

## The Public Interest in Agriculture

Remarks by Chas. N. Shepardson, Member, Board of Governors of the Federal Reserve System, at the Annual Farm and Home Week Program, University of Kentucky, Lexington, Kentucky, on January 28, 1959.

I have great sympathy for the program chairman in his attempts to arrange a program such as we have this morning. Considering the breadth of the topic, "Government in Agriculture," and the diversity and complexity of the problems involved, it is a hazardous thing to turn any three men loose to discuss the topic without some fairly definite guide lines for each. For that reason I welcomed Dr. Nesius' suggestions and shall try to confine my remarks to the questions which he posed. Because of their close relationship, I shall combine the first two - "How does the general public understand the problems of agriculture?" and "Do the people of our nation recognize the important contribution that agriculture is making to our general national welfare?" In brief, I would say they don't understand the problems nor do they recognize the contribution that agriculture has made and is making at the present time. Let me elaborate on some points that seem to me to support this position.

First, let us look at the decrease in farm population. How many times have you heard cries of alarm about the shift from the farm to the city? We are still a relatively new country and many urban residents have nostalgic recollections of the farm homes of their parents or grandparents. Yet one wonders if those memories might not get a rude shock if one went back to them today as in the case of the man who went back to the glamorous

swimming hole of his youth only to be astounded at what a miserable little mudhole it was. True, there are spiritual and cultural values in rural living and a closer proximity to God and nature, values that justified the designation of the farmer with his independence, self-reliance, and self-sufficiency as the "backbone" of the nation. But we are prone to forget that farming is both a "way of life" and a "way of making a living" and that our ways of making a living have undergone tremendous changes over the past one hundred and fifty years, and more especially during the past twenty years. In 1800 it took approximately 80 per cent of our labor force to produce our agricultural needs. By 1940 it had dropped to about 25 per cent and today it takes less than 12 per cent to meet our needs and provide a material exportable surplus in addition. In fact, farm population which, while shrinking as a percentage of the total, had remained fairly constant at around 30 million for the fifty years up to 1940, has actually dropped to about 20 million at the present time.

This shift is primarily a result of the technological changes and increased productivity throughout our economy, changes that were an integral part of the pioneering spirit of our forefathers who came to this country looking for new freedoms and new opportunities. At this point it is pertinent to remind you that agriculture is, has been, and, as far as we can see, always will be an indispensable part of our economy. Man lived for ages without such currently indispensable items as automobiles, refrigerators, television and even electricity and he could again, inconvenient as it might be. But man has never learned to live without food nor in most parts of this world without clothing and shelter. That means that man,

individually and collectively, must first spend whatever time it takes to produce his food, clothing, and shelter. As his efficiency in food production increases, he has time to envision, develop and ultimately produce other things for his comfort or pleasure. Thus has our economy expanded and our standard of living risen. In short, without the increased productivity of agriculture, we could never have spared the manpower to produce all of the other goods and services that go to make up our standard of living today.

There is another point that we should remember in this connection. The bulk of agriculture is involved in the production of food and the outlet for food is limited by the capacity of the human stomach. It is true that even in this country with its tremendous food surpluses, we still have some hungry people, but by and large our great national problem, so far as health is concerned, is one of too much food rather than too little. That means that as farmers increase their productive capacity, fewer are needed to produce our needs and some not only can but must find use for their talents in other fields. And here we are fortunate that man's other wants are limited only by his imagination and his willingness to work for them. As an illustration, I need only remind you of the innumerable household items in almost universal use today that were not even dreamed of at the turn of this century, to say nothing of developments in transportation, communication, and a host of other things.

Our problem has grown out of the fact that advances in agricultural productivity have outrun the rate at which farmers were able or willing to shift to other productive enterprises. Here, let me point out that if the problem is lack of alternative opportunity, the job of society is to develop

those opportunities, not try to keep people in an industry that is already producing beyond our needs. It is folly to expect that the farmer should not avail himself of every technological tool available. Only in this way can he hope to keep pace with the man in other industries for, as long as we remain a free country, we can be sure that the ingenuity of man will continue to develop new and better methods or materials in all phases of our economy and that, as they are developed, somebody will use them.

