

AGRICULTURE IN THE NATIONAL ECONOMY

Address
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In the last five years, American agriculture, with the help of a benevolent Providence, has written an astounding record of production on the farms. Much has been said about our industrial accomplishment; tonight I want to pay special tribute to the performance of the farmers - all of them. During the war the food and fiber grown on our farms sustained our armed forces and those of our Allies, and helped keep civilian life going in friendly lands abroad. With only 15 per cent of the nation's labor force in their ranks, the farmers of the United States brought food production 30 per cent above the pre-war level and held it there. The food production of the farms of the United States last year averted mass starvation that threatened many millions of the earth's population.

Farmers came out of the war with a good record, and in better shape to meet the inevitable shake-down than was the case after World War I. In general their debts have been cut down and their cash and other assets have increased. Tough and trying years of adjustment are ahead of us, but the farm segment of our country has the stamina and the resources to come through them in good fashion if only the rest of the economy behaves itself. I suppose I could call that my text, the central theme of my talk tonight.

In looking at the present scene, and maybe prospecting a little into the future, I have to go over some ground you have heard covered many times before. Most of the uncertainties ahead of us involve questions of mass human behavior. Because I cannot forecast how we are going to behave in the clash of interests that will continue to surround us, I am a little timid about trying to analyze future trends. Events have a way of popping up in a year or two and making a liar out of the man who today thinks he knows some of the answers.

First let us try to see farming in the right perspective in our complex modern life. It is impossible to consider agriculture by itself, the

way you can fence off and cultivate an eighty-acre field. All of our interests are interwoven in a tight, complicated, fast-moving economy. In the long run, conditions under which farmers of Indiana raise and market their crops may be more nearly controlled by developments entirely outside of agriculture than by what happens in their own field. Decisions in Washington, or Moscow or London, in the houses of Congress, in board rooms of great corporations, or in labor union halls will help determine whether we in the farm belt of America suffer or prosper in the years ahead.

Generally speaking, agriculture will fare better in an expanding economy, with other groups in our national life busy producing goods and services to the best of their ability and capacity, than it will under conditions of curtailment, unemployment, and falling non-agricultural production and purchasing power. Conversely, the rest of the economy is better off when agricultural production is high, and prosperous farmers are exchanging their abundance on a fair basis for the products of others.

This question of whether we get into trouble because farm income falls, and farmers quit buying, or because factories lay off workers and quit making goods to trade for farm products, is a good deal like the question of which comes first, the hen or the egg. I have quit arguing about it. Two ancients once drew their swords and started swinging at each other at the foot of a statue in an argument over whether the statue's shield was gold or silver. In the mixup they traded sides and quit fighting when each one saw the other was right. I have come to the conclusion that it takes two healthy legs to walk far and fast, and I want them both to be strong. Each leg is essential to the other.

During the inter-war years between 1920 and 1940, the goal of developing agricultural policy has been expressed as the principle of parity of prices or of income for farmers as they exchange their products for the goods and services of non-agricultural industry and labor. That thought will

bear a little elaborating. Parity does not mean a fixed price level; it relates rather to the purchasing power or exchange value of the products of one group when traded for the products or the labor of another group. The price level is very important to a farmer who is in debt, but in every other sense the most important consideration is not the dollar price of a product, but what it will bring when exchanged for other goods and services.

If then we think of all the farmers as one trading group, and all the rest of the economy as another trading group, there are two ways to hold the exchange value of the farm output high, or to increase it. One way would be to cut down the volume of farm production. The other way would be to increase the quantity of goods and services produced by the non-agricultural group. I favor the second way as being the better for the nation, better for the farmers, and better for the world.

So if I could be granted the fulfillment of one wish for the growth and prosperity of agriculture, it would be this: Let the non-agricultural industries and labor find the way to keep working at full efficiency and capacity turning out goods and services that can be absorbed by this country in a high standard of living - in better homes, equipment, electrification, refrigeration, sanitation, clothing, ad infinitum. With steady work and efficient production, prices could go down without cutting profits or wages. Real wages would increase, for the laborer is like the farmer - it isn't the number of dollars, but what he can buy with his products or his labor that counts.

Under such conditions, the farmer could produce abundantly and still trade on good terms for what the other man makes; he could prosper at lower price levels. I think that really is the way out. The relation of agriculture to the rest of the economy is changing radically and further radical adjustments are ahead of us. When Indiana was the unsettled outer fringe of our young, expanding nation, about 90 per cent of the population of the then

United States lived on farms, and those farms produced only enough surplus to feed the 10 per cent who lived in town. I told you a few minutes ago that 15 per cent of the nation's labor force produced in 1943 and 1944 the all-time record crops which fed and clothed this nation and its own and allied vast war machines. Not much more than one-fifth of our total population actually lives and works on the farms, although the percentage directly dependent on farming is much greater than that.

