



AGRICULTURAL PURCHASING POWER  
AS A FACTOR IN GENERAL PROSPERITY

Address of

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IN GENERAL PROSPERITY

The title assigned to me is a long one, and you have heard the subject discussed many times - "Agricultural Purchasing Power as a Factor in General Prosperity".

There have been occasions in the not-distant past when we would have changed the words a little, to say the same thing in a different way, for example, "Lack of Agricultural Purchasing Power as a Drag on General Prosperity", or even "As a Factor in General Depression". We would not be honest with ourselves if we pretended that those times will never recur.

My remarks will emphasize how sustained farm buying power keeps the wheels of industry turning, and the men of the cities employed. Mr. Anderson will emphasize how sustained consumer buying power makes a market for the products of the American farm. Our views do not necessarily clash; we simply describe the two sides of the same shield.

In considering agricultural purchasing power as a factor in general prosperity, one is frequently reminded that cause and effect are not always distinguishable. Take the well-known correlation between factory payrolls and farm income. In the years immediately preceding 1929, gross income from farm production and the total annual factory payrolls each amounted to 11-12 billion dollars. In 1932, each had fallen to about 5 billion, and each had risen to about 10 billions by 1937. And so it is year after year. Clearly agriculture and industry depend on each other.

I'm not going to try to figure out which comes first, the hen or the egg. The point is they do travel together. There are fields in which consumer buying power practically controls the size of farm income. And there are clear cases in which farm buying power leads directly to increased industrial activity.

Take, for example, the case of mail order and small-town department store sales. From 1929 to 1932, farm cash income fell from 10.5 billions to 4.3 billions, a decline of 58 percent. Over the same period, mail order and small-town department store sales declined 50 percent. By 1937, farm income had climbed back up to 8.5 billions, an increase of 96 percent, while mail order and small-town department store sales increased during the same period by 93 percent.

Look at the agricultural implement business. While farm income was declining 58 percent from 1929 to 1932, employment and payrolls in implement manufacturing fell 75 and 83 percent, respectively. And as farm income doubled from 1932 to 1937, employment and payrolls in farm implement industries more than doubled.

These figures are pretty dry stuff, but they at least bear out the contention that some of us have been making year after year, namely, that if we can stabilize farmer income through a well-balanced farm production program, we will have moved a long way toward eliminating the extreme fluctuations in industrial production and industrial employment.

I believe that wide swings in farm and food prices relative to all other prices to a large extent dominate the general price level, not

only in periods of falling prices but in periods of rising prices as well.

Consider the long downward spiral from the middle of 1929 to March 1933. On a 1926 base, while the index of wholesale prices for other products fell 26 points, food prices fell 48 points, and farm prices fell 65 points.

On the recovery upswing in wholesale prices from the low point in 1933 to the turning point last spring, the index for other prices advanced 20 points, the index for foods advanced 33 points, and the index for farm products, 51 points.

And it is of interest to note that during the current phase of the depression these components of the general price level are running true to form. During the past year farm prices have fallen 24 points; foods, 14 points; and all others, only 5 points.

Now, it seems to me that the sheer momentum of the wide swings in agricultural prices creates a disturbance of the first magnitude - a disturbance that affects industry scarcely less than it affects the farmer himself. Business men, to be sure, are able to absorb much of the shock through adjustments in production, inventories and payrolls, and as individuals that is all they can do. But wholesale reduction in output, inventories and payrolls becomes one of the causes of wide fluctuations in farm and food prices. That is bound to be true. On the one hand, you do all that you can to keep your prices from sagging, and on the other, by reducing costs, you reduce the flow of income into the hands of those who buy the farmers' produce.

Traditionally the farmer has had no escape - indeed, no conceded right to escape from the wide swings in the prices of farm products. Both the deadening lethargy of a recession and the abnormal stimulation of a boom have fallen squarely upon his prices. In recent years, however, considerable progress has been made in setting up democratic machinery to shift a portion of the adjustment process from price to supply. I suggest that the successful operation of this machinery is in the general interest as well as the farmer's. Both business man and farmer depend on the same price network, and wide swings in the price cycle, with gaping disparities among the groups of prices, greatly hinder the effective application of other and more generalized economic correctives.

If we look at the picture from another angle, we see that maladjustments in the farm belt, and between the farmer's costs and prices, contributed mightily to the banking collapse that culminated in 1933.

