

ECONOMIC ADJUSTMENTS FACING SOUTHERN AGRICULTURE

Speech by Darryl R. Francis
to the
1970 Southern Farm Forum
Memphis, Tennessee
February 20, 1970

The title of this discussion appeals to me for several reasons. First, it provides an opportunity to discuss agriculture, still a very important sector of the economy. Second, it is sufficiently broad for a discussion of agriculture's relationships with other sectors of the economy. Third, the title indicates that southern agriculture is facing some adjustments. I concur with this assumption and will present to you some of my ideas on how the adjustments can be made with a minimum of hardship and friction.

Farm Adjustments in the South

Farming in the South continues to make major adjustments in response to market forces. I shall not go into great detail as to how such adjustments have been made since this is a familiar story to participants in this forum. A brief review, however, is in order. Whereas not so many years ago the South Central states were primarily a single cash crop area, more than half the value of products marketed

in these eight states in 1968 represented receipts from livestock products. ^{1/} It requires only a short tour over the highways to see the dramatic nature of this change. Rolling areas that were once barren from soil erosion have been developed into productive pastures for livestock or into timberlands for future harvests of lumber and pulp. Meat animals alone accounted for 32 per cent of all farm products sold in the eight South Central states in 1968, in contrast to only 22 per cent of such sales fifteen years ago. Cotton, which was once king of all cash farm products and accounted for one-third of all farm product sales as late as 1955, had dropped to 11 per cent of total sales in 1968. Soybeans and rice are rapidly moving up to challenge cotton's first place position among crops.

These changes within agriculture, however, are not as important as the adjustments between agriculture and the nonfarm sector of the economy. While agriculture is a growing industry, there is a limit to the demand for farm workers and farm operators. Research and new technology have made possible major gains in the production of farm commodities per person. These farm production gains have been forthcoming faster than growth in demand for farm

^{1/} Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, and Texas.

products, thereby reducing the amount of labor required for farming purposes.

Agricultural Growth Limited

Most measures of agricultural growth point to a relatively slow rate of gain in the industry. Calculation of growth based on the concept of value added indicates that the farm sector of the United States economy has grown about 2 per cent per year since the mid-1950's despite a sizable increase in the general price level.^{2/} The value of purchased farm inputs has increased at almost double the rate of value added at the farm and the final sale of food and fiber products made from materials produced on farms increased 5 per cent per year or about 2 1/2 times the rate of gain in the farm contribution to Gross National Product. These data indicate that American consumers are willing to spend increasing amounts on processing and servicing farm products, but at current price relationships they do not choose to greatly increase their purchases of unprocessed farm commodities. In view of the rapid gains in disposable personal income (in excess of 6 per cent per year in current dollars) the American people could have made greater expenditures on farm products had

2/ Clifton B. Luttrell, "Agribusiness - A Growth Analysis" Business and Government Review, University of Missouri, November-December 1969, p. 38.

hunger been generally prevalent. Maximum satisfaction, however, was achieved at the lower rate of spending on products at the farm level. Foreign trade restrictions have prevented a major buildup in export demand for farm products. Most other nations have trade barriers similar to our own which serve to protect their farmers from the competition of producers in other nations. While these barriers continue we must look largely to our own population growth for gains in the use of our farm products.

Labor Moved to Faster Growing Nonfarm Sector

Another way of looking at the growth rate of agriculture is to observe employment trends. Overall employment in agriculture in the United States declined from 6.4 million workers in 1955 to 3.7 million in 1969, a decline of 4 per cent per year. The decline was even faster in the South. Here the number of farm workers dropped 5 per cent per year. Despite this high rate of decline, farm workers in the southern states are still a larger portion of the work force than in the rest of the nation. Farm workers in the nation totaled less than 5 per cent of all workers last year. In 1955 farm workers totaled more than 10 per cent of the nation's work force, and in the early Forties about 25 per cent of all workers. Farm workers in the South totaled

about 9 per cent of all workers last year, about 20 per cent in 1955 and about 35 per cent in the early 1940's.

Farm Welfare Hinges on Labor Adjustments

Looking into the future I do not see anything which would indicate a great increase in the growth rate in dollar output for American agriculture assuming stable average prices for all goods and services are maintained. A reduction in expenditures for farm research would perhaps reduce growth of farm technology and in turn the rate of gain in farm output. Through this route of retarding farm production efficiency we could increase agriculture's share of national income, but the process would tend to reduce welfare per capita for all sectors of the economy. Rather than a reduction of research and professional training, I think that our welfare would generally be enhanced with more training, especially of the lower income segments of the labor force.

