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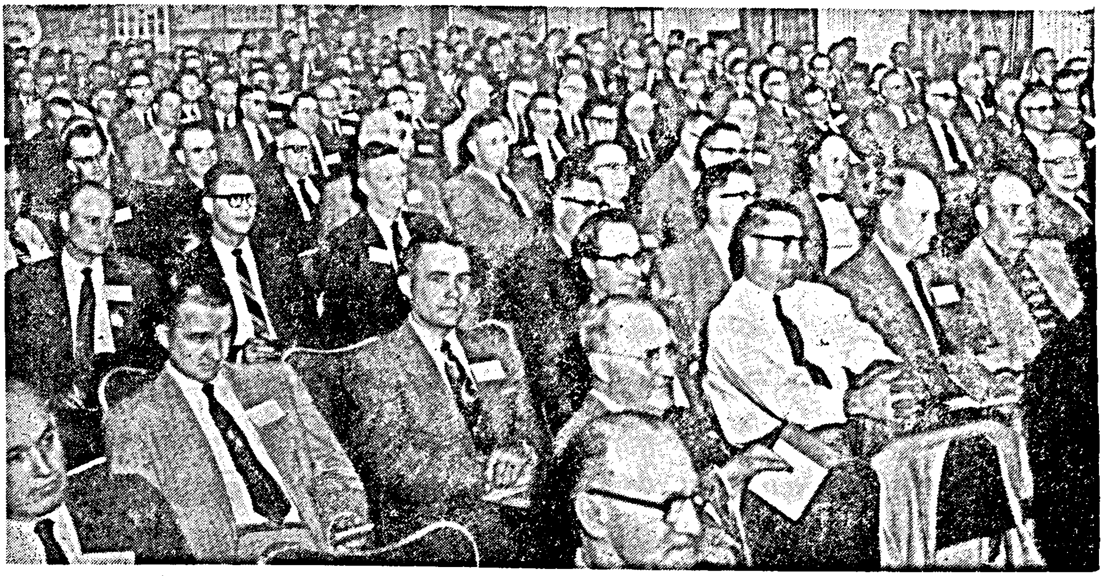

The Fifth National Agricultural Credit Conference in Session

HARRY W. SCHALLER
President
Citizens First National Bank
Storm Lake, Iowa

Chairman
A.B.A. Agricultural
Commission

JOSEPH C. WELMAN
President
Bank of Kennett
Kennett, Missouri

Vice President
American Bankers Association

Program

MONDAY, DECEMBER 10, 1956

Morning Session, 10:00 a.m.

CHAIRMAN
Harry W. Schaller, Chairman
Agricultural Commission, A.B.A.
President, Citizens First National Bank, Storm Lake, Iowa

GREETINGS

Robert E. Lee Hill, Executive Manager, Missouri Bankers Association, Columbia, Missouri

James P. Hickok, Vice President, St. Louis Clearing House Association; Executive Vice President, The First National Bank, St. Louis, Missouri

INTRODUCTORY REMARKS

Harry W. Schaller

INSIDE ENVIRONMENT FOR OUTSIDE SERVICE

Joseph C. Welman, Vice President, American Bankers Association; President, Bank of Kennett, Kennett, Missouri

BANK LOAN DEMAND AND FEDERAL RESERVE POLICY

Edward A. Wayne, First Vice President, Federal Reserve Bank of Richmond, Richmond, Virginia

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CHAIRMAN
Roland L. Adams, President
Bank of York
York, Alabama

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O. V. Wells, Administrator, Agricultural Marketing Service, U. S. Department of Agriculture, Washington, D. C.

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William E. Drenner, *Moderator;* Vice President, The First National Bank, Memphis, Tennessee

Panel:

J. Harold Harris, President, First National Bank, Wynne, Arkansas

James R. Austin, Farm Relations Officer, The Peoples Bank, Roxboro, North Carolina

John W. Scott, President, Valley Bank of Grand Forks, Grand Forks, North Dakota

Dr. Tyrus R. Timm, Head, Department of Agricultural Economics and Sociology, Texas A. and M. College, College Station, Texas

TUESDAY, DECEMBER 11, 1956

Morning Session, 9:00 a.m.

CHAIRMAN
JOHN H. CROCKER, Chairman of the Board and President
Citizens National Bank
Decatur, Illinois

AGRICULTURAL CREDIT BY CORRESPONDENT BANKING

WILLIAM A. McDONNELL, President, The First National Bank, St. Louis, Missouri

J. W. BELLAMY, JR., President, National Bank of Commerce, Pine Bluff, Arkansas

HARRY S. LEKWA, President, Ackley State Bank, Ackley, Iowa

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SHERMAN E. JOHNSON, Director, Farm and Land Management Research, Agricultural Research Service, U. S. Department of Agriculture, Washington, D. C.

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DR. HARRY M. LOVE, Head, Department of Agricultural Economics and Rural Sociology, Virginia Polytechnic Institute, Blacksburg, Virginia

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CHAIRMAN
J. ED. PARKER, JR., Vice President
First National Bank & Trust Company
Lexington, Kentucky

CURRENT PROBLEMS FOR AGRICULTURAL LENDERS

GEORGE H. STEBBINS, President, Simsbury Bank & Trust Company, Simsbury, Connecticut

BULL SESSIONS

Discussion Leaders:

T. P. AXTON, President, Lafayette Savings Bank, Lafayette, Indiana

S. E. BABINGTON, President, Magnolia Bank, Magnolia, Mississippi

LEONARD N. BURCH, Vice President, The Denver National Bank, Denver, Colorado

NICHOLAS A. JAMBA, Vice President, National Bank and Trust Company, Norwich, New York

REX B. STRATTON, Assistant Vice President, Security Trust and Savings Bank, Billings, Montana

WEDNESDAY, DECEMBER 12, 1956

Morning Session, 9:00 a.m.

CHAIRMAN
JESSE W. TAPP, Chairman of the Board
Bank of America N.T. & S.A.
Los Angeles, California

"OUR EXPERIENCES AS GRASS-ROOTS AMBASSADORS"

LOIS HUENEMAN, Rt. 4, Garner, Iowa

JOHN EX RODGERS, Paradise, Kansas

THE SOIL BANK

DR. O. B. JESNESS, *Moderator;* Head, Department of Agricultural Economics, University of Minnesota, St. Paul, Minnesota

Panel:

JARVIS MILLER, Professor of Agricultural Economics, Department of Agricultural Economics and Sociology, Texas A. and M. College, College Station, Texas

DR. LOWELL S. HARDIN, Acting Head, Department of Agricultural Economics, Purdue University, Lafayette, Indiana

DR. VAN B. HART, Professor of Farm Management, Cornell University, Ithaca, New York

W. A. SUTTON, Director, Agricultural Extension Service, University of Georgia, Athens, Georgia

AGRICULTURE AND BIG GOVERNMENT

THE HONORABLE EARL L. BUTZ, Assistant Secretary, United States Department of Agriculture, Washington, D. C.

BANK POLICIES FOR AGRICULTURAL LENDING IN '57

HARRY W. SCHALLER

Introductory Remarks

HARRY W. SCHALLER, *Chairman*
Agricultural Commission, A.B.A.
President, Citizens First National Bank
Storm Lake, Iowa

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THE FIFTH NATIONAL AGRICULTURAL CREDIT CONFERENCE is called to order. On behalf of the American Bankers Association and the Agricultural Commission, I bid you welcome. Your enthusiastic response to these Annual Credit Conferences indicates that they are serving a real need. With your wholehearted cooperation and participation, I am sure that will continue to be true.

Assembled here in St. Louis on the eastern edge of a great drought area, it is fitting that we review some of the events of the past year, take a look at the prospects for 1957, and try to identify the trends that are shaping the future of agriculture over the "long run."

A year has passed since we met in Chicago. In agriculture, and country banking, that is a relatively short time. But much has happened:

Farm debt has increased further.

Farm real estate values continue to rise in most areas.

The downtrend in farm income has leveled off, and apparently turned upward, in part because of a large participation by government.

The "balance sheet of agriculture" continues to make "good reading" despite the rise in farm debt and the reduced level of farm income.

The glut of cattle and hogs which severely depressed livestock markets last winter and spring has been worked off to a certain degree.

Agricultural output is setting a new record even though drought has intensified and spread to additional areas.

Surpluses remain burdensome although the build-up in stocks may have been halted.

A Soil Bank Act has been adopted and is being implemented.

New methods and materials continue to be made available to farmers with the result that capital and credit play larger roles, production is made more efficient, and output per man and per farm continue to expand.

These and other factors have commanded your attention in 1956. The topics and speakers selected for several of our sessions will help us appraise the significance of these developments.

Also in the short-term area, we shall be turning our attention to 1957 and appraising as best we can what lies beyond the turn of the year. Our program lays special emphasis on the agricultural outlook. We have as speakers and discussion leaders the very best that can be found. Each is "tops" in his field. I am sure that we will gain a great deal from the facts and expert opinions presented from this platform on this and other topics in the next three days.

The Long Run

As always, we are especially interested in the recent past and the immediate future. Nevertheless, we are aware that agriculture and country banking are continuous processes—that our day-to-day decisions and actions add up to our long-term policies and practices. It is quite apparent, for example, that agriculture finds itself where it is today because of the day-to-day and year-to-year decisions and actions of the past 10 years or more. Therefore, as we delve into the current situation, let us also bear in mind that our actions and decisions in 1957 will help to determine our position in 1967 as well as our position at the opening session of our Agricultural Credit Conference to be held one year from now.

Our program for this Conference has been developed with an eye to the longer term as well as the present and immediate future. I would urge that, as you listen to the speakers who follow and as you participate in the discussion periods with your own questions and observations, you keep one part of your mind reserved to evaluate the longer-term implications of discussions which may appear to be oriented primarily to short-term situations.

Economic Growth—Long Term

Possibly I can illustrate what I have in mind by reference to an individual community. Decisions affecting the utilization of the resources in our respective communities are made largely by individuals who own or control those resources. But many of them will use credit to finance a part of their activities; and the cost, availability, and terms of credit can and do influence their decisions. Therefore, our daily decisions on individual loan applications help to determine who will control the resources in our communities in future years and how they will be used. Furthermore, and this is the significant thing, the wealth and welfare of our communities will be determined largely by how effectively the resources are utilized. It is important, therefore, that the resources be in competent hands if our communities are to achieve optimum economic growth. In the final analysis, the growth of the American economy is merely the sum of what goes on in your community and mine and the many others throughout the nation.

Economic growth may be based upon additional amounts of resources or their more efficient utilization. The overall shifts in the pattern of resource utilization in agriculture are, of course, well known—about the same amount of land; much less labor; and much more capital in the form of machinery, mechanical and electrical power, and investments in soil improvements.

Resource Utilization Important

Of the shifts just mentioned, one of the more significant is farm labor efficiency. This ability to get more done with less physical labor is the way successful farmers attain a standard of living comparable to our urban people. This farm labor efficiency also creates more "city cousins" who help produce those things which make possible a fuller and more satisfying life. This kind of shift in resource utilization is highly beneficial to the national economy, to agriculture, and even to most of the individuals directly concerned. Individual areas, of course, may benefit or suffer depending upon the alternative employment of the labor released from agriculture. If it is employed more productively in other lines in the area, economic growth is achieved. If the labor is transferred to other areas where it is employed more productively, economic growth is achieved; but the local area may appear not to have benefited directly. However, before drawing a final conclusion, it is necessary to consider the effects on the reduced population in the area. This prospect disturbs some people a great deal. They see a decline of rural trading centers and community institutions. As the farm population in a community declines, there may be fewer purchasers of goods for direct personal consumption—food and clothing. But the market for machinery and consumer durable goods associated with larger farms and better living may be expected to increase as the area's resources are reorganized more efficiently.

These kinds of changes take place slowly. Usually there is plenty of time to adapt to the changing picture. But it is important that we recognize that these and other changes are taking place, that we understand the reasons why, and that we appreciate that credit plays a role. Then we will make fewer errors in our day-to-day decisions, and the long-run interests of our customers and the area will be served just that much better. It is important, also, that we recognize that, within commuting distance of many of our farms, we have or can develop productive uses for labor and capital other than in the production of agricultural commodities. It is clear, therefore, that in our appraisals of the longer-run prospects for our respective communities, we should take a broad view, that we consider nonagricultural as well as agricultural activities, and that we keep always in the foreground the objectives of achieving an efficient use of the available resources This is the key to high income and high standards of living.

More Adjustment Ahead

As stated in the announcement of this meeting, the credit requirements of agriculture are greater than ever before. In these rapidly changing times, we must be especially alert to the changing credit requirements of those farmers and agricultural businesses which are leading the way in the continuous adjustment that agriculture must make if it is to keep abreast of shifts in markets—domestic and foreign—for individual products and to take full advantage of the many new materials and methods which boost the productivity of soils, livestock, labor, and other resources.

I recognize that talk of adjustment may be worn threadbare. We hear discussions on every hand pertaining to: adjustments in agriculture, adjustments in residential construction, inventory adjustments, and the like. I recognize, also, that words can be misunderstood.

But if we will use the word, "adjustment," as a synonym for "change," and not just as a palatable substitute for "recession," it can help us to appreciate that changes are occurring constantly in the American economy and that they are an integral part of growth and progress. Our objective should be to keep the adjustment process as nearly up to date as possible so that it will not become necessary to compress drastic changes into short-time spans, utilizing "crash" programs or emergency measures to accomplish adjustments which could more easily have been worked out gradually if the need for adjustment had been recognized, and accepted rather than resisted.

Along with you, I am looking for suggestions as to how I may recognize needed adjustments more quickly and translate them into credit policies and practices. I may say that I believe this Conference is going to prove most helpful in providing guideposts for 1957, and for the longer term.

Inside Environment for Outside Service

JOSEPH C. WELMAN, *President*
Bank of Kennett
Kennett, Missouri
Vice President, American Bankers Association

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IT IS INDEED A PLEASURE to meet with you here today as you begin your deliberations on the most important subject of agricultural lending. It is a subject very near and dear to my heart and I welcome the opportunity of participating with you in your discussions.

Undoubtedly we are in a period of great problems and great opportunities. In this rapidly changing world, nowhere are the changes more pronounced than in agriculture. I have been referring to this period as being characterized and dominated by the "ations":

Experimentation
Diversification
Fertilization
Mechanization
and Irrigation.

It is certain that we shall continue to be involved in this great agricultural revolution for some time to come and that the tremendous task of financing the mechanization of our farms, the development and handling of more and better livestock, the increase in the relatively expensive specialty operations, the increased use of fertilizers, better and higher-priced seeds and more chemicals and poisons, and the growing trend toward irrigation will require of us much more time, energy, knowledge, and wisdom, and much, much more money.

Much has been said about our constantly increasing population and what this will do for and require of agriculture. Surely this is important, but it will not in itself solve our problems, as witnessed by the tremendous populations of China, Russia, and India.

There are, among our agricultural leaders, some who think that our present agricultural plant, freed from controls and with adequate financing and technical and scientific assistance, might very well right now be able to feed and clothe the 200-million population so commonly predicted and expected within a relatively few years. And most certainly we have every reason to expect a continuation in the improvement of our practices and capabilities in the years ahead.

Greater Efficiency and Improved Methods

I share to a great extent the feeling of those who believe that our future welfare depends, in a large measure, on our ability to outproduce and outprice our competition—and I believe we have the potential to do it. If we are to do it, the emphasis must be on greater efficiency and improved methods and this surely means the use of more money and increased know-how on the part of the farmer and the lender. The amounts and types of financing we have been doing in the past may soon be merely a memory and the demands upon agricultural banks and their lending personnel will be far greater than anything we have ever experienced.

Just as we must compete for our share of the funds with which to do this financing, as we have been doing successfully and I believe will continue to do successfully—although it may be somewhat more difficult if the demand for money from all the segments of our economy continues unabated—so, also, must we compete successfully for the management personnel to do this big job.

I should like to talk with you this morning about country banks, some of our problems and some of the things we might do about them. While this discussion is centered primarily on country banks, many of the problems are common to other small banks not ordinarily called "country banks" and, to some extent, to even larger institutions.

There are 10,472 banks in the United States with total assets of less than $7.5-million each. Not all of these are country banks or agricultural banks, but there are a great number of agricultural banks of somewhat larger size than the $7.5-million group. I believe the Agricultural Commission uses the figure of 12,000 in referring to its "agricultural banks." No doubt 10,000 or more of them can properly be referred to as "small banks."

I hold the firm belief that these small banks are the hard core of our independent dual banking system and the real bulwark in the never ending struggle to preserve and maintain our present system. Banking in general is, and should be, very much interested in the survival, well-being, and prosperity of this group.

Time a Big Factor

The biggest single handicap of small bank management is lack of time. We have entirely too much to do and are finding it increasingly difficult to handle the day-by-day routine management problems, give the thoughtful and considerate attention necessary to the tremendously increased loans, the enlarged and constantly emerging operational problems and opportunities, and to fulfill our duties and obligations to our communities.

There are many small banks in which the loans today are four or five times what they were only a comparatively few years ago, and the checks and deposits are four or five times what they were only a few years ago—and yet the management personnel handling these loans and operations has increased very little—and, in some cases, not at all.

The average age of our present management personnel is much too high and there is not now adequate succession readily in sight in a great many cases. Yet, in the minds of these overaged and overburdened small bank executives, there is a tremendously large storehouse of wisdom, banking know-how, and ability. These men are potentially the greatest teachers we can find and, given the time, encouragement, and assistance, they could and would transmit much of it to those who will succeed them.

Proper Environment Essential

If we can find the way to make the positions in our banks, and particularly the management positions, more attractive, we shall accomplish the dual purpose of freeing and expanding the working, thinking, and planning capacity of present management and, at the same time, make these banking jobs more appealing and more sought after by young high school and college men and women, and people in other walks of life.

And so, I am extremely anxious to make one point today and that is this: There is a great and pressing need, to a greater extent than ever before, to create within our small banks an environment which will aid in maintaining and attracting proper personnel, in which they can live happily and contentedly with reasonable remuneration, in which they can progress satisfactorily, in which management personnel can have the badly needed time for thinking and planning, and in which the life expectancy of the present management personnel can be prolonged.

In using the term "environment," it is my intention for it to mean the people, policies, practices, procedures, salaries, equipment, records, files, and other conditions in our own shops.

Now what can we do right down at the grass-roots level to create this environment? As far as I know, there isn't any magic formula for accomplishing it, no book we can read and find a pat answer, and no cheap, easy way.

I should like to suggest this morning that we give thought to these simple, basic suggestions:

1. That we explore, evaluate, and try out our own staffs in an effort to ease the management burdens, and that we hire additional people, if necessary—and they probably will be necessary if we give our staff people the proper trials and do the proper training.

2. That we review and improve our general policies, our salary programs, equipment, systems, procedures, files and practices.

3. That we increase our interest and our efforts in recruiting from high schools, colleges, and other sources.

4. That we increase our interest in and participation in the American Institute of Banking, our various banking schools, conferences, meetings, and other means of training, and make fuller use of the great mass of helpful material and the many aids available through the A.B.A., our state associations and other banking groups.

Many of these things will cost additional money. I believe the expenditure of money for these purposes can be considered to some extent a capital expenditure — a long-term investment. I believe that these steps, although they do cost money, will generate greater deposits and loans, greater earnings, and greater efficiency, and, if continued and expanded, will soon be recapturing their cost.

Many of us haven't hesitated to spend large sums on new or remodelled quarters, and I have no quarrel with that. We should, however, treat our personnel problem with at least equal concern.

Our efforts in recruiting young men and women for banking, and more particularly our efforts to obtain a larger share of the formally educated young men, have not been as successful as we would like.

On the other hand, we might ask ourselves this question—how many of our 10,000 or 12,000 small banks are ready and willing to take on the college graduate interested in banking? How many of us are willing to pay him an adequate wage, promise him reasonable advancement and have the necessary environment in our banks to make it possible to train him reasonably, quickly and properly?

There are still wonderful opportunities and absolutely certain success in country banking for the bright young man who is willing to carry a full job of daily routine duties and who will, outside regular hours and on his own time, learn our business, and who will to a substantial extent sacrifice family, social life, and a considerable portion of his personal pleasures. And I would be the first to admit that such a procedure would produce an outstanding banker.

But I think we must face the hard, cold fact that there just aren't enough young men willing to do it that way to make even a dent in our need.

Training Programs Need Attention

So it seems that we must take on the job of training them under conditions which are different from the old days, and we must have the proper environment within our banks to make it possible to train them properly more quickly. I think there are many, many country bankers with the ability and know-how to do this training, but I earnestly believe that most of us think we haven't—and probably haven't—the time necessary, and many of us don't have the environment necessary.

A great many of our present managing officers in small banks didn't have the advantage of patient, planned training and the kind of environment I'm suggesting, and many of them have been very, very successful. Many of them learned—so to speak—to "fly by the seat of their pants" and still do. And what a perfectly wonderful job many have done. I take off my hat to them. But I think most of them would readily agree that this is a different world and a different era and we dare not run the risk that future management can and will be successfully developed in the same manner.

There are other opportunities for recruiting in our court houses and municipal offices, among the tax collectors, treasurers, recorders and clerks and other municipal employees, opportunities among our school teachers, county agents, assistant county agents, Farmers Home Administration supervisors and employees, vocational agriculture instructors, some competing agricultural lending agencies, and among the owners, managers, and employees of many of our small business firms, if we have the time and interest to recruit them and train them, and the environment necessary.

We have not been very successful in utilizing these sources. It is commonly thought that this failure is because of low salaries—and, to some extent, it probably is—but we see quite often instances where rather favorable salaries fail to attract. I wonder if the popular impression that we bury these people in routine jobs, and are slow to advance them, coupled with our failure to demonstrate a reasonable training technique and provide enough help and other aids, may not have as much or more to do with it than the fear of low compensation?

The urgency of our personnel problems and our management succession problems suggests that we have a new look at the people on our own staffs. Most of us have some male employees—cashier, assistant cashiers, tellers, bookkeepers, etc.,—doing routine jobs and probably in most cases we have already decided that they are not supervisory or management material. But with the proper time spent with them and the proper aids, possibly they could partially fulfill the necessary requirements. They might even pleasantly surprise us.

Spread the Work

In any event, one thing on which we can all probably agree is that by utilizing some of these people more—even if we know, or think we know, that they aren't as good as we would like them to be—we can free management of many of the all-too-numerous time-consuming details in which it is now almost overwhelmed. We can give management a little more time to think and plan.

It is reported that President Eisenhower, soon after entering the White House, said in exasperation, "Where in the world does a man go around here to think?" No doubt many small bankers beat him to that one many years ago.

Those of us who have as many as four or five people in our banks could very well and profitably give consideration to regularly scheduled staff meetings, held on bank time and at bank expense, for the purpose of discussing our problems and what we are trying to do, how we are doing it, and why we are doing it. One hour a month, or more if it can be spared, devoted to a well-planned, intelligent discussion on matters of policy or details of operations will provide our people with much information they haven't had, encourage their interest, and certainly make the job of management easier.

I would vigorously urge the expansion and enlargement of our loan committees. For those who have no loan committee, I would suggest that the creation of one be considered. One of the best forms of such a committee is, no doubt, that which is composed of officers and directors. If this cannot be done, then a committee of officers and other loan personnel could be formed. In setting up any form of loan committee, or in expanding a presently existing committee, we should by all means not overlook the junior personnel and the outside man or farm man if we have one. If we don't have an outside man or farm man, we could very well give serious consideration to adding such a man, formally trained or not, taken from our own staff or from outside the bank.

If we don't want to make these new additions official members of our loan committees, we might arrange to let them sit in with the loan committee, and even with the Board, in order to help them gain familiarity with our business.

The fact that several people in our banks, instead of just one or two, are aware of the thinking and reasoning which went into the making of our loans, and the information obtained from a continuous review of our loans, is of inestimable value. Continuous discussions of people, policies, practices, and procedures will provide them with the necessary background to help the present lending officers and give the executives a little more badly needed time.

I realize full well that I am suggesting that we make more use of people who probably now already have a full schedule of routine duties. I also know quite well that if we should take these people away from such duties so that one, two, three, or four of them could sit in on meetings on loans or operations for four, five, or six hours each week, it would be necessary to overload the remaining personnel handling the routine, or to add some help. And I suggest that we add whatever extra help is needed to do this.

How many small bankers today are doing many things every day which could probably be done as well, and often better, by a secretary or a stenographer? What would just this extra girl mean in many of our 10,000 or 12,000 smaller banks?