During the 12 years from 1921 to 1932 there were 10,808 bank failures in the United States, with combined deposits of nearly five billion dollars. Depositors lost about two billion dollars in these failures. Those are appalling figures, and the wonder is that our laissez-faire capitalism ever survived such a blow. The fact that we did survive, and have now regained much of the lost ground, speaks well for the depth of American resources and the character of the American people. And it speaks particularly well for the enduring hardihood of the American farmer. For year after year he fought in the front-line trenches. He had to, for the trenches came right up to his own doorsteps.

Turn to the great farming states on the banks of the Missouri River, for example. These seven states normally produce one-half of the nation's

wheat, one-third of its corn and one-third of its pork. And from 1921 to 1932, they produced about 4,000 bank failures - more than one-third of the number and one-fifth of the deposits of all the bank failures of the whole country. Add to these the rest of the north central states and the states in the cotton south, and we account for more than four-fifths of all bank failures and three-fifths of the deposits involved in such failures during the 12 years after 1920.

Those of us who have been at close grips with the farm problem find it hard not to become discouraged at what sometimes appears to be complete lack of understanding on the part of business groups. Even those business leaders who sympathize with the objective, a fair and stable income from agricultural production, are often found opposing every plan addressed to its achievement.

I wonder if it would help to make at least one side of the farm picture a little clearer if it is considered as an inventory problem. Many of you have had a headache over that one, in your own business.

Most of you men have had some pretty tough experiences during this past year. You had on hand large stocks of goods bought during a period of rising prices. You accumulated your inventories when it appeared that you would need them to handle an increased volume of business and to provide against the possibilities of strikes, delayed deliveries, and still higher prices. This seemed a prudent course to take, in each individual case, but since then the demand for your products has dwindled. Many stocks such as textiles, steel, and automobiles, began to appear excessive and many manufacturers and merchants reduced their buying. This has contributed materially to the decline in activity

through impaired markets for producers of materials and declines in purchases of finished goods. Now all of us have a first class problem on our hands. The inventory situation is not the whole story, it is true, but it is one important factor.

Farmers often find themselves in similar positions, though for different reasons. By and large the demand for farm products is pretty steady. The amount of cotton consumed does fluctuate considerably from month to month and by a substantial amount from year to year, but not in any such fashion as demand for capital equipment or for automobiles. The domestic consumption of wheat runs along at about 650,000,000 bushels a year with little variation, and increased demand in any particular year depends mostly on larger exports. Consumption of dairy products and meats is also fairly steady by comparison with demand for most industrial products.

In agriculture the inventory problem arises primarily out of changes in supply. A good many of those changes are matters of chance and quite beyond the immediate control of the farmer. Last year, while planting fewer acres of cotton than in most years, we had a record cotton crop of over 18,000,000 bales because the yield per acre was exceedingly large. Of course I would not blame all the farmers' inventory problems on the weather. Last year's wheat crop was a big one because a spotted yield on a very large acreage followed several years of drought conditions. But weather is one special factor for the farmer to contend with and, because consumption does not vary much, the weather can make a lot of difference with the inventory situation.

What can be done with a first-class problem of excessive inventory, with more to come? Industry generally cuts production, and sometimes cuts prices to help move the goods. Sometimes it does not cut prices. Some industries, like automobiles and steel, have cut production to an extremely low level while maintaining prices at advanced levels; others, like textiles, have reduced prices in an effort to sell the goods and to maintain production.

Now what do you think the farmer ought to do when his stocks get large - when the inventory is excessive? Unless signs fail, that is likely to become an important question for you - important, that is, if you believe the income, the prosperity, the purchasing power of the great agricultural population mean anything to you, and the volume and character of your business.

When we examine the swift break in industrial activity that has taken place during the past nine months, we cannot help wondering how much worse the decline might have been if agricultural income had not held up fairly well last year. In spite of the usual gyrations in farm and food prices, this relatively high farm income has provided a real cushion against an even more precipitous decline in business. Farmers as a whole enjoyed an income of eight and one-half billions in 1937, and farm products on the average had a unit purchasing power, in terms of what farmers buy, more favorable than at any year since 1929.

Farm income for 1938 will be considerably below 1937. The farmer's index of exchange value, that is, the ratio of the price the farmer gets for a unit of what he sells to the price he pays for

a unit of what he buys, has already dropped from 97 to 75 during the past year. It really is a shocking commentary on our economic system that this decline in farmer purchasing power is caused, in part, by over-generous production.

The wheat crop this year may be one of the largest on record, and we have fairly large stocks to begin the season. The cotton crop last year was so large that even with a smaller crop in 1938 and an advance in cotton consumption from current levels inventories will continue to be heavy.

