

COMMITTEE FOR ECONOMIC DEVELOPMENT
RESEARCH STUDY

AGRICULTURE IN AN UNSTABLE
ECONOMY

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COMMITTEE FOR ECONOMIC DEVELOPMENT
RESEARCH STUDY

Agriculture in an Unstable Economy

BY

THEODORE W. SCHULTZ

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University of Chicago

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The Trustees of the Committee for Economic Development established the Research Committee "to initiate studies into the principles of business policy and of public policy which will foster the full contribution by industry and commerce in the postwar period to the attainment of high and secure standards of living for people in all walks of life through maximum employment and high productivity in the domestic economy." (From C.E.D. By-Laws.)

The studies are assigned by the Research Director to qualified scholars, drawn largely from leading universities. Under the by-laws "all research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group."

The reports present the findings of the authors, who have complete freedom to express their own conclusions. They do not purport to set forth the views of the Trustees, the Research Committee, the Research Advisory Board, the Research Staff, or the business men affiliated with the C.E.D. This report on the agricultural sector of our economy is the sixth in the series.

The Research Committee draws on these studies and other available information in formulating its recommendations as to national policy for the problems examined. Its policy statements are offered as an aid to clearer understanding of steps to be taken to reach and maintain a high level of productive employment and a steadily rising standard of living. The statements are available from the national or any local C.E.D. office.

FOREWORD

THE interdependence of the different parts of an industrial society is a commonplace of economic thinking. Like many basic and obvious truths, it tends to be ignored in the active economics of daily living. This study on the future of American agriculture confronts us sharply with the significance of this truth.

The farm sector represents one-fifth of our population. It is logical, therefore, that the C.E.D. research program, addressed as it is to the problems of attaining and maintaining high level production and employment, should include a study of agriculture. Nonetheless, it is noteworthy that the C.E.D., an organization of business men, should be giving serious attention to the problems of agriculture and particularly to the impact upon farming of policies and practices in the industrial sector of the economy.

Professor Schultz's study is an analysis of the essential conditions for a healthy, prosperous agriculture. As with so many of our special economic problems, the basic requirement for its rational solution lies in the solution to our key economic problem—high employment and progressively higher production. This book contains much of interest both for the lay reader and the professional economist.

The study is the sixth published in the C.E.D. research program. A list of the research projects, completed and in process, appears on page 276.

THEODORE O. YNTEMA
Research Director

PREFACE

EACH is prone to see agriculture according to his lot; only a few see it as a whole, and fewer still see it as an integral part of an interdependent economy. Not many outside agriculture see it as farmers do, since most people no longer have roots in the soil. This was once a nation of farmers—Washington, Jefferson, and nearly all of their countrymen. Today, our workshops are many, and urbanization has placed its mark upon us. Cities and towns and the occupations that go with them shape the horizon of most Americans.

Farming is fundamentally different from industrial work and business management. Neither business men nor industrial workers gain from their work the experience needed to understand agriculture, and therein lies a major political as well as social problem. |

Farm production as a whole is highly stable. Agriculture does not permit rapid changes in output up or down. Farmers do not close down their farms when a depression strikes; they continue to furnish food and other farm products to the nation. They are therefore not “unemployed”; but they do not escape the burden of a depression—as is apparent from the income instability and economic uncertainty that were major factors in “the farm problem” in the twenty years between the wars.

For the housewife too the economic and social conditions of agriculture are only remotely connected to the daily experiences of shopping for food or other products that originate on the farm.

Similarly, farm people—including those who represent or serve them—do not gain from their work within agriculture the knowledge or insight required to understand to what extent they have, for better or for worse, become dependent

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upon the exchange system and thus upon the performance of the industrial-urban sectors of the economy. Farm leaders, county agents, and workers in the Land-Grant Colleges alike have been so engrossed by the problems *within* agriculture, by the difficulties of a particular crop or a particular farm, that few of them have had time or have been disposed to look at the problems that have their origin in the interrelationships *between* agriculture and the rest of the economy.

This study is devoted to these *between* problems, to the functions of agriculture in the political economy and to the effects of nonfarm activities upon agriculture. Its main purpose is to lay the foundations for a national policy with regard to agriculture.

There are two bridges over which most of the economic traffic between farm and nonfarm people passes. One of these, if it had the capacity to clear the load it is expected to carry, should keep in comparative balance for the two sectors of the economy the utilization of resources and, consequently, their earnings. The other bridge has carried the traffic associated with business fluctuation and its attendant instability. Most of the farm problem during the interwar years arose from the way that traffic was handled on the nonfarm side of the two bridges. (In other words, the basic causes for the farm problem—the low earnings of most farm people and the great instability of income from farming—are not *within* agriculture but elsewhere in our economy.) In this study these causes and their consequences are examined in the hope that by so doing we may learn how to attain a better balance and greater stability.

The full picture of what needs to be done in our peacetime economy cannot be grasped without this knowledge of the relationship of agriculture to the rest of the economy. But it is not my intention to imply that the reader of this book will know all that needs to be known about American agriculture. The future of agriculture obviously takes in more than economic and political policy. There are other important

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unsolved difficulties affecting the farmer and the nation. Solving some of these will probably require the devising of new mechanisms, some political, some economic, and some social. (Ultimate solutions may have to wait on further scientific knowledge. Depletion and erosion of the soil is one such problem and of critical importance. Many of the difficulties regarding plants and animals arise as scientists try to move forward toward lower production costs and higher returns for farmers. Advances in farm technology do not come easily; costs in time and human effort are large, but, once achieved, the gains are like the strides of a Bunyan.)

