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## A D D R E S S

Delivered by

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I really do not feel as though I had followed orders very strictly in preparing what I have to say to you for I have not followed closely the text that your committeeman assigned to me. I have wandered far from what might be considered as a proper interpretation of the subject "Financing the Business of Farming". I have, however, undertaken to bring to your attention the fundamentals underlying the principles of collectively financing the farmer. I know that the American Public is about fed up on ideas and policies for this, that and the other thing, until it would seem that the patience of all must be nearly exhausted. So much has been <sup>said</sup> during the past few years about the embarrassing financial status of those engaged in the business of farming, that one begins to wonder how it is possible that farming still survives. Certain it is that the financial extinction of the farmer has been predicted more often in the past five years than that of any other class. The outstanding peculiarity of the business is the amount of misrepresentation that it can function under and still remain solvent. No business within the range of my knowledge has been so consistently misrepresented as has been the business of farming in the past few years. It is true that Agriculture, as an industry, has probably had more cause for complaint and has probably met with more economic embarrassment during the period of readjustment, than has any other going business. Those of you who are engaged in other kinds of business, and especially that of banking, will, I am sure, recognize the harm that comes from such unwarranted publicity.

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An industry that depends entirely upon the natural processes of production encouraged as it is by the thrifty habits of the people engaged therein, can never become insolvent; and I believe the time is at hand when the people of this country who are engaged in farming should undertake to remove the impression that has become so general throughout the country with regard to the shortcomings of the industry in which they are engaged. I can think of no other business that could prosper or even thrive for a period of one season under like circumstances. Certain it is that Agriculture has had its cross to carry during the past few years and it will always be subject more or less to the many vicissitudes of nature that surround the industry, but, it should not be obliged to carry the discredit that attaches to it at this time by reason of the indiscreet expressions of those who thoughtlessly misrepresent it.

Agriculture, when recognized as being basic in its relationship to every other activity of the country, becomes more fundamentally vital when we consider it from the standpoint of its being the only industry that is primarily engaged in the production of the necessities of life. If the business is unsatisfactory, it is proper to inquire as to the cause of the trouble and in what direction relief is to be found. Certain it is that we need to be aroused to a more thorough study of the important factors that are contributing to the present uncertainty. Many industries have been stimulated to the point where they have become top-heavy. The casual observer might get the impression that the foundation of business has been neglected in favor of the frills and non-essentials. In our highly complex social system it is difficult to discriminate

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between the essential and non-essential industries; but of one thing we are certain and that is that Agriculture is the hub about which all else revolves. The farmer is dependent upon some phases of manufacturing to supply his needs, but absolutely everyone is dependent upon the farmer. And when the prices that the farmer receives for his products are stabilized at a figure that will enable him to compete with the manufacturer for labor, and at the same time leave a fair margin of profit, then America can feel that her food problem is secure, but when the farmer can not see the possibility of a reasonable profit, he loses heart which results in smaller crops and increased prices. This is recognized as a short-sighted policy that will defeat itself in the end; but the individual farmer, however, is only human and he is quite naturally more interested in his own immediate welfare than in any abstruse problem of world economics. Before farm life can be made attractive and satisfying, it must be made profitable.

In the foregoing I am not undertaking to draw a picture of agricultural conditions in any way foreign to the State of South Dakota.

In any attempt to analyze the present condition of agriculture one can not do better than study the things that have taken place since 1910. This period is exceptionally favorable for study or analysis since it includes about five years before the war, the war period, when all economic activities were used in the production of war materials and the years of readjustment after the cessation of hostilities. In 1909 the value of all crops produced in the United States was \$5,200,000,000 and in 1919, the year in which farm prices were at their highest levels,

the value was \$14,750,000,000. In 1920 as a result of the decline in prices, the value of farm products declined to \$10,200,000,000 and in 1921 both production and prices fell off and the value of farm production was about \$6,500,000,000. Since 1921 Agriculture has been recovering rapidly from the depression and in 1924 the value of crops reached \$10,327,000,000 - approximately twice as large as before the war.

Another way of measuring the more important changes that have occurred since 1909 is made possible by comparing the number of people living on farms and in the smaller towns that are dependent on agriculture or primarily agricultural in character. During the decade of 1910 and 1920 the number of our rural population increased from 49,806,000 to 51,406,000 or a little more than three per cent. At the same time the number of our urban population increased from 42,166,000 to 54,305,000, or about 29 per cent. There has been an increase of about 18 per cent in the physical volume of crops produced before and since the war and the value of these crops in 1924 was about twice as great as before the war.

