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AGRICULTURAL PRICES AND PRICE RELATIONSHIPS

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AGRICULTURAL PRICES AND PRICE RELATIONSHIPS

By Chester C. Davis

I find it impossible to fence in the topic assigned to me and then work it neatly and independently, like a good farmer with a forty-acre field. Each farmer is touched by what countless millions of others are doing all over the earth. He is affected by happenings in a labor union hall, or in the remote directors' room of some vast impersonal corporation, or in a committee hall in Congress. At this moment plans may be forming in some dictator brain five thousand miles away that will influence the immediate returns of an Iowa farmer far more than will any decision he himself is likely to make.

This generation is feeling the impact of changes as swift and as radical as those which named an earlier period the Industrial Revolution. We have crossed over the divide from the 19th century era of expansion, of frontier development, into a no-man's land which we do not understand.

For all practical purposes the automatic price system has disappeared from our economy, except in the field of agriculture, and even there more or less effective attempts at control have been under way since 1929. It still remains to be demonstrated whether political democracy can survive its disappearance.

Farm commodity price meladjustments are only one thread in our economic tangle. The United States never before had as many of its

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citizens earnestly trying to find the causes and suggest the cures for our many economic ills.

The lack of agreement in diagnosis and prescription suggests that perhaps, as fallible human beings, we are like the blind men who described the elephant. One grasped him by the tail and said the elephant is like a rope. The one who felt his leg thought him like a tree. Another who bumped into his side was confident that the elephant resembled nothing so much as a wall; while the last, who reached the trunk, thought he had hold of a snake.

There is the risk that as we become wrapped up in the study of one feature of our complicated structure we may lose sight of the great central national problem -- the elephant, if you please. So before stepping off into the discussion of farm prices, it is important to open up the main highway to which I shall return before the conclusion of my remarks. The central economic and political problem confronting us is how to get our men and our resources to work. All else is subordinate. Every policy and act of government, of business, and of labor should be tested by its contribution to that end.

Merely raising the price level, increasing the dollar total of national income, is not very important unless it is accompanied by increased production of wealth. Mere shifts in distribution of the present total of income produced will not answer our national problem unless it increases consumption and production and employment.

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It is so with farmers. If we omit consideration of debt and taxes as related to prices, then the real question becomes, not how high prices are in dollars, but what the farmers' production can buy in terms of other goods and services. As for debt, it can be dealt with directly, either through lowering of interest charges by monetary and credit action, or by adjustment of principal. The price level is important in relation to tax burden, but a fair division of the load between real property, and other forms of wealth and income, is probably of even greater importance to the farmer.

Aside from debt and taxes the real issue is one of exchange values, of disparities. The present price ratios are not fair to farmers. They are not conducive to expansion in consumption and production, or to increase in employment. At the close of 1938, according to the Department of Agriculture, prices of the commodities farmers sell were 96 percent of their pre-war (1910-14) average. Prices paid by farmers averaged 121 percent of pre-war. Industrial wages averaged 207 percent.

It is true that for the past five years government payments that are not reflected in the farm price average have added to farmers' income. But even so, farm prices are too low in relation to industrial wages and the price of non-agricultural products. The farmer isn't the only one to suffer. City industries and city labor are unemployed when falling buying power in the country makes a poor customer out of a good one.

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To many sincere people the problem presented by unremunerative and inequitable farm prices seems a very simple one. Some believe it can be solved by monetary action; others that adjustment in supply is the cure. Prices fixed by government fiat is a popular prescription. There are many other approaches than these.

Before we consider them, and what may be done to help establish fairer price relationships in the interest of the farmers and of the nation, let us pause long enough to get some facts straight. I get very tired of hearing the agricultural efforts criticized by the unthinking as "programs of scarcity". Farmers constitute the one important group in our economy that has consistently kept up its volume of production even though it has suffered severe price disadvantages as a consequence. This was true before 1933; it is true today with the A.A.A. in operation.

This last year, while farmers were producing more than ever before in the history of the country - more than they produced in 1919 or in 1929 or any other year - industrial production was reduced 35 percent below the quantity produced in 1929. Incidentally, the index of agricultural prices fell off one-third in 1938 compared with 1929. The prices of what farmers buy fell much less.

