AGRICULTURAL PRICES; THEIR EFFECT ON ARKANSAS

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The outlook for agriculture - both in the immediate future and in the long run - is one of the key questions for all of us in this part of the country. We live here in the great farm section of the Midwest and Middle South from which come food, feed and fiber for the nation and the world.

I am telling you nothing new when I state that Arkansas is predominantly an agricultural state. You have made great strides in providing a better balanced economy in the state - especially in the past few years - and I know that the record of industrialization and of gains on the nonagricultural side of the economy fills you with pride. I am sure that you will go forward on these programs to increase and diversify your industry.

But still Arkansas is a great farming region and what happens to agriculture is of vital concern to all of you in the state. Even after the great population movement from farm to city that has taken place in the 1940's, almost half of your 2 million people continue to live on farms. It is estimated that 250,000 Arkansans, 43 per cent of your total working force, work on farms - owners, tenants or farm workers. Of the total income originating in this state about one-fourth comes directly from agriculture.

This evening I have been asked to discuss the agricultural outlook with particular reference to prices. I want to consider this question from two points of view - the immediate or short run outlook and the longer run future. I'll get fairly specific about the short run but for the long run I'll have to talk more generally.

And before I even consider prices I want to talk for a bit about two other important factors that help shape agricultural prosperity or lack of prosperity - production and costs.

Crop production in 1949 currently is estimated at about 30 per cent above the 1923-32 average, a predrouth decade convenient for agricultural comparisons. The 1949 total output of crops, if realized according to the estimate, will be second only to the bumper crops of 1948.

Farm production throughout the war and postwar periods has run consistently higher than in the 1920's and 1930's. This has resulted not only because farmers have worked hard and because of high demand for agricultural production, but because of a combination of factors that came about in the period between World War I and World War II.

Two or three years ago, Sherman Johnson of the U. S. Department of Agriculture wrote a very interesting study which pointed out that the striking gains in output of American farms were the product of forces which had been operating throughout the 1920's and 1930's to build up the capacity of the agricultural plant of the United States. He noted that the effects of these forces were obscured by the severe drouths of the early and mid-1930's and by the great depression of that period, but that great potential productive capacity was being built up and consequently could be used to bring forth tremendous output during and since the war.

The major factors in this increased capacity of American agriculture were progress in mechanization, changes in land use, conservation and rotation practices, increased use of lime and fertilizer, improved varieties of crops, a better balanced livestock and livestock feeding program, and more effective control of insects and disease. Favorable weather in the 1940's also was a factor in the gains, of course, but probably did not account for more than one-fourth of the total increase; the other factors accounting for three-fourths of the gain.

I want you to note this also, that acreage showed very little increase during the entire period. The trend in acreage was down in the early 1920's, up slightly from 1925 to 1932 and down again for the next decade. In 1944, for example, total crop land used for crops was about 2 per cent less than in the peak period 1928-32 and but 3 per cent more than in the immediate five prewar years 1935-39. But the growth of general conservation practices and changes in the use of crop land, together with the rise of mechanized farming, increased use of lime and fertilizer, improved crop varieties and modern disease and pest control methods led to the great growth in output.

In other words, during the interwar period we simply farmed better. I am certain that not everyone farmed as well as he knew how to farm, but there were enough farmers who took advantage of the newer techniques to increase crop production by roughly one-third over the prewar period.

These factors are still in operation and should continue to build up our capacity to produce. Mechanization undoubtedly will increase in the future. I hope that better balanced farming practices, more efficient use of our soils, further increase in better crop varieties and so on will continue to exercise a favorable influence on production. What this means, then, is that farm production in total will not go back to the prewar period level, but will continue to run well above it. And with the forces tending toward greater capacity it may well be that our farm production 20 years from now could be at least half again as great as in the pre-World War II period.

There will, of course, be years in which weather is not so favorable, but by and large over the long pull crop production should stay high. I have already mentioned that 1949 output will be second only to 1948. Even with acreage controls in prospect for 1950, assuming favorable weather, output next year should not be very much below 1949.

Now I want to note one other factor with respect to production. I have already called some attention to it - the shifts in type of output. Nowhere have these shifts been more marked than in this Middle South area. From 1930 on this region has made a very striking shift in acreage away from the South's great crop, cotton, into more legumes and grains and into pasture upon which a growing livestock industry is based. And yet we are raising about as much cotton as ever. More intelligent use of the land that is at our disposal has enabled us to produce profitable crops or conduct profitable livestock operations without curtailing in any very great degree the basic crops upon which the South has been dependent for some time.

