

LOOKING AHEAD WITH AGRICULTURE

Address
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Before the Commercial Club of Chicago
Blackstone Hotel, Chicago, Illinois
Friday Evening, February 9, 1945

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To ask a speaker or an audience to consider the agricultural outlook at a time like this is about like asking men whose homes are on fire to take time out to study plans for rebuilding the neighborhood. It is hard to put our hearts in it, and more than the fringe of our minds, Millions of our sons are on foreign soil beating at the defenses of powerful foes who marched from their borders years ago to conquer the world. Governments are tumbling. Mankind, in the desperate consciousness that chaos and darkness are the alternatives, is groping for a new and more hopeful pattern of world organization. We go about each day's tasks and deal with its problems with our attention fixed on the rumble of the distant guns.

But life does go on, and we who are left at home must deal with its shapes today while events are moulding its form for tomorrow. So tonight I shall talk briefly, I hope, and inadequately, I am sure, about the performance of American agriculture during the war; the changes war has brought to the American farm; the nature of the postwar problems that will bedevil the farming business; and the stake we who live in the cities have in all of this.

The thought has been growing in my mind, ever since I was asked to meet with you, that the discussion of agricultural questions is peculiarly appropriate in this city. Your interest as leaders of this giant community is an acknowledgment of the fact that Chicago is the heart of a vast, diversified farm and its magnificent growth is the product of the land which surrounds it. Scarcely more than a century ago fur traders and Indians were passing in and out of a little cluster of less than a hundred cabins here on the shore of Lake Michigan. That village has grown great out of trading and processing furs and grains and meat, out of the manufacture of tools of farm production, and out of the work of supplying and servicing the civilization that rests on the land.

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. When the shooting war stops, when military and lend-lease uses for food and fiber come to an end, and when relief shipments cease, we will have a farm plant that has been producing a third more than we normally consume at home. New mechanical devices will be 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.

Our wartime increase in farm production has been accomplished in spite of absolute and relative decreases in the farm labor force. In 1940 the farm labor force constituted 20 per cent of the total national labor force. Last year it had fallen to about 15 per cent.

In other words, productivity per worker on the farm has risen sharply and this has occurred notwithstanding the relative shortage of farm machinery which has curtailed the rate of progress in farm mechanization. After the war farm mechanization will proceed at a very high rate. New equipment has been planned during the war period. I recently saw the new mechanical cotton pickers at work. 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. New power machinery has been developed which will work a similar though less dramatic revolution on other types of farms from coast to coast.

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.

War has changed the situation of the farm families in many ways, some strengthening for the future, others loaded with seeds of future trouble. It will take only a moment to run over some of the other changes.

Farm commodity prices and income have risen sharply. Costs have risen, too, and in time will catch up with the rise in prices but up to now the returns on the whole have produced greatly increased net income. In general, war demand has brought farm prices to levels which will not be maintained in postwar years.

Farmers as a whole have reduced their debts by about a billion dollars and they have increased their reserves in bank deposits and cash and savings bonds by 9 billion dollars since 1939. There are many individual exceptions, of course, but in general farmers have prospered. They have saved their money and paid their debts. In that respect, behavior during the present World War is in sharp and favorable contrast with that of World War I.

Land prices are up 42 per cent above the 1935-39 average. In many localities farms are selling at prices above the average that is likely to be maintained as commodity prices work back toward prewar levels. The red flag of danger overhangs this situation.

These are a few highlights of the agricultural scene with the end of the war still ahead of us. I would like to pause at this point for a very quick look back over the last 50 years to see if they have any lessons for us to bear in mind when we start looking ahead into postwar years..

During the 20 years from 1895 to 1915 American agriculture was generally 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 in part from high military requirements and large export needs under lend-lease, but it has come mainly from strongly increased domestic purchasing power due to a high national income. As a whole agriculture has improved its economic position relatively and absolutely during the last five years.

This brief review of fifty years of agricultural history points up two 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, tonight, 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.

Since city activity and farm prosperity are 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 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 mind 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".

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 continued 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 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 control 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, a high level of demand means high consumption as well as stable prices and so 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 permanent demand changes.

I think 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.

We must not forget, too, that 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. 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 abroad $2\frac{1}{2}$ times the value of the agricultural products exported prior to the war. In other words, a substantial part of the demand that has lifted farm prices and farm income to their present level comes from abroad.

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 some demand for relief and rehabilitation purposes, but it is not likely to last for long. In general, agricultural areas will be the first restored after the ravages of war.

I agree that if in postwar years we could export more farm 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 through the years 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 will tend to drop sharply and the task of supporting them in the market place at certain levels will be far from easy.