Furthermore, it is my belief that this decline in the relative importance of agriculture has enhanced the welfare of both the South and the nation. It has been a desirable adjustment for both the farm and the nonfarm sectors of the economy. Evidence of the favorable impact of labor adjustments between the farm and nonfarm sectors is nowhere better represented than here in the mid-south. During the past

decade Arkansas and Mississippi have had the greatest movement of workers out of agriculture of all the states included in the Central Mississippi Valley analysis published by the Federal Reserve Bank of St. Louis. These two states have likewise had the highest rate of growth in per capita personal income and in net income per farm worker in the area. Per capita personal income in Arkansas and Mississippi rose at the annual rates of 5.7 and 5.4 per cent respectively. In comparison, average per capita personal income for the entire United States rose only 4.3 per cent per year.

The major force in this rapid gain in both farm and nonfarm income in the South has been the ability and willingness of farm workers to move to new occupations where demand for labor and other resources are greater than in the farm sector. The demand for farm products in the United States since the end of World War II has been relatively inelastic with respect to national income, that is, national income changes during this period have not had a significant impact on demand for food and fiber. The overall demand for farm products in high income nations such as ours rises primarily as a result of nonfarm population gains, rather than through major gains in per capita food or fiber consumption. Since population in the United States has grown only about

one per cent per year in recent years, this source alone does not provide a sufficient increase in demand for farm products to offset technological advances in production.

Stable Growth Rate in Nonfarm Sector
Best for Farm Labor Adjustments

If demand for farm products is relatively inelastic to changes in national income, one might ask the question - why should the farm sector be interested in general economic conditions and particularly stabilization policies? Such policies are not likely to have an early impact on total farm income. The important factor to individual farmers, however, is not the total returns to agriculture, but rather the returns per farm and per farm worker. Unless we have a growing economy, the lower income groups in agriculture cannot obtain jobs in the nonfarm sector, and their output from farms will continue to have a depressing effect on total farm income and income per farm. On the other hand, if a stable growth rate at relatively full employment is achieved in the nonfarm sector, marginal farmers and farm workers will be bid away from the farm sector and the remaining farmers as well as those who move will benefit. Although farm output will tend to be less, total farm income will be higher, and fewer farmers will share in the larger total. Incomes will be higher per farm and per farm worker. It is thus highly

important that many farm people make the transition from the farm to the nonfarm sector of the economy as easily as possible.

The contribution that public stabilization actions can make to agriculture is to provide the economy with a stable demand trend for goods and services in general. If this is done and the gate is left open for farm labor to move freely into nonfarm occupations, agriculture can expect to benefit equally with other sectors in generally higher incomes resulting from efficiency gains in all sectors.

Inflation No Windfall to Farmers

The fact that a growing economy and relatively high level of employment are beneficial to the farm sector does not mean that agriculture benefits from inflationary policies. Statistical analysis indicates that the first substantial impact on farmers from excess demand created by overly expansive monetary policies is on farm production costs.

As general inflation proceeds, prices that farmers pay for labor, other farm input items, and living costs tend to rise ahead of prices received for farm products. In other words, during the early stages of a peacetime inflation, total farm expenses tend to rise faster than farm incomes. For example, from 1965 to 1968 total farm expenses rose at an

annual rate of 5 1/2 per cent, while realized gross farm income rose only 4 per cent per year. Realized net farm income declined slightly in the first three years of the inflation and began to rise only in 1969. It is true that the movement of labor out of agriculture was hastened as a result of the great demand for workers by other sectors, but much of the early gains to the remaining farmers from this adjustment was offset by rapid price increases for family living and farm production items.

I recognize that an individual farmer who purchases a farm and acquires a mortgage at low interest rates just prior to an inflation, like any other similar debtor, is the recipient of a windfall. On the other hand, if he purchases at high interest rates just before stabilization is achieved, the deal can be an excessive burden for a long period. Windfalls to some farmers as a result of poor monetary actions are thus likely to be offset by excessive burdens to other farmers.

Government Programs Not Conducive to Farm Labor Adjustments

In my view most Government crop control and price support programs have a favorable impact on farm incomes only in the short-run. They tend to close the gate to resource adjustments by retaining an excess of workers on

farms. In this manner they tend to slow the necessary adjustments that are beneficial to efficient farm producers.