In the Middle South section of this Eighth Federal Reserve District, which includes all of Arkansas, western Kentucky and Tennessee and northern Mississippi, the five major crops in terms of acreage are cotton, corn, soybeans, oats and hay. In 1945 cotton acreage was not much more than half of what it was in 1930; corn acreage was about the same; hay acreage had doubled, soybean acreage had multiplied six-fold; and oats acreage had increased percentagewise by a tremendous figure - in 1945 oats acreage in the Middle South area of the district was about 150 times as great as it was in 1930.

Part of the shift reflected itself in an increase in the livestock industry of the region. For the area, in 1945 there were 77 per cent more cattle on farms than in 1930, with most of the gain in beef cattle, although milk production also showed some increase. Hog numbers were 60 per cent larger than 15 years earlier and the number of chickens produced was about half again as much as in 1930.

Well then, what can we say about production in summary? First, total output will remain much higher than before the war. Second, the greater diversification in this region adds strength to the stability of the farm

income picture. Third, the basic problem over the long pull is not how to get production but how to find satisfactory markets for what we produce.

Now let us consider for a moment the production cost picture. All of you know that the costs of producing on the farm have risen sharply, and have continued to rise in the last two or three years when farm prices were leveling off and then falling. The parity ratio, that is the ratio of prices received by farmers divided by prices paid by farmers, including interest and taxes, hit its high at 133 back in October, 1946. Despite the fact that farm prices rose after that time, farm costs increased faster and the parity ratio shrank. With the decline since January, 1948 in the prices of goods farmers produce and sell, the ratio has been squeezed even further, for costs have gone off very little from the peak.

Let me put that in terms of figures for illustration. In January, 1948 the index (1910-14 = 100) of prices received by farmers was 307. At mid-July this year it was 249, off about 20 per cent from the peak. At the high point in the middle of 1948 the index of prices paid by farmers on the same base was 251. In July this year it was just 244, off only 3 per cent. As a result, the parity ratio at mid-July had fallen to 102.

This means, of course, that farmers' profit margins have been squeezed in the last two or three years. Nevertheless they still remain good by almost any standard except that of the last two or three years. For example, the parity ratio from 1920 through 1940 averaged only 81, and even in the five years from 1940 to 1944 it averaged just 103.

Over the near term, that is through 1949 and 1950, I expect to see a further decline in prices of farm products. I also expect to see additional decline in farm costs, but the decrease in costs probably will not be as great as the decrease in prices. In other words, profit margins will be squeezed

further. I expect the parity ratio to drop below 100. This will mean that it will be more difficult for farmers to make a profit than it has been during almost any time in the war or postwar years. The efficient farmer should continue to make money but it will be a tougher job and he will have to be more careful about his costs.

Still I want to stress again the fact that profits can be made and that compared with the interwar period profit margins should be favorable. In other words, agriculture will not be as well off as it was in the immediate past years but should be better off than at almost any time from 1920 through 1940.

Now I have already given you my general opinion as to the farm price picture in the discussion on costs. Let me give you a little historical perspective here, however. Many of you will recall that, after the tremendous up-surge in farm prices in World War I and following, they fell sharply in 1920-21, leading the entire decline in prices of all types of commodities, and that they fell faster and further than other prices. They also failed to recover as much as other prices until World War II. The net result of this, of course, was two decades of depression for farmers, which for thousands of them meant personal financial disaster.

This sharp type of reaction is not in the cards for the future. We had no price support program in the 1920's. We have one now, perhaps I should say we have several, but at any rate there is and in the foreseeable future there is likely to be some kind of farm price supports. Farm prices already have dropped 20 per cent from their peak. While they will go down further, I see no reason to fear in the immediate future anything like the debacle of the early 1920's.

I want to introduce a word or two of caution here. I have been in agriculture all my life and I am not exactly a spring chicken. As I look out at the world picture and the longer-range farm situation I see many signs which remind me of the 'twenties and the 'thirties. I catch myself saying "I've seen that; here's where we came in". In the 'twenties we faced real troubles with our major commodities when the United States stopped lending abroad to finance our exports and when our foreign customers ran out of dollars. Those adjustments are still ahead of us and they will be particularly severe in the wheat and cotton areas. They will face us as soon as we quit sending our own checks along to pay for our export cargoes.

Government price supports and high level government loans can help cushion but they cannot avert the shock. We are living in a fool's paradise if we think otherwise. A system of rigid, legislated price supports extended indefinitely into the future and at levels higher than the over-all supply-demand situation will support, will have extremely undesirable consequences, including a great deal of harm to farmers themselves. If time permitted I could give you play-by-play accounts drawn from experience to back up this statement.