The crop in the State of South Dakota in 1909 was valued at \$126,000,000 and in 1919 it was about \$357,000,000, the highest level in history. During the following two years the value of these crops declined and was lower in 1921 than before the war. Every year since 1921 has seen an increase in the value of crops grown in the State and in 1924

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all crops were valued at \$239,000,000 - a little less than twice the pre-war values. Fewer people were engaged in Agriculture in the State in 1920 than in 1910, but people occupied in other industries were in slightly larger number than before the war. As in the entire country, fewer people were engaged in Agriculture in the State than before the war, but they were able to produce crops worth about twice the pre-war value.

Analysis of the returns from the important crops in the State shows that all have had a rapid recovery since the depression of 1921.

VALUE OF DIFFERENT CROPS IN SOUTH DAKOTA  
(In thousands of dollars)

	<u>1921</u>	<u>1922</u>	<u>1923</u>	<u>1924</u>
Corn	32,664	55,019	75,492	79,992
Wheat	22,603	36,811	22,287	42,672
Oats	11,660	23,808	24,284	39,220
Hay	24,091	31,694	38,325	30,123
Barley	5,522	8,510	8,010	14,354
Flax	1,952	3,093	5,021	9,587
Rye	1,772	5,283	1,713	3,015
Potatoes	5,874	3,775	3,407	2,795
Total 8 crops	106,138	167,993	178,539	221,758
Total all crops	114,603	181,190	193,498	238,916

Problems, however, are arising which are going to require the deepest thought on the part of the farmer and all others who are concerned with the welfare of American Agriculture. Throughout history the American farmer has been an individualist. He, apparently, has been perfectly contented to grow his crop and market it independently. He was not concerned primarily with what his neighbors, or even those who were growing similar crops, were doing. During the past twenty-five years, however, as our industrial and economic organizations have become more complex, the effectiveness of this individualistic policy has become less and less. In so far as production is concerned, by the application of the most scientific methods accompanied by modern equipment, the farmer can afford in some cases to conduct his operations in an independent manner; but, when we consider such questions as marketing and distribution, the farmer is necessarily subjected to many factors over which he, as an individual, has no control.

My one object and desire in coming here at this time is to renew my pleadings to the farmers of South Dakota to undertake the organization and carrying out of more efficient policies of finance and cooperative marketing and to endeavor, if possible to help him to realize his responsibilities in working out a solution.

During the past three years organizations for the cooperative marketing of agricultural commodities have grown rapidly in all sections of the country and with the growth of these institutions, methods of handling and financing the crops have been evolved which are different in many respects from those used by the old established agencies,

In the cotton growing regions the growth of cooperative marketing has been particularly significant but since the time required for cotton to pass through the channels of distribution is considerably greater than the more highly perishable products, the problems of financing are somewhat different.

As the cotton growers have become more efficient in the functioning of their cooperative associations, I refer especially to them as an illustration of what can be done through a well organized cooperative association both in the questions of finance and distribution. The problem of financing the cotton association arises when the growers deliver their products to the association for marketing. Funds are needed by the farmer to liquidate his indebtedness incurred in the production of the crop and to provide for necessary expenditures until the whole crop is finally sold. To meet this demand the cooperative associations generally have agreed to advance to the farmer at the time he delivers his crop, about 50 to 60 per cent of its market value or to make a direct advance of a definite amount. Since the associations are organized without capital stock, it is necessary for them to borrow heavily to make the big advances to the producers at the harvest season, and to raise the necessary funds to make the advances, the associations pledge the commodities delivered by the farmer as security with banks and other loaning institutions throughout the United States.

The Cotton Associations have used three principal sources for credit: 1st, the War Finance Corporation; 2nd, the Federal Intermediate

Credit Banks; 3rd, Commercial Banks; From September 1921 to the end of 1924, approximately \$38,500,000 were advanced by the War Finance Corporation to Cooperative Marketing Associations a considerable percentage of which it is reasonable to state was advanced to Cotton Associations. As the Associations have developed they have found it less difficult to borrow from banking institutions and also since early in 1923 they have been borrowing substantial amounts from the Federal Intermediate Credit Banks, principally on straight loans secured by Warehouse Receipts covering the commodity that is being marketed. In order to facilitate the marketing and handling of the crop, the Intermediate Credit Bank usually enters into an agreement with a bank or some other institution located near the head office of the Marketing Association to act as custodian of the documents, warehouse receipts or bills of lading which have been pledged as collateral to secure the loans.

