

A BANKER LOOKS AT AGRICULTURE

Address
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A former head of the Federal Reserve Board is said to have remarked that he never looked at the title assigned him for a speech for fear it would restrict his range. I shall follow his example after making this one observation: Before my classification became that suggested by the title, I served as farm paper editor and in other responsibilities closely tied to farming. If my viewpoint has changed with my classification I am not conscious of it. I still think farm problems are complex and tough but by no means insoluble, and I think they constitute a matter for national concern.

Anyone who looks at the position and outlook of American agriculture must realize that they are distorted by the convulsions of a world at war. Nothing but disaster is ahead if future plans are made which accept these distortions as permanent realities. Fortunately the lenses of historical experience and common sense are at hand if we will only use them in our appraisal.

The economic position of American farmers has been improved by developments attendant upon the war. We may accept this without approval of the fact that it is the destructive course of war which has enlarged domestic consumption and restored the flow of exports. These temporary gains will melt away and leave heavy losses in their wake unless their causes are clearly seen and comprehended. A quick review of the economic scene may help lay the setting for that understanding.

Shortly before Germany struck at the Low Countries in May of 1940 the total of appropriated commitments for new armament in the United States amounted to about two and a half billion dollars. Since then we have been trying to catch up with and actually comprehend a dizzily rising goal in arms production. Counting in the second Lend-Lease bill now pending and England's total orders actually placed here, that two and a half billion of 17 months ago has grown to 66 billions.

Only a little more than 12 billions of that sum have actually been spent, and yet the effect of it is visible in every state and county and town. The present rate of spending is about 1.4 billions a month, and it is rising rapidly and will continue to grow for a long time.

Last month as the European war entered its third year the level of industrial activity in the United States was 60 per cent over that of 1939 when the war began. National income was at an annual rate of about 90 billion dollars, an increase of 25 per cent in the last two years. Purchases by consumers, shown by volume of retail trade, have reached an all-time peak. Commodity prices have risen sharply since February - the general wholesale index by 14 per cent, farm products by 30 per cent. Factory wage rates and number of employed have been pushing upward.

There are other important and inflationary signs on the horizon. Bank deposits plus money in circulation have risen to nearly 75 billion dollars, almost 20 billions above the total for 1929. Money in circulation has passed 10 billions, double the 1929 mark.

Not so long ago, I had serious doubts about how the farmers would fare in the new war economy. In contrast to what happened during the last war, we lost one outlet after another for our agricultural products as the Nazi war machine rolled over the various countries of Europe. In the early stages of the war, moreover, Britain found it necessary to use its available foreign exchange to buy planes and tanks, guns and bombs and powder in this country.

As a result of agricultural loans, of greatly increased domestic purchasing power and of the Lend-Lease program, farm prices and income have moved upward substantially. For the year 1941, it is estimated that farm cash income, including Government payments, will be \$10.7 billions. This compares with \$9.1 billions in

1940, and is the largest since 1929; it has been exceeded in only eight of the past thirty-two years. It was recently estimated by the Department of Agriculture that farm income for 1942 might be in the neighborhood of \$13.0 billions.

Not only has cash farm income increased greatly, but the net cash available to farmers after their farm expenditures has likewise grown. Farming expenses have risen, but not as much as farm income. While no precise figures are available, net income after operating costs will probably reach close to \$4.5 billions this year, which would be the highest return that farmers have enjoyed during the past three decades, with the exception of the period from 1917 to 1920 inclusive. This sum represents the purchasing power that agriculture has to spend on items not directly connected with farm operations; that is, on such goods as clothing, food, automobiles and luxury items. The actual farm market is broader than this because farmers purchase a substantial amount of the products of industry for their farm operations, and because wages which they pay provide purchasing power to agricultural laborers.

