

Remarks by R. M. Evans,
Member, Board of Governors, Federal Reserve System
at meeting of
Farmers Grain Dealers Association of Iowa,
Des Moines, Iowa, January 25, 1954.

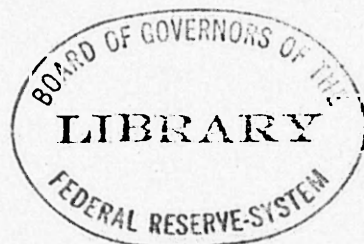
The farmer has the same right to adjust his production to effective demand as manufacturers and others have in a capitalistic society. The only way farmers can regulate their production is by acting together under existing legislation. Quotas are only possible when at least two-thirds of the farmers affected approve them in a secret ballot. This is a demonstration of democracy at its best. It does not mean that the Government is running our business -- just the contrary -- we run it ourselves. If prices become so low we cannot pay our bills, then the Government will run our business through foreclosure.

Agriculture must encourage research to find new uses for our products and thereby expand our market. We have such facilities in the four regional laboratories and also in the college experiment stations.

Organizations such as yours have made real strides to increase efficiency and lower the cost of marketing but by itself efficient marketing will not change prices sufficiently to make the difference between success and failure. However, I believe organizations such as yours have other very tangible benefits for farmers by bringing them in direct contact with the problems of business and Government.

In the early Triple A days a very fundamental decision was made. Simply stated, it was that farmers were capable of running their business.

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Mary doubted that farmers could administer a complicated farm program but the results were evidence that they could and the administrative performance of these farmer-elected committees has no equal anywhere. The difficult tasks they undertook and carried to a successful conclusion provided an inspiration to farmers throughout the world. The experience which the farmers received in this work has expressed itself in the intelligent and aggressive farmer leadership in evidence today. Remember, there was no partisanship in the election of these committeemen. The recent trend away from this system is cause for worry and if carried any further will injure farm programs.

Now, farming is different from most businesses because every man, woman and child is our daily customer and if there were not enough farm products people would starve. The farmer has the responsibility of seeing that his customers are amply provided for regardless of the weather or a grave national emergency. Because of variations caused by the weather, farmers cannot adjust their production as accurately as manufacturers. If a manufacturer runs short of his product, people may suffer some inconvenience but they are not likely to risk the loss of their lives as they would if farmers failed to produce or if they held their production just equal to demand and then we had a drought.

Now we come to the all-important question of price supports. There has been a great deal of misunderstanding about this question by those who have not given careful thought to the problem. Let's look at this problem. Why have price supports? The farmer cannot keep his production as close to demand as others for the reasons just mentioned. Certainly, no country can afford to run such a risk. Therefore, the question of the size of the yearly

carry-over becomes a question of national policy in peace or in war. In time of peace the carry-over should be large enough to even out the ups and downs of production due to weather and other uncontrollable causes. The size of the carry-over should always be on the liberal side.

Let's turn our memories back twenty years. The severe drought of 1934 was still ahead of us. You were sealing corn at 45 cents per bushel or 60 per cent of parity. All of this corn was badly needed later on and the farmers gained the increase in price. I have always viewed corn as the raw material for beef, pork, etc. and I would not want to carry the present livestock inventory without a very large carry-over of corn. It would be entirely too risky. Yet we must realize that a large carry-over has a tendency to hold down the price in the market place so if we need a large carry-over we must have a support high enough to protect those who have corn to sell. No regular feeder wants low-priced corn because over a period of time the price of corn regulates the price of livestock and their products. High support prices protect the regular feeder from the speculative in-and-out feeder.

Now I want to give you a little history of the so-called high supports.

I was the Administrator of the Triple A when it was necessary to set the winter wheat allotments to be planted in the fall of 1939 for harvest in 1940. Remember, war was still in the future but not the distant future. If we set the allotments low enough to protect the farmers' price, we ran the risk of not having wheat for our friends in the event of war. After many soul-searching discussions, it was decided to prepare for the possibility

of war. There were many interesting phases of that decision but I do not have time to recount them here. The decision was made and I wanted and got higher loans for farmers. The 1940 loan was 75 per cent of parity. The decision to prepare for war was a sound one. Both the country and the farmers benefited. I felt it was my duty to protect the farmers' income and this was the only way it could be done. I later sponsored the 85 per cent of parity. At that time many of the arguments against such a proposal were the same as you now hear.

Now, let's look at the present situation. In June 1950 Korea became a battleground. The then Secretary of Agriculture, with the history of the past war before him, issued in the form of press releases, urgent appeals to farmers to produce more and more so we would be adequately prepared for any eventuality, and this was the conservative and proper course to pursue.