In financing their operations, the associations have used two methods of securing bank credit: 1st, direct borrowing with banks on promissory notes secured by warehouse receipts; 2nd, by acceptances. Since the method of borrowing from banks on collateral notes is not essentially different from that followed by other customers of those institutions, it is not necessary to describe in detail the arrangements that the associations have made with banks to secure credit of this type. There are certain advantages in financing such operations by using bankers' acceptances and associations have turned to this medium for obtaining funds and most satisfactory results have been had. As the associations have become

established, it has been relatively easier for them to arrange acceptance credits in the central money markets of the country. Before analysing the acceptance plan in detail it is necessary to discuss briefly to what extent it has been used by the Cotton Associations. The Associations from which data are available and the volume of acceptances used for the marketing season of 1923 and 1924 are shown in the following table:

Alabama	- \$ 4,250,000	South Carolina	- 11,655,500
Arizona	- 120,000	Texas	- 5,000,000
Georgia	- 800,000		
North Carolina	- 12,900,000		

Making a total of \$34,725,500.

In arranging acceptance credits with a bank, each association enters into an agreement with the bank covering the aggregate amount of credit that it expects to use during the marketing season. The association then draws drafts on the bank from time to time as funds are needed during the marketing season. All drafts must mature and be paid in full by July 30th of the year following that in which the commodity is produced. In the case of the Intermediate Credit Banks it is usual to appoint a trustee or custodian near the office of the association to handle the documents for the association and the accepting bank and each draft that the association draws on the accepting bank must be secured by the following documents placed with the trustee: 1st, negotiable warehouse or compress receipts rating specific bales of cotton or negotiable railroad bills of lading.

2nd. Insurance policies covering the cotton pledged.

3rd. A statement by licensed classifier of cotton that the cotton is classed and graded in accordance with standards set up by the U. S. Department of Agriculture.

While only a few of the associations have attempted to sell their acceptances at open market rates, the associations which are still borrowing at a flat rate including a commission for accepting, have been able to obtain funds at a much cheaper\* rate, usually between 4 and 5 per cent, than the individual producers could secure in their respective marketing centers. All drafts drawn by the association under the terms of the acceptance agreement are required to conform with the Rules and Regulations of the Federal Reserve Board which makes them eligible for rediscount or purchase in the Open Market by the Federal Reserve Banks.

Any prejudice that may have existed in the minds of the public generally against farmers organizations, and especially cooperative organizations, has largely disappeared, and they are looked upon today as the one strong farm influence that can be met in general council upon any important problem in the relationships of life and it is felt that they will consider such important problems with a due regard for the interests and welfare of all the people. The farmers of America do not organize to destroy good government as the farmer is, by the nature of his business, both capitalist and laboring man, and as such, is the one element in society that will be found in the front ranks of those

fostering America and American institutions.

Never in the history of the country has there been such a desire shown on the part of the public to help the farmer in every way possible through legislation as during the past few years. To mention everything that has been accomplished would lead into a too lengthy discussion so we will confine ourselves on this occasion to the few specific enactments that were intended to be of particular value to Agriculture:

In 1920, the farmer through his organizations made a universal demand for the enactment of a special tariff law which was favorably responded to by the Congress.

The farmer, through his organizations, demanded legislation that would permit him to act in the marketing of his products, cooperatively in a lawful manner, which request was granted by the Congress.

The farmer also made a demand for an increase in the loan limit in the Federal Farm Loan Act from \$10,000 to \$25,000; which was also approved by Congress.

Through an almost unanimous request on the part of the farmer, the War Finance Corporation was renewed by Congress in 1921.

In reply to a demand from the farmer, the Congress of the United States enacted the so-called Packer and Stockyards Act by which the Administration exercises certain supervisory control over the terminal stockyards and large packing industries of the country.

Legislation was also passed at the request of the farmer which seeks to regulate and supervise the Grain Exchanges of the country.

The farmer made a demand for the enactment of a law which would extend him liberal credit in the operation of his business. The result was the passage of the Federal Intermediate Credit Act.

The farmer made a demand for access to the credits of the Federal Reserve System and Congress liberalized the Federal Reserve Act by giving the farmer greater access to the credit facilities extended through that system.

During the last session of Congress, the demands of the farmers for

legislation which would be helpful to their business, and which the Administration encouraged in every helpful way, were not properly coordinated and this together with the rivalry between farm leaders for the honor of being the originator of the plan for such helpful legislation, resulted in complete confusion in the minds of the farm elements in Congress as to what was the most desirable thing to be done in order to be of real help to the man who actually tills the soil and produces the crops.

