

THE ECONOMIC OUTLOOK AS IT AFFECTS THE ILLINOIS FARMER

Address

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The Illinois farmer cannot be considered as an entity apart. He is a citizen of the United States subject to all the interests, controls, demands and hazards which face any other citizen with his country at war. He is also a citizen of the world who can no more expect a future protected from the impact of world developments than he can expect to enjoy a life independent of the ups and downs of other domestic groups or of the economic course of this country.

Today we have to look at the position and problems of Illinois farmers as an inseparable part of a nation which is distorted in every particular of its life by a colossal war effort. Literally, nothing else counts now or can be permitted to count but to organize our power toward winning the war as speedily and as decisively as possible.

I have said many times in the last two years that the American people have talked a great deal about all-out mobilization for war without any realization of what the words mean. Generally, we are unconscious victims of belief in our own invincibility; a conviction that we can lick the world with one hand tied behind us. We have been slow to realize that one loaded machine gun has far greater power in an immediate test of strength than a whole range of mountains filled with iron and copper ore. All of us in some degree have been going along in the belief that, while some sacrifices are necessary, it is the other fellow who will make them. I am afraid, furthermore, that too many of us are trying in every way we can to see that it is the other fellow on whom the sacrifices fall. We want to win the war comfortably with our future secure and our old privileges and immunities untouched.

It cannot be done that way.

The economic outlook for the Illinois farmer can be considered in three stages: (1) While actual military activities continue; (2) during the period of reconstruction, and (3) in the post-war world.

These are by no means three separate phases, to be treated as distinct problems when they arrive. The actions and policies of today set the pattern for the future.

We are now operating as part of a nation at war. For an indefinite period, probably for years, Illinois farmers will be called on to supply a war demand that is especially heavy for fats and oils, meats, dairy products and certain specialty crops. This means a strong market at good prices. We may expect this even though we hate the idea that it had to be the destructive course of war that enlarged domestic consumption and restored the flow of exports. But these temporary gains will melt away and leave heavy losses behind them unless their causes are clearly seen and comprehended. We must not think we can build a lasting super-structure on the shifting sands of war demand.

When the day comes on which guns fall silent over land and sea, we will be called on for an indefinite period to use our agricultural surpluses in the rehabilitation of a war torn world. But let us not delude ourselves as to the nature of that demand either. I cannot see anything permanent in this export flow. One day it will come to an end. Even while it lasts, there is only one party who can pay for the goods we ship out to a starving world, and he lives on this side of the Atlantic.

We have been kidding ourselves about the foreign market ever since the last war. During the 20's we kept shipping farm crops in export only because with every cargo that left our shores we, in effect, sent along our own certified checks with which to pay for them. During most of the 30's, we exported because we were buying up 80% of the world's monetary stock of gold. After the war, old areas will be returned and new ones brought into production. Shipping lanes will be open. Notwithstanding losses at sea, the available tonnage for ocean transportation will

be large. Then we will have to settle down to the grim business of adjustment to a new world. It is impossible to predict just what kind of a world it will be. One thing is sure. Its organization will be totally unlike the old; our part in it will differ radically from the courses we have followed in the past.

War contradicts normal economics. I heard Charles F. Kettering the other day express it like this:

"War is inverse economics. For example, in war you send the other fellow things he didn't order, and deliver them at the time he least expects to get them".

At war, and when preparing for war, a country has to do many things that would not ordinarily make sense. In spite of contrary policies here and there in recent years, our general disposition for the last two decades has been to grow and make everything we can here at home, to maintain and expand our exports, and to buy just as little as possible from abroad. That formula has manifest contradictions in a peace-time world in which a nation is trying to live comfortably with its neighbors. It was possible only because we made enormous and unpayable foreign loans during the 'twenties, and exchanged our securities and goods for the hoarded and new-mined gold of the world during the thirties. But for a nation that was unconsciously gearing itself for war, it was not a bad formula, as you look back on it, to maintain home production while lessening dependence on distant foreign sources.

I am not speaking primarily about farm production and the farm plant when I say this. In general, agriculture is one segment of the economy whose plant can meet reasonably well the huge new demands an all-out war throws on this country.

What happens afterward, when war and rehabilitation demands have ended, is unpredictable. The safest course will be to place little dependence on foreign

markets, and to concentrate on policies that expand domestic consumption. Perhaps, in time, we can help work out a rational pattern of world behavior. There hasn't been much progress in that direction to date.