Making Work Easier

Many of us could save many precious moments if we had more desks, more typewriters, more adding machines, more telephones, and many of the other operational aids. There are several types of good dictating equipment available which would save our small bankers many minutes, and even hours, and also save the time of our girls. Duplicating and photostatic equipment would save us time and enable us to do or have done many things we can't now do. A Polaroid Land camera is an inexpensive, quick way to provide some information we need for our loan committees and for our files.

We should not hesitate to buy adequate filing cabinets and locate them conveniently. These files could be more easily maintained and would be better files, and considerably less burden to management, if we had a little more help and some time-saving aids and equipment. And I am not talking about the elaborate and complete files necessary for our city counterparts, but simple folders on our borrowers and prospective borrowers, properly filed and quickly accessible, containing loan applications, credit statements, earnings statements—maybe a copy or a photostat of the borrower's income tax return made on relatively inexpensive photographing equipment—maybe a photograph of his home, parts of his farm, his crop, his cattle, his equipment, himself, his family, or anything else of interest, made with this suggested Polaroid Land camera—

memoranda and comments of some of our officers or our farm man on dictating equipment always ready to take it down, before, after or during banking hours—clippings from newspapers and take-offs from public records, and a great number of other things to make the credit job easier. Such files would also help relieve the overburdened management by making it possible for others less busy to answer credit inquiries, and make a record of who inquired and what was said. Making such a record of the inquiries received will often prove quite helpful in reviewing a borrower's present loans and prospective new loans, and will give us a little better idea of other credit he may be obtaining elsewhere. And think of how much easier this job will be for the men who follow us—how much easier it will be for the good young prospect or prospects we are trying to attract for the purpose of training for succession.

We receive, almost daily, numerous periodicals and a great number of studies, surveys, booklets, pamphlets, and other helpful information from the A.B.A., our own state associations, and various other sources. Much of this material we never find time to read or use. When we want it, we can't find it. In addition to finding more time to read and use it ourselves, we could very profitably give more encouragement to others in our banks to explore it.

In the American Institute of Banking, we have available to us one of the greatest educational programs found anywhere in the world, with its many fine courses on practically all banking subjects, available at low cost through chapters, study groups, or correspondence. The Institute can and will help us in improving our present personnel and in more rapidly educating and training the personnel we hope to obtain and must obtain in the future.

We have our Graduate School of Banking at Rutgers, the Central States School of Banking, The Banking School of the South, and a number of other good schools. We have innumerable conferences, clinics, and meetings arranged by the A.B.A. and our own state associations, as well as other banking groups—all providing the means of helping our people in banking.

The Agricultural Commission and the Country Bank Operations Commission have developed a wealth of valuable material which could be extremely useful in improving this environment we have been discussing.

There has been considerable improvement in salaries paid by country banks and by all banks but, of course, we know that this improvement must continue.

We have made progress in supplying fringe benefits and this improvement in life insurance and pension benefits, profit sharing, sick leave and vacation allowances, and other benefits must be continued.

What I have been trying to say this morning is just this:

That we do have a personnel problem in smaller banks.

That the real meat of the problem is the necessity of creating within our banks a better environment in which the greatest handicap we have —the lack of time to do things and to think and plan—can be materially lessened or eliminated.

That we can make great strides in creating this environment by using more effectively the people we have, by hiring more people, by supplying ourselves with all of the equipment and other aids we can buy that will further that end, and by doing everything possible to improve our salary programs and expand our fringe benefits.

That we can, by so creating this better environment, prolong the longevity of the present bankers and make the jobs more pleasant and attractive to those now holding them and to those people we seek to attract to banking.

And that these things will cost money but that such money spent is indeed a capital expenditure and will quickly provide a return, in addition to providing us with a valuable capital asset in the way of personnel.

Additional Cost Warranted

I know, as we all know, that banks have stockholders and that banks must pay dividends and increase capital structures. Many of us are afraid to increase our expenses in such a manner because we fear that earnings will drop and leave us in difficulty. We are also afraid we might become overloaded with personnel—and possibly the wrong kind of personnel.

Many of us have been afraid of just this kind of thing for the past 10 or 15 years. Are our earnings really so low that we can't afford to try this? If so, just when do we think they are going to be sufficiently better that we may do something of this sort?

I fear far more our inability to handle and service our loans properly, to meet the everchanging operational problems and conditions, and to provide the proper leadership for our business and profession, than I do our inability to make the necessary expense adjustments if the need should arise.

Small banking is and can afford to be a desirable business or profession and it must and will find the means to continue to hold and increasingly attract good men and women.

I have faith that we can sell our stockholders and directors on the wisdom of increasing expense accounts now for these purposes, as an investment in the future, and I have equal faith that such increases will pay a handsome return.

Certainly I realize that this group meeting here is made up of men with widely varying degrees of responsibility and authority within the banks represented, ranging from the chairman of the board of the biggest bank in the world to the recently employed farm representative.

I believe that all of you do or will, consciously or unconsciously, influence to a great extent the shaping of policies and practices within your banks. Some of you will make those policies, some will influence senior officers who do, and some of you will influence your Boards. If I have been able this morning to encourage your interest in improving the environment within our small banks, I shall be very happy.

Bank Loan Demand and Federal Reserve Policy

EDWARD A. WAYNE, *First Vice President*
Federal Reserve Bank of Richmond
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★

OUR STATE DEPARTMENT invited several Russians to this country to observe our recent national election. Upon returning to Russia following this experience, one of these observers published a series of articles setting forth his impressions. I have not seen his articles as they appeared in Russia, but he was quoted in one of our journals with a national circulation as having said, among other things, that millions of Americans were shareholders in corporate enterprises but that this was a device to make them subservient to the corporations and thus to maintain a monopolistic control of our economy. He went on to say that millions of Americans owned automobiles—which is true—that most of them were in debt as a result of buying the automobiles—which is also true—and, what I am sure must come as a surprise to most of us, that this was a device to chain us to our jobs, to make us slaves to the wicked capitalists. He noted further that the vast American credit system was so iniquitous that only 55 percent of the eligible voters went to the polls. Somewhere around that last curve he lost me. I will agree that the American credit system is a vast thing, but I deny that it is iniquitous and just what it has to do with the percentage of eligible voters who cast a ballot I do not see.

While the Russian came here to observe our election, his eyes were obviously opened to other aspects of this great nation. I cannot agree with the interpretations he apparently placed upon the things he observed, but what he really saw was that the American credit system serves all the people; as Jimmy Durante says, "Everybody's trying to get into the act!" and I might add, most have succeeded. If the American credit sytsem has made all of us slaves, it is certainly a very popular form of slavery, as the lines of prospective borrowers at your desks testify.

It has a second unusual aspect for a form of slavery: the slaves make the decisions that control the system. Ours is a market economy, and it is through the market that Americans express their wishes as to the uses to which our resources are to be put. Great as is our productive capacity, it is not unlimited, and choices must be made as to which of competing possible products will in fact be produced. The textbooks call this the allocation of scarce resources; we might just as well, adopting the Russian's terminology, call it the dictatorship of the slaves.

Credit Has a Price

Credit plays an important role in the market economy. Just as the existence of markets allows the buyer to express his preferences among products, so the existence of credit allows him to express his preference as to the time at which he acquires a given product. Further, since credit is a "scarce resource" in many senses, it too is made available through market processes in which price is an important allocating device, although not the only one.

Our market economy has been part and parcel of the greatest economic and social progress in history. Yet, I must not leave it without mentioning some of its associated features. One is inherent in the process of free choice: if individuals are free to determine their order of preferences, inevitably there will be irreconcilable conflicts. Consider, for example, the conflicting desires of two young men courting the same girl. Disappointments of a similar sort are in store for would-be sellers who want more than the market price for their product and for would-be buyers who attempt to buy for less than the going price. Finally, in particular markets all kinds of defects come to mind: the dominance of a large buyer or seller, the lack of adequate communications among various sectors of a market, intervention in markets by governments, and such like.

These limitations notwithstanding, this country has embraced the market form of economy, and it is within this framework that our banks and other credit institutions operate. As a people, we may have occasionally by-passed the market for what seemed to be justifiable purposes. Each time that we have done so, we have weakened the voice of the consumer in determining the allocation of resources.

Reasons for Borrowing Vary

During the 38 years I have been actively connected with banking, I have witnessed the extension of this credit system of ours to all levels of our people. When I entered banking, bank loans were largely limited to business borrowers. Mortgage loans were suspect in commercial banks and generally believed to find their proper place only in savings banks and insurance companies. Consumer loans violated, of course, the fundamental concept of "bank credit for productive purposes." The broadening of the bank loan portfolio has unquestionably contributed to the spectacular growth of America but has brought with it some problems. As Americans discover the usefulness of credit, they wish to enjoy it in unlimited quantities. If some credit is good, why isn't more credit better and "most" credit best? Why do people borrow money? Time does not permit even enumerating all the reasons why people borrow money; much less do we have time for an adequate discussion of these reasons. Let me emphasize that what follows is an oversimplified statement of the case, but in simplified form the reasons for borrowing might be summarized as follows.

Individuals borrow to satisfy consumption needs or desires: To own a home; to have an automobile (or perhaps two automobiles); to purchase major appliances which reduce the drudgery of labor and add to the comforts and enjoyment of living; and to meet emergency needs. Business borrows to supplement equity capital, to enlarge its field of operations, and to maintain or increase profits. Government borrows in response to public demand for increased services which benefit society at large, to defend the nation against aggressors, to protect the public health, to educate our children, to meet essential transportation needs, and so forth.

Supporting all of this borrowing, public and private, is tomorrow's income—salaries and wages in the case of individuals, sales and profits in the case of business, taxes and other charges in the case of Government. In the main (there are exceptions), if borrowers lack confidence in what tomorrow will bring, the demand for credit slackens. The past decade has shown that if Americans have one thing in common, it is confidence in tomorrow. This confidence has brought a terrific increase in bank loan demand which has pressed heavier and heavier upon the available supply resulting in tighter and tighter credit conditions.

The Federal Reserve System

If banks served only as reservoirs where savings and only savings were relied upon to supply the demand, our tale would be told. But that is not the case, and millions of Americans know it. The supply can be increased almost ad infinitum by the central bank—the Federal Reserve System—and the commercial banks, which together constitute our banking system. Over a period covering 140 years of its life as a nation, the United States tried and found wanting an economic organization based upon a relatively inelastic money supply. A little over 40 years ago, the Congress established the Federal Reserve System to provide the needed elasticity within the monetary system. As the economy has developed over the past four decades, so the Federal Reserve System has evolved, and the manner and conditions of providing credit elasticity have become much more significant than the mechanism by which it is done.

What has not changed, however, is the fact that the Federal Reserve System operates a market mechanism to influence—not to control—a market economy. While the System stands at the fountainhead of the credit structure through its power to create bank reserves, its credit policies operate at the economic margins within the economy . . . the points at which the choices are influenced by the ease and the price at which funds may be obtained.

Just how effective Federal Reserve policy may be is the subject of controversy. Our experience with our present money and credit system is relatively short—just a little over 40 years but what we generally think of as two generations. The past 10 years have witnessed a dramatic reversal in our reliance upon the effectiveness of Federal Reserve policy. From allegations of impotence we have come in a complete about-face to implications of omnipotence. Neither evaluation is correct. The truth lies somewhere in between.

For our purposes it will be sufficient to assume that actions by the central bank exert some influence throughout our economy. The significance of this influence for the operation of the economy is a subject of debate, but it seems a fact that it impinges with varying force on different types of activity, depending upon the type of credit employed and its importance to the operation.

Banking Caught in the Middle

There are those who believe that some device or devices should be developed to insulate certain segments of credit demand from restrictive influences applied because of apparent excessive reliance upon credit by other segments. Specifically, there are those who have said that local governments, faced with terrific pressures from a growing school-age population, should not be called upon to pay the prevailing price for long-term money fixed in the market place. Others, whose direct interest is in residential construction, deplore the scarcity of funds available for home mortgage loans because the market forces have offered more attractive outlets for investment elsewhere. Yet others cry that "small business" is being crucified by the tight money policy. Spokesmen for agriculture have not been silent. We could name others, but the point for our discussion today is that you and I as representatives of the two principal components of our banking system, you from the commercial banks and I from the central bank, find ourselves caught in the middle of this lively and potentially explosive controversy. And the commercial banks themselves frequently feel that they are being imposed upon by the very system itself because they are unable to meet the full demand for credit and, looking about them, they see competing financial institutions growing by leaps and bounds.

The truth is that none of us likes the discipline which, in the abstract, we acknowledge as essential to the maintenance of our competitive enterprise system. The known alternatives are certainly unattractive. On the one hand, unrestrained expansion of the money supply with the idea of meeting every credit demand, regardless of subsequent effect upon our measures of value, may well lead to runaway inflation which could easily destroy the whole fabric of our society. On the other hand, abandonment of the principle of the market place as the accepted method of allocating available resources and substituting some system of allocation, based upon an overall plan assigning to various segments relative degrees of socially desirable priorities, may well lead to the socialist state. Federal Reserve policy is directed toward the maintenance of our present system with the minimum of interference with market forces. The Federal Reserve System has no desire to substitute its judgment for the collective judgment of the market places of this great nation. It has no desire to restrict in any way sustainable growth in our economy. On the contrary, it understands its reasons for existence to be exactly the opposite.

Credit Demands in Competition

What, then, has all of this to do with the central theme of our conference here in St. Louis? We are concerned here with the outlook for American agriculture and the part which our banking system will be called upon to play in maintaining the health of our farm economy. Well, it has this to do with it. Agricultural credit demands must compete with other credit demands in the market places throughout the country. Your own particular farmer-customers find themselves in competition with your local businessmen, your local consumers, and your local home owners for the flow of credit which your bank finds itself able to supply. Just as most of you have found demand outrunning your supply of funds, so the banking system finds itself in the same position. And the central bank, while supplying limited amounts of reserves to the banking system, has not supplied all the reserves the market would have liked to have.

Even so, some commodity prices have shown upward tendencies, perhaps partly because of wage increases at a rate in excess of increases in productivity and partly because of an insatiable demand pressing against a limited supply. To have added further to these pressures by rapid increase in bank credit might have been disastrous.

As we look at current and prospective demand for loans in the months ahead, most indications—and we can see into the future only dimly—suggest continued strong demand. Certainly the very important automobile business is hoping for a strong year in 1957, which will entail increases in consumer credit; certainly business and industry are planning substantially greater capital outlays during 1957 and apparently will seek to finance a portion through the banks; clearly state and local governments are going to be in the market for additional funds during 1957. I see no reason to exclude agriculture from this strong demand picture. All of these add up, it seems to me, to steady and increasing pressure on the banking system to expand credit.

No Reversal of Policy Anticipated Under Present Pressures

As long as our economy rolls along with little or no "slack" in terms of plant or people—and such a condition is the avowed objective of us all—unwarranted injections of additional credit will serve only to dilute real income and defeat us in the realization of our basic objective, which is higher living standards for all the people. While I certainly am in no position to predict the course of action which will be followed by the Federal Reserve—I could not if I would and I would not if I could—certain assumptions seem entirely reasonable to me. As long as the present pressures continue, there is no clear reason to anticipate any dramatic reversal of policy.

Perhaps at this point I should close without saying anything further. However, I cannot resist the temptation to add one further thought which may sound a bit like sermonizing. If it strikes you that way, I apologize. I spoke of our being caught in the middle of controversy, you and I. This is but natural, for we stand at the focal point of the economy's self-discipline process. We, as a people, adopted a central banking system with the intent that it provide enough—but not too much—elasticity to our money supply. The fact that "enough" is sometimes not as much as would-be borrowers would like brings pressure upon us. You can, of course, blame the Fed or the examiners or your competition or politicians as the cause of your refusal of loan requests. But—and here's the point—you, as the lending officers of our leading commercial banks, should be better informed than your customers concerning the long-run implications of self-discipline for the economy, and you should be prepared to explain to your customers the basic principles underlying credit availability and cost. It's easy to "get the cat off your back" by blaming some one else, but it's more constructive to have our fellow Americans understand better the way in which our economy operates to produce an ever increasing return to us all.

What's Ahead for '57?

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A YEAR AGO in discussing what is ahead for 1956, I summarized not so much what I thought, but what our people in the Department of Agriculture and the land-grant colleges had worked out preceding last year's meeting. At that time I indicated that, on the whole, assuming no new government legislation, that net realized income of the farm operators in 1956 might be slightly under, perhaps as much as 5 percent, under that of 1955. We now have a fairly good statistical reason to believe that that particular statement was wrong in its last detail because, for the first three quarters of this year, our farmers' net realized income has run 2 or 3 percent above that of a year ago. If it weren't for the Soil Bank, which was new legislation, net farm realized income would be about the same as last year.

The story I am going to give here is all based on a series of statements that everything will be a little different from last year. Mostly a little better, but this mark-up, although small, still adds up to a forecasted increase in farmers' net realized income for 1957 of about 5 percent over 1956.

When we discuss agricultural outlooks you can't stand up and make a series of flat forecasts. I don't think it helps farmers or bankers or the farm prices or the people who do it. What we are really trying to do is see what the facts are that work in the particular field in which you are interested and try to get some idea of the situation we are now in and what it may be leading to. I am then going to say a few things about particular commodities.

Now, I want to use some 12 or 13 slides. The first one (see chart 1) is our old familiar chart comparing the average index of prices received by farmers in the United States from 1914 to date with prices paid by farmers. You will note the rapid rise in the prices received by farmers during World War I, and I especially call your attention to the fact that, from June 1920 to the spring and summer of 1921, prices received by

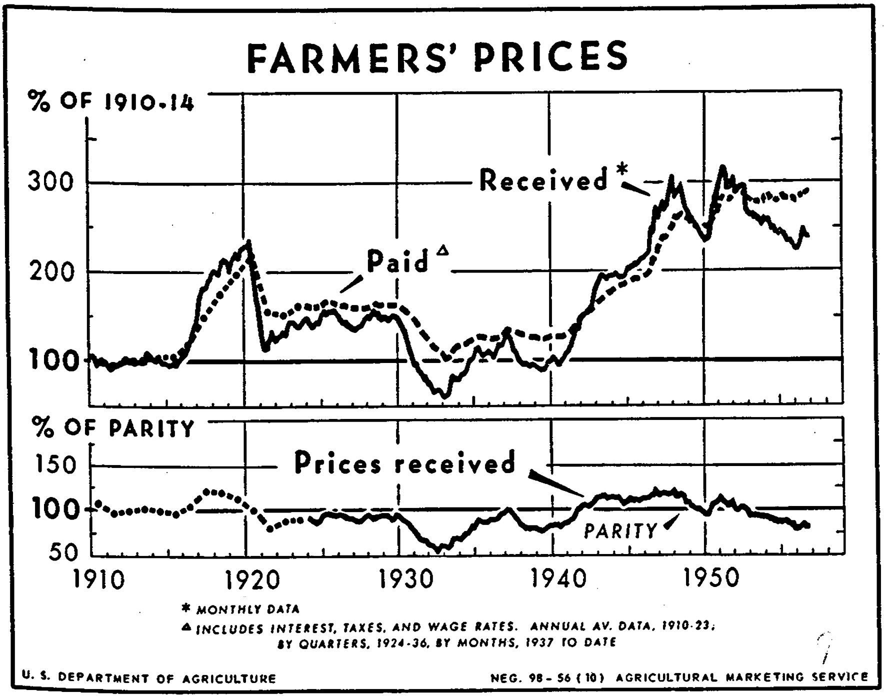

Chart 1

farmers fell a little better than 50 percent in a 12-month period. This, and some other experiences, has pretty well convinced the farm analyst that whatever goes up must come down. When we moved into World War II, prices began to move up again reaching a peak, in January 1947, of a little better than 300 percent of 1914, which was 300 percent over 1935-1939. Most of the postwar farm planners were convinced that as the food crisis brought on by the war subsided there would be an adjustment in farm prices. From January 1947 to December 1949—a period of 24 months—farm prices fell 24 percent. This time the decline over a two-year period was only half of what it had been following World War I. During the five years following Korea, farm prices came down while prices paid by farmers held somewhat constant. As a matter of fact, prices paid by farmers are now within one or two points of their postwar peak; whereas the prices paid to farmers have come down, roughly, 25 percent. The movement of prices received by farmers and of prices paid by farmers is at the heart of the cost-price squeeze we have talked about the last three or four years. Since last December, farm prices have improved, and in November of this year farm prices averaged 4 percent over a year ago.

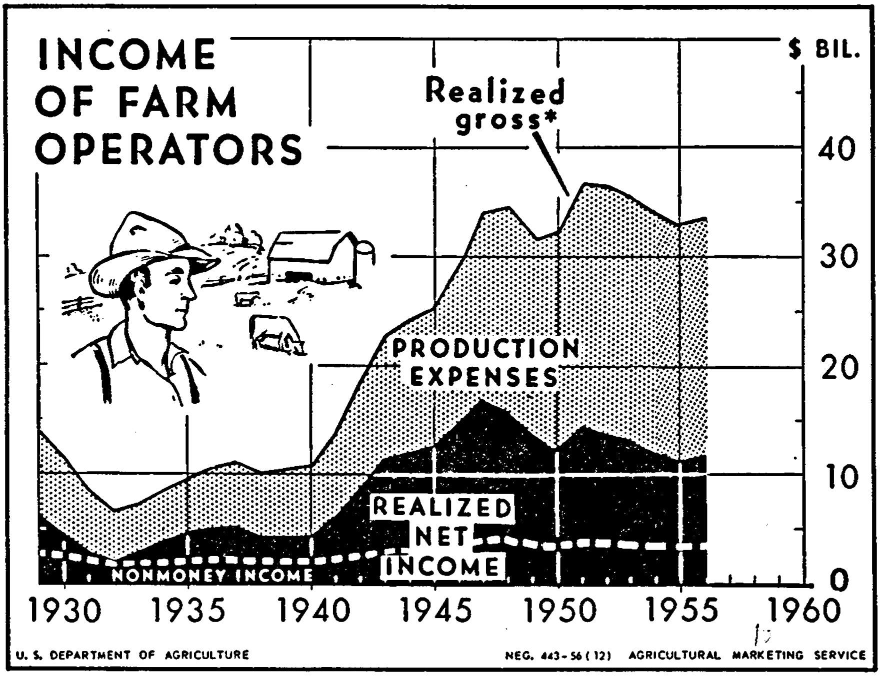

Chart 2

This is generally accepted as being a very hopeful sign on the agricultural front.

Let us move to the chart that indicates farm income. (See chart 2.) This is the aggregate farm income for all farm operators in the United States. Most farm operators, bankers, and businessmen are interested first of all in total cash receipts to farmers, or the realized gross value of farm products. This is what farmers have to pay their production expenses from as well as their farm family living expenses. The realized gross value of farm production has been running well over $30-billion for the last several years. We take out of that the light dotted portion, the upper half, which is production expense including normal depreciation and allowances for farm machinery, and the black portion is what we have left which is realized net income of the farm operator. This means the dollars a farmer can actually lay a hand on during the year without allowance for changes in inventory or crops or livestock which he may hold on the farm. This price and income chart gives you some idea of the kind of aggregate figures which are so often talked about in newspaper articles and speeches at the national level.

