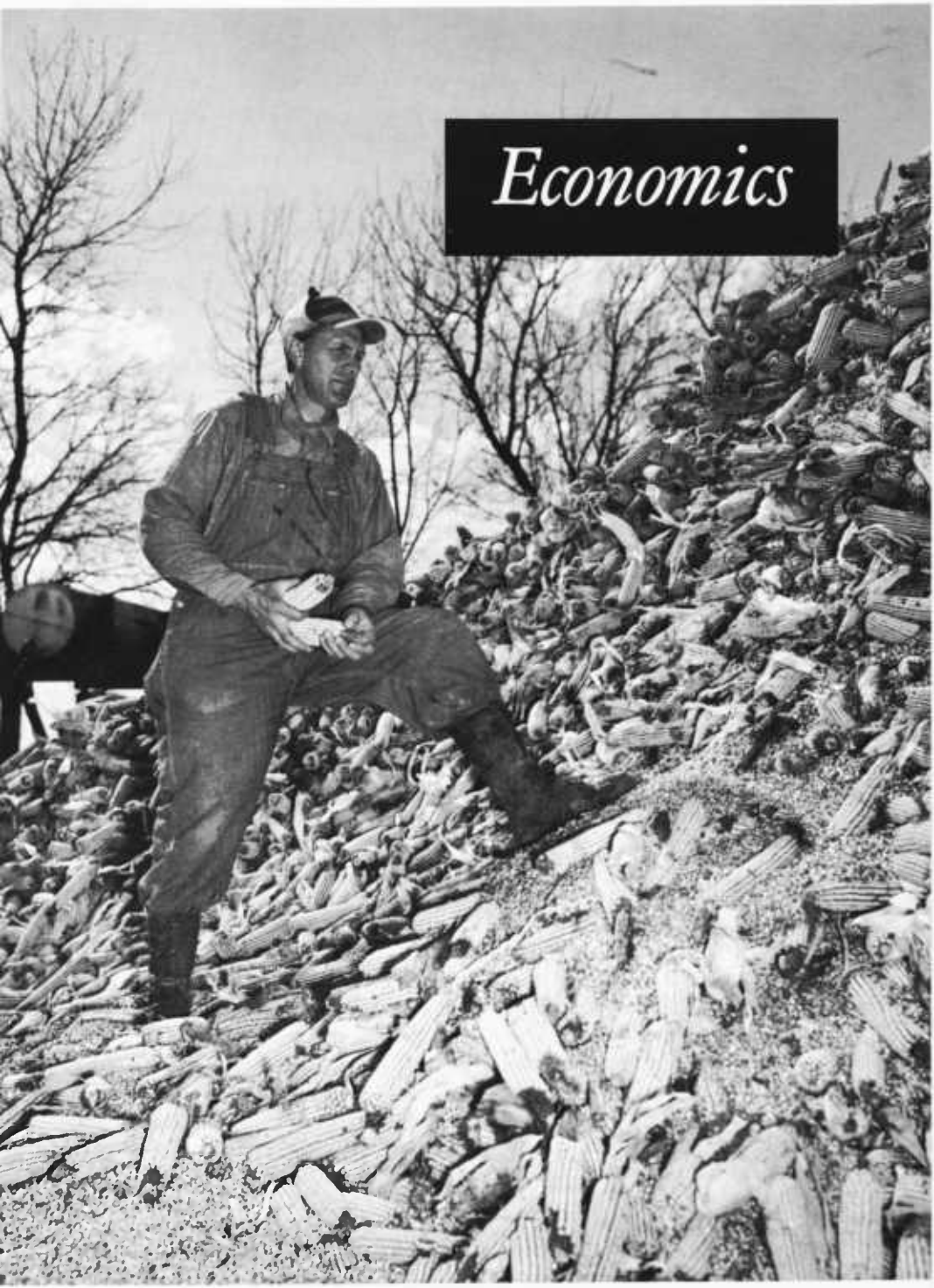


Economics

We Have Not Yet Learned

THE AVERAGE American farmworker in 1862 produced enough food and fiber to support fewer than five persons. That simple fact we should keep in mind when we consider how the productivity of American farms has increased since then to the point where the average agricultural worker can supply the needs of 26 persons and what that increase means. Only since 1920, the output per man-hour of farm labor has increased fourfold. The productivity of the American farmworker increased 6.5 percent a year after 1950; the output per man-hour in nonagricultural industry increased about 2 percent a year. Crop production was about 60 percent greater per acre and output per breeding animal was about 85 percent greater in 1961 than in 1919–1921. This success in agriculture has brought its reward—but the reward has gone to the American consumer and not to the American farmer.