I repeat - the farmers kept up their volume of production, but manufacturing and mining industries cut their production down to the extent of 35 percent. Factory payrolls dropped 30 percent from the totals of 1929.

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Take a specific instance that comes close home to the farmer. The production of farm machinery fell from an index of 190 in September, 1937, to 96 in September, 1938 -- almost exactly in half. Payrolls in farm machinery factories fell from 204 to 87 -- more than half. Price changes in standard lines were slight.

In other words, farmers keep on producing; factories shut down when output cannot be sold for a price that covers costs and a margin of profit, even though millions of workmen are plowed out into the street as an unfortunate result.

I am not here today either as a defender or expounder of the agricultural adjustment program. Many who for years have tried in every way to hamper and break down its operations are now gloating over what they term its failure. Again it is important to get our facts straight.

Cooperative acreage control was suspended when the Supreme Court majority delivered its anachronistic decision in the Hoosac Mills case on January 6, 1936. No mechanism for effective control existed from that date until the enactment of the new Agricultural Adjustment Act on February 16, 1938.

No control program was in effect when 80,000,000 acres were planted to wheat for harvest in 1938, or when the cotton crop of 19,000,000 bales was planted and harvested in 1937.

The problem of farm price relationships can be attacked from two sides. Organized farm groups have concentrated on the direct approach

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which is to get higher dollar prices through control of supplies marketed, control of supplies produced, government loans, monetary action, or as a last resort, direct government price fixing.

The other, or indirect approach, is to increase the production of non-agricultural goods by encouraging industry to seek profits through volume rather than high unit price, and labor to seek higher income through continuous employment and expanded production rather than through the highest attainable hourly wage for the minimum of output.

The first or direct line of attack on farm prices is employed in the agricultural adjustment program. It inspires the many price-fixing proposals. The one seeks to establish parity prices for farm products; the other demands prices that equal cost of production including interest on capital and a profit. I have come to the conclusion that neither form of direct attack can fully attain its objective unless a successful movement along the second line can be made to increase national income by freeing and expanding employment and production of non-agricultural goods.

Even with extraordinary government aid agriculture will probably not be able to secure the degree of rigidity in the prices of farm products that existing controls have attained in the prices and unit wages of organized industry and labor. Nevertheless, radical changes in world demand and technology make it imperative that far-reaching agricultural adjustment programs be continued. There is time only to

mention a few of these new conditions.

The cotton economy of the South is undermined by the swift encroachment of synthetic competition on the one hand, and by expansion of foreign sources on the other. The spreading use of artificial substitutes is probably inevitable. The direct and indirect control of foreign cotton-growing areas and policies by dictator states cannot be altered to suit the wishes of the American cotton grower. It is unlikely that the United States can ever regain its former share of the world market for cotton. In the meantime, millions of concentrated farm population dependent on cotton face desperate adjustment problems.

A little-realized revolution in farm mechanics is now under way which promises to displace within a few years hundreds of thousands of farm laborers and their families who are now attached to the land, and to turn millions of fertile acres from the production of feed for horses and mules to other and competitive uses. I refer to the coming of the flexible little rubber-tired tractor, selling in many cases at about the price of a good team of horses, which does any kind of farm or road work and does it quickly, comfortably and cheaply.

The wheat farmers have not adjusted their operations to the radical world changes that have resulted from policies of national self-sufficiency adopted by our former customers, and from altered conditions of international exchange.

The problem of adjustment of feed supply and livestock numbers

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in the interest of a stable corn-belt and range economy is with us, and will remain with us quite apart from considerations of price that are involved.

These are only a few of the conditions that demand a continued adjustment program regardless of what political party may control our government. Every right-thinking citizen will do his best to hasten the day when the principles and operations of agricultural adjustment are removed from the field of partisan prejudice and debate.

But agricultural adjustments alone are not likely to result in parity of farm prices with other costs and prices if the practices of corporate industry and of organized labor continue without change. Neither do I believe that any plan to have the government fix prices at the cost-of-production point will work out as its advocates believe.

