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AGRICULTURE IN AN EXPANDING ECONOMY

A Statement

by the

Research Committee

of the

Committee for Economic Development

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AGRICULTURE IN AN EXPANDING ECONOMY

I. BUSINESSMEN AND AGRICULTURE

It is important that the non-farm business community understand the present conditions and future prospects of American agriculture. This statement is intended to contribute to such an understanding. It offers a summary of changes in agriculture that have occurred because of the war and of conditions that may be expected to follow the war, as well as an appraisal of some of the adjustments or remedies that may be considered.

The Committee for Economic Development is concerned primarily with ways to maintain high production and employment in our peacetime economy. The purchasing power of the rural population -- which largely controls their economic and social welfare -- is so important in the nation's welfare that agriculture must be given high priority by any group considering postwar problems. This statement of the Research Committee emphasizes the direct relationship between conditions in non-agricultural business and the prosperity of the farm sector of our economy. It discusses some questions of national agricultural policy, recognizing, however, the limitations of the Committee, as an organization of businessmen, in attempting to supply answers to problems that need consideration by broader councils in which agricultural representatives have a leading part.

In preparing this statement, the Research Committee has had the benefit of discussions that accompanied preparation of the study, "Agriculture in an Unstable Economy," by Theodore W. Schultz, which the Committee for Economic Development is publishing this month. The Committee has profited also from a study of the report of the Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities, and other materials as well.

In a world in which economic relationships have become highly involved, it ought not be necessary to remark that the problems of farming are not simple but complex. Agriculture is today so inextricably a part of an exchange economy that policies and practices in fields far removed from farming have far-reaching effects on the economic condition of farmers, while the economic condition of farmers has a direct influence on general prosperity.

That the people of towns and cities have an immediate, vital interest in agriculture should be self-evident. The farms are the source of the nation's food supply and of much of the raw materials for its industries. Few persons realize that the non-farm population -- those living in towns, cities and rural areas that are not farms -- is upwards of 80 per cent of the population. How dependent this urban population is upon the less than 20 per cent on the farms has been made sharply clear by the critical food problems of the nation during the war. Moreover, the actual market which the farm has offered for the products of urban industry -- production goods, consumption goods, and housing -- is great, and the potential market is enormous. A healthy buying power on the farms is essential to sustained high levels of production and employment elsewhere.

All segments of agriculture are not beset by like problems. The fortunes of some are tied to the choices we make as to postwar international trade. Our trade policy obviously will be significant in the future of the great cotton and wheat growing areas. Some farm problems can be answered satisfactorily only as we

2.
resolve the problem of domestic urban employment. Agriculture is in fact a cluster of industries, some of which are rising while others are falling.

There are national economic questions related to agriculture that have had less public discussion than the price and marketing problems of agriculture. The problems involved in maintaining the soil and its fertility and in correcting overpopulation in certain farming areas are two such matters. Both represent social costs and consequences to the nation that do not permit of further negligence.

If this statement contributes to the educational process while farm programs are being re-examined, it will have achieved its main purpose. Understanding of agricultural problems by all groups in our nation is essential if policies are to evolve that will support a strong agriculture and the general welfare.

II. CONDITIONS: NOW AND IN PROSPECT

In evaluating the postwar position of agriculture, certain factors are critical:

What is the total farm production likely to be?

What changes in demand are in prospect?

What is the outlook for prices?

In what financial condition will farmers find themselves?

What will be their position as buyers -- that is, how will the farmer's earnings compare with the earnings of workers in other pursuits?

Current Conditions

Under the pressure of war demand, agricultural output as a whole expanded a fourth, food products a third, in the five-year period 1939-1944. Livestock output rose 50 per cent.¹ About 30 million acres have been added to our crop land -- almost a ten per cent increase over the land in crop cultivation before the war. Wheat acreage is up 11 million acres and corn has added 10 million acres. Oil-bearing crops have been increased most, percentage-wise, with soybean acreage doubled. The large prewar carry-over stocks have been sharply reduced, except for cotton, but when the war and foreign relief demands have subsided, the expanded productive capacity will aggravate problems for which prewar measures had already proved inadequate.²

Prices received by farmers have doubled from the low point at which they stood in 1939. Costs have risen, too, and have partly negated the rise in prices, but farmers in general are enjoying greatly increased net incomes. Land prices are moving upward at a rate that calls for national concern. On March 1 of this year, farm real estate prices in the United States as a whole were 52 per cent above their 1935-39 averages.³ However, during the 1930's distress sales of land forced prices down, and comparisons based on those years make land price increases appear higher

¹ So great an increase is not likely to continue, because it was made possible in part by using up feed reserves and importing feed grain. Wheat prices that would permit its use for feed would help to sustain high livestock production.

² This may imply that land reclamation projects should be frowned upon. It should be noted that some recent reclamation projects have been warranted and others will be worthwhile, where a desirable transfer of population is effected. In general, however, political factors are unduly influential in decisions to irrigate, drain, or clear land. Theodore W. Schultz, Agriculture in an Unstable Economy, McGraw-Hill Book Co., Inc., New York, 1945, p. 79.

³ U. S. Department of Agriculture index.

than is the case if other years are used as the base. Farm real estate prices on March 1 were 26 per cent above the 1910-14 average, 16 per cent above their previous 34-year average.¹ But land prices are still on the way up. In many localities, the price of farms bought in the war-boom market is not likely to be sustained if farm product prices begin to move downward, or if they become less favorable compared with farm costs. The danger signal overhangs this situation.

Farm people are in the best financial position they have occupied in over three decades. They have increased the dollar amount of their liquid reserves in bank deposits, savings bonds, and cash by \$12 billion since 1939. At the same time, they have reduced their indebtedness considerably. In these respects, behavior during this war is in sharp and favorable contrast with that of World War I. Equities of farm owners and farm tenants have risen by \$38 billion since 1940 to a net worth of \$82 billion; a large part of this, however, has been due to the write-up in prices that has occurred. Better soil practices during the 1930's were improving land values, but the intensive farming of the war years has unquestionably taken its toll in soil fertility. To the extent of this loss the land has actually gone down in value. Throughout the depression and the war years, moreover, we have been drawing on our farm buildings inventory. Except for the write-up in prices, the net balance in the capital value of farms might easily show a loss.

In spite of the fact that agriculture has become more profitable during the past four years, an unprecedented migration away from farms has occurred. The farm population has dropped from about 30 million to about 25 million people - roughly 16 per cent - while the total population was increasing by more than 5 per cent. This migration has corrected in part the peacetime over-supply of labor on farms² which was a major cause of the low per capita earnings of the greater part of the manpower engaged in agriculture between the two wars. The transfer of about 1,650,000 men to the Armed Services has been offset in numbers by the natural increase in farm population since 1940. The farm population decrease of roughly 5,000,000 was due, therefore, to the movement to jobs away from the farms. The extent to which surplus workers return to farms after the war is one of the critical questions that will affect farm prosperity. The return of some will be required to replace farmers who want to retire because of old age, women drawn into the farm labor force because of the wartime pinch in particular areas, and very young boys and girls. A further influx of labor into farming will again depress per capita earnings and continue much of the economic and social maladjustment that has attended the "farm problem" the past two decades; it is likely also to continue attempts at political solutions to the problems of this important sector of our economy.

The Postwar Outlook

When land and other agricultural capital have once been committed to production, the enterprise tends to stay in production, almost without reference to

¹ There is a wide variation in the increase in land prices between states, ranging from 17 per cent in North Dakota to 95 per cent in Kentucky and 96 per cent in South Carolina. The corn belt states show variations of 49 per cent in Iowa and 81 in Indiana.

² In this statement, "labor on farms" and similar terms refer to all workers, owners and operators as well as hired hands, unless otherwise specified.

the performance of business or the level of foreign trade, and the consequent size of demand. If we cling to recently achieved levels of agricultural production (which may be the result particularly with improved technology), this will mean about one-fourth more output than we had in 1939, weather conditions being equal.

Demand, enlarged by war requirements and the temporary elimination of other supplier countries, is likely to drop sharply when the relief period is over and storage stocks have been replenished. The need for food in war-devastated lands is enormous, and may draw heavily on American supplies for a longer period than is now anticipated, but a rapid restoration of farming areas abroad is the more likely circumstance.

Under lend-lease, agricultural exports have reached a dollar scale two and a half times prewar volume.¹ They will shrink substantially as military and relief and rehabilitation demands come to an end. Export subsidies are unlikely to be effective over the long pull in counteracting this shrinkage.