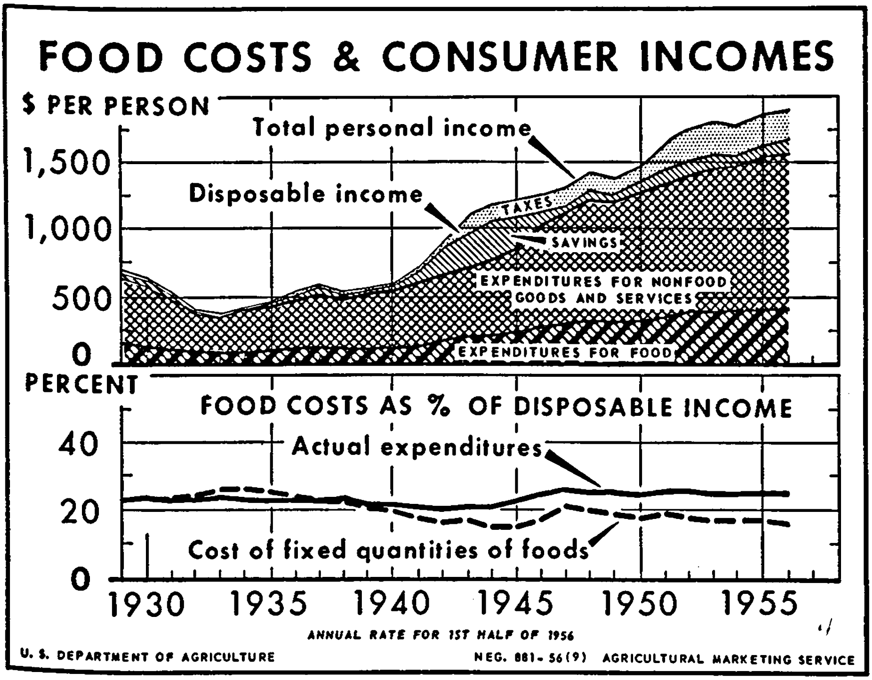

Chart 3

What I want to do now is look at the structure and demand for American farm products. (See chart 3.) We consume 90 percent of the farm products produced in the United States. The most heavy stream of demand for American farm products is the demand of the average American consumer. In the '30's, the average per capita flow of dollar income in the United States for consumers for several years was something less than $500 a year. As our defense and war structure was built up, we decided upon income tax. It was a very difficult thing to do, so we began to deduct income tax at source for a great many people. The first part on this chart is the automatic take-out for income taxes and what is left we call disposal consumer income. Today, you will note, after taking out for income taxes, the average American consumer has well over $1500 in dollar income flowing to him. This is for every man, woman, and child in the United States. It is this upward trend in average per capita income for consumers which has done so much to hold up the market and allow American farmers to sell greatly increased volume year after year. It is this increase in consumer income which accounts in an indirect way for the cause-and-effects process for some of the increase in the farmers' income this year and the possibility for increase next year. These are in terms of actual dollars, and I am aware that the cost of living index is about double what it was in the '30's. This means the actual consumer's income, in terms of a standard of living, hasn't increased three times, but the ordinary consumer is living about 50 percent better now than he was in 1935-1939, and much of that has gone into food. In trying to predict what is ahead for 1957, we shall have to forecast first the consumer income figure in 1957. Most business analysts feel that consumer income during the coming year will be as high or higher than it was in 1956.

We are all agreed that we shall have another round of wage increases this coming spring. Unemployment is practically at a record low in a non-war economy. This indicates there is enough momentum in the country to protect the farmer for at least the next several months.

During the last year the automobile industry hasn't been too prosperous, but we now have another new series of products and we expect high automobile sales for the next six months.

A disappointing feature in the American economy has been private residential construction. It is a fact that private residential construction is still proceeding at an annual rate of a million starts a month. The forecast is generally made that we shall do as well next year as this year in spite of the higher construction costs. In the case of government purchases of goods and services, the increase was practically all for roads and other state and public services. As far as defense and the question of whether we will be able to maintain the troubled peace or not, we will generally assume we are moving toward a more peaceful world and the expense will be the same for next year as this year.

When you try to break down and analyze where we are going, you will come to the conclusion that the flow of income and expenditures during the coming year will be as strong as it was the first three quarters of this year and probably higher for the next calendar year. This means that the consumers, who take about 90 percent of all of the farm goods, will continue to have a high-level demand for the year ahead. This is only a part of a consumption picture.

Let us look at the next chart. (See chart 4.) For the average dollar spent at retail for food today, about 60 percent goes for non-farm goods and services associated with the transporting and selling of the product. Only about 40 percent of the retail price goes back to the farmer himself.

A new round of wage increases each year is an accepted fact. The cost of handling farm products to the retail consumer has been going up and

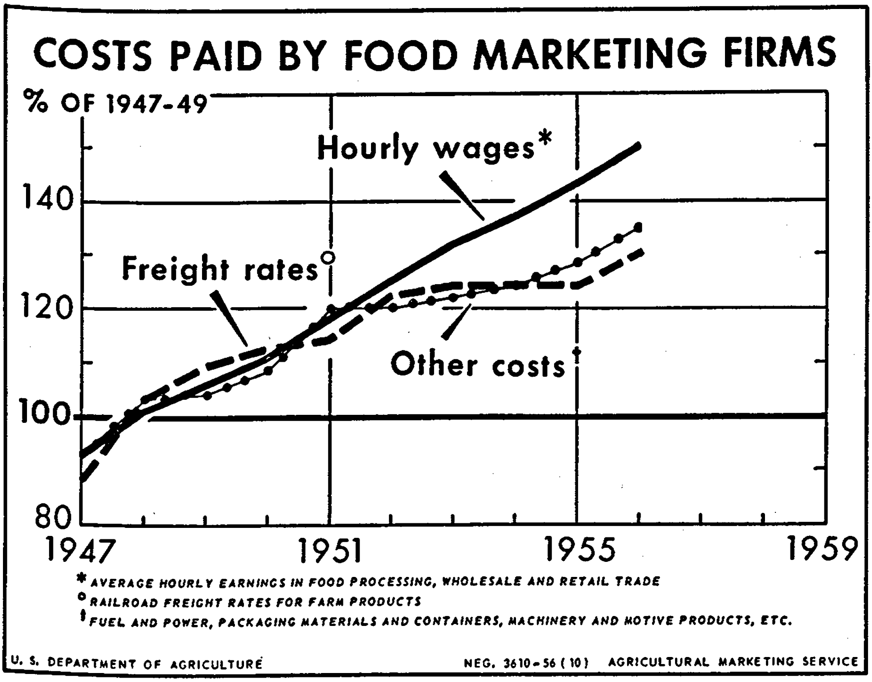

Chart 4

will probably do so again next year. The chart simply measures what has been happening to freight rates and handling costs and other miscellaneous costs in the food marketing field from 1947 to date. The cost of marketing food isn't going down next year. This rather inflexible cost structure between the consumer and the retailer will probably continue.

Let us look at foreign demand now. (See chart 5.) It is true that we export only 8 to 10 percent of our farm products, but this becomes extremely important when you take into account the fact that these are the marginal 8 to 10 percent of our farm products which our consumers aren't likely to take. This 8 to 10 percent of farm production is very heavily concentrated so that we usually export one-third of our wheat, rice, cotton, and citrus fruit. This export market can be extremely important to farmers generally and the farmer producing the export crops. In the fiscal year 1953, farm exports fell off about 25 percent in value and in volume. In 1951-52, the total value of the farm products shipped out was $4-billion, and the next year it dropped to $2.8-billion. We have been slowly building up the value of farm exports representing

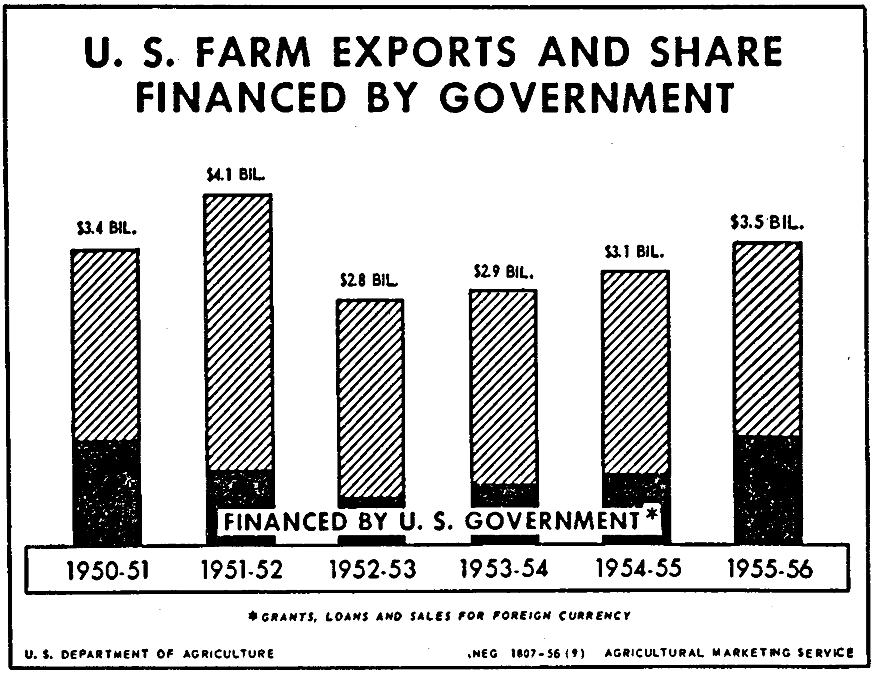

Chart 5

$3.5-billion in the fiscal year ending July 1956. We have an analysis and forecast that, in the fiscal year ending June 30, 1957, the value of the farm exports will once again be approximately $4-billion.

The black portion of these bars is the proportion of the farm production which is, by one means or another, financed and backed by the United States Government. This is through our foreign aid program and export subsidies and other deals under Public Law 480. The reason we expect $4-billion in exports this year is because Public Law 480 is now in operation, and the black portion is expected to show another substantial increase. Public Law 480 authorizes foreign currency deals in farm products up to $3-billion, and it is due to expire June 30, 1957. None of us is in a position to forecast whether or not it will be extended, as it will be a question before the next session of Congress.

I want to spend some time pointing out the kind of reserves we have built up from government action during the last several years. The Commodity Credit Corporation has no operating staff, no building, and no authority to authorize credit or to authorize other agencies to make loans. We came out of World War II with a CCC credit authorization of

COMMODITY CREDIT CORPORATION
COMPARISON OF OUTSTANDING BORROWINGS, AND OBLIGATIONS TO PURCHASE LOANS HELD BY LENDING AGENCIES, WITH BORROWING AUTHORITY, BY QUARTERS, JUNE 1947 TO DATE

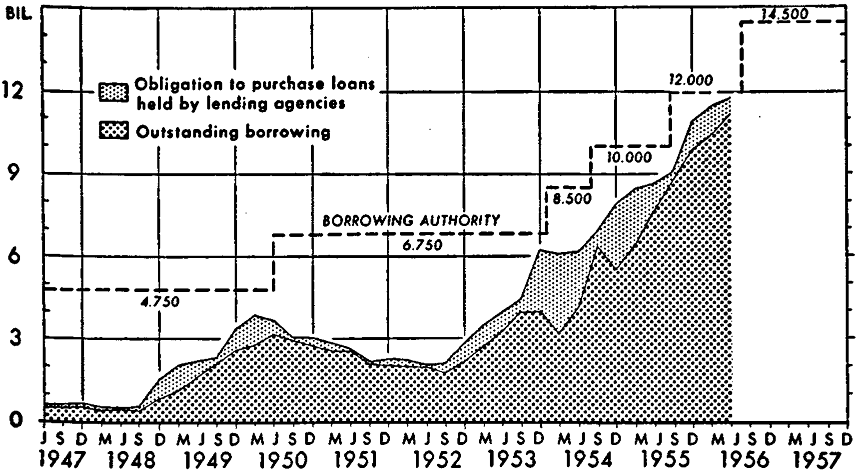

Chart 6

$4-billion, 750 million. (See chart 6.) This was the line of credit that the Secretary of Agriculture was to use to support prices and help stabilize them during the postwar period. The line at the top shows the increases made since. Before Congress adjourned this year, it authorized a $14.5-billion borrowing authority which the Corporation now has available to support agricultural products and deal in agricultural commodities. The cross-hatched section at the bottom shows how the obligations of the Commodity Credit Corporation have been growing over the years. And we currently have something better than $8-billion outstanding either in commodities which the Corporation owns, or loans to farmers which the Corporation, for all practical effects, guarantees.

To show you the physical relation behind this Commodity Credit Corporation operation, let us look at the next chart. (See chart 7.) This simply describes what has been happening to our carry-over stock of old crops. Wheat, cotton, and corn represent over 90 percent of the $8-billion worth of commodities owned or on loan to the Commodity Credit Corporation. In the case of wheat, in 1952 we had 250-million bushels and this has built up to where we now have practically 1-billion, 30-million bushels as estimated on June 30 of this year, and the tentative estimate of June 1957 indicates some decrease in stock. In cotton, on August 1,

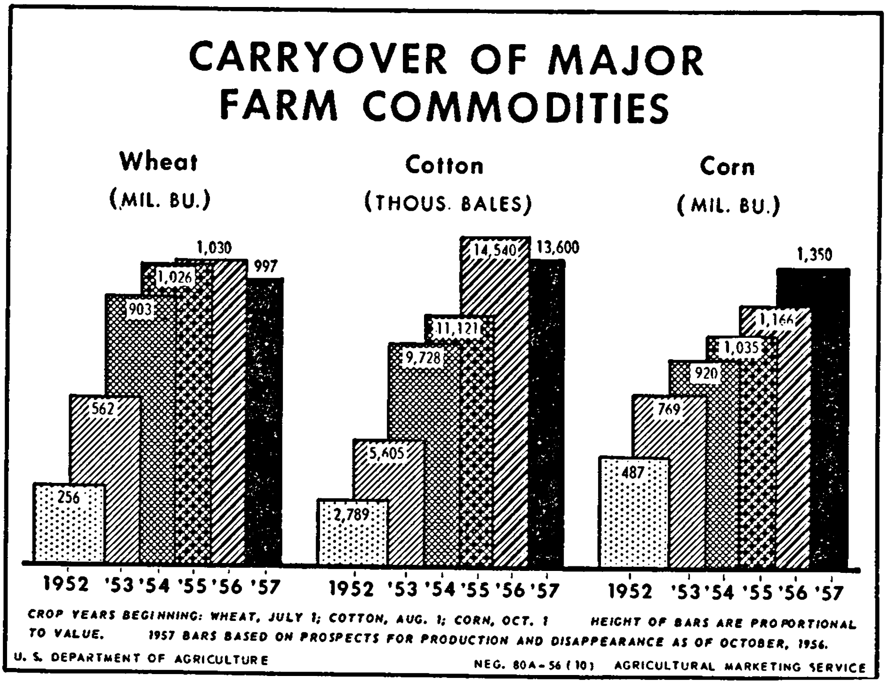

Chart 7

1952, we had 2-million, 789-thousand bales. The Commodity Credit Corporation was carrying 14-million, 540-thousand bales of cotton on August 1, 1956, with the indication that these might come down by August 1, 1957. Corn inventories totaled 4-million, 80-thousand bushels back in the fall of 1952, and 1-billion, 166-million bushels of old corn this fall, which is substantially more than we need. An increase of stocks is anticipated next fall.

In addition, of course, to the Commodity Credit Corporation holding stocks we have tried to create a situation or a kind of a market which will keep these stocks from being produced, and the first mechanism to be thrown into gear is the acreage allotment and quota provisions which ask farmers to reduce substantially their acreage of these crops, especially wheat and corn.

What has happened to the acreage of our crops? (See chart 8.) Wheat has been reduced 17.4-million; cotton 5-million; and corn, almost 3-million acres. We have taken acres out of these cash crops and built up the acreage of oats, barley, and soybeans.

The shift from the basic crops to the non-basic crops, especially soybeans

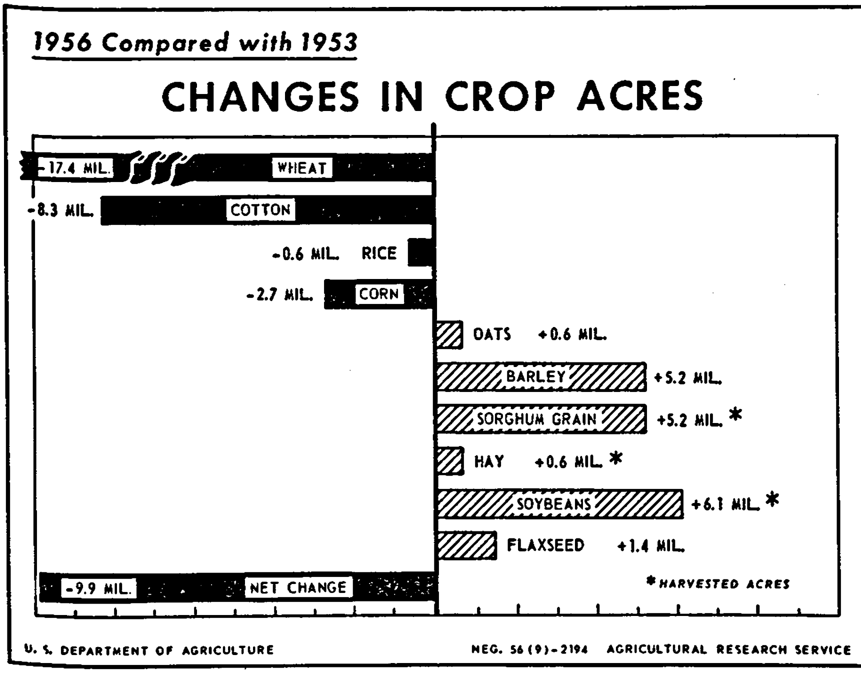

Chart 8

and other feed grains such as barley and sorghum, has led to the creation of a new kind of governmental program which we call the Soil Bank. One of the things to consider in judging the agricultural outlook, not only for next year, but the next two or three years ahead, is how successful the Soil Bank will be in taking acres out of production instead of encouraging the production of the non-basic crops.

So far these charts and tables have dealt pretty much with the short-term situation we find in 1956 and 1957. The next ones deal with the longer-term trends now under way. One of those is the trend in eating habits of the American public. (See chart 9.) This chart shows the trends of average per-capita consumption of the six main crops of farm production from 1910 to date, and we have drawn those trends through and projected them to 1975. That doesn't mean they will continue to 1975, but it means if they do continue, it is the kind of trend they do create. In the case of fruits and vegetables, we have had a fairly steady up-climb until recently—especially in the consumption of citrus fruit and leafy vegetables that physicians recommend. As for dairy products, even after allowing for butter, we have had a very slow uptrend. The downtrend

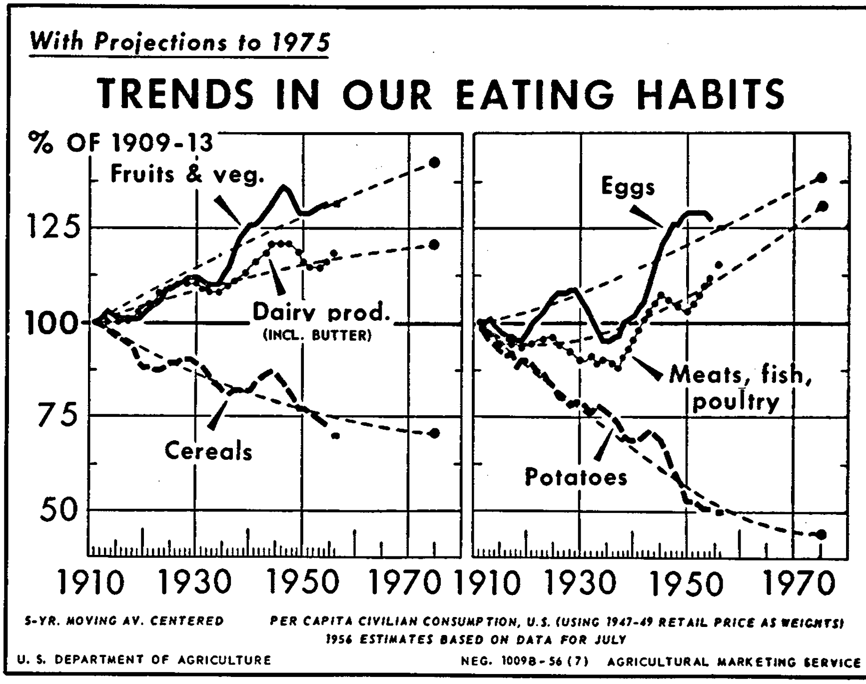

Chart 9

in butter consumption started dairy consumption down in the last two years. But it has now started up again. In the case of cereals and potatoes, with the shift toward a high-quality diet, there has been a long and continued downtrend. In the case of eggs, we have had a rather irregular but gradual uptrend in their consumption. The per-capita consumption of meat, including fish and poultry, was trending slowly but gradually down from 1910 to about 1940. Since 1940, we have had a steady and, in fact, considering the cost, a very spectacular rise in the consumption of meat and poultry. So much so that a great many people feel that American agriculture depends on animal agriculture. One of the interesting speculations is how far this trend toward the consumption of meats will continue and when we will reach the saturation point for consumption of turkeys and broilers, especially. Another speculation is whether the American public will eat as much meat as they have the last several years and what is happening to the demand for pork.

The next chart simply tells you what has been happening to the ratio between farm and non-farm population. (See chart 10.) We have had a steady uptrend in American population, gaining speed since the advent

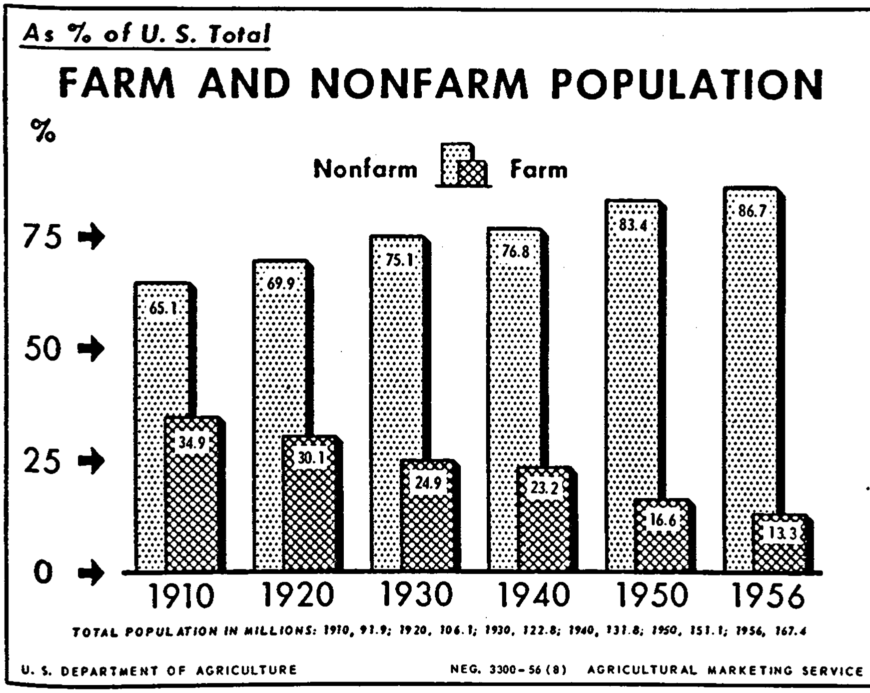

Chart 10

of World War II, and a steady downtrend in the American farm population, gaining speed during World War II. We have more people in the United States and fewer and fewer farmers, with a result that, today, only 13.2 percent of our population are farm people.

How do you feed more and more people with less and less people doing the farming? Look at the next chart. (See chart 11.) This shows what is happening to technology on the American farms. It analyzes the per-unit requirements for farm products in the United States. You will note, first of all, that planted acreage, in other words, acres of farm land per unit of farm production, has been trending almost steadily downward from 1935 to date at a fairly fast rate. Which is another way of saying that, without increasing the land in cultivation, we are steadily increasing our output. The lowest line is farm labor per unit of farm output which has been going down faster than the land requirements. We have substituted chemicals, machinery, and know-how for land and labor. In the use of chemicals, including fertilizers and sprays, and improved seeds in terms of acreage per unit of production, you will note

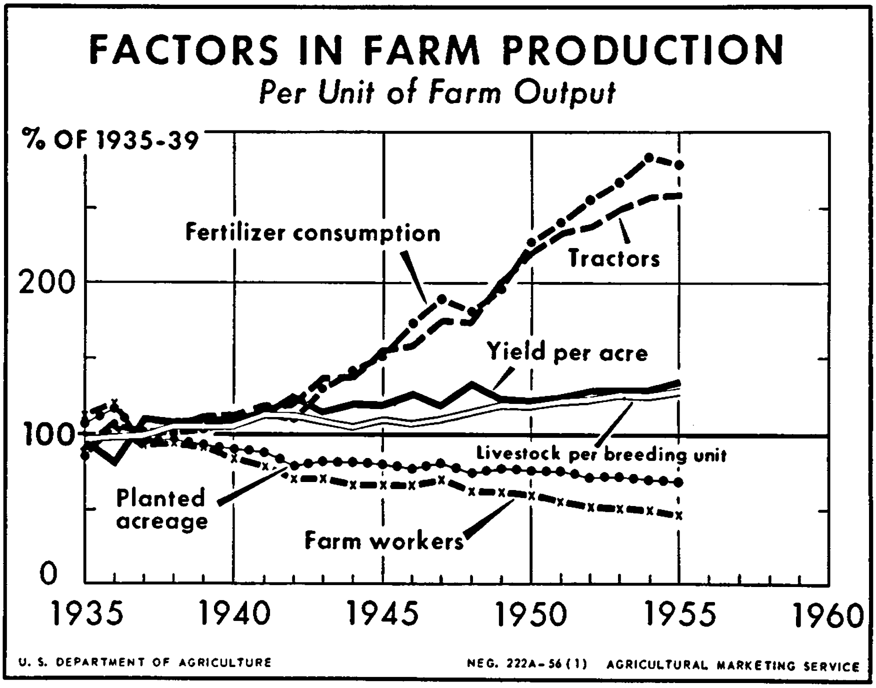

Chart 11

a steady increase. We substitute chemicals, improved biological methods, and machinery for land and labor, which gives you the center line. Both are running about one-third over what they were 20 years ago.