Most of these plans would apply fixed prices to the portion of a crop that is consumed in the United States, depending on export outlets at some price for all that is produced above domestic consumption. We cannot, without radically changing our attitude towards increasing imports, go on expanding our exports at will. Even without the export stimulus which such a plan would provide, we were forced to accept \$1,500,000,000 in gold which we do not need to pay for the excess of our exports over imports during the 15 months up to January 1, 1939.

There is another aspect of government price-fixing that is even more disturbing to me. Price-fixing would require either a far-reaching

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system of government monopolies, or strict license and regulation of all operations from consumer to final processor.

Europe is rich in experience along both lines. Three years ago I had a close-up view of some of the operations on the other side of the Atlantic. One man with whom I spent considerable time in Vienna, Dr. Oskar Morgenstern, recently described how price-fixing adventures of this sort have culminated in Europe. He says:

"There emerges from many examples one principal phenomenon. I am thinking of the fact that, once price control has set in, new controls of far-reaching scope and importance have to be piled up one above the other. It does not really matter whether the first step toward price-fixing was undertaken by a public monopoly or by some other governmental agency. ***** In every case the fact emerges that a trading monopoly pledged to maintain prices, after a very short time, has no choice but to increase its scope at the cost of further suppression of private enterprise. This is precisely what has happened in every instance."

Dr. Morgenstern illustrated his conclusions by specific cases. One was the Milk Marketing Board of Austria, which in a comparatively short time found itself actually selling butter and cheese in England at one-sixth the price that prevailed at home, and the Austrians, particularly the Viennese, were not getting the milk and dairy products they needed, either.

Another illustration with which I had become familiar was the Czechoslovak grain monopoly. It started out as simple price-fixing back of high tariffs and import quotas. In 1932 a full-fledged monopoly took over all internal as well as export grain marketing. Let

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Dr. Morgenstern tell the rest of the story:

*****This monopoly had to regulate primarily the trading of wheat, the production of which increased while the cultivation of barley, rye and oats, where the price protection was much less, decreased. *****Even the installation of meters at the mills, registering the amount of wheat actually milled, could not prevent the growth of a 'bootleg market'. Therefore, the decline in consumption shown by the statistics to have amounted to some 30-40 per cent was not entirely a real one. Meanwhile, the monopoly accumulated huge stocks. *****A particularly curious device consisted of forcing the peasants in 1936 to repurchase some of the wheat formerly bought from them by the monopoly."

I am sorry that time will not allow me to discuss proposals that are made looking toward increasing price levels and correcting disparities by monetary action. I wish we had a supreme court of money, credit and finance before whom these questions might be debated, and from whom an objective and conclusive finding could be had. I can only say that in my own study I have approached these proposals with undiluted sympathy for their objectives, and yet I do not see how at this time they promise any real help in meeting the nation's economic needs.

So much for direct approaches to the problem of farm price disparities. The second, or indirect approach is to concentrate our efforts on increasing the aggregate of our national production of wealth. As I have said, the farmer is contributing his full share to production, and will continue to do so. He will be unable to contribute his full share toward consumption, as long as such great inequalities between his selling price and his buying price prevail.

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If policies are developed in the United States that lead toward full employment and larger volume of non-agricultural production, the demand for farm products will expand, and the real purchasing power, the exchange value, of farm commodities will rise.

This condition suggests to me that part of the farm problem, and a large part at that, lies outside the farm field; that the policies of non-agricultural industry, of organized labor, and of the government with respect to both, may have enormous influence in determining whether the farmer prospers or suffers in the exchange of his goods.

If we examine each separate problem in our economy, I suspect we will find that in every case part of the trouble lies off in some other field. Labor suffers when farmers lack purchasing power to buy the output of city industries. Railroads suffer when volume of business lags. In other words, this isn't a rope, or a tree, or a wall, or a snake - it's an elephant we've got on our hands!

As I see the central problem, it is this:

We have millions of men unemployed; we have the greatest endowment of natural and mechanical resources known to the world; and we have the monetary basis for an expansion of productive activity far greater than ever existed heretofore. Yet opposed to these in stark paradox we have an almost unlimited gap of unfilled human wants and needs.