Every thinking person, regardless of his business, recognizes that permanent, stable agricultural prosperity is essential to economic health. The path of the past has had too many peaks and valleys in it. The agricultural publishers have a peculiar interest in this; not only are they an essential part of farming business, performing a function that once was done by word of mouth if done at all; their income draws mainly from advertisers who seek to develop and hold the farm market. Parenthetically, let me say that the farm market has never been a "feast or famine" proposition to the extent many space-buyers have considered it. The business of farm productions goes on more steadily than nearly any other business, and its needs must be supplied even though the amount left over for other expenditures

has varied sharply.

Here is what I see immediately ahead of us for those who are supplying the farm market. Up to now, there has been a general expansion of our national defense program without substantial interference with production for civilian use. In fact, non-defense production pushed on to new highs in many lines during the present year to date. This was possible because we have been able to draw upon the unemployed and upon unutilized plant capacity. This stage of the defense program has already come to a close in many fields as capacity operations have been reached, skilled labor absorbed, and available materials contracted for. From now on, and at an accelerated pace, we can increase defense production in many lines only at the expense of civilian production.

While this transition is occurring, the expansion of defense expenditures will continue to swell the national income. But where smaller amounts of non-defense goods are available for sale, we will tend to have a seller's rather than a buyer's market. You men know in what lines this will develop, and what it means, better than I do. You are probably far ahead of me in analyzing its effects in terms of your business. I am concerned today with long-time rather than short-term aspects.

The position of agriculture in the post-defense period will depend in part on how successfully we can make the transition back to normal peacetime activities from a condition in which a high percentage of our industry is engaged in armament production. If we cannot find employment for workers in peacetime industry and, thus provide purchasing power for the domestic market, the difficulties of agriculture as well as the rest of the country will be great.

Furthermore, one of the principal factors responsible for the current increase in farm income is the Lend-Lease program. While I am not prepared, as some people

are, to write off the long-run export market for agricultural products, farmers will be mis-led if they expect this market to be as large and to require the same types of products as those contemplated for the immediate future under the second Lend-Lease Bill.

These many-sided questions are so vast I confess a feeling of futility in trying to cover them adequately in the time available here. Perhaps I had better touch briefly on a few of them and then try to develop them later if there is time. I have in mind such matters as the course farmers should follow to avert the curse that may follow the changed demand conditions I have described; farm price controls and the principle of agricultural parity; the relationship between food costs and industrial labor wages; and the priority position of farm implement and equipment manufacturers who use raw materials which also are required for arms production.

Farmers can begin now to build up defenses against post-war adjustments if they follow a sane and conservative course.

Increased farm income should be used to pay off debt, rather than as a basis for expansion of debt. Farmers who are out of debt should use profits to build up savings. It would be a fine thing if every farm family that can possibly set the money aside would build up a hoard of Defense Savings bonds.

Most of us still feel the influence of previous generations which believed the course of land prices must always be upward. We have always tended to chase land prices through the roof whenever farm earnings rose. I am afraid the lesson of the last war may be forgotten, when land prices more than doubled to an all-time high, then collapsed to less than half that peak. This was one of the root causes of the farm troubles of the 'twenties.

Then I would urge farmers to be conservative in demanding political action

for ever higher price supports. They should be in court with clean hands when they ask for controls in the other and more dangerous inflationary fields of industrial prices and wages.

I believe there is wide misunderstanding of the relationship between farm prices and other prices and wages. I do not think that an agricultural policy intelligently based and carried out on the principle of parity with agricultural costs can produce a serious inflation in this country. We should remember that agricultural prices at pre-war levels were relatively depressed; in fact, had been depressed for more than a decade. In carrying out a policy which aims at parity prices, a certain flexibility must be permitted. If a floor is set under agricultural prices by loans at 85 per cent of parity, and if price ceilings are placed at 110 per cent of parity as has been proposed for basic agricultural products, the average returns to farmers would probably be fair and reasonable in relation to parity. Certainly there are no seeds of dangerous price inflation in such a formula.