As war conditions recede at home and abroad, powerful forces will be dragging at farm commodity prices. The task of carrying out the price guarantees provided for in existing laws will be far from easy. The tendency will be toward a decline in the exchange value of farm products in terms of other goods and probably in market prices as well.

Although the drop in farm prices and income may not be as precipitous or as great as the drop which followed World War I, and some measures may be developed to offset the forces leading to the decline, it nevertheless is likely to cause widespread and serious difficulties in agriculture.

Stresses will not fall equally or at the same time on all segments of agriculture, though they will tend to spread and in time to equalize throughout the agricultural structure. All farmers do not, of course, find themselves at the same level of economic well-being; on the contrary, at any given time they represent every stage from the prosperous to the very poor.

Conditions will be made worse if the current trend continues of buying farms on credit and at high prices and if we have unwise, even though well-meant, moves to place large numbers of industrial war workers and returning veterans on the land, with agricultural production as their only source of income. Experienced farmers now in the Armed Services who wish to return to farming should be encouraged to reestablish themselves; but careless applause or support of the "back to the 40 acres" idea will mean heartaches for many uninformed individuals, and will merely add to the long range problem already confronting the nation of drawing people off the farms. The man who is considering farming as his future occupation should be made aware of the choice he is making. In the first years after the war, accumulated unfilled demands for both producer and consumer goods will help provide an opportunity for high level employment in the non-agricultural sector of our economy. Job opportunities off the farm will exist. The more workers there are who remain

¹ Since farm prices in general have doubled during the war years, the increase in agricultural exports has not been of major proportions, but food has been substituted for reduced cotton exports.

employed in the industrial and commercial sectors, the better will be the distribution of labor and of earnings, in itself tending to sustain high level production.

In general, if the country is successful in maintaining high levels of employment and high consumer purchasing power, the market will be favorable for sustained high production of dairy and poultry products, meats, fruits, and vegetables. This would permit some farmers to switch from crops likely to be in surplus, and it would reduce somewhat the surplus of such crops as corn and wheat by enlarging the demand for feed. A greater production of non-agricultural goods and services would tend to maintain the favorable wartime terms of exchange for farm products, a long-needed improvement in the farmer's peacetime position.

Special Problems

The Wheat Surplus

There are great areas in agriculture where the problems will not, however, be solved or ameliorated by strong domestic market demand. Our wheat acreage has been expanded to produce more than can be consumed as bread grain in this country or in such foreign markets as may be available. Per capita consumption of wheat does not rise with increasing consumer purchasing power. A better solution to our wheat surplus problem than reduction of acreage might be an extension of the uses of wheat, since this is a crop in which we have important production advantages. Larger quantities of wheat could be utilized as livestock feed if its price were in line with feed grains. A price 10 per cent above corn will take wheat into the feed market. Wheat prices are now more than 50 per cent above corn. It needs to be recognized that government programs that keep wheat prices above this relationship with corn prices tend to confine wheat use to bread grain, except as a portion of the crop is diverted by special devices to alternate uses for feed or industry, as was done during the war. Wheat might serve importantly in a program of feed storage that could, if not abused, lend more stability and profitability to the livestock sector of agriculture.

The Cotton South

Cotton and the region in which cotton dominates the farm economy present extraordinary problems. In 1940 the eleven states in which cotton is an important crop contained 47 per cent of the nation's farm population.

Cash farm income from cotton, however, accounts for a smaller portion of total cash farm income than might be expected in view of the concentration of farm population in the cotton states. It amounted to about 13 per cent in 1928-29, and about 7 per cent in 1944.

Raw cotton was our principal export item until 1936, when it was surpassed by "machinery of all classes," and (from 1937) by automobiles. From 1909 through 1933 the United States exported more than 50 per cent of the total world exports of cotton, and even as late as 1937 American cotton exports accounted for 47 per cent of the world international cotton movement. During the years 1931-35, an average of nearly 59 per cent of our cotton production was exported.

The drop in American raw cotton exports is entangled at bottom with the world-wide stifling of international trade during the 1930's. Since purchases from

us by other countries are determined, over a period of years, by our willingness to buy and to make available dollar exchange, our high tariff wall and our low internal production in most of those years were unquestionably major factors in the declining exports of raw cotton.¹ Add to this cotton prices well above world prices (sustained only by the Commodity Credit Corporation crop loans), and there should be little amazement that there is still a 10.7 million-bale carry-over of cotton, the equivalent of an entire year's crop. (The carry-over has at this date become almost wholly "residue" cotton, low-grade short staple cotton overpriced relative to competitive fibres. It does not, therefore, represent the value of a year's crop.) In the domestic market, high priced cotton has lost ground to the synthetic fibres.

In peacetime the cotton crop is likely to face intense competition from foreign cotton and synthetic fibres. To maintain the present levels of cotton production, the cotton price will have to be such that it can command a large domestic market and can compete successfully for foreign business.

Mechanization in cultivation and picking is likely to bring revolutionary changes throughout the cotton belt after the war. As mechanization progresses, production costs will fall. The change can go far toward enabling growers to sell at the lower prices demanded for world markets; patently, it will aggravate the excess labor problem.

Mechanization will bring long-range gains to labor in higher returns per worker. There is also the important gain attending the transfer of labor out of occupations where it now has low marginal value to occupations where the labor input commands a higher return. It is unlikely that all labor leaders will acknowledge the importance of these shifts, and some will protest against the transitional unemployment that will follow widespread mechanization in cotton production, as well as against the influx of labor from the farms to industry. Measures to ease the transfer of labor are referred to later in this statement.

A cotton price in line with its competitive value is a necessary first step in any really effective adjustment program for this major region. But the resources of the cotton South are gravely overtaxed by the pressure of people on the land. Fundamentally, the problem is not cotton but an excess of labor and the resultant extremely low income per head. The remaking of the economy of the cotton South² is undoubtedly the most important and the most difficult special problem in agriculture confronting the United States.

¹ The needs and problems in future international trade are fully discussed in the CED research study by Calvin B. Hoover, International Trade and Domestic Employment, McGraw-Hill Book Co., Inc., New York, 1945. CED Research Committee recommendations with respect to policy are contained in the policy statement, International Trade, Foreign Investment and Domestic Employment, New York, May 1945.

² Increased diversification, including livestock production and accompanying changes to feed crops, as well as reforestation of poorer lands are two desirable measures for this region; the importance of industrial development in the South to offer jobs to its excess farm labor can not be over-emphasized.

The Weather Hazard of the Plains States

A third special problem in agriculture is found in the Plains States where the farm population lives under peculiar hazards due to erratic weather. It is of direct concern to the nation that measures be devised through contributory crop insurance to lessen the economic uncertainty confronting agriculture in these states because of fluctuations in crop yield due to weather. About 40 per cent of the nation's crop land is affected, particularly large parts of the Dakotas, Nebraska, Kansas, Oklahoma, the panhandle of Texas, and sections of Montana and Colorado.

We Have Been Exhausting the Soil

The improved earnings by farmers that would accompany high peacetime markets will not automatically meet the problem of soil conservation, to which the nation must give greater attention. America's wealth in land resources has made for negligence in its care. The decreasing productivity of our land has been concealed to some extent by improved production techniques, especially the mechanization of farm production, and by enlarged yields effected by the control of crop diseases, the development of improved strains, and other technological advances. Farmers must do the bulk of the work of conserving and restoring the soil, but the government will have to provide them with technical assistance if the work is to accomplish the desired results and have an assurance of permanence. Many soil-conserving practices will pay their own way; help is needed in others. Priceless natural resources will continue to be destroyed as long as efforts to conserve them are inadequate and scattered.¹

Most of the land of the nation slopes enough to erode, if the soil is improperly handled. Terraces or ditches are usually necessary to remove excess water safely from sloping land. But the terraces must have protected outlets or the water will cut into the soil and aggravate the erosion. Even after the water has been moved safely from a terraced field, there must be a place to put it. To expect the average farmer to deal with this kind of problem, and many others of greater or lesser difficulty, is to expect him to have some degree of proficiency in engineering. Most farmers do not have this proficiency. Most of them are not engineers, or agronomists, or hydrologists, or foresters. They are farmers, and when it comes to dealing with the erosion problems on their lands they almost invariably require technical help and advice if they are to arrive at the correct solution ²

* * *

¹ The Soil Conservation Bureau has estimated that 100 million acres are beyond repair, and an equal vast acreage is rapidly deteriorating.

