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THE WEST IN A GROWING ECONOMY

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THE ROLE OF BANKS AND CREDIT IN RURAL DEVELOPMENT

By

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Our economy is described in many ways such as an industrial economy, as a chemurgic, agriculture-industrial economy, or simply, as a changing economy. Another very apt description is a "credit" economy. The total debt (or credit) in the nation, today is approximately $900 Billion. This includes the federal debt, that of state and local government, of corporations and individuals. Our gross national product this year will total approximately $480 Billion. This is only 54 percent of credit outstanding. Total national income at $360 Billion is only 40 percent of total credit. These are simply factual statements demanding no analysis at this time.

The total farm debt or credit has now reached $24 Billion, an increase of 33 percent in the past five years. Much of this increase has been for the purchase of additional farm land thus decreasing the number of farms; to increase livestock holdings; and also to increase machinery and equipment. With these increases come an increase in productivity at the rate of 3.2 percent per year as agriculture, largely through the utilization of greater credit, is increasing productivity per man, or man hour, at a rate almost double that in industry. Headlines describe new capital expenditures in industry, automation in our factories, but these are even less revolutionary than corresponding pattern changes in agriculture.

In the eleven western states the amount of agricultural credit, both long and short term outstanding, totals approximately $3.4 Billion today. However, the amount utilized this year will total approximately $4.4 Billion. This means that for every dollar of cash farm income, approximately 64 cents in credit will be utilized. (This does not include credit extended by distributors or retail stores to farmers.)

Mortgage and Real Estate Credit

In the eleven western states the total mortgage credit for farms and ranch operations now totals slightly above $2.1 Billion. This is 20 percent of the national total. Banks do not provide a significant amount of this credit, but participate by way of assisting the major lenders such as insurance companies, the land banks, and the borrowers, the farmers and ranchers in their negotiations. A second major aid is that of participating as selling agents, or buying institutions, for federal farm land bank bonds, thus utilizing credit sources, savings of the nation, to provide upwards of $400 Million of such credit for farm mortgages in the eleven western states. Insurance companies provide some $540 Million of mortgage credit in this region.

1/ Summary of paper given by ElRoy Nelson, Vice President and Economist First Security Corporation, Salt Lake City, Utah, at Western Farm Economics Association, Logan, Utah, July 16, 1959.

Short Term Credit

The major function of banks, so far as rural economics is concerned, is that of providing short term credit. The amount of short term credit outstanding in the eleven western states last January was $1.4 Billion. Of this amount commercial banks supplied $900 Million. However, during this year banks in these states will provide in excess of $1.5 Billion of credit to agriculture for farm, ranch, feed lot and other types of operation. This total is approximately 75 percent of all the short term credit extended to farmers. But, in addition, there are the large amounts of credit extended throughout most of this region by the banks to the farmers and ranchers for the purchase of farm equipment, tractors, and other types of farm machinery not included in the above totals. Commercial banks in the eleven western states provide a larger percentage of farm operating credit than is true in other areas of the nation. Part of it is due to the extensive types of agriculture, but also to the growth trends within the region.

The patterns of rural credit have changes drastically in the past number of years. Included are sources of credit through Farm Home Administration and Farm Credit Administration. But, of most importance are the changes in the banks, themselves. There was a time when banks expected the borrower to do all his financing arrangements at the bank office. Today, most banks have agricultural representatives serving a rather extensive area. Most of their time is spent on the farm, at feed lots, at other agricultural operations. These bank officials are agricultural college graduates. Most have county agent experience, most research training at the experiment stations. These are foundations to which are added training in banking. Many banks in their agricultural areas use pickup trucks. In addition, in most rural areas where agriculture is dominant, the bank managers are selected in terms of agricultural background with considerable training in agricultural economics. These men assist in preparing the farmer's budget, helping to determine total credit required and for what purposes: for feed, seed, fertilizer, taxes, labor, fuel and other types of expenditures. Of equal importance are such items as the time for which credit is needed.

Short term bank credit historically implied a clean up -- out of debt -- once each year. This is no longer a major rule. Changes in farming from feed lots to other operations are not strictly seasonal.