We are facing difficult political and economic problems with the farm price guarantees. For two years beginning with the January 1 following the date on which the President or Congress declares the hostilities in the present war have terminated, direct Government price supports have been guaranteed for most of the 166 farm commodities produced commercially in this country, a large number of which have been guaranteed support through loan and purchase programs at 90 or 92- $\frac{1}{2}$ per cent of the parity price.

In case some of you have had no occasion to learn what the term "parity" means in farm price law, let me interject a word of explanation. In general, "parity" is the price in today's market that gives a unit of a farm product the same exchange value - the power to buy the same amount of goods and services - that a similar unit possessed in the period 1909-14, just prior to the first World War. There are exceptions in the case of specific products whose growers have been able to get the law amended so as to give them a more favorable base period than 1909-1914.

Existing guarantees pledge support at specified percentages of the parity price. It is going to be a job of some magnitude to maintain those guarantees. I believe in the use of moderate price supports to cushion the shock of readjustment from war demands, but I am afraid of the consequences of the tendency to shove the supports up and up to higher levels, and I am afraid of what a system of rigid, legislated prices extended into the indefinite future will do to the farmers themselves. There is a lot more to it than just setting a price or a parity formula by law. Let me try to illustrate some of the difficulties.

With perishable and semi-perishable crops like livestock and dairy products, fruits and vegetables, it is necessary that prices permit the markets to clear the supplies that are delivered. There are practical limits to the quantities which public or private agencies can store while they look around for new outlets.

If for any reason consumer purchasing power falls off sharply while the prices of these commodities are held where they were when consumer purchasing power was high, then the quantities bought and consumed will drop. Farmers will find they are producing and delivering more than the market will take at the old price, no matter what the law says,

Perhaps the problem can be seen more clearly in the case of cotton. 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, we wouldn't have much of a cotton problem. It might work, at that, 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.

It is time for thoughtful leaders in agriculture and in Congress and the executive branch of Government, to give real study to the forward pricing program for farm products. I'll go further and say that sympathetic leaders in non-agricultural business and labor have a stake in maintaining a prosperous agriculture, and they should help, too. Farmers have fought for a quarter of a century to get the concept of purchasing power parity recognized in the law. They do not want to see it dropped unless some workable and satisfactory standard is offered in its stead, even though they may recognize defects in the old 1909-1914 formula.

I believe it is possible to devise a more practical farm price standard than the present parity formula, and I am confident that a better way to meet the Government's postwar obligation to the farmer can be found than to try to fix market prices by a rigid formula.

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 to the farmer in case there is industrial depression that cuts down the amount of money available in consumer hands to pay for farm products.

Such a payment would simply make up the difference between the guaranteed price and the price in the market on the day the farmer sold. The guaranteed price now is expressed as a percentage of the parity price. If another standard is worked out which reflects more satisfactorily the changes that have taken place in farm production and market demand during the last quarter century, the payments could be geared to it just as readily. The advantage to this method of making good on a guarantee is that it leaves the market price free to find its natural level.

Some of you may ask, quite properly, why should any government payments at all be made to the farmers. The immediate practical reason is that the Government has pledged these price guarantees by law to encourage the production needed for war. I am concerned with how they can best be carried out.

The suggestion that these compensatory or differential payments be made only when national non-agricultural employment falls below a certain level originated, I believe, with Ted Schultz of the University of Chicago. It differs from the farm relief program of the 'thirties in that it rewards farmers for maintaining the same volume of production in times of industrial depression that the consumers demand in boom times. It 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 consumers 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

I just want to leave that thought with you 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.

There are some hopeful indications as we look ahead with agriculture. 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.

Another good sign is agriculture's improved financial position, already mentioned. Those savings can be converted into permanent gains if after the war they go to equip the farms for more efficient production, and to establish real soil conservation practices.

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.

Now in conclusion: by this time it has become obvious to you that I have no cure-all to suggest for farmers or the Government to apply to postwar ills.

I have rambled around, trying to cover in forty minutes a topic that is as broad as our whole economic life. If I could be granted one wish on behalf of a prosperous agriculture, it would be that the rest of the population might learn the way to full employment and high volume production.

In war this country has demonstrated a capacity to produce goods that, if used in peace, would 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 find it we shall enjoy a total national product 30 or 35 per cent above that of 1940. If we cannot find the answer, the alternative will be mass unemployment and restricted production, with consequences to our economic system, perhaps our form of Government, that are not pleasant to contemplate.

Government as a direct employer can do comparatively little to provide jobs. That can only be done by business management and labor working together in an environment, a climate, that favors an expanding economy. 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.