So you see that with so few producing so much to feed so many, the ability of the cities and towns to pay for and consume our farm products is an all-important consideration to the farmers. That ability in turn rests on the rate at which towns and cities, the mines and factories, keep busy and produce.

In view of the importance to the farmer of this pulsebeat of national business activity, of employment and production off the farms, what is the situation today, not yet two years after "V. J. Day"? And what is the outlook? I think the elements are present to support a high level of business activity for some time to come, if we can only overcome two great big "IFS" that confront us. We can keep going:

1. If labor will realize that it must increase its production in order to have increased wages. Without increased production, increased wages are phony; labor leaders know it and will admit it, though they certainly don't all practice it; and
2. If management will strive for lower prices as volume grows, and will share fairly with labor and consumer the benefits of increased productivity.

These are stubborn "ifs" but they are very important. They have their roots in human attitudes, in human behavior. Perhaps you may say there isn't much agriculture can do about these things. But they are fundamental to farm welfare, and there are some things we in the country can do, as well as some things we should not do. Many farm and business leaders have seen

clearly the policy we must follow if our economy is to function satisfactorily. Teamwork is attaining and holding a high level of production is necessary if we are to develop the full economic life which the welfare of the world requires of this nation.

Farmers have always done a better job than the others have done in keeping on producing at capacity through bad times as well as good. The problem is how to get the others to march along with agriculture in full production. It is the only way the economy can be made to function at a high level.

I am not forgetting nor minimizing the great and difficult adjustments agriculture will need to make when the war-born vacuums have been filled. The foreign demand which we have tried to meet, will not continue very long. Restoration of the farms has A-1 priority abroad. Farm imports will be sought from countries which will accept payment in the form of manufactured goods. We can look forward to the time when we will not need billion bushel wheat crops for human food, and when our cotton crop will have to find its level along with synthetic fibers and foreign growths. On the other hand, milk, meat and other dairy and livestock products, tobacco, poultry, fresh vegetables and fruit will have a sustained and expanding market here at home if employment and wages and non-agricultural production keep high.

You can see generally what I think is ahead of us. I expect to see prices of farm products work lower as the war and early post-war demand falls off. I expect this tendency to develop and continue in spite of any laws now on the books or enacted later, though we can all be glad that we have legislation aimed to support farm prices for a limited period while farmers get their house in order. Farm prices may show a tendency to break before other prices do, because wages and controlled or managed prices are "sticky". That is why I hope that volume will rise and prices fall in non-agricultural lines as soon as possible. Too much lag would be dangerous.

The increasing productivity per worker in farming to which I referred before, has resulted because farmers, year by year, command more and more capital per worker in the form of machines and land. As one pair of hands gets more and better tools to work with, their owner manages more land and works it better; his unit costs go down, and the farm yields higher returns and a better living per worker. This trend is going to continue; it is inevitable. It means better homes and a better life for those who remain on the farms. It also raises the question whether the growth of decentralized industry throughout rural America will be rapid enough to absorb the workers who are released from the farms as mechanization proceeds.

I do not think this development necessarily will be troublesome. Again it is a question of the right human behavior. Think what it would mean if all our population at home became educated to want and demand a full, healthful, rich diet! You know we can keep 10 to 13 times as many people alive on an acre in cereals, as can be fed on the livestock products from that acre, but we are not likely to do that in this country. The trend is the other way. We could use our farm resources fully, with more workers than are now employed in agriculture, if all our people could buy and consume the dairy-and-livestock diet necessary to maximum national health.

That brings me to the question which is more important than any other in the relationship of the farmer to the national economy - and I include every country banker and business man when I say farmer. That is the way we have wasted and mis-handled our greatest natural resource, the land.

Recently I have spent a great deal of time driving over Missouri, Southern Illinois, Western Kentucky, and Tennessee, and other parts of the Eighth Federal Reserve District around us here. I saw the enormous waste and destruction caused by row-cropping the hills and slopes with corn and cotton. Hundreds of thousands of hills and slopes in this country ought to be in permanent pasture or legume and small grain rotation instead of growing the sorry crops you see there now.

It has been estimated roughly that man has existed for only about a quarter of one per cent of the age of the planet earth. The last few years - perhaps 10,000 - since man began to plant seeds and harvest the crops, probably amount to only one-fifth of one per cent of the age of man. Yet in that short time comparatively great civilizations have grown, flowered, and have perished because man destroyed the soil in which they were rooted; desert sands now blow over the marble ruins of once great cities.