In 1959, the commercial banks of the region of eleven states will extend approximately $1.5 Billion in credit to agricultural operations in those states. This is approximately 25 cents for each dollar of cash farm income.

The bank officers, today, are expected to know agricultural economics locally, regionally and internationally. They should know market patterns, prices and quantities of livestock, of feeders, fed animals, costs per pound given. They are expected to know poultry and eggs, fruit as well as (dependent on the area) hops, potatoes, sugar beets and the numerous general and specialty crops and markets.

Farm credit demands of the individual farm and ranch have increased faster than have the bank's capital or lending capacity. This is especially true in the states where branch banking is not permitted. As a result, in those states, participating banks must provide the credit to the larger farm operators in Montana, Wyoming, Colorado, and New Mexico to a considerably greater extent that is true in the seven branch-banking states of the region.

Increasingly, the banks, the bank officers are dependent on the agricultural colleges for market trends and patterns, for data on fertilizer, for help on farm management or farm economics.

DISCUSSION OF DR. ELROY NELSON PAPER AT THE WESTERN FARM ECONOMICS ASSOCIATION MEETING

Given July 16, 1959 in Session On Rural Development and Economic Growth

Discussion by Bruce L. Brooks
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At the very beginning of his paper, Dr. Nelson makes the comment that the banks are the key to rural development. I agree with this statement, but I think that it should be more inclusive to encompass the activities of other financial institutions including PCA's, Banks for Cooperatives, insurance companies, and all others who provide credit for rural development.

Dr. Nelson challenges the economists to take the initiative and encourage the movement of people out of some of the rural areas. We must try to move some people out of agriculture or develop additional means of employment in our rural areas if we are to make the best use of excess human resources found in many of our low income communities. I believe that most economists would agree with this concept, and I would hasten to point out that this is one of the prime purposes behind the rural development program presently being undertaken.

Dr. Nelson further states that corporate farms are becoming more important. I wondered at this point just what he had in mind when he used the term, "corporate farms." If he is referring only to size of the farm, this becomes an erronious concept. Many of our present day family farms are very large and by the measure of size alone, we might construe these to be corporate farms. I certainly believe that a definition of a corporate farm was in order in the paper.

The maintenance of the family farm is, in many circles, a very popular concept. The challenge was tossed out that economists should face up to the important problem in agriculture of underemployment of resources rather than the preservation of the family farm. Again, the concept of a family farm must be clarified On some family farms, there is full employment and efficient use of resources.

No one agency or group, and this includes the financial institutions, is going to accomplish all of the things that the rural development program is designed to do. As I stated in my previous comments on Mr. Tietema's paper, the very essence of the rural development program is to motivate rural people to help themselves. To a larger extent, the action of the people themselves will determine whether the program does or does not fail.

I liked Dr. Nelson's statement that the banks are aware of the competition they face in the extension of agricultural credit. They are taking the initiative these days. Competent men are employed on the basis of previous training including formal as well as on the job. These men have to have background to enable them to understand rural problems and especially those dealing with loan application. From the outline of the requirements for training, both formal and on the job, it appears to me that the bank representatives in the rural areas are in an excellent position to act as resource personnel in any rural development program.

At this point in the paper, I felt that an inconsistency crept in. Dr. Nelson explained why there must be limited credit for rural borrowers. At the same time, he seemed to express the idea that the rural development program does need additional credit resources if it is to be successful. These two concepts do not seem to me to be compatible. Perhaps Dr. Nelson will elaborate on this point.

It was emphasized that banks are interested in rural development and the development of new industries and especially tourist trade in the rural areas. However, the first responsibility is to depositors and any investments made on loans made must be sound. Banks are anxious and willing to cooperate with other agencies, the college, and farm groups to bring about a sound and lasting rural development program.

Dr. Nelson ended on an encouraging note: "Banks expect to assist in every way possible in the rural development program." From what he has said regarding their attitude and the type of personnel they now employ to work with their rural credit programs, I believe we should and can expect full and competent cooperation from commercial banks.