² Such restoration and care of the soil obviously improve the farmer's output and lessen his costs over the long run, also increasing the range of uses for the land.

Apart from these particular problems that confront farmers and the nation, two questions will require consideration; in seeking the answers to them we may learn something of the relationship of agriculture to the other parts of our economy.

- 1) What caused the earnings of farm people to be so low during most of the inter-war years, and what changes are necessary to enable farmers to earn larger per capita incomes?
- 2) Why is income from farming so unstable, and how may this be remedied?

III. BASIC CAUSES OF AGRICULTURAL TROUBLES

The farm problem is a compound of several major factors and a multitude of minor ones. In considering the future of our farm economy, it is essential to keep in mind not only the effect of the major factors one on the other but also the rate or extent of change, which may be as critical as the direction of change. This applies particularly to the farm product demand-supply relationship.

An excessively large labor supply, an increasing rate of output per worker, and a slackening in the rate of increase of demand characterize American agriculture today. Even on the face of it, these conditions point to an imbalance, with depressed conditions and low earnings per worker the result.

What makes for these conditions is outlined in the following pages. How each relates to prosperity or depression in agriculture and in the nation as a whole is discussed also.

Surplus Labor¹ Resources

The excess of human resources engaged in agriculture is probably the most important single factor in the "farm problem." The condition is symptomatic of ills elsewhere in our economy, and is not likely to be corrected until these other factors have been righted. The surplus number of workers on farms reflects, first, the slowing down of the non-agricultural industries in the latter inter-war years. Job opportunities off the farm being limited, the normal flow of labor from farm to town dwindled. Meanwhile, the large natural increase of the farm population, greater in rate than that of the urban population, continued to add to the excess supply of labor in agriculture.

A second important element making for an excess of workers on farms is the continuous improvement in output capacity of farm workers. American agriculture is in the midst of a technical revolution, the counterpart of the technological advance in industry. These changes improve labor efficiency and the output per worker. The labor-saving effect of this revolution has already evidenced itself, and the forward surge in better farm equipment and techniques is still in its early stages.

Excess labor in agriculture does not show itself in crowds of men lined up and looking for jobs. Instead of visible unemployment, there is over-crowded, underproductive, low paid employment. Agricultural unemployment is concealed in part by what would be comparable to a spread-work policy in industry. Most farm people stay at work on the farm, although some of them at times earn very little.

Since 1900, the proportion of the nation's working population engaged in agriculture has dropped from 37 to 15 per cent.² (A similar fall took place in

¹ Refers to all workers - owners and operators as well as hired hands.

² The large farm production of 1944 by such a small fraction of the labor force required unrecorded hours of labor by the women and the very old and the very young on the farms.

other countries, as in Canada, where the drop since 1900 has been from 40 to 22 per cent.) Nevertheless, the number still depending for a living solely on agriculture is too large to permit all of them or even most of them to earn satisfactory livings by farming.

If in the years ahead changes that increase farm productivity outrun changes that increase demand, the serious unbalance in our economy will persist, moderated to the extent that the economy expands and permits the movement of workers out of agriculture. This unbalance will tend to depress the per capita earnings of farmers except during wars or business booms or while inventories are being accumulated. The flow of labor from the farms must take place even when farming is enjoying good times.¹

Factors Limiting Demand

On the demand side, negative factors weighed in heavily during the two decades following World War I. During many years in that period, the low levels of production and employment in the economy outside of agriculture meant a correspondingly low demand for the products of the farm used in industry as well as the aggregate food demand. Food demand does not, in fact, keep pace with rises in family incomes; except for the very low income group, people spend proportionately less on food as their earnings increase.² It should be noted, however, that "proportionately less" still permits some increase in food demand as earnings improve, including significant shifts in choice of foods. Low incomes mean a greater consumption of cheaper foods such as grain products and potatoes; with higher incomes there is increased consumption of meat, dairy, and poultry products, fruits and vegetables.

1 "Although need for non-farm opportunities has been emphasized, it is vital to maintain in agriculture a sufficient number of efficient people. Consequently, attention should be focused not only on economic rewards of farming, but also on every aspect of rural living. In this way, agriculture will be able to retain its share of ambitious and able young people; for it remains true that many thousands of persons who possess the necessary experience and ability, put forth the effort required, use good judgment, and take advantage of available private and public aids, will find their best opportunities on farms." Postwar Agricultural Policy, Report of the Committee on Postwar Agricultural Policy of the Association of Land-Grant Colleges and Universities, October 1944, p. 12.

2 Theodore W. Schultz has estimated that farm products as a whole have an income elasticity of one-fourth; in other words, when per capita income increases 12 per cent, the amount spent on farm products increases only 3 per cent. However, use of the simple average obscures the fact that consumption of some farm products, importantly dairy and poultry products and meat, moves in direct relationship to income. Wheat and cotton do not.

As incomes increase, people may increase their expenditures for services attached to farm products. That is, they eat more meals in restaurants, hotels, etc.; they buy more costly clothing, shoes, and the like. But these expenditures will only slightly affect the demand for products at the farm. It is important to recognize that demand for farm products in the aggregate does not rise in direct relationship to total income. Agriculture in an Unstable Economy, pp. 60-70.

(The latter group of products require more agricultural resources -- labor and land.) With the low production levels in the economy as a whole during the 1930's, however, very large numbers were in the low income group.

Demand for American farm products has been, and will continue to be, affected negatively by the fact that the rate of increase of population within the markets available to the American farmer is dropping markedly. The rate of population increase has moved upward again during the war, but this is not expected to continue. It is a phenomenon that has occurred temporarily during and after other wars.

Instability of Income due to Business Fluctuations

In addition to the low average per capita earnings that characterized farming in the twenty years between the wars, American agriculture has been burdened by a great instability in its prices and therefore in the income obtained from the sales of crops and livestock. Whenever business has boomed, net farm income has risen fully twice as fast as non-farm income. Then when business declined, the net income from farming has always fallen more sharply and further than the income of persons not on farms.

Maintaining a stable farm income may be impossible if we do not learn how to keep industry from the production extremes that are its past history. If we use the period 1935-39 as the base, we find that from 1919 through 1941 total industrial output in physical volume fluctuated from a point 42 per cent below to 62 per cent above the base years' average volume. The low level was registered in the depressed years of 1922 and 1932; the high in 1941.

In the deep depression year of 1933, agricultural output by volume was only 3 per cent below that of the base years (1935-39), and the low point in agricultural production in 1935 was only 8 per cent below. In 1941 total farm output hit its prewar high level, but, even so, it was only 13 per cent above that of 1935-39.

The great swings in industrial output were reflected in similar swings in national income; and, as national income dropped, demand along with agricultural high prices also dropped. Farmers, however, continued to produce just about the same aggregate amount of crops and livestock whether prices were high or low. Sometimes when farm product prices were falling, the individual farmer was driven to produce more, to mine his land faster, in order to meet expenses and high fixed charges on his land.

Income Instability and the Price Level

Apart from income instability stemming from changes in the agricultural supply-demand relationship, farmers have suffered from wide shifts in the general price level. Farmers who are in debt are particularly vulnerable, and since most farmers are self-employed, many of them carry comparatively large capital debts. The general level of prices is identified with the value of money. Farmers have a deep-rooted concern about the value of money. They have been victims of the caprice of the general price level too often to favor anything but a stable price level at high employment.

Many agencies of government are concerned directly or indirectly with fiscal-monetary functions, which influence the general price level. The coordinating of these functions in a program designed to lessen the violent fluctuations of the price level should be made an objective in government policy. Involved are measures pertaining to the issue and retirement of money, to the raising and also the spending of money by government, taxation, public borrowing and repayments, and government loans to individuals and corporations. Policies in these areas that would contribute to price level stability, as well as to high production and employment, are the subject matter of other studies for the Committee for Economic Development, but the Committee can not overstate the importance of this problem for agriculture. It deserves high rating in any program for agricultural betterment.

The Problem of Farm Product Prices

As has been indicated above, the see-sawing of total farm income is caused primarily by price changes, not by changes in the volume of farm output.¹ Recognition of this fact has led farmers to insist on efforts to stabilize farm product prices; if price stabilization could be accomplished, the farmer feels with some justification that many of his difficulties would disappear. But price stability is possible only if the relationship of demand to supply is comparatively constant. The aggregate supply of food and other farm products is much more stable than the aggregate demand. Changes in total demand and shifts in demand for a particular commodity express themselves primarily in farm-product price changes, and only slowly affect output. The ease with which the consumer can substitute one food for another, and can shift to lower-price commodities, should be remembered. Agriculture is a highly sensitive barometer of what is happening elsewhere in our economy.