The consumer in America works fewer hours to feed himself and his family than in any country and at any time in history. He can buy a balanced and varied diet for only about a fifth of his take-home pay. For comparison: In the United Kingdom, food accounts for about 31 percent of total expenditures for private consumption; in France, 32 percent; Austria, 36 percent; and Italy, 45 percent. The average American industrial worker was able in 1960 to buy much more food with his take-home wage than in 1947–1949—64 percent more pork, 32 percent more beef, 25 percent more milk, 5 percent more bread, 21 percent more potatoes, 62 percent more peas, and 100 percent more eggs. Retail costs of food have gone up, but they have gone up less than the prices of all goods and services the consumer buys. Retail food prices have risen about 17 percent in the period, but the cost of all items in the cost-of-living index has gone up more than 26 percent. The rise in food costs, however, is caused by an increase in marketing costs and extra services required by consumers. The basic cost of food—that is, the farm value of food—is 12 percent less than it was in 1947–1949. The farmer received only 39 cents of each dollar spent in 1960 for food; in 1945, he received 54 cents. The cotton farmer in 1960 received 27 cents for the cotton that went into a white shirt—not much more than a city man pays for having it laundered.

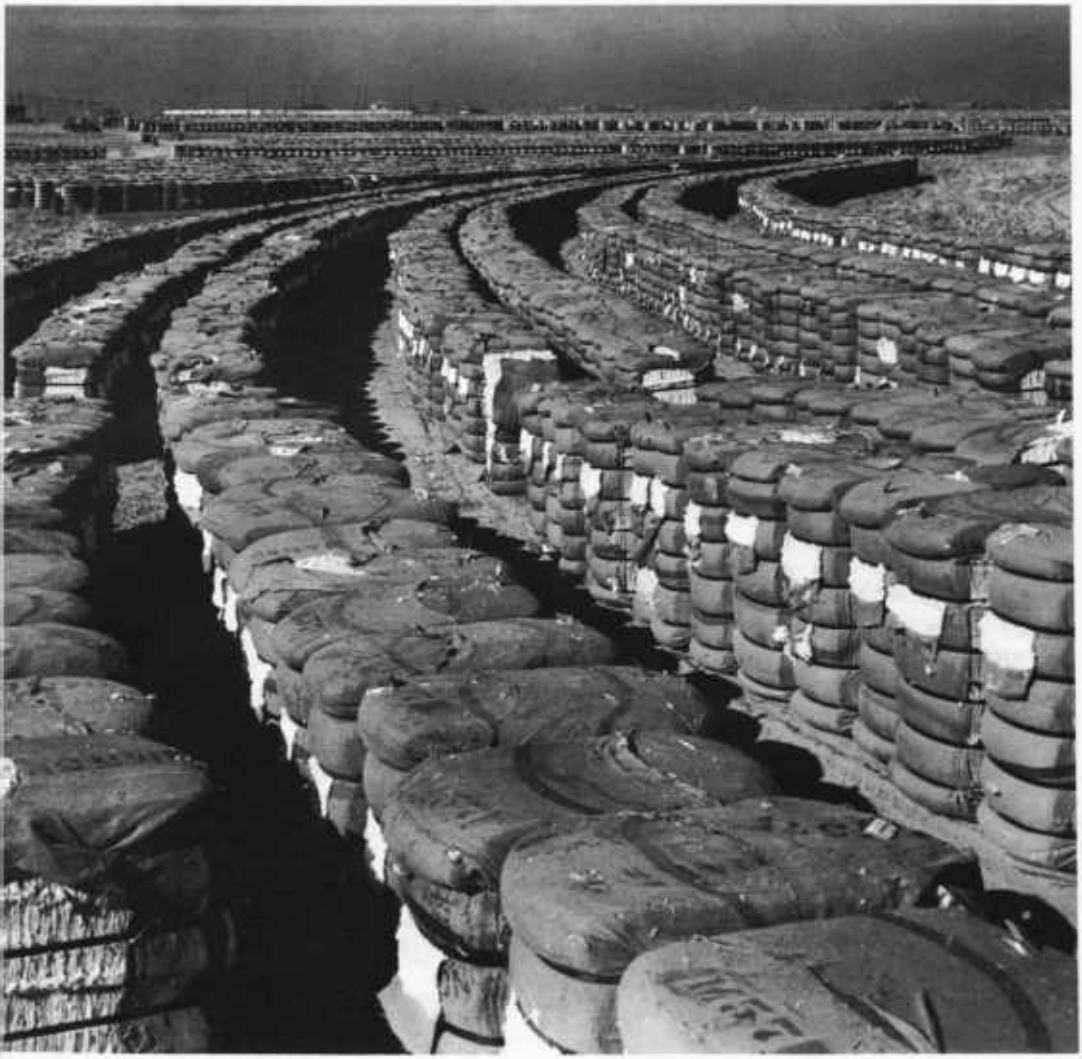
The decline in the prices farmers received for their produce and the increases in the prices they paid for machinery, fertilizer, and

The First World War stimulated mechanization. Tractors replaced horses, mules, and oxen. Food and fibers were grown on land that had been used to grow feed for animals. The use of improved varieties of crops, better practices, and more fertilization raised production in later years.

