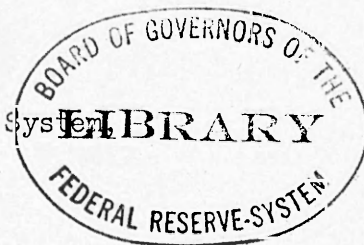


FARM POLICIES

Remarks by R. M. Evans,
Member, Board of Governors, Federal Reserve System
at meeting of
National Farm Institute,
Des Moines, Iowa, February 20, 1954.



It is old-fashioned, no doubt, but I submit that I am not indulging in partisanship when I profess a belief in Jeffersonian democracy. I realize that Jefferson envisaged a nation composed mainly of independent farmers and that he did not foresee the industrial revolution. Nevertheless, I believe that his faith in and his purpose to protect and preserve independent farming is as valid today as it was in his time. Such opinions as I have formed about farm policies are derived in large measure from his basic philosophy as well as from long and often hard experience.

It is sometimes contended, usually by people who have never been engaged in farming, that the concept of parity and price supports is somehow inconsistent with democratic institutions. I thoroughly disagree with that contention. It seems to me a narrow and doctrinaire view that ignores the realities of the agricultural problems confronting us in this day and age.

Food provides the basic strength of our nation and its industrial power. To my mind, support prices for agricultural commodities are no more inconsistent with our institutions than are the protections that our laws provide for industry -- not only through tariffs but many other devices to protect and preserve business enterprise. The real purpose of such economic devices, whether applied to agriculture or manufacturing, is to help maintain and improve our standard of living. If they do not serve this purpose, if they serve only special interests and not the general welfare, then I would do away with them. I am very sure that price supports for agricultural commodities are in the public interest in the broadest sense.

The farmer has the same right to adjust his production to effective demand as manufacturers and others have. 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 thoroughly democratic process. It does not mean that the Government is running our business -- just the contrary -- we run it ourselves. If prices become so low that we cannot pay our bills, then the Government will run our business through foreclosure.

Now, farming is different from most businesses. Every man, woman and child is our daily customer. 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.

There has been a great deal of misunderstanding about the question of price supports. 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. Imagine, if you can, our people being hungry as they are in some other countries from time to time. 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. Parity prices for farm products represent the basis for a fair and equal exchange between the farmers' products and the goods and services of non-farm groups. We do not want an advantage. We only want to trade with non-farm groups on a basis that will enable all of us to enjoy a rising standard of living.

There is one point about parity that many people forget -- in itself it is not a rigid figure. The reason there is such little movement in the figure of parity is because industrial prices change very slowly and very little. They tend to remain rigid. As an example, look at the prices of farm machinery and you will find that although farm machinery is piled high around the factories, the prices have not changed -- they even increased a little in 1953 -- in spite of the fact that these same factories have been idle for a long time and the workers, who are the farmers' customers, are out of work.

If the people in the towns and cities who purchase agricultural commodities feel that the parity prices are too high, they have in their hands a means of lowering them. All they have to do is to lower the cost of the goods and services they sell to agriculture and the parity prices of farm commodities will automatically decline. However, in the discussion of farm prices we rarely find that our customers look with favor on this remedy.

Just to illustrate, a business shirt, such as you people in the audience are wearing, contains about three-quarters of a pound of cotton. At present prices, the farmer received about 30 cents for the cotton that went into your shirt. The retail selling price of the shirt is anywhere

from three dollars up, mostly up. Similarly, it takes about 1.06 pounds of corn to make an 8-ounce package of cornflakes. At present prices, the farmer received only 2.4 cents for the corn that went into the package of cornflakes, for which we pay about 18 cents.

The point I want to make is that when people who purchase agricultural commodities complain about the prices they have to pay, they seem to forget that they themselves are responsible for practically all of the cost. If the price the farmer receives for the commodities I have just mentioned were cut 25 percent, the price to the consumer would still not be reduced very much. It would, however, practically bankrupt the farmer and some of those who complain about farm prices would be out of work because the farmer could no longer buy their products. If a man is out of work, it does not make much difference to him how cheap these items are -- he probably would not have enough money to pay for them anyway.

This whole concept of parity is one that should be brought to the attention of the people so they will fully understand it. It seems to me that our educational institutions, particularly the agricultural schools, have an excellent way of disseminating information of this kind through their Extension Services. The people have a right to know the facts.

There is nothing needed more in America today than a thorough understanding on the part of our citizens as to the part each segment of the economy plays in the national picture. Our educational institutions have an excellent opportunity to do the right kind of educational work. There is a great deal of incorrect information about many subjects but if the farm people will see that the facts are thoroughly understood by their cousins

in the towns and cities, we will be a long way toward a better economy.

Just to show you how these things can be done, let me call your attention to the fact that in November 1943 Fortune magazine asked the people which, if any, of the groups listed would they say had done a good job of handling its end of the war effort. Fifty-three percent of the people thought the farmers had done a good job and this was just about 20 percent more than any other industry. If a poll of that kind were conducted at this time, I doubt very much if a similar answer would result. I mention this to illustrate the value of a good educational program because during the 1930's and the early 1940's we had a very excellent educational program based entirely upon facts.