The position of agriculture in the reconstruction and post-war periods depends partly on how we behave ourselves now, and partly on how successfully we, as a nation, are able to make the transition back to normal peace-time activities from a condition in which our whole industry is concentrated in war and production for war. If, when that time comes we cannot find employment for our workers in peace-time industry, and thus provide purchasing power in the domestic market, the difficulties of agriculture as well as the rest of the country will be great.

We are in for a period of increasing farm income. Cash farm returns for 1941 are estimated at around \$11.6 billions. For 1942 it is expected that farmers' incomes will approach \$14 billions. As I mentioned earlier, the types of products which will be most stimulated by the war demand assure that Illinois farmers will share fully in the increase in farm income in prospect for 1942.

I am not going to throw a mass of figures and statistics at you this afternoon. Livestock and livestock products are the principal source of cash farm income in Illinois, and practically all of them are affected favorably by high consumer buying power at home, and by lend-lease purchases. Close to one-third of this livestock income is from hogs. Income from cattle production in this State normally does not average far below that from hogs. Dairy products come next in value among items of income from livestock. The call in all then is for larger market supplies for 1942 and while active war continues,

Corn contributes over half the value of crop production in Illinois, and Soy beans about 15 per cent. Expanded production of these crops is called for from the United States as a whole, sharply in the case of soy beans of which

Illinois produced in 1941 about 46 per cent of the national total.

Three factors promise increased demand for farm products in 1942, and thereafter as long as these factors continue. These are:

- 1) A record high consumer income in 1942 now estimated at \$105,000,000,000, an all-time high;
- 2) A tendency for consumer demand to focus on food since the output of other goods for civilian consumption will undoubtedly decline; and
- 3) Continuation, and possible increase, of government purchases for the Lend-Lease program.

I am not one of those who believe that farm prices are going to lead the procession far up the ladder. The most effective price restraint comes from increased production, and it looks as though the farmers will come through with that.

Just one more word on the immediate outlook before I turn to some more general topics. In spite of the fact that farm cash income is expected to be at least \$2,000,000,000, above the \$11,600,000,000 figure for 1941, the purchasing power of farmers, although it will be large, will not rise as much as might be expected after farm operators have met their higher costs, cut down their debts, and bought their share of Defense Savings bonds.

But in spite of increasing costs of production, there will be more net income for farmers to make use of. I want to drive one thought home to this audience today even if everything else I say is completely forgotten. That increased farm income should be used to pay off debt and not as a basis for the expansion of

debt. The correct rule for the farmer is the same as for any other private citizen - pay off debt; spend nothing you do not have to spend. Farmers who are out of debt should use income to build up savings. Every farm family that can possibly set the money aside after reducing or paying off debt should invest, not in new buildings, not in more land, but in U. S. Savings bonds.

One of the root causes of the farm troubles during the 20's lay in the fact that land prices more than doubled to an all-time high as a result of the last war and then collapsed to less than half that peak. While land values in Illinois have increased during the last year, there is no evidence yet of an alarming development of land speculation. Land values have been relatively depressed for some years and consequently a rise at this time is to be expected. Up to date, however, the improvement in farm real estate has been mainly reflected in the increased activity in the sale of properties.

This does not mean that farmers must not be on their guard against rising land values. There are many signs to indicate that the lessons of the land value collapse in the early 20's may have been forgotten. We have always been apt to chase land prices through the roof whenever farm earnings rose. Some of the more recent cases of high prices being paid for farms have been sales to so-called city buyers. Such sales in any period make up a relatively small part of the total. Farmers who make their living from farm operations should be particularly on their guard against competing with such buyers. They should remember the lean years as well as the good years in appraising the worth of farm property. If farmers do this, I do not think we will develop a real farm land boom. I dare say also that some of the city buyers who have acquired farms recently have not found farming operations as profitable as they had expected in view of the shortage of farm labor and of the difficulty in obtaining capable farm managers.

Lending agencies as well as farmers have a real responsibility. They should stand firm for appraisals based on productivity at normal prices and should not boost loan values if land prices tend to show exorbitant increases. The Federal Land Banks and the Farm Credit Administration have mapped out and announced another statesmanlike course that should help set the brakes before farm land inflation gets under way. Farmers who have Land Bank mortgages can anticipate future payments now when they come through the year with a surplus. They can deposit with the Land Bank any amount they are able to spare, and draw a rate of interest on the advance deposit that is equal to the rate charged on the mortgage. This is one way of insuring against future trouble if and when farm prices are less favorable than they promise to be in the years immediately ahead.