I started by showing a chart comparing prices received and prices paid by farmers and said there was a relationship between these two which brings us into this price squeeze we talk so much about. That is due to improved technology and improved volume of production and affects the number of people leaving the farm. The last chart (see chart 12) comes back to the theme that what you are dealing with when you discuss the agricultural situation from 1910 to 1956 is the trend in population in the United States. This is the largest single factor in our farm picture. And the thing I want to leave with you here is the fact that the United States is still a relatively young nation. Our population is still growing and our standard of living per person is increasing and the agricultural output per person is increasing. We are living in an expanding economy. Our problem is not how to cut down on agricultural products. It is how to slow it down until the increased demand will catch up with us. The difference

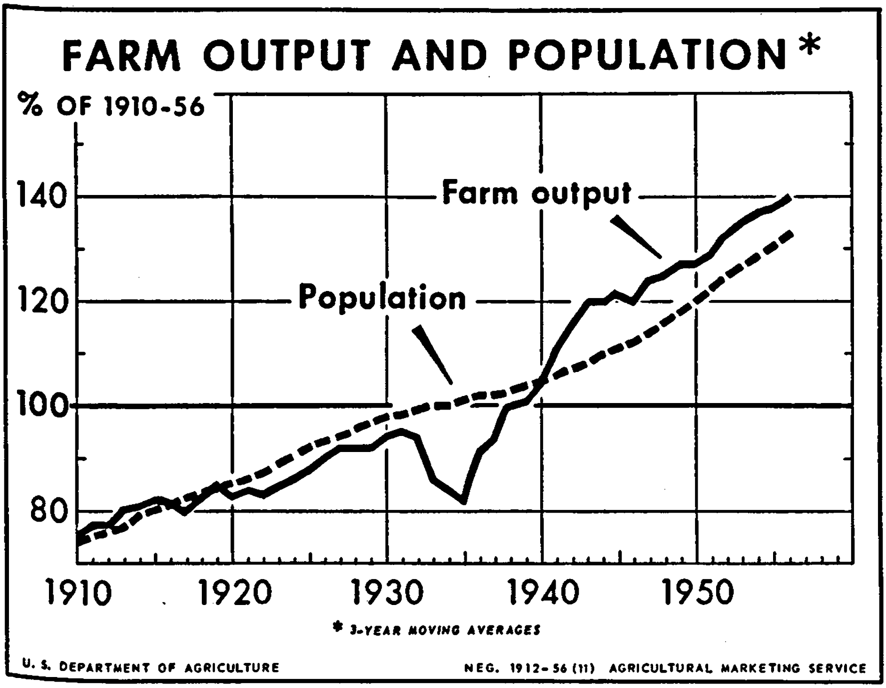

Chart 12

between surplus and scarcity in the United States is much narrower than most of us believe.

Beef Cattle

Now, a few words about different commodity situations. Starting off with beef cattle, we had in the United States about 97.5-million head of beef cattle, which was an all-time record as of last January. As far as we can measure the calf crop and the death loss and the slaughter, the number of cattle slaughtered this year will just about equal the number of calves less death loss, so we don't expect much change in numbers on January 1 of this coming year. There are some forecasts suggesting we will have two or three pounds less beef per person in 1957 than 1956 largely because of the lighter weight, and partly because we are looking at the same number of cattle and an increase in population running 1.5 percent or more.

Hogs

In the case of hogs there is a feeling that the spring pig crop will be about the same as last spring. We expect quite a little bit less pork to be marketed per capita during the first seven, eight, or nine months of this coming year, and, perhaps, for the whole year at stronger prices than we had the first six or seven months of 1956.

Poultry

Poultry is a rather complex subject. Broiler prices currently are at a very low level, even with a rapidly expanding industry with a good technology. The people began to feel the price shift the last several weeks. Most people looking at the broiler industry expect the lower returns will cause some downward trend in production and a somewhat stronger price foundation for broilers next year over this year. There will be some new factors in the broiler situation which will make it fairly difficult to make adjustments. The turkey industry felt they were favored with a difficult lot. They had more turkeys than they had a year ago. Turkey production has been going up over the past several years. We bought about 10-million pounds of turkeys at about 24 cents a pound. Turkey prices have moved upwards, with Thanksgiving behind us, to 27 or 28 cents a pound. The people who produce the turkey eggs indicate they will keep enough turkey hens to lay 15 percent more turkey eggs than we set last year. What the turkey people will do with stronger turkey prices remains to be seen. I expect we will have as many or more turkeys next year than we had this year.

Eggs

Egg production continues to decline. We have a situation where egg prices are more now than we would have expected. We have a developing commercial egg industry which is fast accounting for more and more eggs. I should expect that the egg, the turkey, and the broiler industries are all going to be fairly steady during the coming year. These are industries that depend on the season, the individual, the market, and how efficient the producers are, but with extremely high consumer incomes I think it is safe to say the consumption of turkeys, broilers, and eggs will be higher next year than this year even at the same prices.

Fruits and Vegetables

The citrus people are benefiting from the fact that there was a severe freeze in Spain last year which means a smaller crop in Spain and a fairly favorable situation for citrus. For most of the fruits it is too early yet to make a good forecast on what the size of the crop will be. The tree number remains about the same. It should be about the same next year. Vegetables is a field which runs into a hundred different items. In the case of fresh vegetables, there is so much seasonable difference, it depends very largely on what the yields are. In the case of canned vegetables, this year the canners put up very heavy packs. This is especially true of tomato juice and canned corn, and we will have to wait to see how fast these canned crops can be moved.

Cotton

Cotton has been under acreage-allotment and quota-marketing controls for two or three years. We expect stocks to turn down during the coming year because of the great upswing in exports. Last year the cotton export fell to 2.3-million bales. This year we are selling cotton at competitive prices all over the world. The last report I saw showed that the Commodity Credit Corporation accepted bids for 6-million bales of cotton for export under its program. Cotton exports may run two or two and one-half or three times as much as the 2.3-million bales exported last year. I think we will get 6-million bales or better. Domestic consumption of cotton may be down to 9-million bales. A rather minor downswing in cotton is holding up fairly well compared with synthetics. The cotton situation looks better, although our stocks are so large and acreage allotments so tight, that what happens to cotton people is dependent on what yield they get and to what extent they participate in the Soil Bank Program. Prices will be fairly steady.

Wheat, Rice, and Soybeans

We have over 1-million bushels of wheat and we have changed our exports of wheat so that the better wheat will bring the higher prices. We think we will export 4.5-million bushels of wheat this year, which will take us back to the 4-million bushel level following the war. It promises us a little improvement in that particular field.

In rice, where it looked like we were facing the most hopeless situation in years, we have closed out some deals with India and it will probably cut the price of rice. The stocks are so low that acreage allotments will continue extremely tight.

In the case of soybeans, the last thing that I would forecast is the price of soybeans because I don't know why soybean prices change from one day to the next, but the price trend seems to be up . . . partly because the protein feed fits into our livestock situation. Soybeans are still increasing in acreage and the demand each year is somewhat better than people expect it to be at the beginning of each season.

That completes what I want to say about the agricultural outlook directly. If you want some better adjustment and betterment in the farm situation, you had better ask what the techniques are to get the better adjustments and betterments and what the chances are that these techniques will be adopted by the farmers of the United States, who, despite all these programs, still pretty well make their own decisions. One question is how to hold back farm production. This is a field in which government programs play a large part.

During the year, Congress and the Administration have tried to develop a particular technique for holding down farm production—the Soil Bank. It is designed to pull 40-million acres or more out of production and hold them out two or three years in an effort to cut down on the heavy production. The other things are those that have to do with increasing the market for farm products either by private or governmental action. During the year, Congress and the Administration have tried to evolve some new techniques of selling into foreign markets on a competitive basis. Heretofore, we held the price of cotton at the support price of 33 or 34 cents a pound. Our foreign competitors were increasing their acres of cotton and, looking at our support prices, they knew they would be able to undersell us and undersell us very easily, with the result that last year we found we had reached the point of 2.3-million bales of cotton export, whereas most people know it should be between 4- and 5-million. The decision was made this year to price American cotton competitively. In addition, the Suez crisis resulted in a very substantial movement of cotton abroad. We are one way or another trying to put other farm commodities into the foreign market on credit terms and foreign currency arrangements which will make our commodities once more competitive with those outside the United States. I thank you for your attention.

Following the presentation by O. V. Wells, a panel discussion on the Agricultural Outlook was held. The participants were:

WILLIAM E. DRENNER, *Moderator; Vice President,* The First National Bank, Memphis, Tennessee

JAMES R. AUSTIN, *Farm Relations Officer,* The Peoples Bank, Roxboro, North Carolina

J. HAROLD HARRIS, *President,* First National Bank, Wynne, Arkansas

JOHN W. SCOTT, *President,* Valley Bank of Grand Forks, Grand Forks, North Dakota

DR. TYRUS R. TIMM, *Head,* Department of Agricultural Economics and Sociology, Texas A. and M. College, College Station, Texas

Agricultural Credit by Correspondent Banking

WILLIAM A. McDONNELL, *President*
The First National Bank
St. Louis, Missouri

J. W. BELLAMY, JR., *President*
National Bank of Commerce
Pine Bluff, Arkansas

HARRY S. LEKWA, *President*
Ackley State Bank
Ackley, Iowa

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MR. McDONNELL: First of all, I would like to make it clear that I make no claim to being an expert in the field of agriculture or agricultural credits. It is true that I was born in a small town in an agricultural state not very far from fields of cotton, but I never had the privilege of living on a farm. I say privilege because I think that anyone who had the experience is fortunate. I did drive a tractor for a while during my youth but it had a French "155" Howitzer hooked on behind it. Furthermore, my banking experience, in recent years at least, has not been very close to the field of agricultural credits.

In short, I wonder why I am here on this panel with these two experts, and I am afraid that before I am through my modest contribution may remind you of the colored preacher from Chicago who was invited down to preach to an African Methodist church in a drouth-stricken area of the South. He was asked by the regular parson to open the service with a prayer for rain. He proceeded to pray loud and long. Before the service ended it started raining and it rained for three days, drowning out what little crops the farmers did have. One of the deacons of the church, in commenting afterward on what had happened, said, "That's what you get when you ask somebody to pray for rain who doesn't know a damn thing about agriculture."

Well, I don't know much about agriculture but I do know a little something about correspondent banking. And as a springboard for what I have to say, I would like to give you my conception of what it means. In my opinion, correspondent banking is the most distinctive feature of the American system of banking, and if we are to preserve the independence of the system and prevent its socialization, we must preserve and enlarge this working together of large and small banks.

Correspondent banking when working at its best brings to the main streets of banking the credit facilities and technical knowledge of the metropolitan bank and provides efficient and flexible banking services for rural districts as well as city areas. In short, it provides all the advantages of a nationwide branch banking system without the dangers of centralization inherent in such a system.

By voluntary cooperation we achieve that efficiency for the system as a whole which is attained under the more highly centralized and socialized systems of other countries either by legislative act or executive order. Every bank, large, medium, or small, has a tremendous stake in preserving and enlarging correspondent banking—this tie that binds banks together—this voluntary force which gives cohesion to the independent units making up our banking system.

Correspondent Banking a Two-Way Street

Correspondent banking, to be effective, must be a two-way street. The benefits must flow both ways. From the standpoint of the city bank, the benefit in the arrangement consists of balances carried by the correspondent. Originally, the principal benefit flowing to the small bank was interest on daily balances. Now that interest is not paid, something must be given by the city bank to take its place. The collection of items and the safe-keeping of bonds is not enough. These, of course, are valuable services but they are not enough. In addition, the city bank must assist the rural bank in bringing to its customers the type and scope of banking service which the larger capital and more highly specialized personnel enable it to give its metropolitan customers. In short, the arrangement, if it is to be effective and permanent, should result in the small bank being able to furnish to the people of its home town the same banking services, both in quality and amount, that the metropolitan bank might render if it had a branch there.

In my opinion, every city bank which accepts correspondent bank balances should make three promises to its correspondents; namely:

1. That it will make available to the correspondent the technical know-how of the officers of its bank whether it be in the field of lending, investments, or operations.

2. That it will stand ready and willing to cooperate in the handling of loans which exceed the legal limit of the correspondent so as to enable it to take care of the credit needs of its customers.

3. That it will not compete with the correspondent in its territory either for loans or deposits.

Now, before attempting to apply correspondent banking to the extension of agricultural credits, I would like to make some general observations concerning what inevitably happens when commercial banking fails to do its full duty in any field of credit.

Worthy Credit Will Be Extended By Someone

Commercial banking in this country has learned by experience that any form of credit that is worthy credit is inevitably going to be extended —if not by commercial banks then either by some other type of private lending agency or by government itself. If the credit is worthy, it will not for long remain unextended. One of the best examples of this during my banking experience was the case of instalment credit. With the advent of the age of mass production of automobiles and other types of consumer durable goods, commercial banks failed to provide adequate financing of these goods on terms the consumer could meet. This was a type of credit that was worthy, and the finance company sprang into being to meet the need. In recent years we have seen our mistake and have tried to regain this business. We have been successful in part, but the finance company is here to stay.

Another example is that of credit for home modernization on the instalment plan. Commercial banking during the '30's was not meeting the need for this worthy credit. As a result, the FHA Title I loan came into existence. Although commercial banking has made most of these loans, a sizable percentage has been and is being made by so-called "insured mortgagee" companies—a type of competition to commercial banking which would never have existed if commercial banking had not failed to meet a worthy credit need.

Indeed, I have an idea that credit unions which are growing by leaps and bounds and which constitute another new form of competition for us would never have come into existence if commercial banking had been willing to take care of all personal loans which were worthy credits.

There are other examples of what I am talking about, but I need not labor the point, except to add that this truth which we have learned about instalment and other forms of credit, applies equally to agricultural credit.

Competition in Agricultural Credit

Credit to farmers for growing and marketing of agricultural products is worthy credit. It is going to be extended in the amounts needed and on the maturity terms needed, either by commercial banks or by some other type of lending agency, private or public. To the extent we allow other agencies to invade this field, or to the extent we rely upon governmental guarantees or insurance in providing this credit, the strength and independence of the commercial banking system is weakened.

We all know the history of the production credit associations. While there were some social and political aspects in connection with their creation and the types of loans they originally made, by and large these loans were good loans and were repaid. Most of the credit they have extended down through the years has been worthy credit that should have been provided by commercial banking.

There was a time not so many years ago when the rural banks of the nation were quite perturbed by the P.C.A.'s, which they regarded as unfair competition. I recall that for a number of years scarcely a bankers' meeting was held at which there was not a heated discussion on this subject. I have always been of the opinion, however, that the coming into existence of the P.C.A.'s was due to a partial failure of commercial banking to do its job. To my way of thinking, the whole matter was quite superbly summed up by a rural banker whom I heard express himself at a West Texas bankers' meeting some years ago when he said, "My philosophy about these P.C.A.'s can be stated in one sentence: 'A banker on his chair is no match for a P.C.A. man on his toes.'" And the clear inference was that if the banker is on his toes, he has nothing to fear from the P.C.A.'s.

Now, while the outcry against P.C.A.'s has practically subsided, these lending agencies are still extending very substantial volumes of credit to agriculture. A recent survey by the Federal Reserve System revealed that, as of June 30, 1956, the total amount of P.C.A. short-term farm credit outstanding amounted to $855-million, or one-sixth of the total production credit outstanding to farmers by all institutional lenders. This was an increase of some $60-million over the same time a year ago. As a matter of fact, the percentage of the total production credit to farmers advanced by P.C.A.'s has been steadily rising for the last 15 years.

Credit Requirements of Agriculture Increasing

American agriculture is going through a period of revolutionary changes brought about by mechanization, and by adoption of soil improvement practices which, in turn, make necessary larger farm units.

These conditions, coupled with rising costs of items used in farm production, are greatly increasing the legitimate credit needs of agriculture. Furthermore, our rapidly increasing population will call for an ever expanding production of food and fiber. It is estimated that the population of this country in 1975 will be 200-million and the need for agricultural products in that year will be 40 percent greater than now. It is highly improbable, therefore, that the lending ability of rural banks alone can keep pace with these rapidly increasing credit requirements of agriculture. If commercial banking is to meet these needs and prevent the further invasion into its field of credit by other types of lending agencies, it must be through the operation of the correspondent banking system—the working together of large and small banks.

Lest any critic of banking attempt to construe what I have said as an admission of failure on the part of commercial banking to finance American agriculture, let me hasten to add that, on the whole, we are at this time doing a very creditable job in that field of credit. The figures speak for themselves. As of June 30, 1956, according to the Federal Reserve System's survey, commercial banks had outstanding to farmers credit aggregating over $5-billion. Furthermore, approximately one-third of this amount, or $1.7-billion was in intermediate-term loans, a type of credit which has long been sorely needed by farmers and which was practically unavailable until recent years. It is estimated that approximately three-fourths of the total production credit to farmers from all institutional sources is being extended by commercial banks.

Yes, we are doing a good job but, as the credit requirements of agriculture continue to increase rapidly with the changes I have mentioned, we must be prepared to do a vastly bigger job and the rural banks cannot do it alone.

Interbank Relationships Need Development

I am aware, of course, that there are a few city banks which are already working closely with their rural correspondents in this field. The number, however, remains relatively small and much remains to be done in the development of effective teamwork. One of the most significant facts revealed by the Federal Reserve survey was that bank sharing of farm loans by participation was found to be very sparingly used. Out of a total of $5-billion of outstanding farm loans by banks, only $43-million were loans in which two or more banks participated. Incidentally, one-half of this participation activity was generated in the Kansas City District banks.

Farming is no longer simply a way of life. It has become a business—

a manufacturing business, if you please—the production of food and fiber. Furthermore, it is rapidly becoming big business. If you don't think so, just price a cotton picker, a tractor, a reaper, or any of the many other machines essential to modern farming. The average farm investment in land and other assets today is about 75 percent larger than in 1947. If commercial banking is to meet the enlarged credit needs of these food and fiber manufacturers of tomorrow, without allowing other lending agencies to invade our field further, we must be alert and resourceful. I submit that we can best do this job by working together through the relationship we know as correspondent banking.

MR. BELLAMY: My assignment is limited to the function of a medium-sized bank in the role of "Agricultural Credit by Correspondent Banking." In assuming this role, we perform an important banking service in trying to provide adequate credit when and where needed.

How does correspondent banking help meet the credit needs of agriculture and expand the services of smaller banks? The placing of overlines with the correspondent permits the smaller bank to provide the full amount of credit required in meeting the needs of its customers. This has many advantages. The bank originating the credit can expect 100 percent of the deposit account of its loan applicant. Whereas, if this overline were negotiated direct by the borrower, it would necessitate a deposit account with the second bank. It is a more sound credit when all disbursements and receipts are under the control and supervision of the borrower's home bank. The local banker has the knowledge of his customer's past performance, his present requirements, and his future needs and repayment capabilities, which are important in sound credit. From the standpoint of processing the loan, it is to the borrower's advantage to use his own bank for his full loan requirements, if for no other reasons than the convenience and time element feature of local banking.

The proximity of the medium-sized bank, in itself, offers many advantages in the handling of overlines for the smaller banks. The knowledge of the type of credit extended in the particular area, the general economy of the area, and the availability to service the application and complete the loan are important factors in meeting the needs of the smaller bank's farmer-customer.

An Agricultural Representative Is Essential

The key to providing this type service to the smaller bank is the correspondent bank's having as a member of its staff a full-time, trained agricultural representative. This is essential to the success of banks working together to provide adequate credit. If you do not have such a man, then this is your starting point in correspondent banking in the field of agricultural credit. What to look for in a good farm man presents as many problems as the many talents he must possess. He should have the personality to present sound technical advice in a language the farmer knows and understands. He may be confronted with problems of maximum land utilization by proper fertilization. He may be called upon to advise with the farmer on insect control, various types of irrigation, soil conservation practices, and other technical subjects. He must be practical in his thinking to apply this technical knowledge to the mutual benefit of both the borrower and the lender. From the standpoint of the bank, he must be qualified to appraise the farmer and his operation, implements and machinery, real estate and improvements, and the value and condition of growing crops. In the field of public relations, he plays an important role of representing the bank on the farm.

It may appear difficult for you to secure a man with all of the qualifications just mentioned. This need not be the case. A man with an academic or experienced background in agriculture can be trained by you to make a good agricultural representative for your bank.

A Case in Point

Let us take a hypothetical case of good correspondent banking in processing an overline. First, and foremost, the smaller bank is seeking a sympathetic ear on this credit. It expects to receive a decision without delay. This application was discussed with us by the smaller bank through a long distance call. There are mainly two classifications of excess loans; participation from the inception date of the line of credit; and an excess that develops subsequent to the original approval of the line of credit, or the last-in-first-out, or LIFO, overline.

For our discussion purposes, we will assume this call from the smaller bank requests our participation from the inception date of the line of credit. He gives us a brief outline of the borrower's financial picture, his crop plans, his schedule of disbursements and plan of liquidation including maturity of repayments. If this is to be our first credit experience with the particular applicant, it is preferable to have our agricultural representative visit the bank and review the application with the banker. Such a service is an invaluable aid in achieving sound credit policies. He can assist in the construction of a simple but complete credit file. This does not imply that smaller banks do not maintain a system of credit files; yet their accent on brevity decreases their value. A good credit file will always expedite a decision on any application. It is difficult to perform prompt service to the smaller bank in the absence of good information even though adequate security is offered.

After the visit, a decision is reached; and in this particular case a commitment was issued. On many occasions, a commitment can be made during the first conversation. This is in cases when we have had past experience with the borrower and have a good knowledge of the smaller bank's credit policy. This type relationship is obtained when banks work together in achieving a full knowledge of sound agricultural credit. Periodic crop inspections by our agricultural representative during the growing season are valuable in keeping abreast of the general conditions in the area, as well as the progress of this particular credit. The smaller bank, by placing all of its overlines with one of its correspondents, can receive better service and effect economy in operation for the correspondent.

Correspondent Banking Helps Meet Competition

I have tried to touch the high spots of procedure, advantages, and some results which can be derived from this type of participating credit. Commercial bankers have the obligation to furnish the required credit in our changing agricultural economy. We are being challenged daily by governmental agencies encroaching into the field of farm credit. Interest rates, terms of repayment, credit policies, and an increasing number of types of loans by these agencies accelerate this competition. Also included among our competitors are production credit associations, which are now farmer-owned corporations. As you know, these corporations started their operations through U. S. Government subsidies.

What are the main reasons some of these agencies have grown to the extent of being a strong competitor in the field of agricultural credit? We failed to merchandise our services. We became complacent in following the line of least resistance on a credit problem. We were too willing to move over, rather than to move out in seeking the needs of our farmer-customers.

The subject as discussed by this panel today is the answer that commercial banks have to meet the needs of agricultural credit. May I urge all of our smaller banks throughout the country to make full use when needed of agricultural credit by correspondent participation.

MR. LEKWA: Correspondent banking is as old as organized banking itself. The city banks have played an important role in the building of our great industrial empire, and they have also exerted a great influence on the rapid expansion of agriculture in our country. They have been an important link between the producer and his market. The small country banks could not have furnished the capital fast enough to keep in step with the rapid expansion that has taken place in this important industry. The principal function of a country bank is no different from that of a city bank. Our first and principal obligation is to our depositors and, after that, we do have an obligation to furnish legitimate credit for our customers.

The vast operations of the city banks are a mystery to the country banker, and the operation of the rural bank may not always be so well understood by the city banker. To make effective use of correspondent banking, the operations and functions of both should be mutually understood. It is to this area that we should direct our thinking for a few minutes today.

While the scope of our operations is vastly different, we do have a common objective. Our success and existence depend upon the service we render to our communities.

Country banks enjoy some latitude in the diversification of their investments, but they have little control over the diversification of their liabilities or deposits. They come, to a large extent, from the same source—farming—and the volume and flow of deposits is directly affected by the condition of agriculture. It seems to me, therefore, that we must consider the entire operation of the country bank as a unit and not try to lift out that part that is, or may be, directly served by the city correspondent banks.