When we try to get around this by fixing prices by law at levels as high as when demand was at the peak, we encounter the "surplus" problem -- what to do with the excess above what the market will take at such floor prices. The government buys it up, either directly or through loans, and then starts worrying about how to hold it or dump it. Experience confronts us with the fact that merely setting a price or fixing a parity formula by law does not solve farmers' price problems.

Agricultural price policy should be such as to leave prices free to carry most of the load of guiding agricultural production, as well as to gain the largest possible volume of consumption of farm products. Unless prices are free to reflect the volume of demand that can be obtained,² farmers will inevitably over-produce some products and under-produce others. The natural variables in agricultural

¹ Variations in volume occurring in specific crops do affect both the price and the income earned. Apple prices, for example, may suffer from an extra large crop. A small crop does not necessarily have the reverse effect; that is, the price may not benefit to the extent that might seem indicated by the limited crop. The elasticity of demand for the particular product will be a determining factor.

² This assumes that a fall in farm prices will be quickly transmitted to retail prices, encouraging expansion of consumption to as great an extent as possible. This has often not been the case, and it is one grievance of farmers against other parts of the economy.

production represent sufficient problems in marketing without adding market distortions due to rigid prices.

For maximum usefulness, our pricing system must operate in such a way that price differentials will channel production away from items for which demand is diminishing and toward items for which it is increasing. But provision should be made so that a violent and unpredicted drop in the value of a commodity will not impose upon the growers and holders of surplus quantities a penalty and distress wholly out of line with the relationship of total quantities to total demand. For example, "stop loss" floors have been used successfully to check disastrous price drops which otherwise would have magnified the effect of local or temporary gluts without regard to the over-all supply-demand situation. Marketing agreements have been effective in diverting short-term peak surpluses to lower-value uses, thus avoiding temporary price collapses which by their violence do great harm to the producer with no real benefit to the consumer.

While price policy should support the basic price function of guiding agricultural production, it should not discourage the search for ways to minimize price uncertainties. Violent short-term price fluctuations occur, sometimes intensified by speculation, which have no relation to longer-term, supply-demand price adjustments. The present marketing system for farm products would be improved by lessening the violence or range of these swings.

An important shortcoming of any policy operating through farm product pricing lies in the fact that little can be done through prices alone to improve the productivity or income of the two, or even three, million farm families with the lowest income. Their land may be worn out or too poor to begin with, or their capital in land and equipment may be too meager to yield an adequate return no matter what market prices may be. Unless these deficiencies are remedied or new sources of income are developed, most of these families will remain poor. Of this large group with low farm incomes, about one million have non-farm income and are not entirely dependent on agriculture.

Between the price the farmer receives and the price the housewife pays stand the charges for whatever services have been rendered in processing, packaging, transporting, and marketing the product. Farmers and consumers alike are interested in these costs. They cannot be eliminated by the farmer nor can he do much to affect them.¹ When consumption rises swiftly, as during the war, expanded

¹ The Land-Grant Colleges report points out that farmers' cooperative associations have improved the marketing of agricultural products and the purchasing of farm supplies and services. As pace-setters in promoting efficiency, they benefit non-members as well as members; in the long run a portion of the savings they achieve is passed on to consumers in the form of lower prices. Despite the contributions of cooperative marketing associations and the work of consumer societies, and improvements in distribution efficiency, most costs and charges between farmer and consumer are on a unit basis and remain rigid while prices change.

demand¹ makes itself felt at each point. The result is an ultimate price that grows larger because it is inflated like a balloon in successive "blows". To the farmer and to the consumer (the ultimate seller and the ultimate buyer), the difference mounts high.

On the downgrade, a drop in the retail price that is small percentage-wise may be proportionately very large when it has been passed along to the farmer. That part of the price accounted for by the services between the farmer and the ultimate consumer is not proportionately affected. The farmer's price is the most flexible item in the column of costs that make up the consumer price.

1910-14 Parity

Thoughtful leaders in agriculture and in Congress and the executive branch of government are giving serious study to the problem of farm product prices. Leaders in non-agricultural business and in labor have a stake in maintaining a prosperous agriculture, and they should lend their help. Farmers have fought for a quarter of a century to get the concept of purchasing power parity established in the law. They will resist its discontinuance unless some workable and satisfactory standard is offered in its stead, even though they may recognize defects in the 1910-14 formula, now the "base" for price guarantees and the yardstick for farm programs intended to influence the prices of farm products.

In general, "parity" as defined by the present law is the price in today's market that will give a farm product the same exchange value -- the power to buy the same amount of goods and services -- that the product possessed in the period 1910-14, just prior to the first World War. Through amendments to the law the growers of a few products have obtained a more favorable base period than 1910-14.

The five years 1910-14 were designated as the "parity" base period in the bitterly contested farm relief bills of the 'twenties. The Agricultural Adjustment Act of 1933 made parity prices based on the 1910-14 period the standard in setting price goals for agricultural commodities. In that five-year period, farm product prices relative to industry prices had been comparatively satisfactory. As a yardstick in remedying the disastrous collapse of the farm product price structure in the 1920's, the 1910-14 standard had merit. It has much less meaning for agriculture and the economy as a whole in 1946.

Parity as an idea appeals to the public as fair and just. But used as a legal instrument to fix farm product prices, parity based on a relationship that existed 30 years ago has become a liability in American agricultural policy. Making

¹ Demand for American farm products swelled as normal supplies of countries in the battle areas were eliminated. The abnormal rate of consumption of food and other farm products by armies also enters in. Wartime price rises are not wholly related to increased volume of demand but also to the nature of demand. Housewives (and others) are not so selective in their purchases, and they more readily pay the asked price, because of the known shortages as well as improved incomes. These kinds of demand have no counterpart in peacetime, but they do illustrate the impact on farm-product prices of markets for the marginal portion of farm output.

it effective, by means of loans and purchase programs, continues out-grown price relationships and tends to perpetuate past production patterns; resists production changes that are in farmers' long-run interests and builds up surpluses toward an eventual crisis and collapse; it tends to drive a wedge between internal and external prices of farm products that enter export trade, thus opening the way for two-price systems, export dumping, and other measures hostile to a liberal foreign trade policy.

Agricultural Price Objectives

A redefinition of parity is overdue. The needed standard of measurement cannot be expressed in terms of commodity relationships. It should be a policy with two objectives: to create conditions favorable to the enjoyment of at least a fair minimum standard of realized income by farm families, and to guide farm production into the pattern that makes most efficient use of agricultural resources.

An intensive study is needed of at least four major questions affecting future agriculture policies. It is clear that the program of farm production control in the 1930's failed to accomplish many of its objectives. Facts are needed to indicate why production controls were relatively ineffective, and what they may and may not be used to accomplish. The problems of the family-size commercial farm need to be examined separately from subsistence farming. The farm population problem needs careful analysis on a regional basis and by type of farming areas. Information on the characteristics of demand for agricultural products is far from adequate. The possibility of appointing a commission whose members are experienced in dealing with agricultural problems to work jointly on an analysis of these questions deserves careful consideration.

It is wholly unlikely that any formula or program will immediately bring a satisfactory solution of the problem of parity of realized income among farmers themselves and as between farmers and non-agricultural workers. Improvements over existing practices and policies should be attainable, however. Some proposals that move toward the objectives stated above are considered in the following section.

IV. WHAT CAN BE DONE?

To Increase Consumption

Farm people have a major stake in all policies affecting non-agricultural production and employment. The prerequisite to high agricultural income is an expanding economy. The fact that our employable population has been working regularly -- most of it at good wages -- has been the prime factor during the past five years in building up a mainly profitable demand for the products of the farmer.

With high levels of production and employment, an increased consumption of livestock products would promote better use of more agricultural resources, including land and labor. This is in accordance with sound nutrition and the tastes of people. (It seems probable that the general use of low-temperature food storage will improve the possibilities of increasing consumption of meat as well as of the choicer qualities of fruits and vegetables.)

In addition, when non-agricultural employment is expanding, the economy can absorb the excess labor supply which, if held on the farm, depresses farm income per worker. A study of periods in which American agriculture has been relatively prosperous indicates that to draw a sufficient amount of the labor off the farms, the output of non-agricultural industries has grown two or three times as rapidly as agriculture.