The men in positions of responsibility who are striving, with the cooperation of the vast majority of the farmers, to hold the ground agriculture has gained in the face of almost insurmountable difficulties, are fighting your fight as well as their own. They are entitled to intelligent cooperation.

I repeat - during the last four years, an advancing farm purchasing power has been a powerful force in motivating general economic recovery. This nation should fight to keep it so - to prevent falling farm income from adding to the depth of the business down-swing.

As human affairs have become more closely knit, more interdependent, the swings of the business cycle have gathered more destructive momentum. I sometimes think that it would be a great comfort to know that these aberrations in men's affairs - these everlasting gyrations we call the business cycle - are caused by sun spots, the weather, or even by old Jove himself. Then, at least, we could lie down at night and sleep in

peace, and know that it is no fault of ours that some eleven million people are unemployed. But I am afraid that most of our troubles are of our own making, the product of mass confusion and man's ineptitude at guiding and controlling the machine he has created.

I am well aware, of course, that there are those who place responsibility for our present woes squarely on the governmental agencies that control the country's money supply. One only has to read the daily press and listen to the radio occasionally to learn that some people see no baffling, deep-seated obstacles to be overcome in achieving economic stability. For them it is as easy as rolling off a log; devalue the dollar, or issue more currency, or buy more silver, or abolish the Federal Reserve System, or go back to the simple self-sufficing economy of a generation or so ago.

Now, there may be some merit in various of these suggestions. I, for one, wish the problem were as simple as that. Then we could believe those who insist that if the volume of money is expanded, the price level will rise, and that if the price level is raised business will boom. But in the main I suspect that the ailments of our economy are far too complex to yield to such simple, symptomatic treatment.

No matter what volume of money exists, the only money that does any work is that which is used; and that quantity is determined by the needs of business. The remainder lies idle in the banks. And neither the volume of money nor of banking reserves means much

unless people put it to work. In other words, you can make a string as long as you like, but you still cannot push it where you want it to go. Someone at the other end of the line has to pull.

Nor is the price level as simple a thing as many people believe. Changes in the so-called general price level do not reveal the nature of the changes of the component groups. If we separate a general price index into several constituent groups of commodity prices we discover that there really is no such thing as one price level, but many price levels. Some are primarily determined at the moment by temporary shifts in supply outlook, others by shifts in demand; some may be particularly influenced at times by the international value of the dollar, while others are not; and one very important set of prices may be moving up and another equally important set moving down. On top of all this the securities and capital markets may present still another set of problems peculiarly their own.

Proper credit policy is, of course, indispensable to the smooth functioning of a price and credit economy. But that alone is not enough. For by their very nature monetary devices are general in character, and for that reason they cannot be employed to give specialized aid to particular segments of prices that from time to time tend to obstruct the smooth functioning of the price machinery as a whole.

Too often in recent years, this machinery has been clogged by the low prices the farmer gets for the things he sells, and the relatively higher prices he must pay for all things he buys. This disparity between farm prices and other prices has frequently been the dominant force in slowing down business activity. I suggest, therefore, that the mercantile

and other commercial groups represented by the United States Chamber of Commerce have a direct and vital concern in the wide swings in the farmers' fortunes. Stabilized farm prices and farm income will go far toward stabilizing general business.

Most of all, we need balance between the major producer groups whose products are poured into, milled around in, and finally distributed through an enormously complex price mechanism. Achieving this balance is a job for all of us. We are confronted now with the prospects of a 13-million bale world carry-over of American cotton - a carry-over equal to the 1932 figure, and two and one-half times the average carry-over from 1925 to 1929. And it is estimated that the world carry-over of world cotton will be 5 million bales above the 1932 level.

In wheat, on the basis of present prospects, we will have a carry-over this year of around 200 million bushels, compared with a 1925-29 average of 132 million bushels. And so it is with other important crops. On top of this, our foreign outlets for many farm staples are shrinking, and probably will continue to shrink in spite of all we can do.

On the business side of the ledger, the Reserve Board's index of industrial production has fallen from 118 to 79 since last spring --and even last spring, with the index at 118, we had a serious unemployment problem.

All of us - business men, the farmers, and the Government - are up against responsibilities and problems of the first magnitude. We cannot solve them by calling each other names, by making faces and pulling hair.

But these problems must be recognized and solved. They can be solved if we are willing, individually, to foster cooperation rather than animosity; if, for the individual selfishness that adds up to mass confusion, we, all of us, are willing to substitute a personal concern in the general welfare.