

POSTWAR AGRICULTURE

ADDRESS

by

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My assignment today is to talk to you about agriculture in the postwar period. It isn't easy, and it should not be easy, to fix our minds on that distant point. Before we reach it we have two wars to win; governments will fall and be rearranged; and thousands on thousands of American boys will lay down their lives on the icy fields of Northern Europe and in the steamy jungles of the South Pacific and the Far East. No thought or act of ours can be permitted to dilute or detract from the Nation's effort to give those boys everything we have for their support. With that clearly understood, then we do have the responsibility of thinking ahead to the kind of country they will come back to.

We cannot win the war for them; we cannot ourselves win or lose the peace. We can do our level best to have something ready for them when they come back, something worth their working with and fighting for - a civilian economy that faces the future boldly and intelligently; that is making the effort, at least, to match the brains and the bravery they are putting into this war.

To come right to grips with the topic, the basic problems of agriculture will not be solved in the postwar period, or at any other time, either. We are going to keep on living with them as dynamic human issues. No one set of laws or policies can possibly put them at rest. Fundamentally, when military and lend-lease uses for food and fiber come to an end, when relief shipments cease, we will have a farm plant that has been producing a third more than we normally consume at home, at a time when new mechanical devices are coming into use to make one man's labor on the farm far more productive than it ever was before. Our price structure will make normal export trade, that is, trade without subsidy, impossible in most important commodities. Increasing mechanical and technological efficiency will team up with the normal high rural birthrate to free workers from the farm who must be absorbed by an expanding industry.

We face a continuing need for far-reaching adjustments in agriculture as long into the future as anyone can see. These adjustments will not be easy, and in some areas like the cotton belt they are likely to be drastic, even revolutionary. But these adjustments will be easier to make if the farm business operates in an economy of high industrial production with a high level of employment at as high a wage level as is supported and justified by the volume of production. Only a high level of national income, of consumer purchasing power, can make a good market at good prices for our meat and milk, our vegetables and fruit. You may get tired of hearing me say that, but it is so important that, if you keep inviting me down here, you will hear me say it again and again and again.

Let me go back and trace a little history for you. During the period from 1895-1915 agriculture was in its golden age. Production was rising steadily but industrial production was rising even faster, which increased the demand for farm products and absorbed the overflow of population from rural areas. There was a steady demand for the export trade.

In the five-year period following 1915 agricultural prosperity reached new highs, but this arose primarily from war-inflated demand and war-inflated prices for agricultural products which raised farm income to unprecedented levels.

Following the first World War, agriculture entered two decades of chronic over-supply or under consumption. In the 1920's net farm income averaged 30 per cent below the 1915-1920 war period, and in the 1930's averaged only half of the wartime income.

During the latter part of this period, the virtual stagnation in industry and the deterioration of our foreign trade accentuated the farm depression which actually began with the appearance of large surpluses of agricultural products back in the early 1920's.

With the advent of World War II, demand for agricultural products again increased. The rise in demand resulted from high military requirements, large export needs under lend-lease, and strongly increased domestic demand due to a

high national income.

This brief review of fifty years of agricultural history brings forth in bold relief some basic conditions that in the past have been necessary for American agricultural prosperity. First, there has been a high domestic demand provided by expanding industrial employment. Second, there have been substantial exports. The fact that raw material exports from the United States are going to be increasingly difficult in the future throws even more emphasis on the first point.

Now let me carry the discussion a little farther. High domestic demand for agricultural products does not exist within agriculture itself. In other words, the problems of agriculture cannot be treated separately as if agriculture were in a vacuum. Their solutions in many cases lie completely outside the business of farming.

As a basic prerequisite to high agricultural income, it is necessary to have an expanding industry. All of my life I have preached the wholesome effect which a prosperous farm population has on factory employment and wages. The corollary to this should also be stressed and I want to emphasize here, this afternoon, the effect which high wages and sustained industrial production have on farm income. The fact that our employable population is now working regularly - most of it at good wages - has been the principal factor in building up a high and mainly profitable demand for the products of the farmer.

There is no real point in attempting to determine whether a prosperous agriculture breeds a prosperous industry, or vice versa. Seeking cause and effect relationships between active agriculture and active industry breaks down pretty much to the old question about which came first - the hen or the egg. To my belief, neither a prosperous agriculture nor a prosperous industry comes first. Both have to come together, for without a high level of agricultural income, farmers cannot buy manufactured goods; and without a high level of industrial activity, the market for farm products is so restricted it cannot yield good prices for a normal crop.