While the main dependence for maintaining good markets for farm products must always be on a high level of consumer income, the possibility of increasing consumption through special measures to improve the diet of low income families in this country will undoubtedly be given renewed attention after the war. The Committee certainly endorses that objective. Education in nutrition will work an important, though slow, improvement in levels of health. How greatly such food distribution and educational programs may add to the volume of food consumption is still open to debate. The actual volume added to farm product consumption may be relatively small. Improved diets often call for different foods, not simply more food. Care needs to be exercised that such programs do not become a means merely for moving surplus farm products, irrespective of their relationship to ideal diets.

To Increase Exports

In the year ending June 30, 1944, the government exported under lend-lease alone \$1.9 billion worth of agricultural products -- about one-sixth of total lend-lease shipments. In addition, there were some exports of farm products for cash. In the three years prior to the beginning of World War II, agricultural exports averaged \$780 million annually.¹ Though the dollar value of agricultural exports

¹ "In agricultural exports, the United States lost much ground in the period between the two wars. They shrank, by any measuring stick. In dollar volume, they exceeded the \$2 billion mark for one or two years during the middle twenties, but dropped to \$800 million and less after the depression. The decline in physical volume was also severe. (Cotton exports, most important of them all, dropped from an average of 8.52 million bales during 1924-1929 to 5.42 million bales during 1936-1939.)" Schultz, op. cit. pp. 147-8.

has risen markedly with rising farm product prices, quantitatively the increase has not been of major proportions, but there has been an important substitution of food for reduced cotton exports. If American cotton prices continue seriously out of line with world cotton prices, it is unlikely that cotton will return to its former position in our exports when the food producing areas of other countries have been restored. There will be high demand for both food products and cotton during the rehabilitation period, but it is not likely to last long.

Percentage-wise, agricultural exports appear to be of quite secondary importance in the total farm output. In 1938 (a good export year), total agricultural exports in dollars were roughly 8 per cent of gross farm income. Use of such percentages ignores, however, the strategic role of foreign markets for particular crops, such as tobacco, wheat and cotton.

Major emphasis is placed, throughout this statement, upon the domestic market and therefore upon business conditions outside agriculture, with their immediate effect both upon farm product prices and the distribution of the labor force. The importance of foreign markets must not be lost sight of, however. The United States has highly specialized agricultural resources suited and developed to produce for export. But if our domestic prices for these crops continue above world levels, other nations can be expected to oppose our subsidizing exports in increasing volume in competition with countries that are primarily raw materials producers.

During the transition, international commodity agreements may be counted on to help us hold our present share of the export market for commodities such as wheat and cotton for which there are serious surpluses in world markets. They will not increase our agricultural exports. We should recognize that at bottom such agreements parcelling out markets simply provide time for adjusting our production to the volume we are prepared to sell competitively. American farmers will hold their own in the world market with those products for which costs of production permit them to meet world prices. We should anticipate that we will not hold, over the years, a large-volume export trade in commodities for which artificially high domestic prices are maintained.¹

¹ This statement deals with recommendations viewed as manageable within our own country. Much more can be proposed if we and other nations agree to act in concert to achieve fundamental objectives. Most proposals affecting American agriculture anticipate readjustments in our agricultural exports that are "producer" adjustments. What may be called for, in the interests of the people of both our country and other countries, are "consumer" adjustments.

A report by Arthur R. Upgren and William J. Wainess points out that most of Western Europe is an agricultural deficit area. In the 1930's, wheat in this area was priced at over two dollars a bushel, whereas production advantages in the United States and other wheat surplus-producing countries made possible an average price of less than a dollar. Europe could be far more efficient producing dairy and poultry products, meats, fruits and vegetables in larger amounts and wheat, pork, and feeds in smaller amount. The saving through purchase of her wheat needs, as one example, would be enormous. Provided an expanded market, wheat growers in America might be ready to accept free market pricing. Certainly benefit payments to our farmers that were approaching a billion dollars a year while the people of Western Europe paid a billion and a half in excessive prices for wheat, pork and lard do not recommend themselves as common sense. See The Midcontinent and the Peace: The Interests of Western Canada and Central Northwest United States in the Peace Settlements, a report prepared under the auspices of the University of Manitoba and the University of Minnesota, University of Minnesota Press, August, 1943.

For the long haul, by the elimination of trade barriers and reductions in tariffs, the over-all volume of our foreign trade -- particularly our imports -- should increase, thus enlarging export opportunities for commodities in which we have comparative production advantages. The importance of improvement in international trade both for economic progress and for peace is considered in detail in the CED policy statement on international trade.¹

To Increase Labor Mobility

Farm people do not quit the farm when agricultural prices are low; instead, judging from the experiences of the inter-war years, they leave farming when jobs are available in industry. The excess supply of labor in agriculture diminishes when industry expands, and not necessarily when farm prices fall.

Various suggestions have been offered to broaden the opportunities for the surplus farm population to find employment away from the farm. A National Labor Outlook, comparable to the Agricultural Outlook developed by the United States Department of Agriculture and the State Agricultural Colleges, has been recommended. Farm workers are especially isolated. They lack knowledge about the types of jobs, working conditions, and earnings that may be available to them elsewhere. Existing employment agencies might be asked to provide specialized placement service to help equalize the nation's labor supply.²

Improvements could be made in the educational process that now prevails in rural areas, as a means to improve labor mobility. The vocational training that is available is mainly aimed to train farm youth to continue as farmers. It should be broadened to develop skills and means of earning a livelihood in non-agricultural pursuits for the boys and girls not needed in farm production.

The need for adequate health and educational facilities in rural areas can not be over-emphasized. The farms have always been a major source of the nation's labor supply. The cities have a direct interest in the health and training of the farm population as future urban residents. Most educational and health costs are now carried locally. Rural-farm people consequently bear a disproportionate share of the cost of rearing and educating the children of the nation -- cost reckoned in terms of food, clothing, shelter, medical care, and education -- because of the normal movement of young people from farm to city. This is true even though the job of rearing and educating done in some overcrowded farm areas has been relatively a poor one.

The process of educating youth in the country who will work in the cities seems likely to continue. If the costs are to be distributed equitably and the job well done, the federal government -- through grants-in-aid -- will have to invest more heavily in the health and education of its rural and farm population. Progress in

¹ International Trade, Foreign Investment and Domestic Employment, a policy statement by the Research Committee of the Committee for Economic Development, New York, May, 1945.

² It is important, too, that ways be developed to extend the Social Security program to include agriculture, particularly with respect to old age benefits.

this direction will enhance the worker's productivity and at the same time add to his mobility. High industrial activity, if achieved for the country as a whole, will not of itself correct the general low earnings of such areas as the cotton South, and federal aid will be required until such areas have moved ahead with essential reorganization. The nation can not neglect the educational and health needs of children.

It should not be necessary, in order to bring workers and non-agricultural jobs together, for the workers to do all of the moving. Greater mobility of capital in a decentralizing movement of industry into areas of labor surplus is needed also. The ability and willingness of the individual to leave his community and to seek and find occupation elsewhere should not, furthermore, be the chief means of effecting the transfer of surplus rural population to industry and commerce. Instead, there should be some definite and organized effort to develop industrial and commercial activity in the very areas in which surplus population is located. The possibilities should not be overlooked that new processing industries using raw material grown in such areas can be located locally. The need and the opportunity for expanding services and distribution facilities is great in many rural areas not seriously troubled with labor-surplus as well as those that are.

Measures that would increase the number of subsistence farms are not a remedy for the under-employment problem in agriculture. Too many farm families are already barely at or are below a subsistence level of living for one reason or another. This does not mean that there may not be many more farm residents who earn the major part of their income by non-agricultural employment, especially as an accompaniment to decentralization of industrial production.

Attention needs to be given to other barriers that obstruct the migration of farm people. The entry of workers into many fields is blocked by restrictions, some imposed by organized labor groups. Federal programs for recruiting and distributing the farm labor supply during the war contained provisions that were actually barriers to interstate migration. Social controls inherent in customs and traditions¹ often play a decisive part in checking the movement of people from farms. To ignore these various factors after the war will be to aggravate one of agriculture's major problems, the over-supply and mal-distribution of farm labor.