Illinois borrowers from the Federal Land Bank have led the country in taking advantage of this program. The latest figures available show that nearly 1,100 Illinois farmers have deposited about \$650,000 with the Land Bank of St. Louis to be applied to future installments on their mortgages. While this amount is low as compared to the total mortgage debt held by the Land Bank, it should be remembered that the program has only been in effect for a few months. Moreover, 1941 was the first recent year of really big farm income which gave the farmers surplus funds, and as some of the 1941 Illinois crop has not yet been marketed, part of this income has not yet been realized. Another factor is that farmers have probably used their increased net income to reduce short term indebtedness. Taken all in all, the record indicates to me that the program is starting off well and I hope that during the period of high farm income ahead, those who have participated will continue to make prepayments on their mortgages and that other Land Bank borrowers will follow them.

Then I would urge farmers to be conservative in demanding political action for ever higher and higher price supports. They should come into court with clean



hands when they ask for controls in the other and more dangerous inflationary fields of industrial prices and wages. Farmers should remember that the success of farm legislation has depended upon the general public's acceptance of the essential justice in the farmers' position on prices. The continuance of this public support for the farm program that may be so necessary in the post-war period will depend to no small extent upon not pressing for undue price advantages that are created by war conditions, and by holding firm to the parity concept.

All of us have heard a lot of talk that seeks to justify farm prices at a level above the parity goal which farmers have fought for years to secure, on the ground that industrial wages have been rising rapidly and are subject to no effective checks. In my opinion, there is only one workable approach to the problem of wage controls. Wage increases can be held within reasonable limits only if there is effective control of prices on the one hand, and of the war profits of industrial corporations on the other. If further general price advances are prevented, and if courageous and far-reaching taxation recaptures corporate profits that are due to war orders and war spending by the Government, a sound foundation will have been laid for a policy which outlaws general wage increases. Without both, in my opinion, it is going to be impossible to institute any practicable system of wage controls.

Now, because it is timely, I ask your indulgence while I drag forth and take a look at one current development in the banking field even though it has nothing to do with the assigned subject.

The report has reached me, as I suppose it has come to others in the money and credit field, that some depositors, particularly those with savings accounts, are withdrawing their deposits in currency and hoarding it in safety deposit boxes or elsewhere. The movement is so senseless and unjustified that I cannot be-

lieve it to be really widespread and general. But I have heard enough about it to warrant my discussing it here and at every opportunity.

It is said that these withdrawals are caused by fear that the National Government is going to tax, or confiscate, or commandeer these savings accounts for investment in defense bonds. There are no grounds whatsoever for these fears. The Government not only has no intention of the sort and won't do it; any such step would directly contradict the policy which the Treasury is following, and must follow, in financing the war.

Bank deposits already finance nearly twenty billion dollars which the banks have invested in government securities. There would be no gain to the Government if existing savings on deposit with banks, which the banks in turn have invested in government securities or loans, were forced into direct investment in defense bonds bought by individual depositors. Banks would be forced to sell on the one hand what the individuals bought on the other.

I can understand why an individual depositor might prefer to invest directly a part of his savings in defense bonds, but I can't for the life of me see how he thinks he is protecting himself or his future by withdrawing currency and sitting on it like an old hen sitting on a doorknob. It must be a hang over from the days when it was possible to hoard gold or gold certificates in anticipation of a rise in the value of gold in terms of currency, such as occurred during and after the Civil War. But no such reason can exist today. Defense bonds, like currency, are non-market-risk obligations of the Government. Defense bonds are redeemable, without loss to the holder. The main difference is that the bonds yield an interest return, and currency does not.

What the Treasury really wants is to have more and more defense bonds purchased out of current savings from current earnings and income. That makes

sense. The object isn't only to get finances for the war, it is also to reduce the percentage of current income spent in the market for goods at a time when the supply of goods for civilian consumption is being sharply reduced by the conversion of factories and materials to war production.

No, the Government is not going to move in on the past savings of its citizens. I don't think any of us can be sure that it may not take steps to compel future savings to be made and to be invested in defense bonds. But there is a vast difference between the two propositions which I hope I have cleared up a little.