The world's need for food during the war period led to higher prices. Farmers went heavily into debt to get more land and machinery to grow the food. Then came the day of reckoning.

other production materials meant that farmers had less net income than nonfarm people in 1959. The per capita income of farm people was 965 dollars—about a third of which came from nonfarm sources. Nonfarm people received a per capita income of 2,216 dollars. Since 1950, the farm population's share of the national net income dropped from about 8 percent to about 4 percent—in other words, their share was cut in half. The decline in farm income has been almost steady and continuous during the fifties. The incomes of farm families were lower relative to the rest of the population

Should abundance be a problem?



in 1961 than at any time since the last days of the great depression. In view of the declining purchasing power of the dollar and the rise in the dollar income of the rest of the Nation, farm operators fell far short of the economic rewards their productivity and efficiency merited. Agriculture's success is the cause of agriculture's distress.

Increases in production and resulting decreases in price are an important part, but only a part, of the problem of agriculture. The farmer is at a disadvantage economically for three basic reasons: First, individual producers do not have it in their power to adjust production to current demand. American agriculture can produce more than can be marketed at prices that give farmers a fair return on their investment and labor. Second, farm costs have risen faster than farm prices—a cost-price squeeze that has put the farmer at an economic disadvantage. Third, wide underemployment exists in agriculture.

Industrial productivity has increased manyfold, but technological improvements and automation historically have not lead to unmanageable gluts of manufactured goods or demoralized prices. Industry can control output and thereby control prices received. Production of a manufactured item, such as a tractor, tends to be in the hands of a few large corporations, which can reduce production to the level of demand by reducing the amount of labor and raw materials they use. It is not feasible for farmers to reduce production when output exceeds demand. Millions of farmers, acting individually, cannot effectively influence the total output or the price of the products they sell. Actually, farmers tend to increase production when prices fall. They try to maintain their individual incomes by producing more units at the lower price per unit. This is because so many farm production costs are fixed and cannot be reduced when output is reduced. Mortgage payments fall due whether land is planted or lies fallow. Land is fixed absolutely and has few alternatives as to use, except when it lies close to cities. Buildings and machinery are also highly fixed. They have limited alternative use and are employed in farming as long as they will pay returns above their salvage value. The costs of labor cannot be reduced by limiting production—as they can in industry—since the farm family usually supplies the labor. The alternative is for members to find off-farm employment, but that is impossible in many sections for a variety of reasons. Farmers therefore continue to produce; production exceeds demand; agricultural prices continue to fall.

If a drop in agricultural prices caused demand to increase, there might be some relaxation of the downward pressures of excess production on agricultural prices. But the human stomach is relatively inelastic. American consumers are relatively well fed. They have changed their food habits, but individually they are eating no more

food today than they were in 1910. A little too much in the way of food supplies leads to dramatic declines in farm prices and hence to a farm income problem. A little too little in the way of food supplies leads to skyrocketing food prices—such as has been encountered in wartime—and to a real income squeeze on consumers. Because of the productivity of American agriculture, however, the "little too much" has been the more common occurrence. Population increases, programs to increase the consumption of food and fiber among the low-income groups, and programs that utilize food to assist in the development of underdeveloped countries all help to expand demand. Such increases in demand have not, and probably will not, be able to keep pace with the expansion of agricultural output.

The inelasticity of the human stomach and the increasing productivity of agriculture have meant that farm prices have trended downward. At the same time, prices paid for machinery, fertilizer, and other production materials purchased by the farmer have continued upward. This increase is the logical result of inflationary pressures in the economy. As incomes rise, consumers are willing to pay more for goods such as automobiles and appliances. Manufacturers of such "hard" items bid up the price of steel, petroleum, and capital. Manufacturers of goods the farmers buy consequently have to pay more for steel and capital, and so the prices of tractors, fertilizers, and other production materials rise. Seen on a graph, lines representing prices paid by farmers and prices received by farmers crossed in the early fifties. Since then the distance between them has tended to widen, with prices received by farmers falling well below prices paid. Even though the gross incomes of farmers rise, production expenses absorb more and more of this gross and leave smaller and smaller net incomes for farmers. This is the result of the cost-price squeeze.

