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AGRICULTURE'S STAKE IN CURRENT MONETARY-FISCAL POLICIES

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I know all of you share with me the view that Mr. Sprinkel has just given us a splendid presentation on this subject of current monetary and fiscal policies. His statement of the basic problem corresponds closely with that given recently by Chairman Martin of the Federal Reserve Board in his testimony before a Congressional committee when he said, "As a nation we have been trying to spend more than we earn through production, and to invest at a faster rate than we save."

Mr. Sprinkel called attention to the Employment Act of 1946 and cited as its objectives: (1) full employment and (2) a stable price level. I would stress even more strongly than he did the importance of this Act from the standpoint of our current monetary and fiscal policies. Furthermore, I would cite two other objectives, namely: (3) a growing economy and (4) a rising level of living. Also, I would raise the question as to whether all four of these objectives are compatible at any one time.

All of you recognize that American agriculture has an important stake in current monetary and fiscal policies. Certainly the well-being of agriculture rests heavily on the general health of our total economy. Almost everyone recognizes that a high level of business activity assures strong consumer purchasing power and a relatively high demand for food and fiber. Not so well appreciated are some of the employment opportunities which a high level of business activity provides people in agriculture.

OFF-FARM OPPORTUNITIES ARE AFFECTED

Let us consider three categories:

First is the importance of satisfactory employment opportunities for the usual "surplus" of farm youth. We are told that at least half of the young people who grow up on farms normally are not needed to replace retiring farmers or farm laborers. Certainly urban opportunities for them are important.

The second category and one of increasing importance is that of opportunities for the family that lives on a part-time farm. On something like a third of all farms in the United States, the operator or some member of his family has supplemental income from employment off the farm 100 days or more a year. Off-farm income of farm families

totaled more than 6 billion dollars in 1956, which is equal to slightly more than one-half the net income from farm operation of all United States farmers. Any appreciable slackening in the economy would seriously affect the job opportunities of these families.

A third category of persons concerned with urban employment opportunities are those who may decide to quit farming entirely. Occasionally this includes efficient operators who believe they can make a satisfactory income more easily in the city. More often, however, it includes the less efficient who have come to realize the lack of opportunity available to them on small, poor farms, or who have other resource limitations.

Many people in this category have moved away from agriculture in recent years. Agriculture as well as everyone in the United States will benefit from continued opportunity for people in this category to utilize their abilities more fully and to earn a level of living higher than is possible in their rural situation.

POLICIES ALSO INFLUENCE FARM INCOME

Another reason why American agriculture has a high stake in monetary and fiscal policies is that farmers likely would suffer more than any other major segment of the economy from a boom-bust depression. This is true because of the traditional behavior of farm commodity prices, which ordinarily fall first, fastest, and farthest. It is true also because of the behavior of farm costs. The traditional lag of farm costs behind farm prices on the downturn would certainly be expected. Its significance, however, would be of increased importance because of the constantly increasing proportion of purchased goods and services entering into farmers' costs of production.

In previous depressions farmers have been able to retrench considerably and generally reduce their operating costs materially. You will remember that in the depression of the thirties some farmers even drove the tractor under the shed and went back to the use of horses as a means of reducing cash outlays. That means of retrenchment is almost completely removed from the picture now. However, the most serious consequence, I believe, would be the "backing up" of people on farms as a result of reduced urban employment opportunities.

Application of monetary and fiscal policies at a time like this presents some special problems for agriculture. No doubt the authorities responsible for determining these policies and administering them are fully cognizant that for several years price and income trends in agriculture have been counter to the nonfarm trends and that net income for agriculture needs to be increased while at the same time inflation-

ary pressures are curbed elsewhere. Just how these needs can be reconciled presents many complex problems.

INFLATION AND THE FARMER

A more or less traditional belief seems to prevail that inflation is good for the farmer. Probably this belief is associated with the fact that historically the farmer has been relatively heavily in debt and inflation often is a boon to debtors. However, farm commodity prices would seem most unlikely to increase consequentially through inflationary pressures so long as we continue to have such substantial surpluses in many agricultural lines.

We have already stated that further inflation surely would increase farmers' costs. Probably their actual net income would remain constant or would decline and their *real* net income certainly would be lowered by further inflation.