There is no magic by which billion bushel wheat crops can be marketed profitably, or by which cotton can avoid eventual adjustment to the competition of synthetic fibers and foreign growths. There is a place, particularly through the transition period from which we have by no means emerged, for reasonable price supports, free from legislated requirements that prevent intelligent administration. But we cannot expect to ride them painlessly over the rough roads that will have to be traveled in the 'fifties.

Please do not misunderstand me. I think all of us recognize that farming problems differ from industrial problems; that because of the very

nature of the farming process it is vital to protect the farmer in some degree from the sharp swings in demand for his products, especially when agriculture generally tends to produce at full capacity in good times and bad. Industry adjusts to changes in demand by curtailing supply. Agriculture has adjusted by sharp price swings, which have meant ruin for many farmers and closed markets to the products of our factories.

The economy as a whole is hurt by recurrent and severe swings in agricultural income. Consequently what can be done - and workably - to iron out the marketing and distribution problems for agriculture is a desirable step toward greater economic stability. But it seems to me that there is a vital difference between attempting to modify the agricultural economic swings and in attempting by legislative legerdemain to hold farm prices at levels higher than can be sustained and still in the long run sell the product. I feel and feel strongly that we need more realism in the farm programs currently being considered by the Congress. We definitely need adequate supports for agriculture. But artificially high fixed supports, as I see them, are merely temporary stopgaps which lead in the all-too-short run future to severe problems of tight acreage control or almost impossible-to-manage farm surpluses. It does no good to lull a farmer to sleep in 1950 if in so doing you insure that he will have something worse than a headache when he wakes up in 1952 or 1953 or 1954. And a program that is designed to hold farm prices higher than they can be held under a reasonable stabilizing price support program almost inevitably will lead either to sharp curtailment of production or unmanageable surpluses and eventual price collapse.

There is not time for me this evening to discuss in any technical detail the various plans that are being considered by Congress. I can say just this. In general I favor a flexible farm support program rather than one which

legislates rigidities into the farm price structure. I hope that the Congress will eventually come up with - or should I say return to - such a flexible program.

And there's one more very important consideration. Over the long pull agriculture in this nation cannot be prosperous unless the rest of the economy prospers. We have to make our whole economy tick before we can insure good times for the farmer, and all of the laws that are written will not insure farm prosperity if the economy is not prosperous.

Well, let's come back to the main point of discussion this evening. I want to summarize for you what I have tried to say while wandering back and forth and around the barn. Over the near term through 1950, I expect production to hold up, costs to go off less than prices, and both gross and net farm income to decline. For 1949 it seems very likely that net farm income will be 15 per cent below 1948 with farm prices averaging about 10 per cent less than in 1948 and farm costs averaging about 5 per cent less. 1950 should see a somewhat further drop, both in gross and net farm income, depending, of course, upon what happens to production and to general economic conditions. Thus, farm income, both net and gross, in 1949 and 1950 will not be favorable when you compare it with 1947 or 1948, but will be favorable by almost any other comparison.

As far as Arkansas is concerned, with its substantial dependence upon farm income, the state should do pretty well in 1949 and 1950. Like the nation, Arkansas will suffer some gross and net farm income drop, but also like the nation, farm income in this state should be favorable by almost any standards except those of the last two years. The efficient Arkansas farmer will make money over the next two years.

For the long run future there are a number of problems that we have to solve. The production problem seems to be the simplest one We can produce well on American farms; we grow more efficient each year. Increased mechanization, growth in strength of the other factors leading to greater production should insure capacity to produce. As we farm more efficiently, we should be able to cut costs. We need to continue with our soil conservation work and with our attempts to further diversify so as to avoid the shocks attendant upon dependence on one crop. These things I think we can accomplish. But beyond that we need to do some good hard and clear thinking with respect to price or income support programs. We can't solve these problems by hopes or guess work or refusal to see them. Temporary postponements are no solution.

I conclude with the observation that, if the non-agricultural industries of the nation keep out of trouble, and hold to high levels of production and employment, Arkansas agriculture will get along well in the years ahead. This state will then continue to broaden the basis for its farm wealth - more grass and pastures, more livestock and milk and poultry, more specialty crops. Fewer workers will be used in cotton production as mechanization spreads, but they will earn more, even at lower prices, than their predecessors did. We should be able to grow cotton as efficiently as anyone can. Arkansas agriculture and Arkansas economy will grow and prosper if the rest of the economy will only behave itself.