In recent years farmers have been encouraged through price supports and otherwise to continue production of wheat, corn and cotton far beyond foreseeable needs, even at a time when there was a shortage of labor in other fields. To be sure, there were efforts to curb total production through acreage quotas or other devices but these only served to stimulate greater use of new technology that more than offset the controls. Too often, farmers and others as well have failed to recognize that change is inevitable in a growing, expanding economy even as it is in living plants and animals and that when we cease to change we ossify, petrify, or decay.

For years the term "carrying coal to New Castle" was used to represent the height of absurdity yet England's economy was badly disrupted when this country had to ship coal to England with its tremendous coal reserves because English miners resisted the mechanization of the mines that would have enabled them to compete with American coal, fortunately a situation that has subsequently been changed.

At one time the production of draft horses and mules was an important agricultural enterprise in this country. The development of the automobile, the truck and the tractor made them surplus and the whole industry,

together with that of the harness-maker and the wagon-maker, has given way to the automotive and allied industries that provide more employment at higher returns than the horse-and-buggy business ever did. Yet, think how absurd it would have been to encourage men to stay in a business for which there was no longer a demand. Of course, we may wonder whether the automobile, with its highway accidents and its traffic problems, was a good thing for society but I venture that there are few of us who would trade our cars for a horse-and-buggy.

I said that farming was a way of making a living as well as a way of life. I have tried to point out to farmers and nonfarmers alike the economic inevitability and even desirability in an expanding economy of a continuation of farm migration. Now, let us look for a moment at the social phase of the problem. Notwithstanding our nostalgia for a home in the country, there are few of us who would want to go back to the dirt roads, the "Chic Sales," the kerosene lamp, and the water bucket of our parents' day. Fortunately, that is no longer necessary. The farmer today can have all of the modern conveniences of living that his city cousin has and, in addition, he can have the room, freedom and access to nature that are unavailable in the crowded confines of a city. It is no wonder then that many farm families have resisted a change from farming even though their economic outlook was hopeless. There are also those who, because of lack of training and experience, are afraid to cut their old ties and venture out into the business or industrial world. I think the general public has known of the plight of this segment of our agricultural problem and has wanted to help but I think we have not realized the root of the problem and, hence, our efforts at

remedying the situation have been perhaps misguided.

There has developed in recent years, however, a program that seems to me to offer great promise. It is the Rural Development Program aimed at reaching both the social and economic problems of these people through the development of local off-farm job opportunities. Basically, this means the development of rural industries that will afford employment for the unutilized talents of those people and at the same time permit them to maintain and improve their homes in the rural environment which they prefer, thus strengthening both their moral and economic fiber and enabling them to make a real contribution to the strength of that "backbone of the nation" that we talk about. I have seen and heard about some of the things that you are doing here in Kentucky and I congratulate you on your achievements along this line and on the splendid cooperation of farmers, businessmen and bankers that is making it possible. The continuing movement from farming to nonfarming employment is inevitable and desirable but the move from rural to urban living is neither inevitable nor necessarily desirable and efforts along the line of the Rural Development Program can stop it.

I apologize for the time I have given to this phase of the problem but I think it is at the root of the whole problem and that it is too little understood either by farmers or the general public.

Now, another point -- price supports and acreage quotas. Because of its importance and the widespread publicity that has been given it, I think the general public is very much aware of the cost of the farm program. I am afraid, however, that some of their thinking is based on inadequate information. In the first place, this tremendous cost is not entirely chargeable

to the farmer. The cost of our agricultural commodities shipped overseas, either as gifts or at reduced rates, is properly a part of our foreign aid program even though charged to agriculture. The same is true of the cost of surplus foods released to the School Lunch Program - a worthy project but not one that should be charged to the farmer. A third big item charged to the cost of the farm program but which never goes to the farmer is that of servicing the tremendous amount of surplus commodities. This item, currently amounting to about one billion dollars a year, goes to cover the cost of transportation, storage, processing and similar items. Cotton ginners, compress firms, elevator and warehouse men, together with railroads and truckers, all of whom base their charges on volume regardless of price to the farmer, have found this to be a most lucrative business.

Furthermore, the price support program is largely limited to a few basic commodities. A large portion of our total agricultural production, including meats, poultry, fruits and vegetables, is entirely free of any support or quota program. Also, such subsidy as may result from the price support program is not the only subsidy provided by government. There are many others throughout the economy. While the fact that there are others does not necessarily justify any one of them, it does provide the basis for argument and misunderstanding if the general public is widely aware of one and not the others.