You have all heard the statement made in the past year or two that farmers have more to gain from checking inflation than they lose through higher interest rates resulting from current monetary policies. Along with this statement the fact is often pointed out that the farmers' interest cost averages something less than 5 percent of his total farm costs.

I agree with the proposition but would like to mention a few details with respect to farmers' interest costs. In the first place, the interest cost for farmers who are heavily in debt is much more than 5 percent of their total cost. Also, in the aggregate, interest cost as a percentage of farmers' total costs has varied greatly from 20.3 percent in 1932 to only 2.4 percent in 1948. Moreover, it has varied much more with the amount of farm debt and with changes in farm income than it has with changes in interest rates.

AGRICULTURE IS USING MORE CREDIT

In passing I wish to remind you of the traditional fear which farm people have of "tight money." This term stirs the memory of experiences or at least of stories about panics, foreclosures, and bankruptcy which commonly accompanied shortages of agricultural credit a generation or more ago.

Let us consider for a moment trends in farmers' use of credit in relation to monetary and fiscal policies. Farm mortgage loans reached their low point of 4.8 billion dollars in January 1946. They had advanced to 9.8 billion dollars by January of this year. They have increased each year but the increase has been particularly sharp the last three or four years.

Non-real estate or short-term and intermediate-term indebtedness has followed somewhat the same pattern. It was only 2.9 billion dollars in 1946 and had increased to about 8 billion dollars by January 1957.

A number of factors account for this increased use of agricultural credit. In the first place, both real estate and short-term indebtedness were abnormally low in 1946 because of the generally favorable agricultural income situation during World War II and because price controls and rationing limited the opportunities for expenditures and encouraged retirement of indebtedness. A second very important consideration, of course, is inflation.

The increasingly high capital requirement in modern agriculture is perhaps the most important reason for the increased use of credit, especially when this is associated with the high cash operating costs occasioned by higher prices for the things farmers buy but even more particularly by the increased number of items which enter into farmers' operating requirements.

Some of the increase in indebtedness has resulted from some farmers having to borrow to tide them over recent low-income years resulting from unusually low prices or from crop loss due to drouth, flood, or other disaster.

Often overlooked in explaining this increase in farm indebtedness is the modern attitude toward debt. A generation or more ago a certain stigma was associated with being in debt. Most modern farmers now look upon credit as a tool for making money. They have no hesitancy in using credit if they feel it will increase their ability to earn.

WHAT IS THE SUPPLY OF FARM CREDIT?

Now I should like to say something about the availability of credit for agriculture. First, I want to emphasize that farmers compete with industry, commerce, other individuals, and government for loan funds. The total farm indebtedness of some 18 billion dollars is only about 3 percent of the total public and private debt in the United States. This fact, it seems to me, emphasizes the farmers' highly competitive position for credit.

Still, during the tight money period of the past two years I believe that no real "credit-worthy" farmer has been unable to get credit. I realize this is a rather broad generalization and that always there are some who cannot qualify for credit but who nevertheless believe they are entitled to it.

The point I want to make is that during this current tight money period agriculture has fared very well as to availability of funds.

Although admitting a bias in the matter, I believe that the main reason for this is the cooperative Farm Credit system which is 40 years old this year. This system has provided a mechanism by which farmers are able to pool their credit and to go into the money markets of the country and hire money on terms comparable with those enjoyed by industry and commerce.

During this tight money period most of the life insurance companies, which are the leading institutional farm mortgage lenders, have curtailed their investments in farm mortgages, primarily because alternative investments paid higher returns. The federal land banks have increased their percentage of farm mortgage closings rather sharply in each of the past two or three years. Most commercial banks continued to make farm loans during this period although some curtailed their agricultural lending activities considerably.

Meanwhile, production credit associations increased rather substantially their proportion of current farm production financing. The banks for cooperatives also increased rather substantially their volume of loans made in each of the last two years.

In addition to increased lending activity by the cooperative Farm Credit system, I believe that the presence of production credit associations and federal land banks in the lending field encouraged their competitors to follow a more courageous lending policy than they might otherwise have done during this period of relatively low agricultural income and hight alternative investment returns.

COSTS OF CREDIT FOR FARMERS

Although necessary credit for agriculture has been available during this period of stringency in the money market, its cost to farmers has increased substantially. I can best illustrate the increase in cost by citing some Farm Credit statistics.