To Lessen Instability of Income

The instability of income from farming originates, as has been pointed out, from three sources: fluctuations in the general price level, changes in the

¹ "As a group, the money wages of farm (hired) laborers are generally low, their living conditions are unsatisfactory, and they do not participate generally in the benefits of the social security program. This situation can be partly remedied if farm laborers in the future are included in the social security program for old age and survivor's insurance, and also receive the benefits now available to workers in industry under the unemployment compensation program.

"For migratory workers there should be permanent labor homes and modern labor camps, which can be provided by farm cooperatives as well as by state or federal agencies. Both laborers and farmers can be aided by a coordinated program of job placement information and service." Land-Grant Colleges report, op. cit., p. 37-38.

volume of demand, and uncertainty in crop yields. As was emphasized earlier in this statement, any price policy for agriculture worth consideration must begin with the general price level. Attention to specific price maladjustments will not avail much for greater stability of agricultural income while the general price level continues to gallop up and down.

To lessen instability due to changes in the volume of demand, it is important that the industrial-urban economy be stabilized at a high level of production. Attainment of this goal would automatically minimize the instability of farm income associated with business fluctuations. Farmers have therefore, reciprocally as it were, a very immediate interest in CED research studies and policy statements that deal with problems affecting high production in the industrial and commercial sectors of our economy. Nothing is more important to farm income than this goal, which would provide a setting favorable for policies and special measures aimed at stabilizing farm income and product prices.

What to do in case drastic business fluctuations do occur is a natural agricultural worry. The prospect is that American farmers will find themselves confronted periodically by a widespread and recurrent curtailment in the demand for farm products, certainly until our modern industrial-urban economy has put its house in order sufficiently to avoid major business fluctuations. While these cycles come and go, what are farm people to do? The farmer is no more willing than the next man to sit and wait. They will be searching for the best among possible alternatives to offset the effects of business fluctuations upon them. The Research Committee of the CED feels that it can appraise some of the proposed remedies, but that it is not its province to urge the adoption of any particular program.

Short-Run Production Adjustments

The suggestion will undoubtedly be made that farm output be reduced when unemployment spreads and demand falls, and expanded when business booms, thus fitting agricultural production to business fluctuations. The strongest argument against this policy is that it would hurt the rest of the economy, by making food and other farm products more costly during depressions, without substantially helping the farmer. It would not help to correct the depression; it would merely deepen its incidence. Moreover, because of the structure of the farm sector of the economy, with its multitude of small units, as well as the nature of crop and livestock production, much of which has to be planned ahead for long periods, it would be difficult, if not impossible, to control the short-run supply of agricultural goods to the extent necessary to maintain stable prices. It is likely to prove a considerable task for agriculture to make even the long-run adjustments required by permanent demand changes.

Fixed or Guaranteed Prices

Another alternative likely to be offered is the use in periods of economic depression of a system of price guarantees similar to those adopted in wartime to secure the needed large volume of war food production. The existing system of price guarantees will, in fact, continue for two years beginning with the January 1st following the date when the President or Congress declares the war emergency period at an end. These government-pledged price supports apply to most important farm commodities produced commercially in this country, and for some the guarantee promises to maintain prices at 90 or 92 per cent of parity.

It will be a task of some magnitude to meet those guarantees. For example, with perishable and semi-perishable crops like livestock and dairy products, fruits and vegetables, it is necessary that prices permit the markets to clear the supplies that are delivered. There are practical limits to the quantities which public or private agencies can store while they look around for new outlets. If for any reason consumer purchasing power falls off while the prices of these commodities are held at a support level warranted by a wartime market the quantities bought and consumed will drop. Farmers will find they are producing and delivering more than the market will take at the old price, no matter what the law says.

The problem will not be much simpler even for durable products like cotton. If Congress by passing a law, or the Department of Agriculture by issuing a regulation, fixing the price of cotton at 18 or 20 or 22 cents a pound, could move the cotton crop into consumption at that price, we should not have much of a cotton problem. It might work if the demand for cotton could be met only by the American staple and nothing else, and if over lean and fat years the demand equalled the supply. But the peacetime world can buy cotton in markets other than ours, and the domestic mills can use synthetic fibers. Many cotton producers have sounded a warning to stop, look, and listen lest we wake up some day to find we have priced ourselves out of the market.

These same difficulties would operate against the successful functioning of fixed or guaranteed prices as an instrument to mitigate farm income instability due to depressions. The public has accepted guaranteed price supports for war purposes, and to cushion the shock of readjustment from war to peacetime volume and prices. However, there is reason to fear the tendency to shove the supports up and up to higher levels that, continued, can have very undesirable consequences. A system of rigid, legislated prices extended indefinitely into the future can do a great deal of harm to the farmers themselves, distorting their production decisions both as to the kind and the quantity of crops or livestock they produce.

There is room for improvement in the free-price marketing system for farm products, and the business community has a responsible part in it. In this discussion, the criticism of high support prices that freeze markets does not extend to measures aimed at lessening short-term price uncertainties such as result from local or temporary surpluses.

Price guarantees, fixed at levels higher than the over-all supply-demand situation warrants, tend to hold more producers in a given field than would otherwise stay there. Farmers will go on producing a crop because its price is sustained, even though the actual demand may call for reduced volume, and perhaps for a lesser number of producers. In the transition period, with many persons footloose, such price guarantees may draw many others into farming. Sooner or later, the supply-demand channel becomes clogged, and a bewildered nation wonders why we "over-produce."

The country is now involved with far-flung price guarantees, and others will probably be urged to achieve necessary regional adjustments. This suggests that consideration should be given to fixing the guarantees on a sliding scale, with the guaranteed price declining from period to period as its adjustment purpose is effected. Thus, a declining scale of price supports could be used to help get from 20 cent cotton to a price that could meet competition in the domestic and world markets,

while essential changes in the use of the resources of the cotton South (or other areas) are being made. Price supports may have a legitimate peacetime role in minimizing losses and hardship, but they should not be allowed to freeze production patterns.

Government Payments to Supplement Prices

Many difficulties and disadvantages attend attempts to fix market prices and maintain them independent of changes in consumer buying power or changes in the volume of supply. Experience with fixed prices has been sufficiently discouraging to prompt search for other ways to support and stabilize farm income. One proposal offered is that the Government under certain conditions pay directly to the farmer the difference between the unit price guaranteed and the price obtainable in the market. Such payments are not intended to displace the very much needed programs to improve marketing processes, to develop new uses and outlets, and otherwise to stabilize and strengthen markets. Those who advocate the direct supplementary payments (including many leading farm economists) argue that the country as a whole, including the farmers, would be better off by permitting the price flexibility necessary to move farm products fully into consumption, avoiding the building up of unmanageable surpluses in Government hands. The payments would safeguard the farmer without disturbing full-volume production and trade.

Transition Payments

The exact character of the payments, and the conditions under which they would be made, would differ with their purpose. Where the purpose is to discharge the government's commitment to support farm prices for two years after the war, market prices would be relied upon to channel farm products into trade, governmental payments to the farmer covering the difference between the current market price and the support price commitment. Those favoring this procedure claim that it would afford an orderly way of making the transition from the war to the postwar supply and demand situation, without concealing from the farmer the necessary or desirable production changes. The public interest requires that the government carry out its pledges and yet do so in ways that would have minimum adverse effects on agricultural production, trade, and consumption.

Adjustment Payments

Where the purpose is to aid a depressed sector of agriculture in making a transition (such as now confronts the cotton South) affecting markedly the production, employment, and income of the farm families in the area, the adjustment payments would be made to participating farm families for specific performance. Here we are dealing with a problem that is neither cyclical nor transitional, but essentially long run in its characteristics. The adjustments in themselves will be long-period ones. Payments for this purpose should be geared to the adjustment deemed necessary for a better economic balance in the area in question.

Payments to Counteract Business Fluctuations

A system of compensatory payments has been proposed to counteract the adverse effects of acute industrial depressions upon the income from farming. A particular argument offered in its favor is that since such payments would be made only

in the trough of the business cycle they would be counter-cyclical in their general effect; they would help to maintain industrial markets and to keep a depression from dropping as low as it might otherwise do. As in the case of the transition period payments discussed above, compensatory payments would have to be made in a fashion that would not distort agricultural production or the trade of farm products.

The Use of Payments; Pros and Cons

In the current debate on future agricultural policy, sharp lines are being drawn between those who believe direct supplemental payments can be used to bring flexibility into the farm commodity price structure without damage to farm income, and those who condemn direct payments as "cheap food" devices that would make farmers dependent on "subsidy" props that might be withdrawn at any time. As is often the case, the arguers on both sides tend to over-simplify the issues.

