

## The Farmer's Interest in Industrial Development

Remarks by Chas. N. Shepardson, Member, Board of Governors of Federal Reserve System, at 60th Annual Convention of the Tennessee Bankers Association at Memphis, Tennessee on May 7, 1958.

About a year ago I had the privilege of addressing your Agricultural Conference in Nashville on the general agricultural situation with particular emphasis on the banker's interest in rural development. Today I should again like to consider the general agricultural situation but with special attention to Tennessee farmers and their interest in industrial development.

What are the interests of farmers in industrial development? They are manifold but high on the list are increased demand for their products, jobs for people who are no longer needed on farms, and participation in a rising standard of living for all.

We live in a changing world and changes in your State have been striking indeed. We even hear remarkable tales in Washington about the fishing in your TVA lakes -- lakes that did not exist a generation ago. You are all familiar with the changes that have taken place in our agricultural economy. Farming methods have been practically revolutionized in the years since the beginning of World War II with a near doubling in productivity. Mechanization has increased the size of unit that one man can operate. Improved technology has increased the yield per acre and per animal unit. In order to take full advantage of this increased productivity and to justify the investment in modern equipment, many farmers have found

it necessary either to enlarge their land holdings, to intensify their operations, or to do both. This has resulted in a major shift in number, size and type of farms.

First of all, we will review these changes at the national level and as they relate to Tennessee. We will then discuss the problems of the individual with a very special interest in industrial development, the marginal farmer.

For example, the number of farms in this country registered a decline of more than a million between 1939 and 1954, a decrease of almost 20 per cent in 15 years. This sharp reduction in the number of farms is largely due to the consolidation of marginal or submarginal units into larger units better adapted to present conditions. As a result, large-scale commercial farms, i.e., those with annual gross sales of \$5,000 or more (in 1954 prices), increased nearly 50 per cent. These large farms, representing only about one-fourth of the total, actually sold more than three-fourths of total farm products in 1954. On the other hand, medium-size commercial farms, with gross sales between \$2,500 and \$5,000, decreased by 20 per cent. Comprising about one-sixth of the total farms, they produced only one-eighth of the farm products sales. A much larger drop occurred in the number of small marginal or submarginal farms with gross sales under \$2,500 and off-farm work of less than 100 days per year or off-farm income less than farm sales. During this period these small farms decreased from nearly 3.0 million to 1.2 million, a drop of 60 per cent.

Offsetting this loss, in addition to the gain of nearly 400,000 in large scale farms, was a similar gain in part-time and residential farms which increased from 1,181,000 in 1939 to 1,507,000 in 1954. This latter group includes those farms on which the operators worked off-farm one hundred days or more or whose off-farm income exceeded gross farm sales.

Now let us compare these national changes with those in this area. In the absence of comparable State figures for 1939 stated in constant prices, some of the comparisons will be based on data for the four East South Central States -- Alabama, Kentucky, Mississippi, and Tennessee -- which have similar agricultural conditions.

You have many more small farms in this area than in the nation as a whole and they account for a larger proportion of total output. The mountainous terrain in many parts of this region is not so easily adapted to the highly mechanized operations which have changed the structure of farming in the prairies and in much of the Delta. Nevertheless, many farmers have added more land to their farms or have moved to larger units. As a result, the decline in number of farms since 1939 has almost kept pace with that of the nation but the average size of farm is still considerably below that of the United States.

In the period from 1939 to 1954, the number of large-scale farms in this area, those with gross sales of \$5,000 and over, increased 54 per cent compared with 50 per cent nationally. While they represented only 8 per cent of the total number of units in 1954, they accounted for 43 per cent of total output sold. The number of medium-size farms, those with gross sales of between \$2,500 and \$5,000, increased by more than a third.

These farms, accounting for 13 per cent of farms in the area, produced a fourth of the output sold.

The small marginal and submarginal farms with sales under \$2,500 dropped by a half, compared with 60 per cent for the nation as a whole. In contrast to the national situation in which output from such units is negligible, these farms, which represent two-fifths of the farms in the East South Central States, produced more than a fourth of the output sold. The farms in the lower range of this size group declined much more rapidly than those near the top of the range. Many of these small farms were absorbed into larger units and others became residential farms or were no longer operated on a full-time basis. This shift is reflected in the 42 per cent increase in residential and part-time farms, an increase considerably larger than for the nation. By 1954, almost two-fifths of the farms in your area were classified as residential or part-time farms.

To sum up the similarities and differences in the changing agriculture of your region and that of the nation, we find that in both cases there has been a considerable movement of commercial farms up the economic scale. Large farms have increased both nationally and in the East South Central States. Medium-size farms made important gains in your area although they declined nationally. Small marginal and submarginal farms declined in your area and in the nation. Large numbers of small farms were consolidated into larger units or shifted into part-time or residential units in both your area and throughout the nation. However, in 1954 small marginal and submarginal farms still made up a substantially larger proportion of the farms in the East South Central States than in the nation as a whole.

