the opportunities for progress are easy to envision.

We noted earlier that improvement in a cooperative endeavor usually should come from both sides - in this case from the farmer and from the banker. The points noted above indicate what needs to be done. The farmer needs a realistic and sound improvement plan together with a detailed financial plan before he is in position to merit credit for the purposes contemplated. His share of the cooperative effort is to take the initiative in providing these things. The banker, however, can make an important contribution by providing needed technical assistance which a trained agricultural staff member can provide, by helping work out the financial plans which is the special competence of a banker, and by working with the farmer year after year as the actual financing is accomplished.

But let me inject a note of caution at this point. I assume that most of us here might agree that credit to improve the Wood farm would lead to greater productivity of the farm and to more income for the farmer and the community in the long run. Thus on a general economic basis the credit should be forthcoming. But should it be forthcoming right now?

Over the past few years we have done a lot of talking about inflation, As bankers we all know that inflation is a state of affairs in which the supply of purchasing power is greater than the available supply of goods and services. We know that an increase in bank credit adds to the supply of money. In this particular case, an increase in bank credit would also lead to an increase in production thereby increasing the supply of goods available; but there would inevitably be some time lag between the extension of the credit and the resulting additional production. During that time interval the increased supply of money would be adding to the inflation potential and would not be offset by the yet-to-come production.

At the present moment there seems to be a rather definite lull in inflationary pressures. But the potential for further inflation still exists, and I believe that the chances are greater for more inflation rather than less. This leads to the general conclusion that we should continue to scrutinize credit applications carefully, balancing all factors and reaching sound decisions regarding the worthiness of the credit applied for, in the broad economic sense.

Suppose we look at the Wood case again in the light of the current situation and try to appraise its credit-worthiness. When we do that, I believe we come up with the following opinion. Credit for improvement to farm plant, to increase agricultural productivity, is desirable, even in the present situation. We face an unknown period of armed alert. It may be a long, long time. We must, then, do everything we reasonably can to strengthen our resource base. Otherwise we may not be in position over a long pull to meet whatever demands may be made of us. On that basis some of the proposed expentitures on the Wood farm are doubtless credit-worthy. Maybe credit for the proposed home improvement should be deferred until it can be financed out of income or until the general economic situation indicates need for less caution in the expansion of inflation-inducing credit.

Note what I am saying here. Agriculture needs credit and should receive credit - short, intermediate and long-term. Banks carry a great responsibility to see that an adequate amount of credit flows to agriculture. But that credit should flow to the most essential uses - to farm resource development and to greater and more efficient production. Credit for less essential purposes should be curtailed to make possible dedication of available credit resources to production and resource development. The problem faced by banks and other financial institutions today is to channel their credit to essential purposes and efficient users, and to withhold credit from nonessential purposes and inefficient users.

This brings me to a final point that I want to make about banker-farmer cooperation. It is vital that both bankers and farmers understand the issues behind the credit inflation problem of the day. I spoke here in Columbia last Friday to an audience of livestock farmers and told them that I am sure their bankers would be glad to explain to them more about money and credit and their functions. Now I want to ask you bankers to be prepared to explain these subjects to your farmer customers. As understanding of such things grows among your customers, you will find it easier to deal with your daily problems. There was never a time in all the history of this country when the need was greater for wide dissemination among our people of what are sometimes called "the economic facts of life". The problems of finance, the wise use of credit, and the control and prevention of inflation - and deflation, too, if you like - are peculiarly within the province and ken of bankers. They are matters with which your daily operations are intimately concerned. Your communities depend on you for leadership in solving these problems which they consider your special responsibility. You can discharge your responsibility better if you take the time and the trouble to bring about in your communities the clearest possible understanding of the basic facts and principles involved. It may be well to reflect that a customer who knows better than to ask for an inflationary credit which a conscientious banker would feel obliged to turn down is a far more satisfactory customer in these days than one who doesn't understand and will be offended when you turn him down. Now is the time of all times for bankers to display qualities of leadership and statesmanship which all too often we demand in our political leaders but neglect in ourselves. If you and your banker colleagues will accept the challenge of the times to your leadership and your statesmanship, a bright new chapter will be written in the history of banking - a sequel to the chapter on cooperation between Missouri bankers and Missouri farmers.

oooOOOooo