If I were asked the question at this moment as to what benefit had come to the farmers from all of this so-called farmer legislation, undoubtedly, I would have to answer that at best it was somewhat questionable in value. Personally, I can see that ultimately it will be very helpful. When you go to your homes, do me the favor of looking over the list carefully and I hope you will give most serious consideration to the possibilities apparent therein, always providing, that the farmer will act in a cooperative spirit and put his own house in order. I insist that all of the legislation in existence can not of itself create a market. The value to the farmer of legislation is to come when he is in a position to function through his organization with a definitely established legal status which will insure the greatest integrity in his business and protect him from outside interference. All the regulations devised for the supervision of the Boards of Trade or the packing industries, do not mean cooperative marketing. One million dollars worth of indiscriminate marketing of farm products through a number of independent dealers, does not approach from any angle - cooperative marketing. The sum of it all is that legislation, by itself, means nothing to the producer unless it can be accompanied by good business practice, intelligent production and sound financing.

The problem of orderly marketing is the problem of the producer for

all time to come - at least until he recognizes the disadvantages in not being organized. The farmer, in many instances, is the man who must assume the blame for the present time inefficient methods of marketing and he apparently fails to understand that everything outlined as helpful legislation deals largely, if not entirely, with the mechanics of his business. It should be understood that the privilege to set up a cooperative association, fully protected by law, does not result in any sense in cooperative marketing. It is merely permissive legislation in that it clears the way for him to bring about cooperative marketing without embarrassment from outsiders. The mechanics of cooperation, through which the farmers function, is a piece of machinery that must be put in motion and operated by or through the farmer himself. In the light of legislation that has been passed, it would not be an unjust question to ask why this has not been done. I appreciate that it might be called a leading question, but, nevertheless, on this occasion when we are making a true analysis of our present status, it becomes pertinent to ask: Can cooperation in its true sense, become a practical thing in this day of individual initiative in America? Far be it from me to speak lightly or disparagingly of the individuals who wish to continue to carry on without sacrificing their individual initiative. This attribute is peculiarly adapted to and largely characteristic of the American people. American opportunities and privileges are, in the main, so responsive to individual activity that even the person born under old-world conditions and environments, most speedily recognizes its value and adapts himself to it. It is fitting and proper that we, as a people, guard that attribute with jealousy and look well to its perpetuation in the future. It must be admitted,

however, that there comes a time in the economics of business progress and individual success when the interests of the producer can be more efficiently and economically served through cooperative effort on the part of all producers of a given commodity, than through individual effort. This is one fundamental problem in your business recognition of which has, in no sense, kept pace with the changes of time. It is a problem you must solve before you will be able to receive full value for the products you sell and before you will be able to take advantage of the privileges that are yours of adequate financing, intelligent production and orderly marketing; all of which are recognized as very potent factors in the future success of Agriculture. Cooperation is the thing that enables you to control and receive for your own benefit the full market value of the product. You argue, and justly so, that various cooperative marketing plans are now in effect. This can be admitted only to some slight degree as they are effective in such a small proportion of cases that you are able to offer but slight benefit to your members. We are constantly reminded of the efficiency of cooperation as it exists in some foreign countries. I am willing to give due credit to statements as to the efficiency that exists in other countries, but I am not ready to admit that the people of the United States, living under its splendid privileges for individual success and representing such a large proportion of producing property owners, have yet come to the point where they are willing to accept cooperation as it exists in other countries where the citizen is more on a common status than we are here in America. My experience and observation in this matter have convinced me that our farmers take particular pleasure in listening to the statements that are sometimes extravagantly made with regard to the great benefits

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that have been obtained in other countries through cooperation; but cannot be sold to any great extent to the idea of its practicability in America. The American farmer has been, and is yet, an individualist. He is, however, rapidly coming to the point where he realizes that there is something radically wrong in his methods and that his individualism to which he holds so tenaciously, will have to be submerged into other customs that will work more favorably toward his success. It is a very slow process of evolution that is going to bring this about. I do not think that the developments, so far, are at all discouraging; but, there is nothing in practice to warrant the statement that we are generally cooperating in the marketing and distributing of our farm products. Personal observation would almost lead one to believe that the question of cooperation as it is practiced at this time is a game of "Heads-I win; Tails-you lose". We follow the plan of cooperation when it is to our particular advantage to do so, but we do not seriously commit ourselves to any plan that is so truly cooperative that we are, as producers, willing to accept both the profit and the loss as they come in the average course of business and be satisfied with the general average of returns for all.

The thought I wish to leave with you in closing is that adequate financing of the farmer at reasonably low interest rates, can best be secured through cooperative organizations; and that no amount of legislation can improve the position of the farmer with respect to the financing of his crops unless he takes active steps to promote the growth of cooperative effort in his industry along sound business lines.