To state the situation more graphically, in 1954 forty-four per cent of the farms in the nation with gross sales in excess of \$2,500, which we might consider a minimum economic unit, produced 91 per cent of our total sales of farm products, while the remaining 56 per cent, including 24 per cent submarginal and 32 per cent part-time and residential farms, produced only 9 per cent of products sales. In contrast, only 21 per cent of the farms in this area had sales in excess of \$2,500 and these farms produced about 66 per cent of total sales. At the same time 42 per cent of your farms had sales of less than \$2,500 and another 37 per cent were classed as residential or part-time farms. It is this 79 per cent, representing nearly 630,000 farmers in the East South Central States and 164,000 in Tennessee alone, who prefer to live on the land and yet whose farm operations are inadequate to provide even a minimum acceptable standard of living. It is this group that is or should be primarily interested in the additional employment opportunities that might be afforded by more rural industrial development. And almost equally interested are the small-town merchants and bankers who are dependent on their business for their own existence.

The pattern of growth of other sectors of the economy of Tennessee is revealed by the shifts in major sources of income received by the people in the State. In 1939, personal income of Tennesseans was close to a billion dollars -- 60 per cent of it was wages and salaries received from manufacturing, trade, services, and government, 12 per cent was farm operator income from farming, and 28 per cent nonfarm proprietor and property income and transfer payments. By 1956, personal income had risen to \$4.6 billion. Wages and salaries accounted for a much larger portion of income,

and farm operator income from farming had dropped to 6 per cent of the total. The two outstanding changes in the economic structure of the State during the 17 years were (1) the decline in the contribution of the farm sector and (2) the gain in manufacturing payrolls which rose from 18 per cent of total personal income of the State in 1939 to 24 per cent of the total in 1956. As one would expect, retail and wholesale trade and construction showed relative increases as a result of the industrial growth of Tennessee.

In fact, there are many indications that Tennessee is moving up toward national averages in industrial activity. In 1939, the proportion of the population employed in manufacturing in Tennessee was two-thirds as large as that for the nation. By 1956, the proportion had risen to 85 per cent of the national average, a considerable narrowing of the gap. Employment in nonagricultural establishments has grown more rapidly than for the nation as a whole. Tennessee's employment in such establishments increased 85 per cent in the years 1939 through 1956. Although the increase of a fifth in Tennessee's population since 1939 is slightly smaller than for the nation, it is in marked contrast to that of neighboring States where migration out of these States has held population to relatively minor gains. It is apparent that important shifts from farm to nonfarm employment have occurred in the State.

Average income per worker in nonagricultural establishments in Tennessee is now about three times larger than in 1939 but is still somewhat below the national average. This differential has narrowed moderately since 1939. Average income of farm operators from farming is another story. The average net income of a farm operator from farming in 1956 was only

slightly over half the national average. The differential is greater now than in 1939. As a result, we now have a situation in which the average worker in a nonagricultural establishment in the State earns more than two and a half times as much as the average farm operator earns from farming. Of course, this does not include the very appreciable income farmers have from off-farm sources, which was equal to 40 per cent of their net income in 1954. This leads us back to the problem of those operators of marginal farms who account for much of the disparity in farm income -- operators who lack the resources or managerial ability to increase their operations on their own initiative but who still desire to maintain their homes and raise their families in a farm environment. It is this group that presents one of our major farm problems today and it is to this group that I would like to direct our attention at this time.

There would seem to be three lines of approach to their problem. With proper guidance and assistance, some of them may be able to enlarge their operations to at least a minimum-size economic unit. Frequently, this may involve a complete change in type of operation. For example, small holdings with a limited amount of tillable land poorly adapted for the use of mechanized equipment may hold little promise for profitable crop production. Yet this same type of holding might well be consolidated into larger units, the cut-up and frequently eroded fields turned into pasture, and the entire unit converted to a livestock operation.

Another solution may be the conversion to a more intensive type of operation on present holdings. Poultry and egg production are excellent illustrations. Under present day methods these have become almost factory

operations. They require a minimum acreage and with financing and supervision furnished by feed companies or processors, management requirements are reduced to a minimum. Or with growing urban population there may be increased opportunity for the production of perishable fruits and vegetables which can be handled by a more intensive utilization of available acreage.