In the long-run these programs, which tend to maintain prices at higher levels than are warranted by supply and demand conditions, are self-defeating. As indicated earlier, they tend to keep an excess of producers on farms to share in total farm incomes. Income per farmer or per farm worker is not likely to benefit from the larger total income achieved in this manner. I am convinced that the farm sector would have been better off today if we had not had a price support or production control program following the Second World War. These programs have denied both farmer and nonfarmer the gains from the larger nonfarm work force that would have resulted from the movement of additional workers into nonfarm jobs.

I do not deny that some Government programs, if properly designed, can play a role in improving welfare in agriculture. However, the role played should be in the direction of a long-run solution to the problem, rather than stop-gap measures which impede the real solution. Long-run programs should aid the ultimate welfare of agriculture and ease the hardships of occupational shifts rather than retard the move from agriculture to other occupations. They would

involve intensive training of farm youth for nonfarm jobs. To the extent that direct agricultural payments are deemed necessary, they could be used to facilitate movement of farm workers to nonfarm jobs.

Such a program of labor adjustment together with appropriate general stabilization policies would do most for the welfare of agriculture. I am reasonably sure that with appropriate national monetary and fiscal policies we can avoid major swings in the economy. I also believe that we can maintain a reasonably stable growth rate and that the nonfarm sector can henceforth absorb a sufficient number of farm workers to assure profitable farming opportunities for the remaining producers. The job of absorbing this excess is now easier than it once was, since the number of farm workers is now only a small portion of total employment.

If welfare in agriculture depends largely on ease of making adjustments between the farm and nonfarm sector of the economy and maintenance of appropriate national stabilization actions, one might ask - what are the appropriate stabilization actions? And what is the likelihood that they will be forthcoming?

In reply to these questions, I believe that the economy is inherently stable in the absence of destabilizing actions

by the fiscal and monetary authorities or such unusual events as wars or major strikes. Research at the Federal Reserve Bank of St. Louis indicates that most of the cyclical change in aggregate spending since 1953 can be traced to either fiscal or monetary actions, with the latter being more powerful than fiscal actions. We can trace the major contraction of the late 1920's, and early 1930's, the major inflation during and after World War II, and even the current inflation to sizable deviations in the growth rate of the money stock. I believe that public officials and, more importantly the public at large, have begun to recognize the need for maintaining greater constancy in the rate of monetary growth. I believe that the most appropriate fiscal policy is to maintain a tax rate under conditions of high employment sufficient to cover all expenditures plus some surplus for debt reduction. Once monetary and fiscal policies have been attuned to this need I believe that a reasonable degree of economic stability is within our grasp. I have little confidence in our ability to achieve so-called "fine tuning." Perhaps we should be content with minor swings in economic activity and concentrate on avoiding government actions which cause major recessions and inflations.

Conclusion

In conclusion, the major adjustments which have already occurred in agriculture and between agriculture and the rest of the economy have contributed to the welfare of all people in the South. Both per capita farm income and per capita personal income have grown at higher than national average rates. Much of this growth can be attributed to the willingness and ability of workers to change occupations and move to new locations where higher paying jobs are available.

Most government programs tend to blunt farm adjustments, even under ideal monetary conditions. In addition to their undesirable economic effects, these programs impinge on individual freedom. I fully concur with President Nixon's comment in his economic report to Congress. He said "Personal freedom will be increased when there is more economy in Government and less Government in the economy." I would like to see Government programs in agriculture tailored toward solving farm problems, rather than retarding their solution.

The labor adjustment process proceeds best when the economy is growing at a relatively stable and sustainable rate. Neither inflations nor recessions are beneficial to the farm sector.

In my view a relatively stable growth rate in the stock of money is the best way to achieve economic growth without inflation. I believe that the major impact of the Federal Budget in the economy is through its influence on monetary actions. Attempts by the monetary authorities to limit rising interest costs have actually led to higher interest rates.

Actions designed to reduce interest rates led to increased bank reserves, a larger stock of money, and excessive total spending. These excesses coupled with rising price expectations caused further increases in interest rates.

A balanced Federal Budget or some surplus for debt reduction thus appears to be the most appropriate fiscal policy for a stable rate of economic growth and maximum farm welfare. If this can be achieved, I have great confidence that monetary authorities will take actions to maintain a sufficiently stable economy to avoid major recessions or inflations.