Underemployment is a serious problem in agriculture. Many farmers reside on uneconomic units, which do not permit them to produce enough to earn a living wage. This is like a factory worker trying to live on a part-time job. In many cases, income from farming is supplemented by nonfarm employment. In other cases, a substandard existence is maintained. Department economists computed the unemployment represented by underemployment in agriculture. They concluded that if such underemployment were suddenly ended, 1.4 million workers would be added to the list of unemployed. The effect on the economy of such an increase in unemployment is a sobering thought. Surplus labor in agriculture has been responsible for a reduction in farm employment of about 45 percent since 1920, as farmworkers migrated to cities. It has also been responsible for uneconomic production.

A basic reason for underemployment in agriculture is the excess

Prices fell. Many mortgages on land and machines were foreclosed. Landless, homeless farmers were desperate. They did what they could; sometimes the sheriff had to come.

Action in the thirties by the Federal Government saved many farms from foreclosure. Thousands of farmers were given a start on new homes.

of births in the farm population over farming opportunities. The birth rate of rural America has been consistently higher than the urban birth rate. At the same time it has been increasingly difficult for a young man to begin farming on his own. Capital requirements in farming are rising, and an investment of 21,300 dollars for each farm employee was required in 1960—as against 15,900 dollars for each worker in the manufacturing industry. Few farm youths can obtain the capital needed to operate a farm. Established farmers have also moved out of farming as smaller farms have been absorbed into larger units. This has been the result of the tractor-power technology, which makes larger units more efficient and requires larger amounts of capital. The number of farms—which increased fantastically during the westward migration and reached a peak in 1935—has been steadily declining since the thirties, while the average size of the farm has increased. Although many farm youths and farm operators have entered nonfarm employment, many more lack the necessary education, skill, and experience. They remain on substandard farms and eke out a substandard existence. More jobs are needed, of course, since underemployment and unemployment are basically the same.

If a way can be found to adjust farm production to existing demand, assure farmers a fair return on their capital and labor, and reduce materially the agricultural pockets of poverty that characterize places of greatest underemployment, the farm problem will be

solved. Food would then be provided consumers at fair and stable prices, the potential for feeding a growing America would be preserved, and farmers would be provided with equality of opportunity with other Americans.

More is to be sought for than a recognition and an understanding of the farm problem. We need to realize the importance of agriculture to the economy. Agriculture is a creator of employment. Four out of every 10 jobs in private employment are related to agriculture. About 10 million people have jobs storing, transporting, processing, and merchandising agricultural products. Another 6 million provide supplies the farmers use. These workers, added to the approximately 7 million in farming, make up about a third of all employed workers. Those employed in farming alone, in 1959, exceeded those in either the steel or automobile industries. Investment in agriculture exceeds 200 billion dollars—three-fourths of the current assets of all corporations in the United States.

The farmer is a taxpayer. Farm real estate taxes in 1959 totaled 1.2 billion dollars. Personal property taxes paid by farmers totaled another 250 million dollars. Income taxes paid by farmers amounted to 1.25 billion dollars. License fees, permits, and taxes on motor fuels were 544 million dollars. Farmers also are consumers. They spend more than 25 billion dollars a year for the things they need to produce crops and livestock. They spend 15 billion dollars a year for the same things city people buy—food, clothing, drugs, furniture, appliances, and other goods and services. For tractors, motor vehicles, machinery and equipment, they spend about three times as much as the primary iron and steel industry spent in 1959 for equipment and new plants. The farmer buys enough rubber to put tires on nearly 6 million automobiles and enough electric power to supply the annual needs of Baltimore, Chicago, Boston, Detroit, Washington, and Houston. It may not be correct to say that depressed incomes of the farm segment of the economy lead to a general depression, but it is obvious that a decline in the purchasing power of the farmer materially affects the general economy. Apparent also is the threat to the city dweller of conditions which could drive nearly 1.5 million farmworkers into cities searching for jobs.

An understanding of agriculture's importance and its problems therefore is vital to all. We have moved from an age of scarcity to an era of abundance, but we have not yet learned how to live with abundance. Our political, economic, and social thinking must leave the economics of scarcity and move aggressively to cope with the problems of today. And time is running out. Conditions must be corrected soon, if America is to hold its position of world leadership and enjoy, during the next century, the economic growth and freedom that characterized the past 100 years. *(Kennard O. Stephens)*