In this connection, I indicated earlier my doubt as to the efficacy of the support program. I do believe, however, that there is a situation not well understood, if at all, by the general public that does justify a fully flexible nonquota support program. For example, the automobile industry,

comprised of half a dozen manufacturers, could cut production quickly when they found the market glutted. In agriculture, however, the situation is quite different. In place of six production units there are nearly 5 million farmers, most of whom are inadequately informed of supply and demand situations and inadequately equipped to make sound predictive judgments even if they had the necessary information. Furthermore, a biological process is never susceptible to as close control as a mechanical process -- first, because of the time involved between the breeding of an animal and the delivery of a marketable carcass of beef, for example, or the time between the beginning of seed bed preparation and the harvest of the resulting crop; and, second, in the case of crops because of the tremendous effect of weather, insects, and disease on the volume of a crop regardless of the farmer's efforts. For these reasons there would seem to be sound argument for flexible supports, shock absorbers, if you please, that would absorb the shock of unexpected and unpredictable gluts in the market but that would, in the long run, be susceptible to the pressures of supply and demand.

A third major factor, too little understood by both farmers and the general public, is the spread between the price the consumer pays and the price the farmer receives for his products. One hundred and fifty years ago there was virtually no spread. Most people produced and processed their own food and fiber. The spread, if any, was limited to that of the retailer with whom the farmer swapped his surplus for the few items that he needed. Most of the present day factory processing was unheard of -- it was done by the consumer at home. With the increase in population, its concentration in cities and the development of specialization, this all changed. Increasingly,

the farmer concentrated his efforts on straight production while the transportation, processing, storage, and distribution of these products became great specialized industries, independent in a way yet closely integrated in the lengthening line from producer to consumer. Obviously, here as elsewhere, there are bound to be some chiselers and there are doubtless instances where individuals in this long chain took advantage of their position from time to time to claim an undue share of the consumer's dollar. Fortunately, however, the food and fiber industries are both highly competitive and profit margins are generally small with most companies depending upon volume for their profits. No, the ever-widening spread is due primarily to increasing amount of processing which consumers demand. In fact, it is only the amazing increase in processing technology and efficiency that has kept the spread from becoming wider than it is although like many other things this spread has widened tremendously in the last ten years.

In 1946, with the parity ratio at a record level of 123, the farmer's share of the average consumer's market food basket purchases was 52 per cent. At the present time, it has shrunk to 39 per cent due in part to the depressing effect of farm surplus and a parity ratio of about 84 but primarily to the increasing amount of kitchen maid service that is being built into so many of our foods in the form of prepared and pre-cooked foods, even up to complete package meals. You may question whether those T.V. dinners are as good as the ones "mom" used to cook but, with the increasing opportunities for women in business and industry, many women have found it economical and profitable to take a job and let a factory prepare her dinner on a mass production basis rather than to stay home and prepare it herself.

This again is an illustration of one of the changes in both our economy and our way of life. We may question whether it is a desirable change but we cannot question the fact that it has occurred. Both farmer and consumer should understand its impact on the increasing spread between producer and consumer prices and realize that this increased spread is not of itself any indication that either is being unfairly treated.

I have taken too long on these first two questions and I must hasten on. The next is, "Is agriculture becoming more and more a subservient part of our economy?"

Subservient? No. Less independent? Yes. Let me clarify those answers. In the first instance, I am referring to commercial agriculture in which approximately 40 per cent of our farmers produce 90 per cent of our farm commodities. The other 60 per cent is comprised of two groups, one, the residential and part-time farmer who looks to other segments of the economy for his income and whose farm production contributes little, if anything, to total agricultural production beyond his own needs. Hence, he is not a factor in considering the place of agriculture in our economy. The other group of marginal or submarginal farmers, amounting to perhaps 25 per cent of the total, is gradually decreasing as they find other employment opportunities. Their production contributes little to our needs and, in the case of a few crops, actually adds to our surplus problem. Since theirs is necessarily a high cost of production output, it can only move profitably at relatively high support prices and even then, because of the low volume per farmer, it provides no more than a bare subsistence standard of living.