I now want to talk to you, in these few closing minutes, not as farmers and farmers' wives, but as citizens of the United States and citizens of the world. December the seventh made it impossible to stand before you and do otherwise.

Our first job - and it is a job that will strain every nerve and tax every resource of all of us - is to win this war. Devotion to that task should not prevent us, however, from looking through and beyond this struggle in an effort to determine what our ultimate goal and policy must be. The United States must have a foreign policy that is recognized and understood, and must make its conduct conform to that policy. I am unable to see that any standard of consistent purpose has governed our international behavior during my life-time. We have shuttled back and forth between desperate involvement and irresponsible detachment. That just doesn't make sense. It is not only the rest of the world that has been puzzled, we have baffled and confused ourselves.

We might have chosen, let us assume, a course of isolation and national self-sufficiency and, by paying the heavy price it would exact, we might have hoped for a time to avoid external wars. Or, having become involved as we were in 1917 and 1918, we might rationally have recognized and assumed our world responsi-

bility as a great power and insisted that other nations work with us toward a just and safe world order. There is something to be said for either course. But there is no defense or explanation for the nation that tries to follow both of them, either alternately or at the same time. We cannot do both without disaster, without loss of respect abroad and of hope at home.

Developments since Pearl Harbor have ended debate over foreign policy for a time. For the future I favor open-eyed recognition of our place as a world power and full acceptance of the responsibility that goes with it. If 1917, and again 1940 and 1941 teach us anything, it is that when predatory forces run amuck, we cannot stay aloof from a conflict which engages the rest of the world. We were in the last war but out of the peace. An external force, driving to reorganize the world on principles and by practices that are hateful to us, has drawn us into the present conflict. We have again assumed vast responsibilities in a world-wide war. Only this time, I say, let's recognize the consequences and stay with it, doing our share to clean up the mess, so that the next generation will not have to take up arms, as our sons are doing today, in a deadly struggle not of their making.

The dimensions of the world have shrunk. It is impossible for any nation to avoid the impact of the present struggle. The conditions that confront us are not to our liking and they are not of our choosing. We can only face them with the determination to back with national unity the leaders who bear the heavy burdens of responsibility. We can cement that unity with understanding, and if we are fortunate, we may profit from lessons which the past and present have spread plainly before us.

It is a mistake to oversimplify the challenge. Defeat of one dictator, or a set of dictators, won't end the job. It will merely mark its real beginning. We do not want to fight to restore once more the old order in Europe. We have had

convincing proof that it cannot work. I doubt if there is a man or woman in this audience who is willing to die to reestablish it. On the other hand, there are few who would hesitate to lay down their lives if they knew that by that sacrifice they were contributing substantially to a future that provided justice and peace.

Our greatest common mistake today is our failure to realize what is happening in the world. This isn't just a war in the sense of past wars. It is a world-wide revolution. It is a revolution, moreover, that feeds on the mistakes of democracies. Hitler has had strength back of him because of the economic failure of free, democratic governments to substitute plenty for scarcity through providing full employment for the manpower and resources of the world.

What Hitler, and the Japanese militarists, and the little man of Rome stand for is hateful to every free man, but no truer word has been said than that you can't defeat it by force alone. We can only understand that if we see, clearly and finally, that we are in a world revolution and that the basic struggle is over its form and leadership.

We believe that democracies embodying the institutions of human freedom can guide that world revolution better than can dictatorships that deny freedom. But the challenge is breath-taking. In the long run future democratic leadership cannot meet it unless it performs better than it has done in the past. It cannot meet the challenge if it is content to rest on the efforts and the devices of the past which have produced the paradox of scarcity and want where the materials and the opportunity for abundance exist.

These are the responsibilities that confront the democracies today. The people of the United States must understand the implications of the world crisis and they must see clearly the consequences of our own behavior. Without that

common, general understanding, leadership will be powerless to deal with the tremendous difficulties that are ahead. These are times when understanding and vision are the only alternatives to discouragement. I know of no better place to turn for clear perspective than to the men and women on the American farms. This is the time for cooperation, not disunity, and farmers know what cooperation means; and it is the time when we need just the kind of optimistic courage that is bred out in the country.

The world isn't what we would like it to be. It isn't even as good as we thought it was. But the destiny that shapes our ends sees farther than we can. As long as the spark of freedom and dignity for individual man lives, there is hope that today's pain is but a phase in the evolution of a new and better world - one in which freedom of thought and the institutions of free men have survived.