The use that can be made of direct payments in meeting future agricultural problems should have careful, objective study. Payments can not be substitutes for the various forms of effective action that can properly be taken to support and stabilize market prices for particular commodities. In some cases, however, they offer important advantages over rigid price-setting in that they would protect farmer income while leaving market prices free to command as great consumption as possible, and to indicate the probable direction of demand.

Farm leaders who are suspicious of the direct payment proposals ask these questions: "Why should agriculture be the one large group in the economy condemned to live on direct Treasury subsidies? Labor is given minimum wage guarantees and legislative aid to demand and get higher wages which are passed on to the consumer by manufacturer and dealer. Why should not the farmer be enabled to collect a living price from the consumer in the same way, without being forced to depend on government subsidies?"

These questions open some interesting lines of thought which this statement can not explore at length. There are essential differences between direct payments to farmers as a method of making good on wartime guarantees, payments to help bring about needed regional adjustments, payments to offset agricultural depression arising from severe drops in industrial activity, and the subsidy payments now in effect to hold or roll back farm commodity prices even though consumer purchasing power is at a peak. The probability that a program of maintaining high fixed prices in the market will also require large Treasury subsidies can not be overlooked.

All the tools in the kit are likely to be needed in evolving a workable agricultural price structure in the postwar years. The problem will be to select the best ones, or the best combination, not only for agriculture's welfare, but for the general public interest.

To Lessen Production Risks

Many things need to be done to lessen risks due to fluctuations in agricultural yield. Some of them require government aid, others do not.

The most promising general line of action probably lies in further improvements in farm practice and technology. Over the long run, individual farmers

can be assisted to do much more than they are doing to reduce the instability in their output. Better farming practices often require more capital in the form of land and equipment. The farm family that produces much of what it needs for living is less vulnerable than the single cash-crop farmer who buys all his living at the store, provided, of course, the diversification of effort does not sacrifice the advantages of specialized production.¹

Farming on the contour, terraces, lateral runways, and the like -- practices that hold needed water where it falls -- in most cases will pay their own way in lower costs and greater production stability. Pasture development and management is a promising field in mixed farming areas.

All programs aimed either to guide or stabilize farm production should hold to conservation of the soil as a primary purpose. Technical assistance and financial aid will continue to be required by most farmers. Farm tenure arrangements, taxation, and other devices that now widen the gap between the earnings of our farm land and the long-range social costs should be overhauled. Many of the remedies lie in the hands of the states and localities.

Much land now being farmed is too poor to yield its operators a satisfactory living. Great areas have been homesteaded for general farming where the risks are too great for safe use except as range. Much submarginal hill land should be reforested. Long-range programs should be developed to restore these areas to proper safe use for timber growing. This field offers a wide opportunity for action by the federal government, by the state involved, and by private enterprise.

We shall face a need for widespread farm production adjustments as far ahead as anyone can see. Only at the price of excessive hardship are long-range, general shifts in production to meet permanent demand changes accomplished by individual farmers working alone; for effective adjustment they will continue to need the cooperative machinery that is provided by the government. Experience has made clear, however, the undesirability of attempts to adjust production to counteract short-run fluctuations in demand. Experience sounds another note of caution: government "adjustments" programs actually tend sometimes to retard the needed adjustment, preserving the status quo which must, on the contrary, be changed before fundamental improvement is possible.

¹ "...the family-type farm should remain the basis on which American agriculture typically is organized. Although there is no reason to standardize all farms, because of differences in agricultural requirements and in the managerial abilities of farmers, the best interest of the country will be served when a majority of farms are of the type on which the operator, with the help of his family and perhaps a moderate amount of outside labor, can make a satisfactory living and maintain the farm's productivity and assets. About 3,000,000 farms are of this kind at present, compared with about 80,000 larger-scale farms and plantations. The nearly 2,500,000 other farms listed by the census are small units. About half of these, however, are not dependent on agricultural income, for they are part-time farms and rural residences. There remain over a million very small farms, many of which are subsistence farms, on which the families are trying to gain a living by farming." Land-Grant Colleges report, op. cit., p. 30.

A system of crop insurance for areas of high climatic risk is recommended by many persons well acquainted with the problems of these areas. The main purpose of crop insurance is to minimize the effect of year-to-year fluctuation in weather upon the individual farmer's income. If the cost of insurance were to be borne by the general public, it would result in the long run in rising land values and rents with little real gain to the individual farm family. The cost should be borne by the parcel of land concerned, and reflected in its value.

There is much to be said both for and against a broad permanent program for the storage of feed grain as an aid to stabilizing livestock production. Favoring storages is the fact that feed crop fluctuations translate themselves into ups and downs in livestock production. If the extra grain in years of better-than-average crops is stored and used for feed in below-average crop years, livestock production will tend to be stabilized. However, the danger that such storage programs may be used as a device to raise feed grain prices is very real. High feed prices tend to restrict livestock production and thus to build up increasingly large supplies of grain which overhang the market. This danger could be met by conservative storage practices that erred -- if error were necessary -- on the side of generous current consumption.

Neither crop insurance nor "ever normal granary" programs can be operated without the aid of government. Nor is it possible to bring safe farming practices within the reach of two million or more low-income farm families without a comprehensive public program of technical assistance and education.

V. SUMMARY

After the war farmers will tend to produce more than they produced before the war. The demand for American farm products will fall when relief and inventory needs have been met. The nation will then face the "farm problem" once more; before then it should know something about (a) what causes chronic agricultural depression such as marked most of the inter-war years, and how may agriculture avoid it? and (b) why is income from farming so unstable, and what may be done about it?

* * *

General policies designed to achieve reasonable stability in the general price level and to keep the industrial-urban economy going at a high level of production are of first-rank importance to farmers. There are two points of view on the interdependence of agriculture and the city industries, often expressed as though they conflict with each other. One claims that high level employment and prosperity in city occupations depend importantly on high farm income and rural purchasing power. The other claims that we cannot have a flourishing agriculture unless those in non-farm employment prosper, with full employment at high wages. Neither claim cancels the validity of the other; an argument as to which factor takes precedence is like an argument over whether the right leg, or the left one, is responsible for moving a man as he walks.

* * *

Agriculture can reach its highest state of well-being only in an environment of high level employment, unrestricted and abundant production, and high purchasing power. These are important to everyone, but they are particularly necessary to farmers. No other factor can possibly mean as much to the welfare of the farmers as good consumer markets. Moreover, high-level industrial production provides a large supply of goods to trade for the products of the farm, thus improving the terms of exchange for the farmer.

* * *

Expanding non-agricultural employment - and thereby providing goods and services that can be absorbed in a rising standard of living - is important not alone because it means adequate markets for the products of the farm; it is vitally necessary in order to offer jobs to surplus farm workers who otherwise remain on farms and worsen the problem of overpopulation and underemployment that has characterized the farming business. An active urban economy means job opportunities for those who are not needed on the farms.

* * *

Export shipments of food after military and relief needs end will fall sharply below the wartime lend-lease volume. Special devices aimed to raise the level of nutrition of low income groups are properly social measures, not farm relief; they should not be expected -- or used -- to solve agricultural surplus problems. In the long run, educational programs can help bring about needed improvement in the quality and quantity of the nation's diet and at the same time

strengthen the farmer's market, but volume of consumption will depend mainly on the continuance of high total consumer buying power.

* * *

It is important to increase farm labor's mobility through broader vocational training and better information and placement services. Greater mobility of capital accompanying decentralized industrial production into areas of labor surplus would bring non-agricultural employment to underemployed farm workers.

* * *

Given free movement of surplus workers from farms to other jobs, and adequate capital (land, buildings, and equipment) for the families remaining on the farm, better soil management and farm practices and improved technology would result in larger production per family and lower costs per unit, with better net returns and higher living standards than farmers as a whole have ever known.

* * *

Government assistance will continue to be needed in many ways. Crop insurance by which year-to-year production risks are leveled off, with the costs reflected in the value of the land insured, may be of aid to the Plains states; storage of grain carried from above-average to below-average crop years may contribute to stability of livestock production, if safeguards are set up against use of storage to hold up prices. A nation-wide soil conservation program means much in the long run to cities which will suffer most if the fertility of the soil continues to be depleted. Farmers will need the help of government if they are to make the production shifts required by permanent demand changes. These and other government programs are required after the war. It is a concern of all citizens to see that they are both conceived and administered well.