Since the prosperity of farm and factory is so closely tied together, it is obvious that economic disorder is likely to result when one gets out of step with the other. Unfortunately, these two segments of our economy have usually operated in completely different tempo. Industrial production varies widely in volume, while agricultural production is relatively stable.

One way in which to maintain high farm income is to keep industrial production from varying as widely as it has in the past. If we take the period 1935-1939 as "normal", we find that from 1919 to Pearl Harbor total industrial output in physical volume has varied from a point 42 per cent below "normal" to 62 per cent above "normal". The low level was registered in the depressed years of 1922 and 1932; the high in 1941.

The great swings in industrial output were reflected in swings of just about the same magnitude in national income, and as national income dropped, demand for agricultural production at high prices also dropped. Farmers, however, continued to produce just about the same amount of crops and livestock throughout the period whether or not prices were high or low. Sometimes when farm prices are falling, farmers are driven to produce more, to mine their land faster, in order to meet expenses and high fixed charges on their land.

In the deep depression year of 1932, agricultural output was only 3 per cent below "normal" and the low point in agricultural production in 1935 was but 8 per cent below "normal". In 1941 total output of agriculture hit a high prewar level only 13 per cent above "normal". Actually, of course, agriculture cannot increase its production very much in any one year nor does it decrease much in another because of its very nature - millions of individual farmers operating farms on which they grow much of their own food as well as commodities for sale.

The variation in farm income, then, is caused primarily by price changes. When farm prices rise, farm income rises just about as fast; and, conversely, when farm prices fall, farm income falls in about the same degree. Recognition of this

condition has resulted in agriculture's policy of attempting to stabilize farm prices, and if this could be accomplished successfully, the farmer feels with some justification that most of his difficulties would disappear.

The trouble is that price stability is impossible unless the supply and demand relationship is constant. Consequently, as long as agriculture continues to supply about the same volume of goods each year, changes in demand for those goods will almost inevitably result in changes in price. When we try to get around this by fixing the floor prices by law, we encounter the "surplus" problem - what to do with the excess above what the market will take at the floor prices. The Government buys it up, either directly or through loans, and then starts worrying about how to hold it or dump it.

In the long run there are two ways to stability in farm prices. Either we must vary the supply so as to maintain stable prices, or we must maintain a high level of demand. The latter way appeals to me for two reasons. First, maintenance of a high level of demand means high consumption as well as stable prices and promotes a more prosperous agriculture. Second, it is difficult to control the short-run supply of agricultural goods to the extent necessary to maintain stable prices. It is a tough enough job to make the long-run adjustment to demand changes.

This leads me right back to my original statement. It is vital to maintain industrial prosperity if we are to have a prosperous agriculture, for only with a high level of industrial activity will we have the sustained demand for farm products that will maintain prices.

We have been talking so far about maintaining a prosperous industry, which means a high level of production in industry, so as to maintain a high level of domestic demand for farm products. Industry, however, must do more than maintain the status quo in the industrial agricultural relationship. It must expand sufficiently so as to reinforce the demand for products and at the same time also absorb the migration from rural areas. If it does not accomplish the latter as well as

the former, a high level of farm income could conceivably be accompanied by a low per capita income for people on farms. Farm population expands more rapidly than does urban population, and worker productivity on the farm has been increasing at a substantial rate throughout our history. During the war period under the impetus of military and high civilian demand, agricultural production has been lifted to about one-third more than in the period from 1935-1939. This increase in production has been accompanied by a decrease both absolute and relative in the farm labor force. In 1940 the farm labor force constituted 20 per cent of the total national labor force. This year it had fallen to about 15 per cent of the total labor force.

In other words, productivity per worker on the farm has risen sharply and this has occurred despite the relative shortage of farm machinery which has curtailed the rate of progress in the mechanization of agriculture. After the war that farm mechanization will proceed at a very high rate. New equipment has been planned during the war period. I recently saw a cotton picker which amazed me by its performance. Many of the bugs that were in earlier models had been eliminated from this more modern piece of machinery. One such picker operated by one forty-cents-an-hour driver was picking as much cotton in a single day as 50 adult, experienced hands or a hundred of the field-run workers could pick. To be sure there was more trash with the lint, but for most uses the gin and the mill will take that out satisfactorily; the machine-picked fiber itself was in good condition.