It was only a little over 300 years ago that the white man's plow first pierced the soil of America - a span which compares with earth's antiquity as the tick of a clock with eternity. Yet the loss of the land, the waste and impoverishment of our soil in that span of years has been incalculable, and is still going on. You can see thousands of acres that prove the point on a drive of an hour or so out of La Fayette.

Yet we know that if this nation is to hold the basis for its future greatness, each generation must preserve and enhance the soil resources for the use of generations to come. Up to now each generation has defaulted in this responsibility. The English government is now proposing that a farmer's right to hold and operate a piece of land be made conditional; that if he fails to operate the land as decreed by the State the land may be taken from him. We recoil from that suggestion here. We prefer to tackle the problem through education, demonstration, leadership, and financial inducements or subsidies. But make no mistake about it, that problem stares us in the face and we haven't licked it yet in spite of some progress made. The day is gone, if it ever existed, when the fact that an individual holds a deed to a piece of land gives him the moral right to destroy it through stupid, short-sighted farming practices.

We have made a start in this country. In the last 10 years, more than 1700 soil conservation districts have been created. But let me say that when we set up conservation districts, or hold meetings or publish bulletins

we are only helping build the picture frame. The painting in of the picture itself is done by actual, concrete performance on the individual farm. I want to drive home this point: The payoff comes in the adoption for an individual farm of a complete, integrated, balanced program of soil and water and crop and livestock management. The program to be fully successful must be complete. The mechanical engineering steps of terracing, contour cultivation and grassed waterways are not enough. Minerals need to be restored, soil health brought back with organic matter, with crop and livestock systems fitted to the land. It may take 5 years, or 8 or 10 to complete such a program on a farm, but the starting point must be a plan that sets out definite steps to be taken each year. When the plan is set, then it is up to the operator to stay with the job until it is done.

Not until that kind of performance is under way on every farm in the country can we rest assured that this nation has met its overall responsibility for the care of the land. Furthermore - and it has taken a long time for me to build up to this point - every dollar of new capital that goes into carrying out such a soundly conceived balanced farming plan will repay the investor or lender in short order through increased yields and lower production costs. The farmer or land owner or mortgage lender will have a better farm 5 or 10 or 20 years from now than he has today to operate or to secure his loan, an assurance altogether lacking in American agriculture as a whole right up to now.

I could give you from the records thousands of illustrations ranging from single cases to surveys that cover thousands of farms, to show that farmers who do the best job of maintaining their soils make the best incomes. It will save time if you will accept that as true, and will permit me to get on with the story of some cases we have studied in the Eighth Federal Reserve district which will, I hope, bring the problem down to dimensions where we can grasp it.

We have studied a number of individual farms which had completed soundly planned land use and farm improvement programs and on which a long series of good records of costs and production are available. We wanted to determine what it costs to convert a farm in a given area from an exploitive to a balanced system of farming. We found out what the differences were in cash returns from a balanced land use program as against the old wasteful system, and identified the amount of income that could be traced directly to expenditures for soil conservation and soil improvement practices. It has been intensely interesting. I think it is significant that in all the analyses of individual farms we have completed we have not found a single instance in which the investments made for soil conservation, soil building, and related farm improvement practices were not highly profitable. I could best illustrate these variations by giving you dollar and cents figures on the individual farms, but the time is too short. Recently we have talked this over with the country bankers and farmers in 27 meetings, and we used typical case farms from the different communities to prove how well the right care of the land pays.

To save time, let me consolidate the figures from ten of those farms scattered throughout the Eighth Federal Reserve district on which we have analyzed the records of similar farm improvement programs on a before-after and through-the-middle basis. These ten farms include a total of 2,225 acres of land with an average normal appraised value of \$47.64 per acre at the time the improvement programs were started. The time involved in the improvement programs has ranged from 5 to 10 years and for the ten farms averaged eight years. The average farm of those analyzed would be a $225\frac{1}{2}$ acre farm with a normal appraised value of \$10,744 at the time the improvement program was started. On the average, an addition of new capital in the amount of \$6,603 per farm was required to complete the improvement program in an eight-year period. However, this investment of new capital resulted in vastly increased yields. In order to have a fair basis of comparison we used 15-year pre-war

corn 73¢, oats 40¢, wheat 96¢, alfalfa hay \$12.50, and pasture \$1.50 per mature cow per month. During the eight years during which the soil-improvement program was being carried out, the production from these farms was increasing. The increased yield over what the farms had produced before the programs were started amounted on the average for the ten farms, at the low average prices I mentioned, to \$14,568 compared with the investment per farm of \$6,603 for the improvement program - or \$2.20 for each dollar invested over the 8-year period.

