

AGRICULTURE IN A DEVELOPING ECONOMY

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To come right to grips with the topic, the 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 military and lend-lease uses for food and fiber come to an end and when relief shipments cease, we will have a farm plant geared to produce a great deal 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, as Mr. Schultz pointed out, must be absorbed by expanding non-agricultural employment.

A review of our agricultural history since the turn of the century points up two basic conditions that in the past have been necessary for agricultural prosperity. First, a high domestic demand has been 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.

But a high domestic demand for agricultural products does not exist within agriculture itself. In other words, the problem 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. I want to emphasize the corollary to this - 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.

The variation in farm income, as Mr. Schultz showed, 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 there is stability in the supply and demand relationship. As long as agriculture continues to supply about the same volume of goods each year, changes in demand for those goods will 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.

I have no cure-all to suggest for farmers or government, but 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. 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.

I should like to consider the question of exports for a moment. 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. I 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.

I agree that if in postwar years we could 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. In the long run, agriculture's hope for a considerable share in world markets depends on having costs of production low enough to permit it to meet world prices.

We are facing difficult political and economic problems with 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.

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 will do to the farmers themselves if they are extended into the indefinite future. 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 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.

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 raise the question whether the country as a whole, including the farmers, would not be better off by permitting the price flexibility necessary to move our farm production into use by the consumer, and finding another way to protect or stabilize farm income. For example, Mr. Schultz has suggested that instead of fixed support prices, the government arrange to make supplemental payments to farmers in case there is industrial depression that cuts down the amount of money available in consumer hands to pay for farm products. There are many other suggestions, all worthy of study.

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.

There isn't much time to look at other important phases of postwar agricultural policy, but I do want to point out that farmers' wartime savings can be converted into permanent gains if after the war they go to equip 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.

Just one concluding word: 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.

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