At the same time, 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. Agriculture is efficient. Even though there are fewer farmers, we are raising more and more. Our prices today enable a worker to buy more of our products with an hour's labor than he could in pre-war times.

In the early Triple-A days a fundamental decision was made. Simply stated, it was that farmers were capable of running their business. Many doubted that farmers could administer a complicated farm program but the results proved that they could. The administrative performance of the farmer-elected committees was superb. 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 by substituting office managers for elected committeemen is, in my opinion, a step in the wrong direction. Each county committee is responsible to the farmers in the county they serve and should decide how they want to run their office.

Just one word about flexible parity prices from an Administrator's viewpoint. In a State or Congressional district, farmers may produce several of the crops which are eligible for loans. Since most farms are small, the difference between loan values is very noticeable in the standard of living of the farmer and his family. With all due deference to the eloquence of a member of Congress, he can never explain to the satisfaction of his constituents why the producer of wheat gets a higher percentage of parity than a producer of corn, or vice versa. I had this experience at one time in the naval stores program. It just does not work. It is better to treat farmers alike.

Let's for a moment 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 percent 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. We have about 94 million cattle and 84 million hogs besides other livestock and poultry. Suppose our corn and grain crops were cut 25 percent and we had dry pastures and meadows! Our present carry-over would soon vanish and livestock owners would have real troubles. Yet

We must realize that a large carry-over has a tendency to hold down the price in the marketplace so if we want 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' prices, we ran the risk of not having wheat for our Allies in the event of war. After many soul-searching discussions with the Secretary of Agriculture, he decided to prepare for the possibility of war. I wanted and got higher loans for farmers. The 1940 loan was 75 percent 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 percent of parity in the law. At that time many of the arguments against such a proposal were the same that you hear now.

The loss to our Government on price support operations on the six basic crops has been about 21 million dollars for the 20 year period from the beginning of the program until last June. Can anyone complain of the cost of such insurance? Not fairly.

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 could be adequately prepared for any eventuality, and this was the conservative and proper course to pursue. No patriotic government could do otherwise.

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 percent 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 at the same time 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 their business was very profitable regardless of whether or not the defense items were used.

When traveling around the country you see unused war materials stored in many places but it was paid for as part of the defense effort. The extra farm products requested by the Government should be stored in the same way. The farmer should not be expected to store them and have to worry about their effect on his prices.

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 should adopt a program to protect the farmer. That is a moral obligation that should not 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.

Farm products could 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 for this is something people can understand. You will remember how the Communists fought against the distribution of food in East Germany. They could

not match our food so they tried to prevent the comparison. Such a comparison was more than their way of life could stand. The German people in the Russian zone actually risked loss of life to get some food.

There are many places where surplus farm products could be used to relieve suffering and poverty in the world. Distribution of surplus farm products is one of the best means of protecting our way of life. Guns, tanks, airplanes and war vessels 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 program I have outlined, if intelligently administered, will not conflict with normal trade.

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.

The average corn acreage for five years prior to 1929 was about 98 million acres and the average price was about 80 cents. The depression started. In 1932 the acreage was 107 million and the price was 32 cents. In 1933 the acreage climbed to 110 million and the price was 32 cents. Cattle and hog prices quickly followed corn down to very low levels. The desperate struggle to secure enough dollars to pay expenses and save the farm from

foreclosure made such an acreage necessary. The farm program came into operation, the tension eased, prices advanced, due to the corn loan, and of course the drought put prices much higher and the acreage dropped to a better balance from a soil conservation standpoint. This was a very natural reaction. The need for income had expressed itself in the only way it could -- increased production.

The farmer cannot easily shift crops from one to another because of climate, machinery and various other factors. The cost is entirely too great. Acreage can be reduced only when producers feel confident prices will advance because of the reduction in acreage, and the only sure 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. These diverted acres should be put into soil conserving crops to improve our farms for the future. One of our experts on soil always said, "If we farm our land as we should to preserve its fertility, our farm surpluses would be small most of the time." 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 percent level. Farm income is being reduced by "modernized parity" and crop curtailment and if we reduce our support level we will cut total farm income several billion dollars.

When I was in England in 1941 the farm leaders were considering agriculture's place in the post-war period. They told me how England had fostered agriculture until 1846, when the industrial group abandoned agriculture and depended upon industrial production to buy the farm products they needed. During World War I the farmers were promised a program after the war

ended if they would plow up their grassland and produce food for the war effort. They did this but after the war the succeeding government forgot the promise. The farmers were determined that a similar result would not follow the termination of World War II. It is interesting to note that in 1946, after World War II, almost 100 years after England abandoned agriculture, legislation was passed to give farmers a fair chance to make a living.

Those who worship at the altar of the industrial economy would do well to look at the history of farm policy in England and its effect on their economy.

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 would present some very difficult internal problems. The economic sky is not free from clouds right now so we had better not add any more.

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.

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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