Farm Problem Not Farmer's Alone

The problems inherent in the transition from war to peace are not peculiar to industry alone. Great demands were made upon agriculture for the successful prosecution of two wars in the last two decades. Thanks to the direct or indirect help from city banks, complete and improved mechanization of our farms, electricity, hybrid seed, new and improved fertilizers, improved livestock feeding practices, and grain storage facilities, our farmers were enabled to rise to the challenge and furnish the food and fiber for our own war effort and help support and feed our allies as well.

Conversion to production based on peacetime demands for agricultural products has not been accomplished as smoothly in the rural areas as in other segments of our economy. Perhaps the conflict of interests in the industry itself, or the strong individualities of the farmer, have helped to retard a solution of the problem. But, the fact remains that there are problems out there in the country and, as we bankers know too well, those problems eventually find their way into our banks. In a broad sense, this problem of trying to do something to help agriculture, is one to which the city banks as well as the country banks may well direct some serious thinking, and meetings such as this one indicate that there is an awareness of the situation, and that you do want to help solve it.

What can the city correspondent banks do for agriculture? We ask you to use, not your enormous tangible resources, but the great technical knowledge at your disposal, your combined influence, and your manifest deep and sincere interest in the well-being of our country to help foster and promote and support a workable farm policy. That will be a great contribution to agriculture. We country bankers and the farmers need your support and counsel.

Agricultural Credit Adequate

Generally speaking, I believe that agricultural credit has been adequate in the past 20 years. It has been reported in farming areas in the not-too-distant past that sufficient agricultural credit was not available. If there were isolated cases, it may be that the banker was trying to bring his customer's operations more in line with present demands for his products and his capacity to produce. Certainly, there has not been anything in the livestock feeding business in the past two or three years that would support expansion. The ability to borrow money does not, in itself, insure the borrower that he can put the money to good use, return it to the lender in due time, and return a profit to himself.

We hear much about the passing of the family-sized farm, much as we dislike to hear it. There is evidence that this is at least partially true. This is especially distasteful to one who was raised on a farm. In our area, we have farms varying in size from 80 acres up. These farms of 80 acres are slowly passing on to the owners who can combine them into larger units. Within the past month, our bank has taken mortgages on two farms of 80 acres each. In each case, this land was previously clear of indebtedness. The mortgages were taken to secure debts that had accumulated over several years. The operators are good farmers. They have families of several children and they enjoy a good standard of living.

A tenant came in a few days ago and told me that he could not meet his full payments on his machinery note. His landlord had sold some of the land that he had expected to farm and his unit of 120 acres was not enough to support his family and provide for amortization of the obligation for additional machinery he had purchased for the larger unit. Some farms do not seem to be large enough in certain cases to be a sound operating unit. What does this have to do with correspondent banking?

There is not much that you can do in this area. We do not expect you to become involved with production loans or barnyard chattels. But, to understand us, you should know something of our problems.

Additional Funds Sometimes Needed

There are cases in which you city correspondent banks can help us. As the farming units get larger, it will take more capital to operate each unit. Our farmers are becoming specialists. They are getting away from the general farming practices followed when they milked a few cows, had a few beef cattle, some hogs, and some chickens. In our own area, we have dairymen who milk from 75 to 100 cows. They produce Grade A milk. This entails an expenditure of from $7,000 to $10,000 for equipment in addition to their herds. We have cattle feeders who feed from 100 to 500 head of cattle, and it is not uncommon for a farmer to feed 500 hogs. It takes capital to finance such farmers. They are like other businessmen. As both prosper, they seem to require additional funds to expand. We are quite often required to loan more than our legal loaning limit to some of these farm operators, and we call on our city correspondents for assistance in carrying our excess lines.

Here is an area in which the city correspondent bank can be most helpful. City banks have for years been soliciting this type of business as a part of their service to the country bank. However, if the country banks anticipate a need for this service, they should discuss the matter with their city correspondent bank in advance. It can be granted that some lines are sufficiently well supported by a financial statement to make the transaction a routine matter. But it is too easy for both parties to the transaction to fall into the habit of depending on the other fellow. So, I think a frank and candid discussion of the handling of overlines will be of great service to all parties, including the customers. A delay or interruption of service to him may be to his great disadvantage, as well as an embarrassment to the local banker.

A conference on important lines prior to the time we expect to use the funds could give the city correspondent bank an opportunity to appraise the line and evaluate the risk involved. We do want you to be perfectly frank with us. It does not serve any good purpose to accept an overline for a country bank for business reasons. True, the portion taken by the city correspondent bank is taken without recourse, but we must recognize that there is a moral obligation to try to service and eventually liquidate the loan. If the loan turns sour, it creates an unpleasant as well as a potentially unprofitable transaction for both banks. The city correspondent bank is carrying a portion of the debt at the request of and as a service to his country bank customer, and looks to the country bank to service the line. The country banker is providing a service to his customer by furnishing capital. Regardless of where it comes from, the country banker is dealing directly with his customers and feels responsible for the satisfactory conclusion of the matter. The city correspondent bank has the right to expect liquidation of its portion of the loan. Anything but orderly liquidation may be to the serious disadvantage of the bank customer, and we are interested in him. Unless a conference produces evidence that the line will liquidate orderly, then it may be to the advantage of both banks to be frank and decline to participate in the line. The results of such a conference will give the country banker considerable confidence, and some sound reasons for suggesting to his customer that he use credit more in line with his capacity and capabilities.

Confidence Important

The city correspondent banker must have confidence in the country banker, but he should not place too much confidence on his judgment. He may be very competent but he is not loaning money for the city correspondent bank. A representative of the city correspondent bank should make inspections of all lines offered to them, except those that present no visible hazards. By inspection of the lines, he can appraise the security and the operation of the farmer-customer and he can also become better acquainted with the country banker, get to know his ability and, by watching him operate, take back to his city bank a fund of knowledge that can be used in future transactions with the country banker.

The city correspondent bank can, in turn, bring to the country bank the accumulated knowledge gained from the experience of the city bank department in its far flung service. Because of his intimate acquaintance and close association with his customers, the country banker may not sometimes see or he may fail to recognize some of the weaknesses of his borrowers that might be obvious to an outsider.

We country bankers do not want to deal with a "yes" man. The representative of our city correspondent bank sent out to help us should be competent to discuss farming problems as well as rural banking. He should have a knowledge of farming and farm operations. He should be able to make recommendations and be authorized to make commitments.

Our relations with city correspondent banks in connection with overlines has been very satisfactory. We have one farmer who is now feeding 4,000 sheep, about 100 cattle, and 500 hogs. He has about 1,400 acres of unincumbered land and his borrowings are seasonal. We would not be able to hold the man's business if we could not furnish the funds for his operations. We have also placed with our city correspondent bank, grain storage loans (principally soybeans) which originate with local elevators. Negotiations for this type of credit must be made well in advance of the time the money is to be used, and the loan value of the beans satisfactorily adjusted.

Good Records Needed

In submitting an overline to a city correspondent bank, the country banker must furnish a financial statement which reflects the true condition of the customer, based on sound values. He must arm himself with information on his customer's earning and operating history.

In some special cases, it may be necessary to take a customer to the correspondent bank for a conference or perhaps arrange for a representative of the city correspondent bank to visit the farm with the local banker and get a close-up view of the farmer's credit needs. Again, I stress that the representative should be someone well versed in agricultural credits and one who will command the respect of the farmer-borrower as well as the country banker. It may be well to suggest that a preliminary conference between the bank officers might lay the groundwork for a better understanding of the line under discussion, and might eliminate some of the procedures which are routine to the city correspondent banker, but which seem rather complicated to the farmer-borrower. If the line is questionable, the country bank should not pass the buck to the city correspondent bank, and the city bank, by having some previous knowledge of the line, can save time and embarrassment for the country banker.

Mutual Understanding Needed

The city correspondent bank representative must get to really know his country banker. He must know his ability and his weakness. The country banker must, in turn, know his city correspondent representative well enough, and have enough faith in him, to pick up the phone and call the representative on any reasonable request. He must be secure in the knowledge that the answer he gets will be fair, based on sound judgment, and to the best interest of both banks. This must be the basis for sound city correspondent bank relations.

In calling on a country bank, the city correspondent bank representative must have the ability to impress the country banker with what he knows about our business, and he must have the capacity to listen and learn about the problems of the country bank.

With these qualifications, he can usually come up with the right answers. We realize that competition is strong among city correspondent banks. That factor is the lifeblood of all business. The city correspondent banker is certainly within his rights to display his wares and try to move a country bank account to his own bank. I do, however, question the wisdom of suggesting to a country bank that it split its account. A country bank should concentrate its balances so that it can feel justified to ask for services it needs and to which it feels it is entitled. We know that city correspondent banks cannot give service unless they have compensating balances. To split an account will not be of much value to the city correspondent banks and will eventually be a disservice to the country bank. While I am discussing that point, I should, in the same friendly way, add one more suggestion pertaining to the development of still better relations and understanding between the country bank and its city correspondent. That is this: I question the fairness or even the soundness of any city correspondent bank advising a course of action by a country bank that is in violation of any rule or regulation of a bank supervisory authority, state or federal. "Back slapping" or even the utmost in the "good fellowship" approach to such a matter is not sound advice to give to any bank, rural or city. I doubt that such incidents occur often. But there are some cases where it is said such advice has been extended to the country bank. The city correspondent bank may be so large that it believes it may have access, from prior experience, to information which it feels, in some instances, may warrant giving such advice or counsel to its country bank. If so, why not take the bank supervisory agency also into its confidence? In the long-range country bank-city correspondent bank relations, I believe such a course will pay better bank-relations dividends.

Close understanding between our banks should not be postponed until an emergency arises. The personal contact so essential to good correspondent bank relations must be developed and fostered in good times, so it will be available when we need it. There have been no unusual demands on banks in the past 20 years, and we have taken our association with each other very much for granted. Believe me when I say that it is very pleasant to visit the city correspondent bank, go to a ball game, go out to dinner, see a show and be exposed to some night life. It is a part of city correspondent bank service, and develops good public relations.

Borrowing Sometimes Necessary

The heavy demand for loans, a slight decrease in deposits and the reluctance of the banker to sell government bonds in the present market may make it necessary for some banks to resort to borrowing money. At this time it looks as if it should be on a temporary or emergency basis, principally for feeding livestock, or storing grain or other commodities.

This will bring about a problem that is entirely new to most of the men now in our country banks. They have not, until recently, operated a bank on anything but increasing volume and increasing prices. I am sure that we can go to our city correspondent banks any time to get temporary help, and I am also sure that the city correspondent bankers have given serious thought to the problem of just how far they would or could go in extending credit to the country bank if the emergency were to be extended because of severe weather conditions, prolonged depressed farm prices, or an increased unfavorable position of agriculture in our American economy.

It may be well to think this matter out as far as possible—and there may not be too much that can be done about it at this time. I believe, however, that in this connection there is one great service that the city correspondent bank can extend to the country banker. It is not a healthy condition for a country banker to extend credit on the assumption that he can get assistance from his city correspondent banker whenever he needs it. It would be a mistake on the part of the city correspondent bank to permit this idea to become a part of the policy of the country banker. It may lead to an overextension of credit and, if those loans do go to the city correspondent bank as collateral, they have a way of finding their way back into the loan portfolio of the country bank. The country banker should be cautioned by his city correspondent bank that there is a proper ratio of loans to deposits beyond which it is not safe to proceed.

The country banker should take his government bond list to his city correspondent bank for analysis. Since the flow and volume of credit and deposits are so directly related to the condition of agriculture alone, I am sure that the city correspondent banks will point out the prudence of having a reserve of short-term government bonds and Treasury bills. There may be a tendency on the part of some country bankers to reach for a larger income by extending maturities of bonds, and a city correspondent bank in whom the country bank has confidence can suggest that this is an invitation to trouble. This may sound like a big order for the city correspondent banks, but let me say that the country banker may feel much closer to them than he does to some of the supervising authorities. The country banker may have acquired a feeling that the city correspondent banks are on his side and, if so, he will listen to them.

City Banks Helpful in Many Ways

Some of our smaller country banks may sometimes lack a definite satisfactory loaning policy. Others have problems in operations and personnel. Some of these banks are largely under the direction of one man. He may not have the advantages of working with a board of directors who have the experience or take the time to direct the bank properly. That man should call on his city correspondent bank and lay his cards on the table. The city correspondent bank can give him sound advice and assistance. We have gone to our city correspondent with policy matters and have come away with what has proved to be helpful guidance. We have valuable help in our banks now that were sent to us by our city correspondent banks. We had a problem in deciding on certain bank equipment. Our help seemed to be divided on the choice of competing machines. We sent some of our assistants to a city correspondent bank and it very tactfully helped them make a wise choice.

There are many services that can be performed for us in the country bank category by the city correspondent bank. If the country banker does not get what he thinks he should have from his city correspondent bank, then I think it is his own fault. He probably does not know what services are available to him or he does not feel free to ask for them. The outside world is not much farther from the country bank than it is from the city correspondent bank. We have only to ask and the services of the metropolitan or city correspondent bank can be furnished us for the benefit of our customers.

Some of these services may seem to be unrelated to correspondent banking, but I think it can be assumed that any service that a city correspondent bank may perform for us that will help formulate policy, simplify bank operations, furnish credit in times of emergency, or, in general, tend toward the better administration of our banks can be of great help to our agricultural customers as well as to the other classes of our bank customers.

It is said that an economic good exists when all partners in a mutual business transaction achieve satisfactory benefits. I feel that great economic good has been achieved during the past many years as a result of the close and fine relationship that has existed between the country banker and his city correspondent bank.

New Developments in Agriculture

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The market and price side of the agricultural situation already has been discussed on your program. I assume, therefore, that my assignment involves a discussion of farm production. I shall consider both the technical and the economic aspects of new developments and their impacts on farming and on farm people.

Most bankers who deal with farm clients are so close to farmers and farm production in their everyday work that they are well aware of the veritable revolution that has taken place in farming during the last 15 to 20 years. But perhaps I can provide a national perspective of the effects of these changes by reviewing briefly the overall results.

In 1956, farmers are producing 36 percent more farm products than in 1940. They are producing nearly 50 percent more than the average of the prewar years 1935-39. These measurements are in terms of constant prices, and, consequently, measure changes in physical volume of output.

How did farmers achieve this tremendous increase? Not by using more acres of land or more hours of labor. They used about the same number of acres as in 1940, but they did have more investment in buildings and in land improvements. So perhaps we have to say that they used from 15 to 20 percent more land, buildings, and land improvements. They used about 30 percent fewer hours of labor than in 1940, but the hours spent in production were used more effectively. They accomplished more in each hour of work, partly because each worker had more machinery and other capital working with him; also partly because farm workers had learned new technical and managerial skills. But in 1956, farmers used twice as much machinery and over three times as much fertilizer as in 1940. The much greater use of nonfarm goods and services means that farmers need more of both investment and operating capital today than they did 15 or 20 years ago. In current dollars, the farm balance sheet shows total agricultural assets in 1956 of over three times the value in 1940. With fewer farm workers in 1956, the average value of real estate, machinery, and other assets per worker this year is over four times the value in 1940. Even correcting for changes in the price level, it is 1.7 times 1940. In fact, the average investment per worker in agriculture of about $15,000 (current dollars) is higher than the average in manufacturing industry.

Adding together all the land, labor, and capital used in farm production in 1956, it comes out about like this: Farmers are producing 36 percent more than in 1940 with about the same total resources. In other words, they have increased their physical efficiency about one-third in 16 years. There are still pockets of technological stagnation in some farming areas; but, by and large, commercial agriculture today is efficient, progressive, and complex.

What Is the Record?

The record of the last 16 years is astounding when compared with any previous period, but it is quite apparent that it did not come about spontaneously. It was made possible by painstaking, imaginative, and organized research conducted by both public and private agencies since the turn of the century. The main events were the following:

1. MECHANIZATION. Mechanical power and equipment specifically designed for its use have served as the foundation for increased production of farm products. Substitution of mechanical for animal power began in earnest shortly after World War I. Since that time, about 70-million acres of cropland which formerly produced feed for work animals have been released for other uses. About 33-million acres of that total have been released since 1940. Mechanization also speeds up farm operations, and adequate power facilitates better tillage, which, combined with greater timeliness, results in higher crop yields. Central station electric power reduces chore jobs around the farmstead.

2. CROP AND SOIL IMPROVEMENTS. Hybrid seed corn is the most widely recognized innovation in the crops field. Now we also have hybrid grain sorghums which promise similar increases in yield of that crop. Other crop improvements have added greatly to increased output. For example, high-yield varieties of soybeans have made it possible to expand this crop from an infant enterprise of 1-million acres to a 20-million-acre giant in 30 years. About 457-million bushels of soybeans will be produced in 1956, or approximately 90 times the output of 30 years ago.

Greater emphasis on conservation and improvement of soil has provided an environment for higher yielding crops. Among these improvements are better crop rotations, terracing, strip cropping, and mulch tillage. But the most startling change is the increased use of fertilizer and lime. Farmers are now using over 3 times as much fertilizer as in 1940.

3. LIVESTOCK BREEDING, FEEDING, AND DISEASE CONTROL. Better breeding stock resulting from artificial insemination, crossbreeding, and selection enables farmers to capitalize on more adequate and balanced rations, some of which include antibiotics and hormones. The outstanding illustration of results is commercial broiler production, which has grown from an unknown enterprise 30 years ago to 4-billion pounds live weight production in 1956. In 1940 broiler producers used an average of 4.1 pounds of feed to produce 1 pound live weight of broilers, whereas in 1955 they used only 2.8 pounds. This represents better than a 30-percent increase in feeding efficiency.

In 1940, we had 2.7-million more milk cows on farms than in 1956; but the average production per cow was only 4,600 pounds. In 1956, the average will be over 6,000 pounds, or nearly one-third more milk per cow. Consequently, we are producing 127-billion pounds of milk in 1956 compared with only 109-billion pounds in 1940.

Recordkeeping by dairy farmers has furnished an incentive for better breeding, better feeding, and culling of low producers. You may already have heard of a new Weigh-a-Day-a-Month Plan in the National Cooperative Dairy Herd Improvement Program. This is a low-cost dairy recordkeeping system sponsored by the Agricultural Research Service and the Federal and State Extension Services. It is designed for the farmer who feels that he cannot afford to participate in the standard dairy herd improvement program.

4. COMBINATION OF IMPROVEMENTS. Combined adoption of some of these improvements results in a chain reaction that further increases total farm output. For example, a higher yield of corn or grain sorghum may be the result of combined use of improved seed, more lime and fertilizer, timely tillage, weed and insect control, and a rotation system that conserves and helps to improve the soil. With additional feed available, livestock will be fed more adequately; and thus both crop and livestock production will be increased.

5. FEWER AND BIGGER FARMS. Another illustration of the combined effect of different improvements is the use of mechanical power and associated equipment in combination with other developments to reduce greatly the amount of labor required for most farm operations. The usual family labor supply can now handle more acres of land, and capable operators have been able to increase net incomes by farming more acres. Frequently, farmers who had labor and equipment to handle more land have rented or bought an adjacent farm. One farm family then operates the land formerly farmed by two families. The result is fewer and bigger farms, and higher investment per farm and per worker, but usually a lower cost per unit of product.

This trend is illustrated by the census returns from Iowa, where there has been a steady decline since 1940 in the number of farms below 220 acres in size. Although there has been some increase in the number of farms larger than 220 acres, the total number of farms in 1954 was about 20,000 less than in 1940.

Adoption of these improvements has not flowed automatically from the research pipeline. Research results must be made available to farmers through educational and other programs, and successful adoption requires training in both technical and managerial skills. We must realize that farming today is much more complex than in former years. In this connection, we cannot overemphasize the role that has been played by improved local facilities for primary and secondary education. Those who have become farm operators in the last 15 or 20 years have had the benefit of more and better education than was available to youngsters of my generation. I attended a village school in a fairly typical farming community of those days, and I can count on the fingers of one hand the eighth-graders in my class of about 35 who pursued their education beyond that grade. Today, at least some high school education is the rule rather than the exception. Better basic education of the young people growing up on farms has provided a foundation for Extension and other agricultural training.

Credit an Important Factor

There is still another requirement for rapid adoption of new improvements. Bankers recognize that in order to make the necesesary investment in the new techniques, farmers must have either savings or opportunity for increased earnings as a basis for credit. Adoption of new methods lagged in the 1930's because farmers had neither savings nor credit. In fact, they did not even maintain buildings and equipment in those years; but as income improved in the early war years, they adopted new techniques about as rapidly as supplies and services became available. Output increased about 20 percent from 1940 to 1945. The further expansion of recent years has occurred largely because farmers have continued to make heavy investments in improved technology.

We can summarize the technical aspects of new developments in agriculture by saying that progress in physical efficiency has been excellent. Farmers have kept in step with progress in other sectors of our national economy. Better education has made possible development of the necessary technical and management skills to handle the new technology; and, by and large, farmers have obtained the capital needed to invest in improved techniques.

What about the economic aspects of these developments? Farm people benefited greatly from adoption of technological improvements when the markets were expanding during the war and rehabilitation years. Their purchasing power rose rapidly. Farmers began to pay debts; to buy land, livestock, and equipment; and, when materials became available, to improve the farm, the home, and the community. Many also accumulated financial reserves of Savings Bonds, time deposits, and other financial assets. But the general price level was rising, which meant a gradually rising cost structure that caught farmers in a cost-price squeeze when farm prices fell after the special war and rehabilitation needs had been met.

Production and Marketing

At the present time, we are struggling with surplus problems in some key commodities; and many farmers are unhappy about their share of the fruits of national prosperity. Have farmers become too efficient? That is, have they adopted output-increasing improvements so fast that farm products are flooding the markets; reducing prices; and, therefore, lowering farm incomes? Can prospects for the next few years be characterized as a race between production-increasing technology and market expansion? The market is expanding because of growth of population and increased purchasing power, and valiant efforts are being made to increase both domestic and foreign markets by providing special outlets. But so far the market is not expanding fast enough to take up the increase in output; and, at the moment, production seems to be winning the race.

We must also realize, however, that production increases got a head start from the stimulus of war and rehabilitation needs in the 1940's. Thus, one of the major causes of our present imbalance between production and markets is war and the aftermath of war. Wheat and cotton production were expanded to meet war and rehabilitation needs. It was fortunate for our national welfare that we could provide for those needs at that time, and it was profitable for farmers to do so. But now farmers are producing more than peacetime markets will take, at prices satisfactory to producers. So we have tried to cut down production by allotments and quotas. We have expanded market outlets through export programs and special domestic uses, but we are still producing more than we can find outlets for. In fact, in 1956 we are producing nearly enough for the expected normal markets of 1960, and this despite the severe drought which prevailed over large areas.

We are faced with two interrelated problems: (1) Correcting the war-borne maladjustment in production, especially of wheat and cotton; and (2) achieving overall balance of production with prospective markets. Looking at these problems over a period of years, it may be more difficult to adjust the wheat acreage, for example, to prospective markets than to achieve overall balance with peacetime markets.

Although new technology is not the only force pushing up farm output, so far as it results in greater production and, therefore, in imbalance between production and markets, there is an apparent conflict between progress and income stability in agriculture. Can this conflict be reconciled? In other words, can we even up the race between production and markets without retarding progress? We cannot afford to hobble progress because agriculture must keep step with technical and economic progress in the rest of the economy. The alternative would be a static, peasant type of agriculture, which would not attract and retain persons of ability in farm occupations. Also, technical advances are necessary to compete in world markets, and with products of nonfarm origin in domestic markets. Moreover, the general economy benefits from more efficient farm production—both currently and as insurance against emergency needs. The problem, therefore, is one of finding ways for farmers to overcome maladjustments that prevent their obtaining a proportionate share of the fruits of progress.

Impact of Technology

Perhaps a little review of the impact of technology on farmers would be helpful before we attempt to determine whether the conflict can be reconciled. The following points are pertinent in this connection:

1. Although most improvements are output-increasing, some lower costs without directly inducing greater production. For example, recent experiments indicate that intertilled crops can be grown with much less cultivation without any sacrifice in yields.

2. The demand for many farm products (potatoes or wheat, for example) is so inelastic that a smaller total output sells at prices enough higher to bring a higher gross value than a larger output. Therefore, a cost-reducing improvement that increases production may mean much lower prices for the product unless demand is increasing enough to absorb the additional output.