On February 2, 1951 the Secretary said, "Full production from American farms is essential in the defense effort." A goal of 90 million acres of corn was established for 1951.

On July 20, 1951 he said, "The announced 1952 crop goals are designed to fill all known requirements and to maintain or build stocks as safeguards in the defense emergency."

On November 29, 1951 the goals for 1952 were announced with the following statement, "The need for agricultural production in 1952, especially feed grains, is the greatest we have ever faced . . . The goals we have set will challenge our productive capacity."

The 1952 support price levels were 90 per cent of parity. The corn production requested was 3,375 million bushels.

On March 20, 1952 the Secretary stated, "Unless more corn and other feed grains are planted by farmers this year than is indicated in yesterday's report on farmers' intentions, we will face a serious situation in our feed grain supplies."

On December 23, 1952 a goal of 3,350 million bushels was requested for 1953. The farmers complied as well as they could but they did not have a written order so those who had to sell received much less than they had a right to expect. They did not have a written order when they prepared similarly for World War II. The other branches of the same Government ordered guns, tanks, planes and other implements of war. There was one difference -- the farmers had no written orders with the price specified but the others did and that business was very profitable regardless of whether or not the defense items were used.

These large supplies were not the result of lack of planning. They were the result of definite planning based upon the practical experience of a war still fresh in the minds of everyone and if a war had developed we would not have enough right now. Such a situation must never be allowed to happen again. If the Government asks the farmers to produce abundantly for the defense effort, then the Government must adopt a program to protect the farmer. There is a moral obligation that cannot be overlooked. Whatever a farmer produces for war is equally usable in time of peace. This is not the case with all manufacturers. Our Government is still spending enormous sums for defense but they are not allocating any of it for farm products. If these

large expenditures are necessary, and I assume they are, then part of those funds should be used to buy and store the farm products needed for defense and such farm products should not find their way into the channels of ordinary trade. They should be used to fight Communism. They are the one tool the "Commies" cannot duplicate. They are the one way in which we can clearly demonstrate the great difference between Communism and Capitalism, and this is something the people can understand. You will remember how the Communists fought against the distribution of food in East Germany. They couldn't match our food so they tried to prevent the comparison. Such a comparison was more than their way of life could stand.

There are many places where surplus farm products could be used to relieve suffering and poverty in the world. Surplus farm products distributed in this way are one of the best ways to protect our way of life. Guns, tanks, airplanes, etc. are necessary in the world as it is today but I venture to say that nothing would contribute more to the prospect for a peaceful world than to provide mankind with a better standard of living -- with more to eat and wear. I should add that we must not distribute these products in such a way as to injure regular world trade. We must help foreign producers of agricultural products to get a good price for what they have to sell. Their standard of living is tied to the prices they get. In most cases that is already too low but the uses I have outlined, if intelligently administered, will not conflict with such a program.

Some people believe that low supports will have a tendency to reduce production. There is no historical proof of such a result; on the contrary, the opposite is true. The farmer has his fixed costs to meet from

the sale of his products so he raises more rather than less. In 1931 we planted 107 million acres of corn and in 1932 we planted 110 million acres. The acreage declined materially thereafter when loans were in effect. The need for income expressed itself in the only way it could -- increased production.

The farmer cannot easily shift crops from one to another because of climate and machinery, etc. Acreage can be reduced only when producers feel confident prices will advance because of the reduction in acreage, and the only certain way to assure this result is by high support prices. And I should add that this is the only way to get enough grass to keep our farms fertile and efficient. I can see no fair or logical reason, considering the farmers' welfare as well as the welfare of our country, for reducing the supports from their present 90 per cent level.

Food is power. We have the power and we should learn to make use of it. We are the only nation with this power in large quantity; yet we have never fully realized its true value. Probably because we have food and fiber in abundance, we take it for granted. Other countries are envious of this power. They know its worth. The time has come for us to reappraise our foreign policy and determine how we can use this power most effectively.

This country cannot permit farmers' incomes to decline if we are to preserve our way of life. More than any time in our existence we need a high national income and full employment. Our costs are very large and our Government raises its revenue almost entirely from income taxes. Income taxes are levied on profits and profits alone. A serious slump in agriculture

and business would present some very difficult internal problems.

Moreover, farmers represent the type of citizenship we need.

They are a wonderful balance wheel. They are not interested in Communism. Russia has killed them by the thousands, maybe millions, but the farmers there still love their soil and always will. Agriculture is Russia's weakest point. It is one of our greatest pillars of strength.

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