With this increase in farm mechanization, worker productivity on the farm will rise very sharply, which means in turn that agriculture will continue to find itself over-populated. The only solution to this problem is to find displaced agricultural workers jobs in nonagricultural pursuits, making things and providing services which the people of this nation can absorb in a higher standard of living.

Now let me turn briefly to the question of exports - their importance, and whether we can hope after the war to restore them to the old levels or beyond.

During the year ending June 30, 1944, our Government exported under lend-lease alone \$1.9 billion worth of agricultural products - about one-sixth of total lend-lease shipments. In addition there were some exports of farm products for cash. Our annual average of agricultural exports in the three years prior to the outbreak of war in Europe was \$780 million.

These figures largely tell their own story. Under lend-lease shipments alone we are currently sending $2\frac{1}{2}$ times the value of agricultural production abroad as we sent prior to the war under total exports. In other words, a substantial part of the demand that has lifted farm prices, and hence farm income, to their present level comes from foreign demand.

Now, I, for one, do not believe that agricultural exports after the war will play as large a part as they have during the war period. There will be, of course, some demand for relief and rehabilitation purposes, but this demand is likely to be short-lived. In general, agricultural areas will be the first to be restored after being freed from the ravages of war.

I agree that if we could in postwar years export more agricultural commodities than we did during the 1930's it would be a great prop for a prosperous agriculture. But, international trade is going to be closely controlled after the war, and if our domestic price for export crops continues above world levels, I do not believe other nations will permit us to subsidize exports in increasing volume in competition with countries that are primarily raw material producers.

Agriculture is going to need all the markets it can get and hold, both domestic and export. It can best compete in the world market where its costs of production permit it to meet world prices; it is futile, I believe, to expect that we can maintain artificially high domestic prices and at the same time hold a large-volume export trade.

Here's the way the overall farm picture looks to me for the years following the war: Our farm plant is likely to stay in fairly full production regardless of

the performance of business or the level of foreign trade after the war. That means about one-fourth more production overall than we had in 1939, barring droughts. The demand is likely to drop sharply as soon as the relief period is over and the storage stocks have been replenished.

Then, despite the commitments of the government to support farm prices for two years after the war, prices received by farmers are likely to drop sharply; the task of supporting them in the market place at certain levels will be far from easy.

I don't mind telling you that I am afraid of what a program of rigid price supports will do to us if we try to extend them into the indefinite future. I notice that Senator Thomas has started a move to re-define parity, the idea apparently being to jack up "parity" another notch, - and the support prices pledged, as you know, are based on "parity". That would be all right if there were nothing more to it than setting a price or a parity formula by law. But there's a lot more to it than that.

From the farmer's standpoint it would be ideal, I suppose, if Congress could pass a law or the Department of Agriculture could issue a regulation fixing the price of cotton, for example, at 18 or 20 or 22 cents a pound, and then have the cotton crop move into consumption at that price. Maybe it would if the demand for cotton could be met only by the American staple and nothing else, and if over the years the demand always equalled the supply. But the peacetime world can buy cotton in other markets than ours, and the domestic mills can use synthetic fibers. It is time to stop, look and listen; we do not want to wake up some day to find we have priced ourselves out of the market.

I've talked about cotton because it has peculiar competitive problems, and because it is of primary interest to you. But with rigid price support the problem of perishable crops may be even more pressing. With them it is necessary that prices permit the markets to clear the supplies that are delivered, and there isn't time to store and look for outlets.

I have been wondering whether the country as a whole, including the farmers, would not be better off if it permitted the price flexibility necessary to move our farm production into use by the consumer, and then protected farm income by supplemental payments whenever there is industrial depression that cuts down the amount of money available in consumer hands to pay for farm products. I always liked the way the 1935 cotton loan plan worked. You remember we were trying to get away from a loan that was at or about the market; we wanted a free selling movement in cotton.

So the loan rate was set at 10 cents instead of the 12 cents loaned on the 1934 crop, the government agreeing to compensate the grower by the amount by which his selling price fell below 12 cents, with a 2 cent limit to the payment.