Let us return, then, to the first group. By and large, this is an intelligent, progressive group, alert to new developments and quick to take advantage of them. These are the farmers who have doubled agricultural productivity since 1940, a faster rate of advance than any other major segment of our economy. In fact, with full utilization of our present known technology and resources, they could meet the agricultural needs of our anticipated growth in population for the next fifty years and we can rest assured that technological advance is not going to stop now. They are essentially conservative and strongly financed.

Total farm debt of all farmers, including the part-time and submarginal groups, is lower in proportion to total farm assets than at any time in recent history. In fact, it amounts to only about 11 per cent of total assets, less than that of any other major industry in our economy. Furthermore, the aggregate farm debt of 20.2 billion dollars last year was almost offset by an aggregate of 18.2 billion dollars of financial assets in the form of bank accounts, savings bonds and investments in agricultural cooperatives. Not only is the average financial position of agriculture good and technological efficiency high but the standard of farm living is improving, notwithstanding the lowering effect on that average of the large number of marginal and submarginal farmers. Over 95 per cent of farm homes have electricity and many of them have most of the other household conveniences available to city homes. With present day means of transportation and communication, most farmers have reasonable access to all of the social, cultural, religious and educational facilities that their urban cousins have. Capital investment per farm and per farm worker has quadrupled in the past twenty

years and the farmer has of necessity become a business man, no different in housing, dress, education or business acumen from the Main Street merchant and certainly with no sense of subservience to anyone.

On the other hand, the farmer, like everyone else, has definitely lost some of his independence or, conversely, has increased his interdependence as a result of the continuing advance of specialization throughout our economy. In fact, an appreciable part of the reduction in number of farmers is a direct result of this specialization and the transfer of many farm activities to off-farm business. I have mentioned the passing of the horse and mule business. The farmer no longer produces his power -- he buys it. Neither does he churn butter and peddle milk, nor in many cases even haul it to market. Instead, the dairy plant picks it up in tank trucks, processes it, and distributes it. These and countless other items that there is no need to mention illustrate my point that the farmer is becoming increasingly dependent upon others for his means of production in the form of specialized tools and materials and for the means of processing and distributing his products. This is an integral and inevitable concomitant of our social and economic evolution. In all fields of endeavor we have sacrificed some measure of independence for the greater efficiency of specialization and, from present indications, the trend is apt to continue for the foreseeable future.

The next question -- "Is the increasing governmental participation in agriculture leading to a more negative attitude by the general public toward agriculture?" I prefer to broaden this question and apply it to our total economy and my answer is, "In my opinion, yes."

It seems to me that one of the major threats to the preservation of the freedom which we inherited, but which each generation must continue to earn and defend, is our increasing reliance on government and this applies to all segments of our economy. Government may serve a useful purpose in helping to show people how to do things for themselves but when it undertakes the job of doing too many things for its people it ultimately weakens their moral and intellectual fiber just as we weaken our muscular fiber if we let someone else take all of our physical exercise for us. Too many of us are falling for what I consider a snare and a delusion in accepting the myth that U. S. stands for that legendary figure in the tall hat and striped pants and that Washington can provide something for nothing. What we need to remember is that U. S. spells US -- YOU AND ME -- and that ultimately the cost and responsibility for our government program devolves on us. I could dwell on this question in detail but let the broad answer suffice as we push on to the last question.

"What are some things we can do in agriculture, as an industry, to improve with the public at large the understanding of agriculture?" This, too, I would answer briefly.

It seems to me that in agriculture and throughout our economy we need to encourage more sympathetic but nevertheless more objective, hard-headed study of the fundamental causes of our problems and their interrelated effects in our present complex economy with less emphasis on symptoms and nostalgic longing for conditions that have long since disappeared in our irreversible, evolutionary development. It is as futile to think of going back to the independent, self-sufficient family farm of a hundred years ago

as it is to think of replacing all of our cars and electric lights with horses and candles. Rather, we should be bending all of our efforts to a better understanding and fuller development of this growing interdependence of all segments of our economy to the end that the properly interwoven cosmos of the whole may be stronger than the total strength of the independent parts could ever be. In cooperation, there is strength. In "passing the buck," whether it be to your neighbor or to Uncle Sam, there may be disaster.