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## RESEARCH REVIEW

"In the course of foreign trade," said Thomas Mun in a letter written to his son about 1630, "there are three sorts of gain, the first is that of the Commonwealth, which may be done when the Merchant (who is the principal Agent therein) shall lose. The second is the gain of the Merchant, which he doth sometimes justly and worthily effect, although the Commonwealth be a loser. The third is the gain of the King, whereof he is ever certain, even when the Commonwealth and the Merchant shall be both losers." Gains and losses associated with foreign trade of agricultural commodities are the concern of the three articles in this issue.

The first article presents a model of the world grain-oilseed-livestock economy (GOL) used for ERS projections. The role of the GOL model in the context of other forecasting and projections activity in ERS was discussed in the April 1976 issue of AER. In this issue, the model is explained and the uses to which it is put are illustrated.

Thomas Mun went on to say, "There are three ways by which the Moneys of a Kingdom are commonly altered. The first is when the Coins in their several Denominations are made currant at more or less pounds, shillings or pence than formerly. The second is when the said Coins are altered in their weight, and yet continue currant at the former rates. The third is when the standard is either debased or enriched in the fineness of the Gold and Silver, yet the Moneys continue in their former values." And Mun concluded that "enhancing or debasing our Moneys cannot enrich the Kingdom with treasure, nor hinder the exportation thereof." Two articles in this issue reach that same conclusion with respect to agricultural trade, but the reasoning is different from Mun's. One takes a theoretical and the other an empirical approach to the problem. They both find that recent devaluations of various currencies have not enriched the devaluing nations through agricultural trade nor hindered exports.

Clark Edwards

### YEARS OF STRUGGLE: THE FARM DIARY OF ELMER G. POWERS, 1931-1936

Edited by H. Roger Grant and L. Edward Purcell. The Iowa State University Press, Ames, Iowa 50010. 158 pages. 1976.

Published diaries by family farmers are rare for any period of time. The few that exist show that farmers are preoccupied with the weather and the daily routines of farm life. They also reveal a strong feeling for tradition and farming as a way of life.

*Years of Struggle: The Farm Diary of Elmer G. Powers, 1931-1936* treats these facets of farm life. For example, on January 1, 1932, Powers wrote:

Personally I still think the farm is the best place of all. The future may not look so good from a financial standpoint. However, for many folks the farm is more than a business and a place to try to accumulate wealth. It is life itself. First of all the soil, the feel of the earth. The respect they have for it. The fields. The weather and the changing seasons. All life itself comes from these several things. Then there is the plant life. The crops. The trees. The live stock and poultry and all of their young things to be cared for. The responsibility of growing the food and flesh for a distant and often unappreciative city. Just to be close to and work with nature is one of life's greatest opportunities.

Powers derived great satisfaction from the fact that his 160-acre farm had been in the family for generations and that from his "back forty" he could see the cemetery where his grandparents and other pioneers were buried.

An antiurban bias is evident in the diary. Radio advertising made him feel that the rest of the country was riding a wave of prosperity while farmers were suffering from the Depression. Powers resented President Roosevelt's 1933 request to the Congress to modify the Volstead Act to allow the sale of beer and light wines. Writing of the "beer situation," he said many people call it a "city folks" proposition. Powers told with approval of one farmer who said it reminded him of the Bible quotation: "and Jesus Beheld a City and wept over It."

A Republican, he praised an October 1932 speech of President Hoover. On the 1932 election, Powers commented: "Either the Republicans have failed to care for the affairs of the people and the Government or else they have saved a country from disaster and the people did not know it." But when the Democrats came into office, he was willing to turn to Government programs for assistance.

When the Administration changed in 1933, Powers was optimistic about what the Government could accomplish. He knew Henry A. Wallace and had faith in him. However, he expected Government programs to be synchronized so that his payments would come in time to take care of his taxes and loans. He wrote on Nov. 24, 1936: "Last year the farm was sold for taxes two days before the corn loans came out. And still they expect the farmers to put up with this kind of blundering and bungling. I am hopeful that my soil grant will come in time." He had difficulty securing loans from the Farm Credit Administration. However, he was able to buy back his farm through a loan.

Powers was particularly critical of the Civil Works Administration and Public Works Administration for paying what he considered to be high wages for short-hour days. But he praised the work of the Federal Emergency Relief Administration when free labor was provided to build new outhouses for farmers.

Powers differed from most farmers of the period because of his articulateness and his ability to type and take shorthand. The editors, H. Roger Grant and L. Edward Purcell, outline his family background as well as large sections of the diary which they deleted. They also

provide an epilogue for the years 1937-42. They selected entries for the years 1931-36 for publication because these years represented the period of greatest drama and historical significance. Their helpful footnotes provide background on Government programs and administrative problems.