There will still be a large portion of this small farmer group, however, whose only hope for an improved standard of living must come from increased opportunity for more off-farm employment. It has always been necessary for our surplus farm population to migrate, partly to new farm lands as our country grew and partly to the city. More recently, however, the necessary enlargement of our farms could come about only as some farmers sold their land and moved to the city. A certain amount of this has been desirable. But, as I mentioned earlier, many of these small farmers prefer to find work that will permit them to remain on the farm even though it contributes little or nothing to their income. The Census of Agriculture of 1954 shows that almost half of the Tennessee farm operators have some off-farm employment and that about 29 per cent work one hundred days or more off the farm. This is a growing trend in the State and throughout the nation.

The kind of adjustment best suited to the individual part-time farmer depends to a large extent on how deeply he and his family are attached to country life. To successfully handle a part-time farming enterprise and hold a full-time, off-farm job requires considerable managerial ability on the part of a farm operator and a willingness to work long hours. His farming enterprise should be scaled to a level which will not overtax his

strength and that of his family. Investment in the farm enterprise must be guarded carefully to prevent it from becoming a sink-hole for his savings. In many cases the best chance for successful adjustment will be to keep the farming enterprise firmly relegated to a side line with major emphasis on the off-farm job. In fact, for the part-time farmer who must pull himself up from the subsistence level, a better adjustment can often be made on a one or two acre garden plot than on a forty acre farm where much of his off-farm earnings are too frequently absorbed by losses on his farming operations.

Sometimes a reorganization of the farming enterprise can contribute to a more efficient distribution of labor between farm and off-farm work. With respect to crops, this may involve steps to increase crop productivity through use of better seeds, more fertilizer, insecticides, etc., or it may mean a shift to a crop with lower or more timely labor requirements.

Conversion to a livestock enterprise is frequently more difficult, requiring an appreciable investment in pasture improvement, shelter, and cattle. The size of the herd should be limited to the number that the farm will carry with a minimum of purchased feed and that can be cared for with casual management and a minimum of labor. With either crops or livestock, increased availability of credit may be essential.

For most farmers, part-time farming will be a transitional phase. For some, the farming enterprise will grow and the off-farm job will be dispensed with. For others, part-time farming will be but a transitional phase in the migration out of agriculture. Still others may continue on a

part-time basis, varying the proportion of their farm and off-farm activities according to the availability of off-farm job opportunities.

Many of you may be familiar with the study of a group of part-time farm families conducted by the Agricultural Experiment Station of the University of Tennessee. This analysis of part-time farming as a means of raising the level of living of farmers on small acreages in East Tennessee concluded that part-time farming provided a means for farm people with limited resources to attain a reasonable level of living on the land. They found that although many families were in and out of farming as off-farm employment opportunities varied, their incomes were higher than those of other small farm families in the same county. They also found that the part-time farm segment of the communities surveyed tended to be relatively stable.

What, then, can be done to provide more opportunities for farm people to earn a higher income? The Rural Development Program, which is sponsored by Federal and State agencies, represents a concerted effort in this direction. It emphasizes improvement of opportunities in agricultural and industrial development in rural areas, expansion of opportunities for nonfarm employment through education and vocational training, and improvement of rural health, welfare, and community facilities. I know that you are familiar with the work under way in Harding County, one of the pilot counties in the program. Your own Farm Community Improvement organization, which originated in 1943, has also attracted the interest of many of us.

One way that we can help our rural areas is to support the efforts of these organizations. In some instances, rural people who should be most

interested in this program appear to be resigned to the small return from an inadequate farm. They do not seem to be aware of the nature of their problem. Vocational guidance would help these people. We need to establish more effective channels for getting information on job opportunities into the rural areas. Many are not aware of the information available in the offices of the U. S. Employment Service. We also need to push for more and better training facilities to help rural young people equip themselves to obtain better jobs.

We need leadership at the local level to appraise resources at hand and give thought to the use of these resources in small enterprises, perhaps financed with local capital and directed by local people who know the area and its people. Such industries might be geared to seasonal demands of farm work. Further decentralization both of present and future industries should be encouraged. A recent study shows that there has been a tendency for heavy industry in Tennessee to locate near the metropolitan areas. This reflects to a large extent the nature of these industries. The study also shows that more of the establishments manufacturing such non-durable goods as foods, textiles, apparel, tobacco products, and such durable goods as lumber and wood products, furniture, stone, clay and glass are in rural counties than in metropolitan areas. In Mississippi, Virginia and the Carolinas most of the plants of this type are in rural areas. Perhaps we should encourage more of these establishments to locate in our rural areas within commuting distance of large numbers of rural people.

Perhaps, most of all, some of our rural bankers and business men need a greater realization of the fact that the solution to the farm-to-city migration problem depends not on trying to hold these people on an unsound uneconomic farm unit. Instead, it depends upon developing job opportunities that will afford better employment of their talents, thus enabling them to make a fuller contribution to the prosperity of the community even at the possible expense of some further attrition in the rural population of the area.