3. Farmers who first adopt a cost-reducing improvement will retain whatever gain results, until or unless the price of the product is affected. Therefore, farmers who first adopt an improvement always gain in the early period of its adoption. This is a powerful incentive

for adoption by those in a financial position to make the change. In the case of a price-supported product, farmers hold the gain unless allotments and price supports are reduced as more surpluses accumulate.

4. Those who cannot, or for some other reason do not, adopt the new techniques will not be injured by other farmers' adopting them until or unless the price of the product is reduced.

5. If adoption of an improvement results in much larger production and lower prices, all, or nearly all, of the gain from the improvement will be shifted away from farmers to the benefit of other groups. When this occurs, there is no road back to the previous position. Farmers cannot gain by going back to former methods. They have incurred investments to adopt the new practice, and these have become a part of their fixed costs. Therefore, they cannot, as individuals, gain by cutting back production.

This is about where many farmers find themselves at the present time. But what is ahead? Will farmers continue to increase output? We said a while ago that adoption of new improvements requires either savings or potential earnings that form the basis for credit. If this is true, can we expect a continuation of production-increasing improvements under prospective income conditions? There are some evidences that investment in expensive equipment is slowing down. Purchases of farm machinery in 1956 seem likely to be the lowest in a decade. Purchases of fertilizer, improved seed, and pesticides require only current outlays. Although increases in expenditure for these goods seem to be retarded, there is no sign of curtailment.

To get a better insight as to what is ahead, we need to look at the capital structure of family farms. The equity capital is furnished by the individual farmer instead of stockholders, as in banks and industrial corporations. The capable farmers who got started in the 1930's or early war years have accumulated reserves that show up in our aggregate balance sheets and in the large numer of farms that do not have real estate mortgages. The farmers who have little or no debt also have a large cushion against the shock of lower production or lower prices, or both.

Such farmers have both the earnings of their capital and their labor to live on and to dispose of in other ways. They have several choices open to them in planning their farm operations. For example, they can slacken the pace of production. They can even cut back a bit, perhaps at some sacrifice in net income, but with reduced risk, and with added leisure. They are also in a good position to go in the opposite direction, and expand if they care to do so. If they have grown sons, they may buy the adjoining farm and in that way cut overhead costs per unit of output. They may also find it profitable to adopt new techniques, even under present cost-price relationships.

What About the Young Farmer?

Now let's look at the position of a group of farmers perhaps equally capable, but younger in years, and struggling to get established. Perhaps they are G.I.'s who started after the war. Their investments were made when land values, machinery, and livestock had risen; and they had to incur heavy debts in order to get started. Those farmers are forced to push their output in order to meet high fixed charges. But they find it difficult to finance new cost-reducing investments. They will try to maintain or expand output by working longer hours, saving on hired labor, and cutting corners in other ways. High cash costs for operating expenses add to their vulnerability.

The price tags on nonfarm goods and services have advanced more than 30 percent since 1947-49. I should like to illustrate the effect of increases in prices paid by farmers with the results on average hog-dairy farms in the Corn Belt. If prices paid for goods and services used in production had been the same in 1956 as the average for the years 1947-49, the net income would have been about $800 higher, or nearly one-fifth more than present prospects.

Some of the younger farmers who find themselves in tight financial circumstances may give up the struggle and seek full-time nonfarm employment. Or they may shift to part-time farming. Perhaps they will depend more on custom work or rent out part of the land. Usually, however, the land continues in production.

Unfortunately, we do not have sufficient information concerning the financial position of different groups of farmers, and how they react to changes in prices, costs, and production conditions, to state with any assurance the trend of production over the next three to four years. My own personal judgment is that there will be a slowing down of the increase in output if present price and cost conditions prevail. I would not expect a reduction under average weather conditions, aside from the potential effects of the Soil Bank.

Adequate Reserves Essential

If there should be a worsening of international relations, the outlook would be quite different. Our Korean experience indicates the narrowness of the margin between overabundance and relative scarcity. A widespread drought also could result in a drastic change in the supply situation. The possibility of either drought or an international emergency indicates the need for adequate reserves, partly of storable commodities, but more especially of productive capacity. Such reserves are needed for the protection of all of us as citizens. Farmers, however, cannot afford to pay the cost of reserve capacity that provides for unforeseen needs of the entire population. Such costs are not covered in market prices for farm products.

We have not faced up to the reserve problem directly, although the conservation reserve features of the Soil Bank could be developed along these lines.

Summary

I would summarize the technical and economic impacts of new developments in agriculture about as follows: We have achieved the physical basis for farm abundance; and farmers have made excellent progress in physical efficiency; but we have not solved the economic problems of providing opportunities for farmers to obtain a sustained proportionate share of the benefits of abundance, under conditions such as we are experiencing at the present time. We have not adequately recognized the necessity for a contingency reserve of productive capacity. We have allocated very little of our research resources to the solution of these problems. We have assumed that they would take care of themselves. When the pressure in the boiler has gone too high, we have provided emergency ameliorative legislation. Unfortunately, we have not recognized the need for adequate analysis of the economic effects of changes in technology and in prices and costs. More research in this field is necessary if the conflict between progress and prosperity is to be reconciled.

Perhaps we still believe that competition and survival of the fittest will take care of the needed adjustment. If we share this belief, we should also consider the structure of agriculture that might emerge from a "let alone" policy. How is it likely to compare with the kind of agriculture we would like to see develop in our community and in the nation as a whole? Would it result in a community of intelligent, capable operators of family farms of adequate size to provide satisfactory incomes? Or perhaps we are seeking quite different goals? It seems desirable that farmers, rural bankers, and other farm groups consider carefully the goals they wish to achieve, and then obtain adequate analyses of alternative ways of reaching the desired objectives. This might require about as much research attention to the economic problems of farmers as we are giving to the technical problems.

If there is consensus concerning the objectives to be reached, and the ways of reaching them, it is possible to help mold the "shape of things to come" in agriculture. Those responsible for passage of the Homestead Act influenced agriculture for generations to come. But an adequate understanding of the problem, and analysis of the consequences of alternative ways of dealing with it, are the first requisites for intelligent action.

Some Considerations in Agricultural Policy

Excerpts from a "Flannelboard" Presentation

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IN THE AMERICAN DEMOCRACY, people are not only free to make choices but it is their inescapable responsibility to choose. Furthermore, our economic system is so complex that there is no one single approach to its operation. However, there are certain immutable economic forces which will prevail.

In things economic, like things physical, there are those who do not accept the presence of basic forces. For example, many automobile drivers disregard the warnings "Maximum Safe Speed" as though they would repeal the law of centrifugal force. Sad as the consequences seem at times, there are those who persist in disregarding the basic principles in safety.

Of course, engineering science has done much to reduce the hazards in travel by banking curves, posting their speed tolerance and making cars which hug the road. While these and other scientific advances have operated to harmonize our travel with physical forces, they have in no wise lessened their significance.

In the area of things economic, there are benefits to be derived through harmonizing our efforts with certain basic principles. As in things physical, a great deal has been learned in the science of adjusting our activity to economic forces. Yet, they have not been repealed and a penalty is automatically assessed for violations.

This presentation is offered in the belief that farm people, their banker friends, and others will reason more rationally if they have full knowledge of the choices available and are given time to consider them. Solutions to the economic problems of agriculture which are derived in this way will doubtless be superior to those from any other source.

It is not possible for all people to have all they want of everything at any time. Therefore, three vital choices must be made. These are: what to produce, how much, and by whom.

The purpose of this discussion is to describe three ways by which these decisions may be made.

FREE MARKET ECONOMY

In a free market price economy, all people vote by spending their money for what they want. In this continuous election, every penny counts toward telling producers what consumers will buy and what they will pay.

Producers act as though guided by an "invisible hand" and, on the basis of the price signals from consumers, decide what they will produce and how much. Each producer is free to go as far toward outdoing his competitors as his ability and resources will permit. Some make a great success. Others miscalculate and make a miserable failure.

The consumers are free to buy or not to buy. Mrs. Consumer does not have to buy from the Fuller Brush man. He knows it. That keeps him on his toes. Those men prosper who find the best way and the cheapest way to satisfy the wants of the consumer voters. The right to compete is unlimited except insofar as society may require standards of performance, protection of natural resources, "fair play," and the like. With this goes unlimited opportunity.

The free market process for deciding what to produce, how much, and by whom, operates as though everybody knows more than anybody. Consumers make these decisions impartially and impersonally.

In the free market economy, freedom of action and scientific discoveries have brought rapid growth and change. From rapid growth and change have come risk and insecurity. For example, the original Mr. Ford brought great risks and insecurity to horse breeders, buggy manufacturers, blacksmiths, and thousands of others. Why, most of his more than 100 competitors could not go the pace. But just think what was gained by permitting the rapid growth and change that came with the development of the automobile. Through it, millions of people found new jobs, better working conditions, greater earnings, and a new mode of life. The level of living for all people rose as never before. This came, however, at the price of greater risk and insecurity during the period of change-over to greater areas of opportunity. Result—everybody benefited. This insecurity has caused some to make demands for protection by arresting the free market. Many things cause people to turn to government for assistance in accomplishing desired objectives they cannot so readily attain through individual action. The public free schools are a classic example. Also, many people feel that they are being hurt more than others or it may just be easiest to call on government. There is also the apparent "mood of the people" to demand more protection as economic leverage in society increases.

High, Rigid Price Supports

The second way for making decisions is demonstrated by government trying to protect farmers against rapid growth and change by permanently supporting their prices above those consumers are willing to pay.

This "pegging" of prices at a definite level rather than letting them fluctuate prevents consumers from registering their opinions. Consumers are no longer free to decide not to buy since government takes from them, through its tax authority, the dollars needed to pay producers the fixed support prices. Now that consumers are unable to tell producers what they want and do not want, it becomes necessary to apply arbitrary controls. Thus, controls and supports go hand in hand.

Consequently, neither consumers nor producers are free to exercise their best judgments as to what shall be produced, how much, and by whom. Under these conditions, the responsibility for making these decisions is given to select men. Thus, clothed with authority, they must act as though somebody knows more than everybody.

When prices are supported above what consumers are willing to pay, they look for cheaper sources of supply and substitute products. Synthetics flourish while cotton suffers. Oleo spreads while butter spoils. Export markets disappear as other countries expand their production of cotton, tobacco, wheat, etc.

Similarly, as production allotments are reduced, farmers find ways to produce more per acre. They also bid up the price for allotted acres in an effort to buy fast enough to keep their rights from being reduced through cuts.

Thus, production is not permitted to decrease in proportion to reduced allotments. Meanwhile, cost per unit of product does not decrease as might be expected. To the extent that total production is reduced and costs fail to decline proportionally, the farmer's net income is lower. Producers strive to keep production up despite acreage reductions and, to this extent, contribute to the need for further cuts and expand surplus supplies.

In order to spare small producers, there is a minimum below which their allotments may not be cut. Those whose allotments are above the minimum bear the brunt of cuts until all become so small that the minimum has to be lowered. Burley tobacco affords a typical illustration of what happens. A few years ago the minimum allotment was 0.9 an acre. It was reduced to 0.7 an acre. In 1955 it was further reduced to 0.5 an acre. Now more than 60 per cent of some 300,000 farms, or about 180,000, have allotments of 0.5 an acre or less.

Farmers' Rights Denied

This is essentially a process for rationing poverty and outlawing efficiency which would otherwise be expected. It denies the right to compete and limits opportunity. Those growers of tobacco and other commodities who could produce them as cheaply as they can be grown any place and make more satisfactory incomes than now, are denied the freedom to do so. Meanwhile, consumers of these products are forced to pay more than the cost should be. To this extent, the consumers have less to spend for other things which they might buy.

This inability to buy other things keeps the standard of living from rising. Because consumers are unable to make savings, new jobs producing other things are not created. Therefore, the smaller, low-income farmers have less opportunity to get into more productive work at higher wages. They are doomed to live with small allotments which continue to shrink. Everybody suffers. Consumers would vote for other things but cannot save the dollars to support their votes. The process of communication breaks down. The "invisible hand" no longer beckons toward opportunity.

Meanwhile, farmers find it very difficult to shift the fragments of crop land resulting from reduced acreage allotments into profitable uses. This causes them to turn to other enterprises even though the returns may be low. Thus, trouble is created for other farmers. To relieve this situation, supports and controls are extended. Extending supports and controls creates more problems than it solves. Farmers who might otherwise find ways to shift into main or specialized production are now plagued with fragments. The portions of their resources which are cut off from the controlled crops by allotments are too small for profitable use in the production of other things. So it goes, on and on, until all is controlled, in farming and other segments of the economy. It is a step-by-step process which comes about so gradually that the ultimate results are concealed. For this reason, it is imperative that we should always preserve the right to repeal and the will to do so when it becomes necessary.

Now, arresting growth and change results in destroying freedom and the benefits of science. Security is bought at the price of stagnation.

A Way Out

The third process for making the necessary decisions lies in an area of compromise between an absolutely free market and a rigidly supported market.

By supporting prices at a level which is low enough to permit the free market to operate without interference except in the case of severe price drops, the benefits of both may be obtained without sacrificing either. Supports would thus serve about as a net does under trapeze performers. While the act goes on, the actors are protected without interference in case they fall. Thus, the actors are challenged to do their best and give the spectators their money's worth.

The American economy may be likened to a spinning top. It cannot spin and have perfect stability. It is usually most stable when spinning at high speed. Through the free market, decisions are made for the production of more than 8-million items. We are constantly cutting off some items and adding on others as the economy spins along. Many people seem obsessed with the idea that all our economic goals can be automatically attained by some quick, easy, and single change such as tampering with prices. Such a narrow concept of the alternatives open to us only frustrates our efforts and keeps us from doing many more constructive things.

While perfect security and stability are not possible if economic growth is to continue, it is also evident that economic collapse is most wasteful. Therefore, some protection from excessive economic instability would seem desirable.

In agriculture, the nature of problems resulting from instability is uniquely different from those in most other areas of production and consumption. Much of this springs from differences in the capacity to consume. Many families are very ready to use two or more automobiles, a TV for each room, a winter and a summer home; and so on we might go with an insatiable desire for these and other non-farm products.

When it comes to food items the situation is quite different. Few people have a second stomach. Those so unfortunate as to have excessive size are generally trying to reduce. As a result, a slight increase in the output of food products in excess of usual demands causes a many-times-greater drop in prices to farmers. The net described above may best function to absorb the shock of these temporary and unpredictable surpluses. The situation with reference to fibers is not quite so erratic as for foods, but there is still relatively less stability than in non-farm industries.

Economic progress depends upon the extent to which we can promote efforts to find new and better ways of doing things and muster the courage to take the risks in putting them into operation.

We might appropriately ask ourselves whether there has been a great change in values on the part of the majority of the people, whether we are really tired of change, growth, consumer sovereignty, and the individual responsibilities that go with democracy and capitalism. If we have experienced a great change in values and are tired of these things, then there is little prospect for the future of our economy and the American way of life.

It is the responsibility of all people to ponder the nature of the choices available and do those things which will, in their opinion, promote the most rational action.

Current Problems for Agricultural Lenders

George H. Stebbins, *President*
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Simsbury, Connecticut

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This is a great audience to address. It is an important group. In it are the erudites, the educated, the sophisticated, kings of finance, planners, thinkers, administrators, white collar agriculturists, salesmen, teachers, leaders, economists, and a host of others. Here, too, are many men who hop in their car, crawl down a dusty or rutted or muddy road, and end up conversing with a farmer while leaning against a barnyard fence. Toward this latter-mentioned group are these thoughts directed.

Current problems or future problems or continually changing problems or perpetual problems—should they be discussed from the localized viewpoint of a worm or from the overall, high-level scanning of an eagle? The Commission's Planning Committee was not specific when this afternoon's topic was assigned. Maybe we'll develop an admixture of the problems from several levels of approach.

There are reasons for so doing. Many in this audience are heads of or are in farm or agricultural departments of banks. Many others are in country banks and lend to farmers, butchers, bakers, and candlestick makers. Another large segment are the top administrative officers in their banks and, as such, have varied responsibilities.

Some of the topics may seem far fetched and with little or no application to the assigned title. They will be presented with the belief that each has some bearing and that a better understanding of each may take some rough edges off current problems.

Deposit Allocation

Recognizing that there always are exceptions—by and large, big and small, country and city banks are employing a larger part of their deposits in loans than has been customary in the immediate past.

Liquidation of short-term investment paper and, in some instances, conversion of intermediate- or long-term bonds into loans suggests that many banks—small and large—have a drift-with-the-tide policy of "We will invest only that portion of our deposits not needed for reserves and such funds as we are unable to lend on a basis satisfactory to us."

Such a policy, or, rather, the absence of a directional policy, inevitably leads towards a too-full portfolio of some classes of loans and an investment program that serves only as a mopper-up-of-cash in excess of legal reserves.

Banks in agricultural areas have been slow to adopt available simple tools as an aid to formulating resource allocations for loan and investment purposes. Using varied-colored inks or pencils and superimposing one year's graphs on another soon give the intermediate and seasonal deposit variations and develop the longer-term up or down trends. Most banks have a deposit pattern all their own. We can't rely much on our neighbor's pattern—it probably is different from ours.

Once we visualize our bank's seasonal and long-term trend pattern, better banking requires a policy determination of:

1. With allowances, the proportion to be loaned and the percentage to be invested.
2. Of the loanable portion of deposits, the proportion to be available for each of the several types or classes of borrowers.
3. In areas of sizable deposit swings, the stated investment policy surely will call for utilizing very short term, highest grade investments in the period of bulging deposits and low credit demand to assure funds to meet the deposit decline and active seasonal demand for credit.

Stating this a bit differently, a bank might, after analysis of the volatility and swings of its deposits, decide that 40 percent of deposits should be in reserves and investments, leaving 60 percent of deposits available for loans.

Having made a determination that 60 or some other percentage of deposits will be available for loans means a further determination of what part of 60 percent will be available for agricultural loans, the portion for consumer credit, the amount for loans to merchants and businesses, and the amount for other loan category demands in your area.

It takes less effort and is less embarrassing to drift with the tide than to chart an allocation-of-deposits course. Inevitably, such aimless meandering results in overextension in some or several types of credit in aggregates and in an inability to lend safely to those to whom additional credit is most necessary for the benefit of the local, area, or even national economy.

It may be that some in this audience have learned for themselves or have been told by their presidents that their loan potential is full. Banking is not a static business. Yesterday's ineffective planning cannot be cured overnight, but immediate future planning may obviate a repetition as soon as a few pages of the calendar have been turned.

Value of Money

When we have established some variable-sized amounts available for our several kinds of borrowers, what should we do about the price at which it will be loaned? It could be, but it is unlikely, that some of you come from banks whose costs of operations are steadily declining. Who among you have not experienced an increase in almost every phase of your personal living over the past decade and a half? As you approached this old city of St. Louis, how many of you thought about the increase in rail fare, the higher cost of gasoline, the upping of motel rates since you visited here first some years ago?

Some 20 years ago, we conducted a rather extensive questionnaire survey among some 2,500 farmers in 12 northeastern counties. A number of questions was asked. The importance of many of them and the answers received have passed with time. One I remember and remember well.

Is the interest rate too high? The generalized answer in every instance was that the rate of interest was not of paramount importance—as long as it was fair.

Lou Zehner, in the October issue of "Farm Finance," a monthly publication of the Federal Reserve Bank of Boston, published a consolidated statement of income and expense of 26 customers of the Peoples National Bank in Barre, Vermont. Fieldman Ray Rogers reported that this group averaged $12,647 in receipts, $9,410 in expenses, and debt of $13,442. On the average, each paid $659.83 in interest. The article points out how a full 1-percent increase in rate on all of the debt would have resulted in an increase of $134 or 1.4 percent of total expenses.

No one, no where, ever welcomes paying 1.4 percent more for anything. The facts are that you and I—everybody—have become inured to ever mounting costs for what we buy, for what we hire. As long as the wages of indusry, commerce, and trade spiral upward, so will the costs of operating the nation's banks work higher and higher. If we are not doing so now, tomorrow is the last day we should see pass before we start taking a realistic look at our charges to borrowers and other users of bank's services.

Policy

One of the tragedies of the splendid development of banking's farm representative program is that too many men with an agricultural background have been brought into banks, have been introduced to the staff, shown the location of their desk, and then been told: "We have lots of confidence in you; you're our man; go to it." You recognize that as a bit of satire, and yet there is more than a modicum of truth in the reference.

Agricultural banks, city banks, little banks, big banks have, in general, been slow to put on paper their management's and directors' concepts of the use and employment of their depositors' monies.

Stated agricultural lending policy can range from the single statement, "We will entertain every application from anyone, for any purpose, as long as he raises a crop or an animal" to a fairly complete, well-thought-out statement.

The farm representative not working under a written statement of policy should create his own and be restless and uneasy until his, or his Board's modification of it is approved and a matter of record.

There's nothing wrong in approving loans on an exception-to-policy basis, when and if circumstances warrant. The point is, off-horse deals won't get on the books until after they have been thoroughly discussed and approved on an exception basis.

Like an unused pair of shoes, policy will get cracked and creaky unless it is brought out, aired, and repolished every 12 months or less.

Farm Representatives

By now we have established policy; within fluctuating limitations we know the ceiling of loan limits; we know that, if we fill the pot today, we can pour in nothing more tomorrow; and we have previously or by now established a fair rate of hire for such of our deposits as will be loaned.

How should the farm representative list and inventory his personal aptitudes and abilities? Has the sound of his own voice so impressed him that he invariably talks rather than asks questions? Has he become so expert concerning the going prices of things that he relies on accurately totaled appraisals of things instead of honest, down-to-earth analysis? Has he let the too-often-asked committee question, "What's your appraisal?" lure him into deals safe for the bank but perhaps with some hazards for the borrower? Does he always remind himself that capital loans can be repaid only from profits from sale of assets or by refinancing? When he has a deal that obviously must be stretched a point or two, does he rely on equity above the existing encumbrance? Or does he reason on the same bases other long-term lenders are using in placing mortgages, that there is little borrowable equity even though currently there may be salable equity? Does he place reliance on his applicant's history or record of performance, or is he apt to think, "This year they will all perform alike regardless of what each did in the past"?

Is he quick to spot the loan needing an adjustment in terms to prevent it from souring and thus turning a deserving note signer into a tragic delinquent? Is he fair and just when he realizes the once mutually-agreed-on loan isn't what both parties hoped it would be? Or does he summarily get riled and dismiss his bank's part by a curt "Send it to the lawyers with instructions to collect in full"?

If, through education and background, he is better informed than his committee, is he continuously trying to upgrade and widen the vision of his committee or board; or is he content to stay rutted and dismiss his responsibility with "Well, if that's the way they want it, that's the way they'll get it"? Is he keeping his ear to the ground so he knows what's in the mind of the College of Agriculture, the Extension Service, agriculture's on-the-land progressives, the editors of the agricultural press, and other up-to-daters?

By chance, has he become so imbued with the public relations angle of his job that he is primarily an attender of events rather than a doer of things?

When we who handle some or much agricultural credit are tried in the crucible of employers' and credit users' opinions, in the aggregate we probably come close to standard. Only by frequent test checking and reappraising ourselves and our methods can we raise the test of our metal.

Tools

Policy, percentage of deposit ceilings on volume, fair return for use of depositors' money, assuredness that we are what we ought to be suggest a query or two about the tools of our trade.

Many times you've read there is no such thing as a prefect application, financial, and operating statement form. It never has been and never will be devised because all forms were printed yesterday to serve the needs of the days before. Today, conditions are different; tomorrow they will change again. However, we fail in our duty if we neglect to revise, to cut out questions the answers to which are not pertinent creditwise, to simplify, to realign for ease of completing or understanding. Such forms are the basic, number one tools of our trade. We need the best that man's brain can devise.

It's easy to understand. The dollar is the common denominator of our business. It always has been so. Traditionally, then, banking arranges nice captioned vertical rows wherein the farmer lists some data about herd or flock numbers and all his figures about the dollar value of the things he owns. Sometime, somewhere, a progressive bank will devise a form on the asset side of which will be spaces only for the listing of creatures by age, breed, and numbers; buildings by description; acres by use or by crops; inventories by quantity; machinery and equipment by age and make; a few captioned slots for assets measurable only in dollars—e.g., cash, receivables, C.V.L.I., and investments. The debt side of that statement will show the name of the creditor, the amount of the debt, rate of amortization, the date the debt was incurred, and the purpose of the debt. Assuming these data are augmented by at least a fair operating statement showing number of hundredweight, head, bushels, or other units sold as well as dollars received—then and at that moment is that bank assured its approvals will be based on analysis. Gone will be the approval coming quick on the heels of the senior director's "Well, he's got a lot of real estate equity, ain't he?"