The average yearly income from these farms following the completion of the improvement program was increased by \$2,391 with an annual maintenance cost of \$568 which left a net increase in income of \$1,825 per year.

My presentation of these figures has been incomplete, but I think they give you the high spots of the story of the cash cost and the cash returns from conservation farming. I have long been convinced of the moral responsibility we have towards sound land use, but these studies and a pile of other evidence prove to me that, morals or ethics aside, from a cold business standpoint, the man who controls a farm cannot afford not to start now on a complete and integrated program of building up his land.

I am convinced that a well-planned soil improvement program carried out under the right kind of supervision is a sufficiently profitable venture to justify the extension of credit for its completion. Farm improvement plans can be developed and financed on a basis that will enable the farmer to repay the borrowed money from income earned directly by the improvement investments. It requires a little different type of loan than the conventional real estate loan or the crop production loan with which we have long been familiar. Lending money for farm improvement programs requires a careful analysis of the individual farm and a flexible extension of credit wherein money can be advanced in varying amounts on farm real estate mortgage security over a period of years.

The repayment program needs to be geared to the income pattern of the farm, varied in amount repaid from year to year as income from the improvement investments develops. I know of no other type of farm mortgage credit that is so obviously self-liquidating as a loan for soil improvement. In the cases we have figured from a credit standpoint we did not count A.A.A. conservation payments in as income available to help repay the investment or retire the loan. If we had, the repayment schedule would have been greatly shortened.

Every man must look out on the world from where he stands, so I have told you this little story about the Eighth district, though it is not different from many that others may tell. Multiply the single farm by hundreds for the community, tens of thousands for the state, and millions for the nation, and what do we get? Vastly increased returns, reduced costs of production, and larger profits even at the lower price levels we shall one day see. In the aggregate, a land that is at long last adjusting itself to eternal fruitfulness.

We are dealing here with a subject as broad and as deep as human life itself. It is impossible for me even to touch on all its facets in one compressed treatment. Scarcely a word has been said on the highly important subject of timber. In our part of the country men no longer say reforestation and tree cropping is not a field for private investment. Individuals and corporations are demonstrating that high yield and safety both can be found in intelligently managed pine and hard wood timber lands. Nothing has been said about the fundamental importance of this program of land and water management to wild life, fish and game.

I could talk to you all night about the amazing opportunities all around us to build safer and more profitable farms on the ruins of the old ones simply by using the land right. Balanced farming and soil conservation are not only right morally - they pay big dividends in dollars and cents.

We can use a lot of the capital and the labor we have in every community to put complete soil-and-water-use programs in effect on individual farms. We have the capital, the tools, the "know how", the minerals, and the seeds and plants with which to work a farming revolution here. The only thing that stands in the way is human inertia - human behavior again.

Now in conclusion: Along with some of you, I've gone the full cycle from the last war to this watching the evolution of farm policy aimed to provide remedies for farm problems as they unfolded. I am not afraid of the new or the untried, or of government action. But I know there is no magic. There is no substitute for efficient production, which can be secured by the intelligent use of plenty of capital per man in the form of land, tools, buildings, lime and fertilizers, and livestock. Nothing can take the place of good management of our soil and water resources.

It will be better to seek high returns per worker through large-volume, low-cost production, than to try to get the same high return by means of high prices for scarce, limited production. But the rest of the economy must play the game under the same set of rules. The recent coal strike gave grim warning that some of the rules of today must be revised and speedily if we are to avoid national paralysis and disaster.

There is a way to lick these problems here at home, and that is to have genuine teamwork of labor and industry and agriculture rooted firm in the understanding that the common good must have priority over the special interest of any one group. We give lip service to that principle, but we let it end there. We are either going to practice that kind of teamwork, or we are going to have trouble - plenty of it. If each major group insists on going down its own road, with no real meeting of minds on national policy, we will court national disaster. Bankers as individuals wield powerful influence in their communities. They are powerful in their group and state and national associations. They are in position to help shape policy in both of the fields

I have discussed tonight.

We must have genuine recognition of the principle that we can't prosper by "gouging" each other - we just can't gouge our way to prosperity. We may think we have progressed far from "the public be damned" attitude of the early Vanderbilt, but each day gives evidence that we have not. Genuine teamwork based on the realization that we have to produce something before we can divide it up, could yield us a gigantic national product to share. Let's go ahead and produce it.

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