I submit that the challenge presented by that combination is, after all, the nation's economic problem number one. Work it out, and many of

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the difficulties of the farmers will shrink and disappear.

I used that word - a challenge - because other nations seem temporarily at least to be making headway through forms of government and at a price which we do not favor here. The price they pay is the complete subordination of the individual to the State.

The task ahead of us is to bring about such a rate of production that all of our effective man-power may find useful employment. Most of us favor accomplishing this expansion under private initiative and direction to the fullest extent that is possible.

The needs of the people are great enough to absorb production in the aggregate at a much higher rate than we have ever attained. Expansion to that point is safe as long as we produce what the people need and at prices at which production will be absorbed.

All of us need to address our attention to this central problem. I mean all of us -- those who are temporarily in positions of Government responsibility, the farmers, labor, industrialists, the press, the educators, the carriers, all elements in our society. I do not offer to solve the equation, but we do not have all eternity to work it out in.

I do not believe we are going to meet this challenge unless the government, the employers of labor, and the leaders of organized labor themselves, re-appraise their policies and true them up with the all-important objective of getting the unemployed into useful work and maintaining conditions that will give them work to do.

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I submit two questions for your consideration:

Would not manufacturers and other non-agricultural producers be better off if they held to lower prices and larger continuous production when demand starts to revive, looking to volume production instead of increased prices for their profits?

And would not labor get higher real wages if its leaders fixed their eyes on the amount earned at the end of the year through steady employment in producing things people need, rather than on the highest attainable hourly wage for a minimum of production?

The principles suggested by these questions for industry and labor are the principles agriculture has always followed. If they are put to work, the farm problem will become far simpler to handle than it is.

Please do not misunderstand my references to the wage scales and practices of labor. I am not trying to pin blame on anybody. This is not necessarily a moral issue. I am pleading for a larger view of our economy irrespective of political beliefs and immediate interests and sympathies. Farmers want labor to have higher incomes. They want to see labor income raised, however, by more continuous employment in the production of things this country needs and, with our resources, should be able to afford - better houses and clothing and shoes; adequate and comfortable home furnishings, and the necessities and comforts now denied so many of its people.

Neither do farmers, in my opinion, begrudge industrial capital and management their adequate rewards, but they think it poor public

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policy to try to insure and protect those rewards by rigid prices and high margins at the risk of falling production and unemployment.

We saw the wrong kind of price policies in building materials, and the wrong kind of labor policies in the building trades, combine to kill off a promising rise in residential construction in 1937. The volume of contracts awarded increased 30 percent between mid-1936 and mid-1937 -- a recovery movement of the first magnitude. Meanwhile the price of southern pine rose from \$24 in the fall of 1936 to \$32.50 a thousand in the spring of 1937; lead pipe rose from \$6.50 to \$9.25 per 100 pounds, and window glass rose from \$2.75 to \$3.65 per 50 square feet. And while accurate statistics are not available, there is good reason to suppose that contractors' margins increased in about the same proportion.

The average hourly wage of labor employed in the steel industry advanced from 66 cents to 85 cents an hour between August 1936 and July 1937; in the manufacture of agricultural implements, from 60 cents to 72 cents an hour; in automobiles, from 73 cents to 93 cents an hour; in the building trades, from 80 to 90 cents an hour -- in many communities much higher.

It will be interesting to observe whether there is any general recognition in 1939 of the set-back these earlier policies gave us.

Now in conclusion: Economists call the aggregate of income produced by all the workers of the land, our national income. It is possible to make that income steadily increase. If it does, troubles

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that seem so enormous today will give us decreasing concern -- the state of the government budget, the condition of the railroads, and the economic health of agriculture.

We should look upon agriculture as a part of the economic fabric of the nation. The farmers' welfare is linked to the economic welfare of the people employed in the mills and factories of our great cities. And the roots of their prosperity in turn are watered and fed by the farmers of the entire nation.

America will never be satisfied as long as unemployment and want are companions in our land. If ours can be an expanding economy; if we can get all elements of the team to pull together, producing year by year a larger national income, then farmers as well as others can face the future with hope and confidence, so long as the whole country keeps on the upgrade.

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