This type of farm relief I am telling about would recognize that the very steadiness in production which is characteristic of agriculture as a whole, is a national asset. Since it is a national asset, since it helps the consumer most when their production and employment and purchasing power are down, wouldn't it be a good idea, eminently fair, if our society as a whole, through the government, took a hand to see that it doesn't ruin the farmer as it has done periodically in the past as aftermath of industrial depression and unemployment? I just want to leave that thought with you today to think about. And I want to repeat the warning that rigid government price supports, guaranteed with the best motives in the world, are going to cause us a world of trouble when it comes to carrying them out.

I realize that I have rambled around, telling what industry should do and what I am afraid agriculture cannot do, without giving you any concise, guaranteed cure-all which farmers or their government can apply to postwar ills. There are some favorable conditions and some good signs, as well as some other factors that must at least be mentioned.

One good sign is that leaders of this nation's industry do recognize the need for industrial expansion, and for a higher level of production and employment than we ever had in peacetime before. I have said many times that most of the farmers'

troubles would tend to shrink and disappear if non-agricultural industry would only follow the same program of full production that agriculture has always followed.

Agriculture is in an excellent financial position to meet postwar readjustments. During the war the net worth of farmers has increased tremendously. While a part of this increase has been due to the increased value of real estate, live stock, machinery, and other tangible assets, there also have been large gains in liquid assets. By the end of this year farmers probably will hold some \$11 billion in deposits and currency and at least \$3 billion in U. S. Government securities. These amounts represent an increase of about \$9 billion over their cash and bond holdings at the beginning of 1940. Over the same period farmers have reduced their indebtedness by over \$1 billion.

The existence of these funds as well as the improved borrowing capacity should make for flexibility in farm operations that may be necessary to meet the changed conditions of demand that will exist after the war. Farmers will have funds to undertake soil conservation practices and management plans that will make their farms more productive. They will also be able to take advantage of new developments in farm machinery that will increase the efficiency of their operations.

Another thing - we have got to get down from this war-time race to mine our soil for the maximum production of war time, cultivated crops. World War I did incalculable damage to our soil, first because of high prices and patriotic urging, then low prices and the need to grow more cash crops to meet payments on over-priced land.

You know how woodland was hacked away. More grass was plowed under. The hills washed. The rivers grew muddier. The water table fell, springs went dry. Game and wildlife went dry, too, and starved and died.

To those of us who believe the human animal is smart enough to learn from experience, let me add that we seem to be going hell-bent along the same road in this war. Jim Russell, editor of the Des Moines Register told me the other day

that since 1941 Iowa has reduced its grasslands, its hay land and meadows, by 3 million acres from 9,000,000 down to 6,000,000 acres, and moved it into row crops, into corn and soybeans. We are depleting our soil and plant-food mineral reserves at a rapid rate, and without the soil and those minerals in the right supply we cannot have healthy plants or healthy people. The farms are giving up to the cities in the process of land mining which is what most farming is, a mineral wealth which the farmer does not figure in his costs. He is depleting his reserves year by year, but he can't charge it against his taxes. That is one good reason why we on the pavements owe it to our farmer neighbor to take more than just a passive interest in the protection and restoration of the land. That is a big postwar job, and we haven't all eternity for it, either.

In conclusion, let me point out that we have in this country the ability to produce the goods to give us a much higher standard of living than we have ever known. The problem is how to distribute and consume that product. There is no simple answer. If we fail to find it; if we fail to provide the jobs; if we cannot increase and maintain our total national product at a volume level 30 to 35 per cent above that of 1940; if we cannot act together boldly and confidently, then the alternatives, to my way of thinking, are too unpleasant to contemplate. Our economic system, perhaps even our form of government, will not survive unchanged a long period of mass unemployment and low production.

The big question that confronts the farmers is the same question that lies ahead for the whole economy. Can we, in peacetime, use our magnificent plant and labor force in reasonably full production? Agriculture is one member of one body. It cannot be healthy if the rest of the body is sick. The rest of the body cannot long thrive if agriculture is ailing. We are all in one boat with rough weather and a long pull ahead. Only one spirit can bring us through - the spirit of good-humored and tolerant cooperation, with industry and agriculture and labor and Government pulling together. This calls for leadership in all callings abler than

we have had in the past. It is the function and opportunity of economic clinics like this to help provide an atmosphere of understanding in which that leadership can develop and thrive.

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