Brochures, chapters, and perhaps books have been published about the farm credit file. Examiners and supervisory authorities are not at all hesitant in saying banking has made much progress in organizing its files, but perfection is still a far-distant goal. Too many people in banks operate with continuous mixed fears and hatreds of the examiner. Many, many others welcome his appearance, advice, and criticisms. The facts are that the examiner gets on his "high horse" only when he is unable to find in your file what you think justifies the granting of the particular credit.

Comparison statements which reveal numbers and ages of flocks and herds as well as financial data are much more valuable than those with dollar comparisons only. The dollar value of inventories, of animals, and poultry can jump all over the lot. The test of performance on the forthcoming loan is tied much closer to what John Farmer has to do with than the dollar value of these essentials. Noting that the asset value of laying hens has dropped a third from last year's statement to the current one can be disconcerting. Learning that exactly the same numbers of layers are on hand this year as last is basic.

The Promise to Pay

Policy, variable loan volume limits, rate of interest, able men, and a good basic farm credit kit suggest a look at the promise to pay we ask our borrowers to sign. Don't squirm—the truth is, too many are written on a 90-day basis when 90 days relates to nothing except ease of computing discount at 6 percent on a 360-day basis. Too many are written on "demand" and then are tortured with all sorts of fine print on the note or by typed side agreements.

An experience, amusing to me, may illustrate this thesis on maturities. Talking with an able banker, a man of standing in our fraternity, I listened carefully while he extolled the virtues of railroad equipment trust certificates as an investment medium.

As you know, essentially they are a sort of chattel mortgage deal covering railroad engines and box, tank, flat, and gondola cars. Probably every kind of rolling stock has backed equipment trust certificates at one time or another. Some of this equipment travels from one road to another —back and forth—carrying a varied load in all sorts of weather under all possible conditions. Rate of amortization varies—probably a shorter overall term on cattle cars than on diesel locomotives but certainly on an intermediate- or longer-term basis. To my friend, this was one of several ideal investments in which he would place the bank's deposits. True, he could pick out any particular serial maturity he desired.

Conversation drifted around to loans—to setting up longer-than-normal loans on a fixed—stated in the instrument—rate of pay-off. Was I surprised! "No, sir, so help me Hannah, this bank never has had and never will have a longer-than-four-month maturity on its books except in its consumer credit department." Intermediate-term loans on never-seen rolling stock are triple A. Intermediate-term loans to the people he knew and had watched develop—no, never. Well, that's one point of view.

Until agriculture learns to pass more of its going farm enterprises intact from this generation to the next by testamentary documents or by contract, each new generation of farmers will be plagued by the accelerating problem of capital accumulation. It is an age-old problem. It is accentuated as farms become more mechanized and larger-sized businesses. Here again is a place for some "intermediate" thinking.

Never have we heard an out-and-out plea for wholesale easing and lengthening of terms. Since the day of the chattel mortgage baked in clay in Egypt, the problems and abilities of the next applicant have differed from those of the immediate last borrower. The plunger, who, given enough rope, would buy the moon and the ring around it, shouldn't be treated in the same manner as the intelligent but patient plodder. In all our loans, other than those for financing current operations, the liquidation needs over a period of time are self-evident. If we do a reasonable analysis job, we will prove to ourselves that there is no overall magic in our 18-, 24-to-30-, or 36-month time limit for pay-off.

If we would, we could unrut ourselves in many situations where a justifiable stretch-out to meet the conditions of that farmer on that farm would benefit him and not result in his incurring additional debt elsewhere.

Our forefathers made many intermediate-term loans. They did it, and we think they kidded themselves, by the 90-day renewal method. Modern banking can and should take more realistic looks at its rates of pay-off and shouldn't hesitate to set up understandable notes calling for the agreed-on pay-off from its date to the final maturity.

As long as the business of agricultural lending deals with individual farmers, there will be plenty of opportunity to grant intermediate credits to those for whom such terms are sensible. Time will prove them to be mutually advantageous for lender as well as borrower.

Collateral

Some day a man or woman of understanding will be financed by a bankers association, by a university, by an educational foundation, by a corporation's charitable foundation in order that he or she can come up with the story of the 14,500 banks' security attitudes and practices.

Customs and habits are deep-seated. Banks, like families, do not change their customs abruptly or quickly. All of us carry with us some or all of the thinking and approaches of our early-year superiors.

Some of us guess that banking absorbs a terrific labor and time overhead by sticking with collateral practices because of custom rather than creating security instruments only after careful analysis indicates the risk would be too great without collateral.

Probably in this afternoon's later sessions, collateral will be among the topics discussed. Very likely there will be general agreement that collateral is essential when one or several of these factors are present:

1. When your borrower has a number of sizable creditors, any one of whom might, through legal action, take machinery, equipment, livestock, or inventory essential to the operation in satisfaction of his account.

2. Where there are insurable hazards that could be but are not and will not be minimized by insurance.

3. Where the individual credit is "outsized," where the amount of the exposure is big from either the borrower's or your bank's point of view.

4. Where the borrower is young and unproven or where he is new to your community and there has been no opportunity to observe his performance.

5. Where your borrower is of such low mental capacity that he would hock his assets to the hilt for all sorts of damnfool things and enterprises if you, as his major creditor, didn't have him all tied up.

6. Where past performance indicates you cannot rely on his and his wife's "we promise to pay."

7. If you are the kind who would allocate a portion of your depositors' monies for a loan to farm operation so hazardous, so volatile, that as you approved it, you said, "We probably will have to liquidate this fellow to get our dough back," then surely you would be entitled to cover everything down to the last button of his last shirt. If you make that type, you are no banker. You should paint out the bank sign and hang three balls over the main entrance.

You will add to this list this afternoon, but these just given are pretty much an analyst's framework for determining collateral needs.

The personal property lien records of many of America's towns and counties are cluttered with instruments that never should have been drawn. Thousands of this country's honest, progressive, financially solid farmers never had the opportunity to prove that their word is as good as their bond because custom and habit in their area somehow says, "If you are a farmer and want to borrow a 'nickel or a dollar,' you must pledge some security."

In these days of high labor expense in banks, it is especially appropriate to take a long, hard, studied look at the need for and costs of security papers when dealing with those whose hands are clean and whose past records of accomplishment warrant faith in their future.

Selectivity

This is a touchy subject. Every Jones in the country is of the opinion that he and his needs or maybe wants or maybe even desires are as deserving of favorable credit consideration as those of every Smith.

The actions of one of the country's 14,500 commercial banks may not have a great bearing on our national economy. The aggregate action of all the banks has a tremendous impact on the economy.

In these days when the nation's dollars are so fully employed, good banking requires careful consideration of every request from the point of view of whether or not the proposed credit would aid or harm the local, area, or national economy.

We in banking cannot escape this responsibility. We may duck it. We may be indifferent to it. Our depositors are relying on us. They expect their dollars to be marshaled for the best interests of all. The requests of the Smiths and the Joneses need to be weighed carefully in these inflation-tinged days when the economy forges ahead at a pace faster than savings and profits are accumulating.

This is not an easy problem to solve at any level. At no level is it more difficult than in our country banks. We quarterbacks have the ball—how well will we call the plays?

Current Problems—Continually Changing Problems—and Perpetual Problems

This country's vast and varied agriculture never will be without its problems. When today's are cured, tomorrow will create new and different ones. Agriculture deals only with things and creatures which come into being, grow, mature, and die—that alone is assurance it always will have problems. Weather, pests, and markets are never static. World conditions and economic forces are in a constant state of flux. It hasn't been easy; but down through the years, the American farmer has a record of debt paying—of meeting his obligations—comparable with any other segment of American business.

We in agricultural lending are fortunate that men devised a banking system whereby, at a profit, the dollars of those who deposit them can be exposed in loans to those who can profitably employ them.

Ours has been a great heritage. Constant improvement of our own practices and thinking insures against ever losing it.

Following this presentation, the group broke up into five Bull Sessions to carry on an informal discussion based largely on the material given by Mr. Stebbins. Discussion leaders for these Bull Sessions were:

T. P. Axton, *President,* Lafayette Savings Bank, Lafayette, Indiana

S. E. Babington, *President,* Magnolia Bank, Magnolia, Mississippi

Leonard N. Burch, *Vice President,* The Denver National Bank, Denver, Colorado

Nicholas A. Jamba, *Vice President,* National Bank and Trust Company, Norwich, New York

Rex B. Stratton, *Assistant Vice President,* Security Trust and Savings Bank, Billings, Montana

"Our Experiences As Grass-Roots Ambassadors"

LOIS HUENEMAN
Route 4
Garner, Iowa

JOHN EX RODGERS
Paradise, Kansas

★

LOIS HUENEMAN: IFYE, as we call the International Farm Youth Exchange Program, has always been found to develop better understanding among all peoples by utilizing the common bonds of those who till the soil. The need among rural people, who make up the majority of the world population, to know and understand one another better is especially important because of the comparative isolation in which some farmers live.

The International Farm Youth Exchange Program is tailor-made to this situation. Young men and women from United States farms go to live on farms in all corners of the world where they work and play and share the day-to-day experiences with rural people from other countries; in turn, rural people from those countries come to the United States and sample our life.

Learning by doing is the sound educational principle which we are trying to practice. Through the International Farm Youth Exchange project, I had the opportunity of spending the summer of 1951 in Germany. I found that living with people as a member of their family, working with them, playing with them, eating their foods, and learning their customs created a warm feeling of friendliness and understanding. Mistrust and misunderstanding soon vanished when they saw us fit ourselves into their way of life.

I was happy at being assigned to Germany, and visited with many, many people while I was over there. Oftentimes we talked about war and destruction because it was all around us. Only once was I actually blamed for the war because I was an American. I would like to relate it to you. It happened on a weekend I spent in a German friend's home. They had been so anxious for my visit they'd told everyone in the village that an American friend was coming. So, when I got there I had to visit every home in the village. It was tiring, but it was wonderful, too, to a point. There was only one more home to visit and in this home there was a very old man. He was sitting at the table and they introduced me to everyone and then he said, "What do you think of our Germany? It looks terrible, doesn't it? You Americans did it." Well, it was pretty hard to keep the lump out of my throat and the tears from my eyes, but his family immediately silenced him and changed the subject. Afterwards, the girl I was with told me that this man had lost all of his property and his home during the war and that two of his sons had been killed. I doubted if any of us would have acted differently in the circumstances.

This was the only time in all my stay there that I experienced anything like that. Most always people would say, "Yes, we do have a lot of ruins. Destruction is terrible, but that's war. We did the same thing in other countries. Oh, if only we could have peace."

It seemed to me that the German people had a two-sided picture of Americans. As individuals, they think of us as carefree, wealthy, freedom-loving, generous as children, yet lacking a little development of culture, and as a nation affecting the destiny of Germany and the world.

The picture becomes complicated. They are critical of us many times but, to the credit of our occupational forces and the democratic governmental system set-up, they have learned that they can express their opinions without threats and they appreciate it.

Aside from the American soldiers, the people of Germany have formed their opinions of Americans chiefly through three sources: movies, magazines, and tourists. The latter often criticize other lands for the things they do and the way they do them without really knowing the reason they're being done that way.

One of the biggest jobs for an IFYE going to a distant land or one coming to the United States, is to bring back the ideal that people are people the world over and that they are interested in the way of life of others. We try to bring unity into the world by sharing the understanding we have gained with others and to take over and bring back information and explain not just what is done but why it is done that way.

Undoubtedly you are thinking that's a big job. Yes, it certainly is. However, we realize that if we want to leave our footprints in the sands of time we must wear work shoes and the task is not easy.

Sometimes we become a little discouraged and let ourselves feel that we, as individuals, can't do much and that our individual efforts are rather insignificant. Well, this quotation, variously credited, gives us a guidance in this regard: "I am only one, but I am one. I can't do everything, but I can do something. What I can do I ought to do and what I ought to do, by the grace of God, I will do." If it is not a big thing, it is a lot of little things involving us and those around the world. Individually we make our little efforts, altogether we can accomplish miracles.

The challenge is greater today than it ever was and we have made progress but, as the 4-H tradition, our goal must be to make the best even better. Our objective is world understanding and peace and this represents a challenge that will stretch the best of us.

I would like to tell you about just a few of the things I learned as an IFYE.

To begin with, the average family life in Germany is somewhat different than we have in this country. The people live in little villages, close together, and the fields are scattered all around—maybe one strip two or three acres in size belonging to one farmer, another to a second farmer and so on. Maybe a farmer has a field on the north side of the village and another on the south. They are in all directions. The reason for that dates 'way back to early inheritance laws. When the father died, his land was divided equally among his children. Maybe one piece of land had better soil than another. If so, each child would get a strip of land of good soil and one of poorer soil and so on. That resulted in a very picturesque landscape, but imagine trying to farm it according to our American standards with our machines! It couldn't possibly be done.

I felt that I couldn't very well criticize their not using large machines when I saw how they farm there and learned the reason for it being done that way.

The farms are about 17 acres in size, and much of the farm work is done by hand labor. Sixty-two percent of the farm work is done by women Now, there is a reason for that also. First of all, there is a shortage of men because many were killed during the war and another reason is that, because their farms are so small, the father will perhaps take another job to make a little more money for his family.

I lived on above-average farms because the poorer or average families couldn't keep an extra person. But I had the opportunity of visiting all classes of farm homes and all classes of people and I was out in the fields working with the poorer peasants and got to know some of them very well.

I had a good opportunity to meet a lot of young people. I attended rural meetings and visited the American House in Heidelberg. I gave a number of talks to young people's groups. I can't say that they were the best talks because my German was a little rusty at the time, but I am sure they understood what I meant.

The people over there were very interested in my home, my family, what we did for recreation, and what kind of work we did. They asked about our schools and the type of clothes we wore and the different customs we had. They asked what music we liked, and if I could jitterbug. You name it, they asked it!

Another commonly asked question was if our family had a car. That was something they, of course, wondered about because most of the families over there did not.

As we are getting very near the holiday season, I am also reminded that practically everyone asked me how we celebrated Christmas. They asked all about our customs and wondered whether we had Christmas trees. Of course, I assured them we did. They were really surprised; they thought all we had was mistletoe.

I will always rememder how thrilled and interested all the girls were when I attended a Home Economics Training School for two weeks over there and, as part of the sewing class made a typical American-German dirndl dress for myself. It is the kind of dress that practically all the girls and women wear, especially in Southern Germany, and every day they watched my progress and looked over everything I did to see if I could do it.

I was glad I had taken Home Economics in high school and learned to sew at home through 4-H and also through my mother because they really inspected it carefully. The reason they thought no Americans could sew is that they thought we always bought our clothes.

The typical dress for the men is a little different than you see around here. They wear what look like Bermuda shorts except they are made of leather. I was told they were very practical for three reasons. First of all, they only need two or three pair in their lifetime, depending upon how much they grow, of course, and secondly, they never need to be washed because the dirtier they are the more precious and valuable they become, and third, if the closet is full they can always stand them up in the corner!

The memories of that summer are relived by me very often and that is true for all other IFYEs. My home has a welcome mat out for any exchange student who might come. And very often they do stop in and have dinner or even spend the evening at our place because it is sort of a chance for them to get a touch of home. Even if they are not from Germany, it is probably close to their land, especially if it is Europe, and we talk about other lands. I know how I felt over there when an exchange student that had been in America came and talked to me: it gives you a touch of your home country and you long to talk to someone who knows about it. It is really very hard to find any difference between people in other lands. Of course, they dress somewhat differently, they speak another language, they have probably had more terrors and suffered more from the war than most of us but, as a general rule, their hopes, dreams, wants, and desires are very much the same as ours.

The young people over there do want peace and understanding as much as we do, and they are desperately trying to find the right thing to do.

In closing, I would just like to read you the words of the song we call our IFYE song.

THE SONG OF PEACE

This is my song, O God of all the nations,
A song of peace for lands afar and mine.
This is my home, the country where my heart is,
Here are my hopes, my dreams, my holy shrine.

But other hearts in other lands are beating
With hopes and dreams as true and high as mine.
My country's skies are bluer than the ocean
And sunlight beams on clover leaf and pine.

But other lands have sunlight, too, and clover,
And skies are everywhere as blue as mine.
Oh, hear my song, Thou God of all the nations,
A song of peace for their land and for mine.

JOHN EX RODGERS: I wish you would try to visualize with me an incident that occurred in France about a year ago and try to see what you would have done in this same situation. It is the month of July and it is very warm during harvest season time. You are just about ready to cut the wheat. You finish your day's work. You are an American sitting around the table with a French family. The Frenchmen don't finish eating until about nine o'clock in the evening and you have just had a spirited discussion with the younger members (kids in about the seventh or eighth grade) about the cowboys they see in American movies. It so happens that the Tour de France, the big bicycle race is on in France. That is comparable to our World Series. So the little kids talk their mothers into letting them go down to the local cafe which is about a block away to watch films for that day of the Tour de France on the TV set. It is the only TV set in town and it is causing quite a commotion. The kids have gone down there and you are sitting around the table lingering over the last cup of coffee. No one says anything and then all at once the father turns to you and says, "Do the Indians eat other Indians or just eat the other people?" What do you do? The only thing that occurred to me was to laugh, and I laughed in his face. I realized it was impolite, but at the same time he realized how absurd, how ridiculous, the statement was. From then on we were friends.

That points up something that shows why IFYE is important—it takes care of misconceptions.

The purpose of IFYE is understanding—and understanding can come only through knowledge. Why is a child afraid of the dark? Because he doesn't know what is there. We are scared of the Russians for the same reason—we don't know what they are like. We are suspicious. We don't understand them. We lack information about them.

This is more the purpose of IFYE than to teach the farm families we visit how to farm or to brag about our production, our machines, our way of life. It is more or less to create an understanding both ways.

I found that in France they had many misconceptions, most of them derived from movies, servicemen over there, and even from the innocent tourists who, in their own way, brag.

I might mention something that happened to an IFYE girl who was over there. She had been in this family four days and every evening after the evening meal she noticed that the people would stare at her and look for her to do something. You get used to the idea of people watching you all the time, but this was unusual. About the fourth evening she asked what was wrong and why they kept looking at her and the younger girl in the family spoke up and said, "You must not be a typical American; you don't put your feet up on the table when you get through eating." Evidently they had seen the servicemen in the local cafes doing that and they had the impression that all Americans did it! It is also true that we Americans have misconceptions about them. When a tourist or serviceman goes over there, he takes pictures. And what does he take pictures of? Well, a team of oxen, perhaps. That is the type of thing that stands out. Therefore, we begin to think it is all like that.

I stayed on six different farms. True, they were a little bit above average: each family had a car, and five of the six families had tractors. One family did use oxen, but that was down in the mountains and it was more practical to use them on some of the steep hills, because the tractors wouldn't be usable at all. You have to understand why they do those things.

We Americans are not prone to eat horse meat. You ask a person and he will just wrinkle up his nose—maybe some did during the war, but nevertheless you don't like to think about it. The Frenchmen consider it a very good food, a staple food. By the same token, you won't find any

French people eating corn. Corn is food for pigs only, with all respect to those of you from Iowa. It is just an idea they have and it is tradition.

So, you have to see both sides of things. A lot of times we say that France is an old country made up of old people, it is deteriorating. Perhaps that's true, but, at the same time, you should look to see the reason why. Two world wars have robbed them of the cream of their crop. Their industry has been seriously damaged as well as their manpower and their spirit.

Perhaps you know that at the last election there was a large Communist vote. I cannot feel that this indicates that France is turning communistic. It indicates a feeling that the people are disgusted with the government in power and, therefore, they protest and vote for the Communists. So, we have to look under the surface.

As far as IFYE accomplishments are concerned, it is hard to put your finger on any one thing. It isn't always those things that result in a full-page spread in LIFE Magazine, but the little things like singing around the piano, the little visits in the evening, and showing them that you can actually work.

Another important thing is the language. When you can communicate with the people in their own language, you are off to a good head start. Perhaps you don't get through to them the first time, perhaps you have to repeat everything twice ~~and perhaps they have to repeat everything twice~~, but if you are communicating in their native language, they appreciate it. Especially the French, because they consider their language a very historical, cultural language and they pride themselves in it.

Another thing is when you get down to live with the family and eat the same food they do. You drive their tractors and their horses, you have your own cow to milk, you use the same silverware that they do every day. You notice when you first come they put out the good silverware and that makes you feel a little uneasy, but what brings about a good feeling is their bringing out the every-day silverware and your getting something from the cupboard yourself rather than them jumping up to get it for you. It makes you feel like you are part of the family.

Sometimes, this business of doing your own duties can go a little too far. In France, the houses are all in the village and the plots—out around the village—are very small and very cut up. This one boy was told by the farmer to plow a particular piece of ground. He misunderstood which one it was and didn't know until he got back that he had plowed the wrong field.

I feel that my family is particularly close to this IFYE program. My folks have had two IFYEs in our home. It was quite a coincidence that an IFYE girl from France stayed with my parents while I was in France, and this last summer my parents were so enthusiastic that they had a girl from Wales stay with them. I can tell you, it is amazing. I live in a community of 150 people and I notice a distinct change in that community in the past three years since I have gone and come back and we have had these two foreign girls living there. It is wonderful to see the broader outlook the community has. I can't go home but what someone will bring to my attention some newspaper article that has come out about France. They are more aware of things.

Sure, you still discuss the drouth and the weather and things like that but people have a broader outlook. They know how the French girl cooked those potatoes and they know how well that Welsh girl sewed. They know things like that. I think that is an improvement. It shows we are getting somewhere.

Another thing is the talks and the reports that we give when we get home. It is an education in itself for us and for the people who listen, I feel, because we give them an opportunity to ask questions and it really puts us on the spot. You have to know what you are talking about. Like newspaper articles, it makes everyone aware of what is going on. It starts with the individual and the community and pretty soon the county is aware of it and then, before long, the whole state is aware of it.

It is always of interest to me to see how an IFYE retains his enthusiasm. The alumni support to an IFYE is important, too, because of orientation, evaluation, welcoming home the new IFYEs and telling them when they leave what to expect and what they should report and so forth. Actually, I think it is very important in developing leaders here in the United States and in foreign countries. In France, I met an IFYE who had been in the United States. You can tell they have a profound influence in their community over there as well as we have here.

I would like to acknowledge the support you bankers have given the IFYE program. We really appreciate it. It is indeed a very important thing. It is a fine program on your part.

I feel it was a very good thing when I was over in France that I was able to say I had been sent over there by Americans, not by the Government, but by individuals, by people who were interested and contributed to this program and were supporting it actively.

You bankers on the local level can help a great deal by showing your interest and understanding of what the IFYE is doing and what he has done. Tell him if you think he is doing a good job, or, if he is doing a bad job, tell him that, too. We are glad to accept criticism and we feel you can help us in many ways.

In closing I would like to say that this program is not on high, diplomatic levels but, on the grass-roots level—on the people's level, individual to individual. We eat the same food, we speak their language, we help them with their work. Our objectives are that we want understanding, that we try to know these people, that we want to see what they are doing and understand them on their level.

I would like to close with what John Steinbeck said in a recent edition of Holiday, "It is hard to hate the people you know."

Thank you very much.

The Soil Bank

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THE SOIL BANK authorized by Public Law 540—84th Congress, approved May 28, 1956, means different things to different people:

1. Some emphasize the program as one of income insurance on the grounds that it will provide some income for participating farmers if there is crop failure on the land included.

2. Some think of it mainly as a program to transfer money from taxpayers to farmers via the Treasury.

3. Others see it as a plan to step up conservation practices. Among these are some who see great possibilities of induced reforestation and of expansion in wild game resources.

4. Still others support it as a program to hold output in check until carryovers can be whittled down to more normal proportions and to adjust capacity to produce to fit available markets for the longer run.

This discussion will assume that the last named objective—that is, adjustment—is primary. This is based on the fact that the outstanding cause of unfavorable prices for some farm products in today's active markets is surplus. In spite of the popular regard in which government price supports apparently are held in some political and other circles, their effects on the farm income situation are ameliorative rather than curative. They attack consequences rather than causes. Their longer-run effects might turn out to be harmful rather than helpful. The basic problem is one of adjustment. This is what led to the passage of the Soil Bank Act.