* * *

If demand subsides to peace levels while agricultural production remains high, as seems likely, a heavy drag will be imposed on the government's price guarantees. Before the problems that will attend that situation confront us, careful thought needs to be given to what our peacetime agricultural price policy should be.

* * *

Improvements in the kinds and cost of credit for agriculture; support for agricultural cooperatives; commodity loan and storage programs; adjustments and curtailment of acreage and production; fixed or guaranteed prices; marketing agreements; parity payments to producers -- these are some of the instruments of agricultural policy that have been used. Some are still in use. Not one is complete or fully effective by itself. Adjustment programs which seek to control shortrun production, in order to offset cyclical fluctuations in demand and to increase or sustain prices, have proved difficult and relatively ineffective. Fixed or guaranteed prices are likely to produce harmful effects, not the least being the effect on the farmer of "surpluses" which appear when producers deliver more than consumers will take at the guaranteed price. Efforts should be continued to find better ways to

satisfy both the government's obligation to agriculture and the needs of the general welfare. No simple rule or formula is likely to be found for agricultural pricing policy. Current disagreements notwithstanding, continued study should be given to the use of supplemental payments to farmers to carry out postwar price guarantees, to encourage needed production adjustments, or to offset a fall in consumer buying power.

* * *

We are depleting our soil and plant-food mineral reserves at a rapid rate, and without these in the right supply we shall have neither healthy plants nor healthy people. The farms are giving up to the cities in the process of land mining, which is what much farming is, a mineral wealth which the farmer does not figure in his costs. He is depleting his reserves year by year, but he cannot charge it against his taxes or pass it along in his prices. Those who live on the pavements owe it to their farmer neighbors to take more than a passive interest in the protection and restoration of the land. Farmers must do the work and take the initiative, but ways must be found for the rest of us to do our part. We have the land resources to provide abundantly for our prospective population only if we stop wasting the soil and care for what we have left as well as we know how.

* * *

If family-type farms are to continue and the farm family is to enjoy a fair standard of living, they must command capital in the form of land and modern equipment adequate to make them efficient producers. Agricultural development in the United States has been attended by a continuous rise in each farm worker's productive capacity. At the time of the nation's birth more than 90 per cent of the population worked on farms, producing a scant surplus for the small minority living in cities and towns. In 1944, less than 20 per cent of the population was on farms, and the large agricultural output of that year was produced by 15 per cent of the nation's labor force. More food and raw materials at lower costs, produced by fewer farm families, is of course the corollary of increasing efficiency in equipment and farm technology on small as well as large farms. Further development in this direction will come with a rush after the war.

* * *

The farm is the seedbed of our population increase. It is the most important source of new blood for the cities whose population does not otherwise sustain itself. Standards of nutrition, health, and education in rural areas, therefore, are of prime national concern. To see that the farmers have equal facilities and opportunities in these respects is not merely fair play; it is important to national self-preservation. The whole economy shares the responsibility to see that over-populated rural areas are able to make better provision for educating and training their youth and for health and nutrition. It is important to the nation, too, that farm conditions be attractive enough to hold on the farms a sufficient number of well-qualified persons to make for an improved agricultural economy.

#

ABOUT THE COMMITTEE FOR ECONOMIC DEVELOPMENT

Peacetime expansion plans, whether by manufacturers, wholesalers, retailers or any other type of business, are important first to the company or individual businessman making the plans. They are almost equally important to the community of whose economy the given business is a part. Finally, every separate postwar plan prepared and put into effect by America's more than 2,000,000 business employers, large and small, is important to America as a nation.

WHAT IS CED?

To help stimulate private enterprise to plan realistically for business expansion and greater employment after the war, the Committee for Economic Development, or "CED," was organized as a private, non-profit, non-political association of businessmen. To avoid mass unemployment, CED believes that American business should aim its planning sights toward --

1. Thirty to forty-five percent more business volume than in 1940, which in turn would provide:
2. Seven to ten million more jobs than in that same year.

CED is organized, under a Board of Trustees composed of twenty-seven of the nation's leading businessmen, into two major units -- the Field Development Division and Research Division.

The Field Development Division

The Field Development Division's basic job is to encourage bold and realistic planning by individual businessmen for more production, sales and jobs in their own companies.

To do this, local CED committees have been organized throughout the country. More than 2900 such local committees are already at work in most communities of 10,000 population or over in the U. S. as well as in many smaller towns and villages. The 60,000 individual businessmen who are volunteer members of these local CED's are in contact with an important segment of the nation's 2,000,000 business employers

Thus, on a company-by-company basis, American business, large and small, is being urged to plan for expanded production, distribution and employment in the postwar period. Each local CED committee acts with complete autonomy in tackling its own postwar employment problems.

Nationally, the Field Development Division acts as a clearing house for the best ideas on company planning. It seeks in this manner to provide to CED community committees, and through them to individual businessmen, all possible assistance in carrying on their postwar planning. This assistance takes the form of handbooks, sound slidefilms, charts, etc. suggesting step-by-step planning procedures.

To prepare such material, the CED has mobilized the nation's outstanding business experts in various phases of business activity -- production, sales,

advertising, etc. These experts, formed into twenty-seven Action and Advisory Committees, have pooled their "know-how" for the benefit of all businessmen.

The Research Division

The efforts of individual businessmen and companies to expand and increase employment -- important as they are -- cannot succeed unless we have a favorable "economic climate," in which individual plans will have a chance to become realities.

In order to determine what policies of government, business, labor and agriculture will best contribute to an expanding economy, the CED Research Division was organized. Under the CED by-laws "all research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group."

The Research Division consists of three groups:

1. A Research Committee of businessmen. After months of careful study and frequent meetings with members of the Research Advisory Board and Research Staff, this Committee issues official Statements on National Policy, such as the following:

"Postwar Employment and the Settlement of Terminated War Contracts," published October, 1943.

"Postwar Employment and the Liquidation of War Production," published July, 1944.

"Postwar Federal Tax Plan for High Employment," published September, 1944.

"Postwar Employment and the Removal of Wartime Controls," published April, 1945.

"Problems of Changeover Unemployment," published August, 1945.

"Toward More Production, More Jobs and More Freedom," published October, 1945.

The Research Committee is also charged with the responsibility of selecting subjects for study and authorizing independent Research Reports by outstanding experts. (See list of Research Studies on page 32.)

2. A Research Advisory Board of economists and social scientists. This Board consults with the Research Committee and gives the businessmen the benefit of specialized knowledge. It also has the responsibility of approving, in terms of technical competence but not in terms of content or conclusion, the independent Research Reports made by the experts on the Research Staff.

3. Research Experts have been engaged by the Research Director on the basis of special qualifications to undertake special studies.

Once a subject is assigned, the economist has complete freedom of conclusion and expression. The results of his research are, however, discussed at frequent meetings of the Research Committee of businessmen, sitting with the Research Advisory Board of economists and social scientists. As the facts are clearly developed,

the areas of disagreement are gradually narrowed down. The author is the final authority on both the content and the wording of his report, and thus he alone is responsible for its conclusions, which may or may not agree with the official Statement on National Policy issued by the Research Committee of businessmen.

The following Research Reports for the CED have been completed and published by the McGraw-Hill Book Company, Inc.:

"The Liquidation of War Production"
by A. D. H. Kaplan

"Demobilization of Wartime Controls"
by John Maurice Clark

"Providing for Unemployed Workers in the Transition,"
by Richard A. Lester

"Production, Jobs and Taxes"
by Harold M. Groves

"International Trade and Domestic Employment"
by Calvin B. Hoover

"Agriculture in an Unstable Economy"
by Theodore W. Schultz

Publications of the CED Research Division fall, therefore, into two categories:

- (1) Official Statements on National Policy issued by the CED Research Committee of businessmen.
- (2) Research Reports embodying the individual views of the scholar assigned by the Research Director to each special study.

The Value of Economic Research to Individual Businessmen

Both the number and the complexity of the problems of reconversion, transition, and postwar expansion make it difficult for the unaided businessman to keep abreast of developments and to think through their implications for him.

CED urges that all businessmen make a strong effort to study the facts and to utilize research material available from all sources, that they may be better able to plan for postwar progress in their own enterprises, and contribute to the broader objective of achieving a sound and stable "economic climate" favorable to business activity and job expansion. This applies not only to "top management" but to executives in the production, sales, personnel and other staff divisions who share in decision-making, and certainly to the small businessman, who must make all of his postwar planning decisions himself.

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