Only the economic effects of these strides are examined here. However, it is plain that despite the obstacles this technical progress will go forward and that it is urgent that we improve our social and economic machinery if we are to profit by agricultural advances.

Within agriculture there are problems related to production, prices and income about which farmers by their own effort can do a good deal. The work of the U. S. Department of Agriculture and of the Land-Grant Colleges, when it is concerned about economy, focuses largely upon the farmer's productive efficiency. Is it cheaper to use tractors or horses? Would longer-staple cotton be more profitable? Should oats give way to soybeans? Should cattle be fed to a higher finish, hogs to a heavier weight, dairy cows for larger daily output? The ratio of corn prices to hog prices, the peanut-hog ratio, and all other feeding ratios will affect the answers, as will relative price relationships between crops. Improved farm-tenure terms are needed, as well as better use of credit (and of wartime savings) in investments in soil, buildings, machinery, and durable consumer goods; these would improve the efficiency of the farmer and the farm.

These and other measures are within the province of farmers and can be effected by them singly or in concert. They are the *within agriculture* type of problem not dealt with in this study. Important headway has been made in these areas,

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but too often the pros and cons on these issues are formulated in isolation, too much on the assumption that the solution can be found without reference to what happens elsewhere in the economy. The excess supply of labor in agriculture in peacetime and the instability of the demand for farm products, factors which have their origin primarily in the nonfarming fields, directly and vitally affect many of these *within agriculture* matters.

This study will not tell the reader precisely how to go from where we are to where we may want to go during the next two or three transition years. It does reveal the effects upon farming of the mobilization for war; these necessarily become part of the agricultural setting from now on out. One of the more important policy decisions ahead stems from our wartime program of support prices. To induce high production the government committed itself to support most farm prices at 90 per cent of parity for at least two years after the war. The road we take in making good this commitment will have a direct bearing upon agricultural policy. But even so, the transition is merely an event, an incident, as the war has been, in the more powerful secular drift affecting agriculture and its role in our economy. The reader, accordingly, will not find here a timetable showing the sequence of events likely to follow victory. The twist given agricultural production by the war, the effect upon the financial position of farm people and the efficiency of agriculture, are indicated, and these must be taken into account as we prepare for the longer postwar, with the probable return of the pattern of wide fluctuations in farm-product demand and in earnings from farming.

The habit of identifying agriculture with food leads to much confusion in developing agricultural policies. We now have the knowledge regarding nutrition and food-producing resources to make it possible for us to close the nutritional gap. But policy designed to serve the nutritional requirements of a people is of necessity different from measures to bring balance

Preface

and stability to agriculture. Programs to correct inadequate diets (whether caused by lack of income or lack of knowledge) cannot be expected to cope with the problems that have come to farm people from the erratic production performance of the industrial-urban community. Some principles that should guide policy-making (in an economic context) as we strive for better nutrition are developed in this book. Since adequate diets are important in the social efficiency of a people, an analysis of the necessary elements of a food policy should not, however, be made subservient to the purposes appropriate for a national policy for agriculture. Food policy must stand on its own merit.

I also want to make clear that I have not examined farm relief except in an incidental way. This country has not yet, for the most part, developed specific measures for agricultural emergencies arising from such natural causes as droughts, floods, hail and storms, or from sudden market gluts caused by trade disturbances or curtailed demand. Nor have policies and principles been adequately developed in another sphere of vital importance to farm people, that of welfare—better health through improved medical services, proper housing, better education, more leisure time, and the like. The extension of social-security benefits—old-age and survivor insurance, unemployment compensation for hired labor in agriculture, and health insurance—belongs in this category. I have not addressed myself to this important sphere except as higher per capita earnings by farm people and more stable incomes from farming would bring with them more security and welfare. Welfare considerations, however, are larger and include more than what I have covered.

I am indebted to my associates: I have benefited from the comments and suggestions of Chester C. Davis and W. I. Myers who went over the entire manuscript. It was David F. Cavers' desire for more elaboration of my proposal for *compensatory payments* that caused me to develop it considerably

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further than I had done in my paper before the Canadian Political Science and Economics Association. Theodore O. Yntema was quick to see the significance of the broader formulation of agriculture's problem as it emerged in my earlier draft. He also has pointed up several technical issues in connection with Chap. III. D. Gale Johnson, working along beside me on his study on *forward pricing*, frequently compared notes with me. To J. M. Letiche I am indebted for much spade work—the marshaling of available data, the testing of working models, and the careful checking of all figures appearing in the final draft. Sylvia Stone's unique capacity for comprehending the underlying analysis and, with it in hand, painstakingly "tooling" the exposition has added much to the nontechnical clarity of this book. I am also indebted to others—farm leaders, economists with farm organizations, and to my colleagues—for raising points, at times expressing doubts, or asking for further elaboration and thus giving me clues to shortcomings which I otherwise would have missed. Mine is the satisfaction of having gained from their willingness to help and the privilege of standing by what I have put down.

THEODORE W. SCHULTZ.

UNIVERSITY OF CHICAGO,
August, 1945.

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