In the summer of 1954 we sold our standard nine-month term federal intermediate credit bank debentures for two successive months at a 1.2 percent coupon. More recently a 4.25 percent or higher coupon rate has been required to attract investment money to these same nine-month debentures.

In 1954 we sold federal land bank bonds having four- and five-year maturities at 2.25 percent. Two months ago an interest coupon rate exceeding 4.5 percent was required to attract investors to these land bank bonds. You will be interested in the fact that this most recent sale was largely to refund a maturing issue of 1.75 percent bonds.

With these higher "wholesale" costs for money, Farm Credit lending institutions have had to increase their lending rates to farmers although the institutions have absorbed some of the higher money costs. As recently as 1955 nine of the twelve federal land banks had a mortgage rate of 4 percent and the other three had a rate of 4.5. Now six of the banks are charging 5 percent and the other six a 5.5 percent rate.

Two years ago most production credit associations were charging 5.5 percent interest. Approximately 60 percent of the associations have held their rate to 6 percent or less, while about 40 percent have rates above this. Undoubtedly, more will have to break the 6 percent ceiling soon.

EFFECTS ON FARM CREDIT SYSTEM

Perhaps you will be interested in some of the effects of the high money "squeeze" on the cooperative Farm Credit system.

In the first place, it has forced economy of operation all down the line, which is not undesirable. In some instances service has been curtailed through consolidation of offices or the closing of some branch offices. This has not been serious to date but it could be carried to an extreme. Payment of dividends by associations which have followed this practice in the past has been eliminated in some cases and considerably reduced in others.

Both the banks and associations generally have followed the practice during the past couple of years of charging farmers and borrowing cooperatives as low a rate as possible while temporarily giving up the opportunity to accumulate reserves in any substantial amount. If the tight money situation continues over a very long period of time, this policy, of course, will not be continued. Interest costs to farmers will have to be increased enough to allow for building net worth in the system.

EFFECTS OF CREDIT POLICIES ON AGRICULTURE

Questions have been raised in some quarters, including the halls of Congress, regarding whether credit to agriculture should be curtailed to combat overproduction. The effect of withholding credit for farm enlargement, mechanization, irrigation development, etc., which increase efficiency, is obvious to you agricultural economists.

What effect has the ready availability of credit had on current land prices? Time does not permit a detailed discussion of this point which is of considerable interest to us. I want to point out to you, however, that in the Farm Credit system we have taken the position that the decision with respect to the amount of credit to be extended should

be made in connection with each farmer applicant. We believe this is far more sound than any proposal to generally restrict credit to agriculture, which would seem to impose some insoluble problems and certainly would involve many inequities.

I believe you will be interested in the matter of farmer reactions to the tight money situation. The reactions of farmers generally the first year often involved some bitterness and resentment. They pointed out that with farm income at such a relatively unsatisfactory level, it was not fair to expect them to pay higher interest costs.

During the past year we have noted a very material change in this attitude. With few exceptions farmers seem reconciled to the higher interest costs and are much more concerned about availability of adequate credit when they need it. During the past year a tremendous amount of education has been conducted through regular communication media and other means concerning reasons for higher cost money. I believe that farmers generally recognize the reasonableness of this situation, even though they are not happy with it.

CONCLUSIONS

In closing I want to express my agreement in general with Mr. Sprinkel's views regarding current monetary and fiscal policies. I remind you that he stated his belief that there is good evidence of a lag of one to one and a half years in the effect of some changes in monetary policy. That observation is encouraging. In spite of the fact that we have had some increase in the general price level and the cost of living during the last couple of years I feel sure, just as he does, that these increases would have been much greater had the Federal Reserve Board not followed its tight money policy.

Control of inflation would probably have been even more effective had fiscal policy supported somewhat more fully the rather stern monetary policy. However, I recognize as you do, that neither the executive nor legislative branches of our government operate in a vacuum. Both have had to respond to certain pressures which the Federal Reserve Board was able to resist.

The general health of the economy and the levels of prices and costs are of great concern to agriculture as well as to all other segments of the economy. Certainly it has been demonstrated that monetary and fiscal policies can be pursued which will materially affect the vital functioning of the economy. You extension specialists in agricultural policy have a real challenge to interpret current monetary and fiscal policy and to help increase the economic literacy both of farmers and nonfarmers on these most important subjects.