Moreover, such approximate parity prices on agricultural products would not in my opinion cause a sufficient rise in cost of living to justify further wage increases. Labor income has already increased as a result of higher wages and full time work so that the average factory worker has more left over after buying his standard food requirements than ever before in our history. I have said many times that neither industrial management nor organized labor should be allowed to take advantage of this national crisis to increase its relative advantage. The conditions that call for price controls call for wage controls, and both should be applied with judgment, common sense and courage.

These are all questions tied in with the actual business of farming. In common with all other elements, the farm population has a real interest and concern

in our general national and international policies. Our participation in this war, to whatever extent it develops, will require sacrifice from all of us. We don't as yet know what that means. The men and women on the farms are as capable of seeing events in proper focus as any group in the land - I think in fact they have a clearer insight than most. Helping them to hold their perspective is one of the responsibilities of the leaders of the farm press - a task that carries with it grave responsibilities.

You are all concerned over the effects which scarcities of steel, copper, aluminum and other defense essentials may have on the output of implements and equipment which farmers need in their own producing plants. From present signs it looks as if this supply will be somewhat less than manufacturers want, and less than the defense spokesmen in the Department of Agriculture, ably headed by Cliff Townsend, former Governor of Indiana, have asked for. One thing is as certain as anything can be in these uncertain times - the limits will be generous on materials for replacement and repair parts, and for use in country machine and blacksmith shops. Allocations for new equipment are being carefully studied and no one can say at this time just how the tug-of-war for materials will come out.

The trouble with priorities is, they don't always produce the goods. A high preference rating that doesn't get steel has no more value than a full check book when there are no funds in the bank. Notwithstanding high ratings, reports from all over the country tell of farm equipment production schedules cut drastically for lack of metals or parts that are made from metals. Caught between demands for greater output of many farm products, and a growing scarcity of labor as boys leave the farm for army or factory, the farmers' need for equipment is great, and in many cases it is immediate.

Only a definite allocation of the quantities and at the time needed will keep the supplies rolling. The Department of Agriculture is fighting for those allocations. I have every confidence in the judgment and ability of the men who are in charge of priorities and allocations of restricted materials. But they are at the crossroads where all demands converge. They would be more than human if they failed to act first where the best case of need is made. I hope I am not speaking out of turn when I suggest to you gentlemen that you are in position to lend powerful aid to the Department in presenting the case for farm equipment.

But after everything possible has been done to insure a flow of new equipment, I am sure that emphasis will be placed - and this has real meaning to farm paper editors - on generous use of repairs to keep the present farm plant in shape for continued and efficient duty. Governor Townsend recently remarked that Agricultural Publishers can do a real service to American agriculture by pushing an all-out campaign on more effective use of existing machinery, urging farmers to share their equipment and keep it in good condition.

I want to return now to one topic barely mentioned in the earlier part of my talk - the relationship between prices of farm products and rates of industrial wages. Consumer sensitiveness seems to be especially acute on the question of food prices - and consumer memories particularly short. I sometimes felt, when I was on the National Defense Advisory Commission, that there was no room in the consciousness of the consumer section for rents and other non-food elements in the cost of living, they were so preoccupied with quotations on food. Maybe I was a little sensitive on that point myself. It is not only unjust but it is impracticable to attempt to freeze a price relationship which was so far out of line to the disadvantage of the farmer.

That was why I was interested to note an article on Food Prices and Factory Wages written by Dr. Bean for the August issue of The Agricultural Situation, published by the Department of Agriculture. I commend it to you. He points out that factory wage earnings per worker were about 5 per cent higher for the first half of 1941 than in 1929 - while food prices averaged about 21 per cent below the 1929 level. With wages up and food costs down, the food purchasing power of factory payrolls per employed worker was about one-third greater the first half of this year than in 1929.

During the first half of this year, also, the average employed factory worker was able to buy 35 per cent more in the form of goods and services other than food, than did the employed worker in 1929.