It is not contended that the soil bank program may not contribute to the other lines indicated above. However, these are by-products, not the major objective. Were the purposes actually crop or income insurance, the program would need to be available to producers of all farm products, not merely of the six "basics" (wheat, cotton, corn, tobacco, rice, peanuts) as is now the case for the acreage reserve. If the program were intended to add to farm incomes generally, then it would not center so heavily on selected crops, and other means for determining the amounts of the payments to be made to individuals would need to be developed. If its intent were primarily that of conservation, it ought to concentrate heavily on areas and conditions calling for conservation measures rather than being a general program spread across the board. No one program can serve all of these ends adequately. To be really effective in obtaining adjustments, its operations must be geared to that specific goal. The measurement of success of this program should be in terms of the amounts of adjustments secured per dollar of expenditure.

Soil Bank Provisions

Before we attempt to appraise the prospective accomplishments of the soil bank, it may be well to remind ourselves of its major features. Two types of "reserves" are provided: the "acreage reserve" and the "conservation reserve." The main objective of the acreage reserve is to hold some of the more productive land which has been used to produce commodities in surplus out of use until excess accumulations are absorbed. The conservation reserve is intended to provide longer-run adjustment of capacity to produce to fit available markets by shifting some land out of farm production or to less intensive use as, for instance, from wheat to grazing.

Land, in order to qualify for the acreage reserve, must be part of the farmer's acreage allotment for one or more of the six basic crops. Thus, a wheat farmer who places 50 acres in the acreage reserve will reduce his acreage allotment on which he can produce wheat or other crops by that amount. Payment to the farmer for holding such land out of production is intended to replace the net income he could expect to receive if he continued to use it for crops. In the case of wheat, for example, the present payment represents 60 percent of the price support times the average yield for that area. The farmer is not to use this land for production but is required to keep weeds under control.

As an aside, it might be observed that some conservationists deplore the idea of nonuse for such land. They think farmers ought to be paid for putting cover crops on it to check erosion. However, in areas where summer fallow is a customary practice, these acres will create no new problem if so used. Moreover, except in low-moisture regions, plant growth to help keep the soil in place will soon show up. The problem of weed control is likely to be greater than that of cover in such areas. Besides, the acres involved are not likely to be land on which soil blowing or washing is the most serious. The farmer is permitted to practice green manuring on these acres as long as he does not graze or harvest a crop. Attractive grass growth on such acres would build up pressures to use it for grazing or hay and thereby shift surpluses to livestock.

Conservation Reserve Phase

Any land which the farmer has been using for crop production, basic or non-basic crops, may be eligible for the conservation reserve. In this instance, the farmer enters into a contract with the Government covering that particular land for a period of three to 10 years (up to 15 years in case of timber). This land may be put into grass, timber, or used for water conservation subject to approval. The Government will assume up to 80 percent of the cost to establish the approved, changed use and make an annual payment for the duration of the contract in lieu of the income the farmer would expect to receive if the land were cropped. This payment varies among the states and for areas within the states. The announced state averages range from $8 to $13 an acre, which means that the overall range is somewhat greater than this.

It may be worth noting, in passing, that the Soil Bank Program aims to do something we seemingly have not had courage to do under allotments and marketing quotas; namely, to hold diverted acres out of production for market. Acre payments should make the achievement of this end possible.

Some limitations on the effectiveness of the program in adjusting production may be noted. There is an obvious adverse selection, particularly under the acreage reserve, because farmers naturally will want to take out the poorer acres and use of average yields means that the incentives to participate are greater for farmers who have below-average yields than for those with higher yields.

Participating farmers, particularly where the acreage they enter is small, have an inducement to offset the reduction in acres available by stepping up the output on remaining acres. This, likewise, will tend to reduce adjustment results somewhat. This is accentuated by the fact that, for the present, at least, the acreage reserve is on a year-to-year basis, which will permit rotation of the lands included. Pressures to make participation in the program available to all farmers also tend to limit results because the opportunity to favor the land which should be in the program will be curtailed. In view of these considerations, a 10-percent cut in acres can hardly be expected to yield a 10-percent reduction in output.

There are penalties to cover cases where the farmer fails to live up to his contract. How effectively these penalties are applied will influence results. Lenient enforcement will invite abuses. Pressures to allow grazing or cutting of hay on the land involved will be strong. These need to be resisted lest the program become one of transferring the surplus problem from crops to livestock.

Can the Soil Bank Be Strengthened?

How could this program be made more effective? One way is for the farmers as well as the public generally to demand that it concentrate on the job of adjustment and guard the public's interest by insistence on buying the largest possible amount of adjustment with the funds available. Another is to increase not only the right of the administrators to be selective in case of the lands included, but also to insist that they exercise that right. No one should be forced to enter the program, nor should any one be privileged to force his acres into it. In crops such as wheat, which consist of fairly distinct classes, selectivity by the administration should lead to concentration on those classes for which the surplus problem is most serious.

Serious consideration should be given to requiring farmers participating in the acreage reserve program to enter the same acres for a period of years to avoid having this program used by farmers to step up their yields by rotating acres in the program. Let us not forget that it is adjustment not output expansion for which we are paying.

Apparently, the point is not generally grasped that the Government, in a sense, is bidding against itself. If it maintains price supports on basics at attractive levels, it must provide still more attractive incentives to get farmers to place some of their acre allotments into the acreage reserve. It makes sense to have a program of gradually lowered supports as adjustments take place in order to minimize this conflict.

There is danger that some farms which already are too small for most efficient operation will be induced to become still smaller by the program. Unless administered with judicious selectivity, the program may discourage desirable combination of units and migration from farms on the part of people who may have opportunities elsewhere yielding better returns.

Will the Soil Bank Affect Land Prices?

Some of you have been asked for advice as have I by nonfarmers who think they see an opportunity to buy a farm with the payments they can get from the public by placing the farm in the Soil Bank. Apparently this idea has caught the imagination of more than one. Anyone who harbors such a notion had better investigate the limitations on getting all of any given farm into the acreage reserve or even into the conservation reserve.

Besides, he has no assurance of the permanence of the payments. It would be unfortunate if this speeded up the process of capitalizing the payments into land prices. County committees would appear to be rendering a public service if they are not too encouraging in their dealings with such cases.

For the conservation reserve, the land accepted for entry should be land in real need of conservation treatment or which is not suited for crop production under existing circumstances. Adequate supervision should be provided to see that the spirit, as well as the letter, of conservation practices is observed. Pressures to permit grazing or harvesting of hay from conservation reserve acres need to be resisted lest the program, instead of curbing output, merely shifts the surplus problem from crops to livestock, particularly cattle and sheep. The land should be brought back into use only as demand for it warrants. Perhaps effective enforcement may be aided if administrators of the program and everyone else keep in mind that this is a game in which the stakes are provided by tax money contributed by all. Taxpayers have the right to insist that their interests be protected.

The impossible should not be expected from the program. Its backers tend to oversell it. Prospects are that it may need to be supplemented by other programs to develop desirable land use in some areas. Such need will be increased to the extent the Soil Bank is diverted to objectives which lessen its contributions to adjustment.

There followed a panel discussion on the implications of the Soil Bank program as it affects agricultural lenders. The features of the program were also considered from a regional viewpoint.

The panel was made up of the following:

Dr. O. B. Jesness, *Moderator; Head,* Department of Agricultural Economics, University of Minnesota, St. Paul, Minnesota

Jarvis Miller, *Professor of Agricultural Economics,* Department of Agricultural Economics and Sociology, Texas A. and M. College, College Station, Texas

Dr. Lowell S. Hardin, *Acting Head,* Department of Agricultural Economics, Purdue University, Lafayette, Indiana

Dr. Van B. Hart, *Professor of Farm Management,* Cornell University, Ithaca, New York

W. A. Sutton, *Director,* Agricultural Extension Service, University of Georgia, Athens, Georgia

Agriculture and Big Government

THE HONORABLE EARL L. BUTZ, *Assistant Secretary*
United States Department of Agriculture
Washington, D. C.

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GOVERNMENT IS BIG BUSINESS. It is the biggest single enterprise in America. It will always remain big, despite political promises to reduce it. The tendency will be for it to become still larger as our country grows and the demand increases for various types of governmental service.

This year our Federal Government will spend approximately $68-billion. Expenditures by states, municipalities, and local governmental units will add another $30- to $32-billion. This means that total governmental costs in the United States this year will approximate $100-billion. Our people get back many useful things for this expenditure. They get education, highways, police protection, public welfare, general government, and, of course, national security, which takes a major chunk of it.

The size of government is most meaningful in comparison with our gross national product. This year our gross national product will total about $408-billion. This means that total governmental costs this year will approximate one-quarter of our gross national product. In other words, all of us together decide how each of us spends one dollar in four.

Many of us are concerned about the advance of socialism in America. We frequently think of socialism in terms of the common ownership of our productive assets. From another point of view, socialism may be regarded as the common ownership of the product of society, or the common distribution of income. We have already traveled a long distance down the road toward that kind of socialism. It is a path from which there is no effective return.

The question we face is not whether government will be big business. It will. The important question concerns the proper role of government in your life and mine. What will be the relationship between your government and you?

Will government be your senior partner or your junior partner?

Will government play a dominant role or a subordinate role?

Will government be your master or your servant?

In the last couple of decades, we have seen a tendency for governments more and more to invade the private affairs of individuals and of business, both in this country and abroad. This invasion has not been confined to periods of war emergency. It has proceeded, but at a slower rate, during nonwar intervals. There is always within government a strong urge to grow big and become powerful.

Government Participation in Agriculture

Nowhere does modern government play a more dominant role than in agriculture. It is here that government program has been piled upon government program during the last three decades or more until farmers themselves are understandably confused by the crazy-quilt pattern of governmental assistance to agriculture.

Governmental assistance to agriculture is not of recent origin. The principle is as old as the colonies themselves; only the form and the extent are new. The United States Department of Agriculture is now in its ninth decade. It was created in 1862, the same year in which President Abraham Lincoln signed the Morrill Act establishing the Land-Grant Colleges.

A primary purpose of these colleges was to aid agriculture through education and research. Government today supports agricultural research and education on a broad basis. In the four years this Administration has been in Washington, federal appropriations for agricultural research have increased 75 percent. Likewise, appropriations for agricultural extension have more than doubled.

Government also supports vigorously other types of aid which accrue to the industry generally, and benefit the individual farmer indirectly. Among these are market promotion and regulation, grading and standards, soil conservation, flood control, credit programs, and the like.

Programs of this kind benefit agriculture generally and make it possible for individual farmers to increase their incomes, without accepting the burden of a whole pattern of controls and regulations over their individual farming and marketing operations.

In the last 25 years, we have developed in this country a new philosophy of direct financial assistance to individual farmers in the form of conservation payments, production payments, and price-support loans and purchase agreements.

Under the program of rigid wartime price supports at incentive levels, markets dried up both at home and abroad. Uneconomic production increased on every hand. Unprecedented food and fiber surpluses piled up in the hands of government. These surpluses were inevitably price depressing. They accentuated the very price risks the program was designed to reduce.

The Federal Government, through its Commodity Credit Corporation, is today the world's largest commodity owner and trader. The C.C.C., in its price-support operations, provides a residual but seemingly insatiable "market" for a wide variety of food and fiber no one else seems to want very badly.

C.C.C. operations often dominate commodity markets and determine price movements. The free marketing system will be in danger if government price manipulation continues to grow. It is now within the power of government, either wittingly or unwittingly, to place economic pressure on whole groups of producers and distributors. Through its pricing and sales program, government can shrink or expand consumption. It can squeeze consumers out of the market or bring new consumers in. A government heavily involved in commodity ownership can easily bypass the private marketing system. The present Administration has repeatedly demonstrated its determination not to bypass the private marketing system. But it would take a change of only half a dozen men at the top to alter this policy.

How Did All This Happen?

Let us examine for a moment how this situation arose in a nation that takes considerable pride in its system of free enterprise and private initiative.

As a nation, we have gotten ourselves into our current, almost unbelievable surplus situation primarily because many of our people believed, or at least hoped, an Act of Congress could brush aside fundamental demand and supply relationships. We set out to legislate price at artificial levels, without effective measures to maintain consumption rates or to curb production increases. We shackled price as an economic throttle and provided no substitute regulation, other than governmental controls. In most cases these proved to be too lenient and too late.

We continued this system of wartime price manipulation long after the war emergency had ended, with the result that we now have the unprecedented surpluses of farm products in the hands of government.

As a nation, we have lacked the political courage to face reality. We have jumped from legislative expedient to expedient, as we have repeatedly tried to sweep our basic economic problems under the rug.

The Paradox of Economic Controls in a Free Society

The long decline in prices and incomes over the past nearly 10 years was associated with an uneconomic program designed initially to remove price risk, while at the same time ignoring its impact on net income.

Under this program, surpluses moved into the hands of government. The next inevitable step was the institution of production and marketing controls.

Artificially high prices and rigid controls are the Siamese twins of agricultural policy. They cannot be separated except in time of war, when insatiable demand sops up surpluses accumulated between war periods.

These production and marketing controls, in part, replace the former risk of price fluctuation with the present risk that an individual producer will be throttled back in his right to produce until his income suffers.

These irritating and uneconomic controls are the inevitable aftermath of a price-support system conceived in short-run politics. They portray the futility of seeking solution in expediency rather than in integrity.

Producers of our basic crops have been cut back on production quotas to the point that many of them are nearly forced out of business. Consider for a moment the plight of farmers who depend primarily for their living on cotton, wheat, tobacco, rice, or peanuts. These are basic crops with compulsory controls. Many producers have so small an allotment that they find it difficult to meet operating and living costs with production so curtailed.

A cotton farmer with his 3-acre allotment, a tobacco farmer with his 1-acre allotment, or a wheat farmer with an allotment only 60 percent of what he used to grow needs something besides 90 percent of parity. One hundred percent of parity won't solve his problem. There isn't much that any kind of price-support program can do for him. His crying need is for an opportunity to expand production. But his government prevents him from producing enough to make a decent living.

A Ceiling Over Opportunity

When a commodity gets itself into the fix of producing for the government rather than producing for a growing market, it almost inevitably finds a ceiling placed on opportunity.

When the benevolent hand of government is called upon to control prices and direct the flow of goods, opportunity to produce and market is usually rationed among producers. Farmers are limited to a percentage of some historic base of what they produced in the past.

We must recognize that the combination of incentive price supports and production control programs we have been following leads only to further imbalance between production and consumption, to uneconomic patterns of production, to vanishing markets, to still further production restrictions, to the politics of "equal shares" among producers, and toward a peasant agriculture.

The rationing of the right to produce among smaller and smaller production allotments results in a large number of relatively inefficient production units. This tends to raise unit production costs for the entire production. As a result, important sectors of agricultural production, in our most scientific and mechanized agriculture in the world, now find they are being undersold in foreign markets by underdeveloped areas of the world.

In attempting to eliminate the risk of price variation, the system of rigid wartime supports we followed up until a couple of years ago has sacrificed income stability. In other words, we are in danger of sacrificing income security for the illusion of price security.

This is a risk agriculture cannot afford to carry.

Which Path Should We Choose?

We are faced with a number of choices in agricultural policy, with respect to the relationship between the government and the individual farmer. These choices will not be resolved quickly or easily. They will not be resolved during the next four years of the second Eisenhower term. They will be with us always, through Administration after Administration, as we grapple again and again with the never-ending economic and sociological adjustment in agriculture.

The basic choices we face may be summed up in the following three questions.

1. Will we treat agriculture as an economic entity in which the individual farm family remains free and independent, or will we treat agriculture as a pawn in the political auction ring, to be bought and sold by the highest and most irresponsible bidder?
2. Do we desire a dominating government that insists on being our senior partner, or do we desire a government that will be our junior partner, with you and I calling the shots in our own business?
3. Will we move more economic decision-making to Washington, or will we really promote and assume responsibility at the local levels of government and business?

What Kind of Equality?

A fundamental question we all must face in agricultural policy is whether we want to place an opportunity ceiling over individual farmers as we move in the direction of "equal production rights" for all. Or do we want an agricultural economy in which farmers who are ambitious, capable, and efficient can grow along with the changing times and make a better-than-average living for themselves and their families?

The question really revolves around what kind of equality we are going to guarantee our people.

The American system is based upon the philosophy of equality for all. But equality of what? Will it be equality of opportunity, or equality of reward? Will it be equality at the starting line, or equality at the finish line?

Traditionally, in America, we have insisted on equality at the starting line, and this system has paid off. This is a country in which any youngster, however humble his start in life may be, can aspire with confidence to highest positions of leadership in industry, in commerce, in finance, in farming, in the professions, indeed in government. In this respect, America is fairly unique among the nations of the world. There is here no caste system through which you can't rise.

So it is also with farming. Hundreds of thousands of our very best farmers were not "born to a landed estate." They worked their way up from tenant farmer, to part owner, to full owner, to financial success and security in retirement. The community thought none the less of them when they were tenant than when they were full owner. Their social status was unchanged as they climbed the economic ladder.

In the last generation, as farming became highly mechanized and used large inputs of science and technology, these farmers were able to enlarge their family farms; to use labor and equipment efficiently; to produce at low unit costs; and to make a sufficient income to enjoy good living, to support churches and schools, to educate children, and to provide for their own security in their declining years.

These farmers were good businessmen. They used large amounts of capital and frequently borrowed money. They were good credit risks. They were the kind of family farmer that must always form the backbone of an agriculture that is progressive, prosperous, and free.

In recent years, government controls on production and marketing have made it difficult for many of these farmers to make desirable adjustments to the changing technology of agriculture. In our national efforts to "guarantee the farmer a fair share of the national income," we have moved in the direction of rationing the right to produce among our farmers in such a way that everybody tends to have an "equal share" at a minimum level. This is essentially a process of equalizing opportunity downward.

Equal Opportunity or Equal Reward?

The question we face is just where the farmer would have this equalizing take place. Does he want an agriculture in which every farmer will have an equal opportunity to exercise his initiative and his business ability and his willingness to work? Or does he want an agriculture in which every farmer is guaranteed equality at the finish line?

We might compare the situation to a foot race among youngsters. Here the rules of the game invariably insure that all participants will have an equal start. If they don't get an equal start, they are called back to start over. If, instead, the runners were guaranteed that they would all finish equal, what would happen to the race? The fastest would have to be slowed down to the pace of the slowest. There would be no other way to insure equality.

How many of you have ever seen a kiddies' race at a picnic? One little fellow will run his head off to win, and he gets an all-day sucker for his efforts. But the little stinker who stopped to scratch a mosquito bite and came in last gets one, too.

If you watched closely, you might have observed some distress on the part of the winner at such open-handedness. Next time he won't try so hard to win. It's also a safe bet that the bite scratcher won't exert any undue efforts the next time he races, either. Why should he? He got the same prize as the winner.

If we are ready to socialize our agriculture, then a wonderful way to start is to guarantee that all farmers, irrespective of individual effort or ability, will wind up equal at the finish line.

Complete and unqualified equality is the golden bait which the Socialist holds forth so temptingly as he tells his story.

No one of us would argue the principle of equality among mankind. That is part of the very foundation of America. The big question becomes: "Where shall we be made equal—at the starting line or at the finish line?"

The American system has always insisted upon equality at the starting line, and equality of opportunity along the course. It has recognized differences in individual capacities, preferences, ambition, and goals. Our system of opportunity and rewards places a strong incentive before ambitious people to succeed beyond mediocrity.

If a system of government controls and rationing had threatened to stop our forefathers "at or near the average," many would never have known the incentive to push westward and upward as they did in developing the world's most productive economy and highest levels of living.

Your generation and mine cannot evade the question of what kind of equality we'll have—equality of opportunity or equality of reward.

The time for decision is closer than we think.

Bank Policies for Agricultural Lending in 1957

HARRY W. SCHALLER, *President*
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THE DISCUSSIONS at this Fifth National Agricultural Credit Conference have been especially stimulating. It would not be possible to summarize them briefly and do them justice. Hence, these remarks are not intended to be a Conference summary. Rather, my intent is to toss out a few personal observations on bank policies for agricultural lending in 1957, as I see the picture.

Any discussion of credit policies should be prefaced by the understanding that meeting the credit demands in a community is distinctly a secondary obligation. Homer Livingston has said it better than I can. The first paragraph in his book, "Management Policies in American Banks," reads as follows: "The one responsibility of the banker which transcends every other banking obligation is the responsibility to safeguard the depositors' funds entrusted to his stewardship. That is the banker's first responsibility." So, as we work and plan to grant credit where it will do the most good for the borrower, the community, and the general economy, we must recognize that the function of granting credit, important as it is, must yield to the prime responsibility of running good, sound, and solvent banks.

Now, let's examine the credit opportunities and responsibilities that are shaping up for the year ahead. Drouth, or the after-effects of drouth, will dominate agricultural lending over much of the southern and central Great Plains in 1957. A growing number of farmers, apparently, have used up the financial cushion accumulated in the war and postwar years. We must expect in 1957 and subsequent years that when adversity strikes an area we will have larger amounts of renewals and refinancing than in other postwar years. In drought areas, next year's income has been anticipated to a large extent; and the real demand will come to finance production of a new crop. As one country banker remarked recently, "We're back in the bankin' business," after many years of financing the fringe needs of farmers who had a good cushion of financial assets.

Equity position in the physical tools of farming will become important again.

Above all, our appraisal of the skill and resourcefulness and plain old-fashioned dependability—many of us call it character—of our customers will be key factors in our farm credit program in 1957. We will come back again and again to our appraisal of the individual.

> Is he capable, does he learn from experience, can he adjust to changing conditions?
> Is he determined to develop an efficient farm business?
> Does he have access to adequate land—through ownership, renting, sharecropping?

When we find a capable individual who is determined to develop an efficient farm, credit can prove very helpful to him, and we should do all we can to encourage and assist him to get on with the job. In many instances, credit cannot do the whole job of providing the necessary amounts of resources for an efficient farm. Often we can suggest other means of acquiring the use of the needed resources—renting, leasing, custom or share work, group ownership, and the like.

Adequate Records Important

We should review our records. Do our credit files give us the information needed to appraise accurately the progress being made by individual borrowers? If not, let's move ahead with the development of adequate credit files. I recognize that much of our lending, possibly one-half, is to farmers of unquestioned soundness, usually on unsecured notes, and with few questions asked as to purpose or repayment plan. That's the easy end of the business. Then, there's a large chunk which requires the pledge of specific assets as collateral but little in the way of detailed planning with the farmer as to specific uses or scheduling of repayments. These, too, are relatively easy decisions. Finally, there's the group that appears to be capable of using credit profitably but has a very limited credit base. That's where we really "earn our salt" as bankers and, incidentally, where we probably do our most satisfying work. Many of these will be young men, tenants, or those who have been hit by severe drouth or other adversity. Wherever it can be done within the framework of sound banking, we will want to help these people develop plans to improve their earning capacity and strengthen their financial position.

In the coming year, many banks will find themselves well "loaned up," and thoughtful handling of credit resources will be needed. Loans for production and distribution should have priority over capital loans, to serve the greatest number of borrowers, if for no other reason. Fifty thousand dollars in real estate loans, running for 10 years, uses the same amount of credit as $1-million in six-months' production loans.

One-Stop Credit Service

Let us attempt, in 1957, to turn our attention more directly on the problem of "fragmented credit" sources. I am referring to situations in which, after carefully working out a credit program and making a loan, we suddenly discover that a customer has acquired obligations to the automobile dealer, the farm equipment dealer, the gasoline distributor, and possibly other suppliers of consumer goods. We probably should place additional emphasis on the necessity of customers handling all their credit needs through our banks, or at least in conformance with plans known to us, if we are to provide credit in any form. This would require, of course, that we, in turn, arrange to provide a complete credit service —sometimes labeled "one-stop credit." For many of us, this would require cooperative arrangements with other financial institutions to help handle real estate loans, large livestock loans, and possibly some other papers. It is true that this would enlarge and complicate our jobs. But who is in a better position to do a sound job of handling the retailing of credit in our respective communities? Credit problems in our communities will land on our doorstep sooner or later. If we're in on them from the outset, we can often prevent development of serious difficulties and thereby avoid a very painful cure.

In conclusion, I see 1957 as another challenging but generally good year for American agriculture and for country banking. It will provide us with opportunities for further improving our services to agriculture and other segments of our rural communities. It's a year for heads-up banking and heads-up farming. Judging from what I see and hear among bankers and farmers, that's just what we'll have. So I'm optimistic about 1957—optimistic in the sense that the general economic climate in agriculture and business will be such that alertness and perseverance will yield results that are highly satisfactory.

On behalf of the Agricultural Commission, may I express appreciation again for your splendid attendance and cooperation in making this a real working conference.

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