Looked at from another angle, the factory worker's food costs in 1929 averaged 32 per cent of his wages; in the first 6 months of 1941, only 24 per cent.

Still using 1929 for a base, food prices the first half of this year averaged 79 per cent of their 1929 level. Non-food items averaged 87 per cent.

The article from which I drew these figures was written in July. It concludes that with per capita incomes of most wage-earning people restored to their 1929 levels or better, and with food prices then about 21 per cent below those of 1929 and about 10 per cent below non-food prices, there would seem to be room for some further but selective rise in food prices. The real problem is how to close this disparity without running the danger of an increase beyond the point that would represent price inflation.

It is not easy to know where that line is. On the other hand, it is too easy for a group to go out to "get theirs while the getting is good". The factors which caused the recent sharp advances in agricultural prices will probably continue

to provide the basis for adequate farm returns for the duration of the emergency. However, should the inflationary factors that I mentioned earlier gain further headway, and should the nation fail to adopt a carefully co-ordinated program of control, we might have runaway price advances that would eventually result in great suffering to farmers as well as other important groups of our economy.

The record of what happened at the time of the previous World War boom stands for all to see. Then farmers were able to increase their incomes more rapidly than their expenses and their cost of living. The prosperity which they enjoyed proved to be false, and was quickly dissipated after the break in prices in 1920. The fact that agricultural prices rose more than farm costs constituted a real danger. It kept farmers and farm leaders asleep and kept them from fighting their way off from the disaster which general inflation was creating for them.

I hope a repetition of that situation can be avoided. Whether it can or not depends upon the courage and understanding of farmers and responsible farm leaders. For years, agriculture has stood for the principle of parity prices. Already, we hear protests against any price ceilings for farm products. We hear opinions expressed that wheat should go to \$2.00 a bushel, cotton to 35 cents a pound, rice to \$1.50 a bushel and so on. Farmers cannot hope to keep even in that kind of a game. Neither can they afford to be led by a sense of false security into basing their long-time plans for the future on the shifting sands of war demand.

Now in conclusion, let us leave this specialized field and talk as citizens of the United States and the world. This nation has again taken sides in a world-wide war. I can no more answer questions as to how far our participation will go than you can. Forces wholly outside the United States may make or modify the answers anyone can give today.

There are differences as well as many similarities in the world situation today compared with that 24 years ago. For one thing, the nature of war has changed. Modern war is incredible in its speed, range, destructivity, malignancy and totality. It is important to dwell on that last word. We in the United States haven't yet grasped its meaning. Total war as the dictators practice it subordinates every interest and consideration to the one end of complete victory over present and potential enemies of their regime. That is the compact and deadly purpose against which we aligned ourselves when we assumed the role of arsenal for the forces that resist the Axis. Yet even now, 17 months after we started to mobilize our resources for defense, sacrifices are still in the conversational stage. As individuals and as groups we want our privileges and immunities untouched. We have accepted a grim challenge but as a nation we haven't yet geared to meet it.

The years ahead of us will test our individual and national fiber as it has never been tried before. It is a mistake to over-simplify the job. Helping to defeat one dictator, or set of dictators, won't end it. We left unfinished, perhaps even uncharted, the job of domestic recovery and rehabilitation to undertake vast responsibilities in a world-wide war. It would be supreme folly to engage in that war only once again to turn our backs on the peace. If the sacrifices we make are to mean anything they must have a purpose; and that purpose, to have meaning, must seek to avert from the next generation the horror that threatens to engulf this one.

These are real issues; more real, perhaps, than some of your immediate concerns which I have attempted to discuss. The outlook is dark if we cannot hope to meet them better in the future than we have met them in the past. This is a time for understanding, not discouragement; for cooperation, not disunity, and for the kind of optimistic courage this group, representing the Agricultural press of the United States, so well exemplifies.