Power's diary gives readers an authentic record of how one Iowa farmer survived the recurring crises of disastrously low prices, high taxes and mortgage payments, threatened foreclosures, and droughts, blizzards, and insect pests which confronted large numbers of farmers during the Depression. Of equal importance is the daily record of Powers' feelings and reactions to the crises and to the Government programs designed to solve them. Studies and autobiographies can provide much information and data but memories tend to omit and color events noted more accurately in daily records.

This diary should interest economists, historians, and political scientists because of its clear picture of family farming as a way of life. The impact of the Nation's severest depression and of Federal Government programs, followed by World War II and a technological revolution, were to change midwestern agriculture in ways neither Powers nor anyone else at the time could visualize.

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## DISPERSING POPULATION: WHAT AMERICA CAN LEARN FROM EUROPE

By James L. Sundquist. Brookings Institution, Washington, D.C. 290 pages. 1975. \$3.95.

James L. Sundquist has written a very readable and informative book of likely interest to social scientists, community and national decisionmakers, and others concerned with national and rural development.

He points out that population dispersal has been a widely accepted U.S. policy objective, one that had been written into law by the 1970's. He seeks to help bridge the gap between this objective and its implementation by reviewing 30 years of relevant experience of five countries—Great Britain, France, Italy, the Netherlands, and Sweden. After facing the problem of population concentration, governments in these countries had concluded that growth of their largest cities should be checked, and they enacted ambitious and comprehensive programs to achieve that end.

Population distribution or growth, says Sundquist, has two usually separable and often distinct components. One involves growth *among* regions and larger or smaller urban complexes; the other concerns growth *within* metropolitan areas, particularly the larger ones. He calls the former the *macro* aspect of population distribution and the latter, the *micro* aspect. Sundquist restricts his study to the macro aspect. Are these two aspects quite as separable and distinct as he suggests? This question is one of several evoked by the author's data.

Sundquist presents several findings, described below:

1. All five countries have laws that specify policies and programs to encourage population dispersal. Some measures are extreme, by U.S. standards.

2. Early phases of policies typically sought to increase the number and proportion of factories locating or expanding outside major cities. Financial incentives, such as preferential loans and grants, were tried. Licensing of new factories and factory expansions to restrict construction in populous areas, such as London and Paris, proved essential. Government construction of factories for rental to mobile manufacturers, sponsorship of improved community facilities and services, and provision of suitable industrial sites all were deemed helpful. The most mobile businesses were branches of large firms.

3. All the countries began with a local emphasis on distressed areas but evolved a "growth center" approach to the dispersal of manufacturing. For example, from 1966 to 1970, the French designated eight cities in as many regions outside Paris as counterweight metropolises to offset Parisian economic power.

4. Following the emphasis on factories, the countries moved, less successfully to date, toward dispersal of service industries. For example, governments licensed construction of office buildings and they have also tried to decentralize government agencies.

5. Early support for these population redistribution policies and programs was political. Major cities were deemed overcrowded and polluted, and they suffered from transportation problems. Piling up of industry, as in Greater London, was seen as a threat to national security. On the other hand, relatively depressed, more rural areas needed skilled labor, entrepreneurship, and capital from cities to spearhead new industries and so add jobs for local people. The economic rationale and supporting data for these regional policies and programs have been and remain sketchy.

6. Political support for these policies and programs has lessened in recent years, although some measures will likely be retained indefinitely. Why? A slowdown in growth, and even a population decline in some cities, has tended to increase per capita costs of public services and facilities. Local unemployment rates have risen. Cities have begun to recruit manufacturers to replace jobs lost through transfer of firms. City spokesmen are now less convinced that increased size is bad, so that emphasis may shift to more qualitative guidance of local development. Rural areas seek industry, but not polluting firms.

Were the European population modifications cited by Sundquist also economic successes? Representatives of the British motor industry, he reports, suggest that public thwarting of geographic concentration of production deemed necessary by the industry reduced efficiency which, in turn, reduced export earnings and lowered the GNP. Government witnesses were said to point to the likely greater congestion due to more concentration, so that firms' costs and social costs would have both increased. The dispute is not resolved. Apart from data paucity, other reasons (perhaps more compelling) are the need for a broader conceptual base for evaluation—either by broadening economic concepts, such as GNP, or by adding new concepts, economic or otherwise.

The book offers both perspective and heuristic value. For these European countries (and the United States as



well), the reviewer wonders, are the rate of growth of GNP and other significant national economic and social indicators favorably affected by market adjustments that help integrate local factors, including labor, into national markets? While manufacturing has been a favorite means of rural development, has its importance been overplayed? Are the relatively high-wage types of manufacturing also industries that best achieve economies of scale and agglomeration?

Without an explicit public population dispersal policy, U.S. nonmetro rates of population increase have recently outstripped metro rates. Does that fact enhance or diminish the relevance of Sundquist's report on the European experience? The author judges it will reduce U.S. political interest. For the economist, however, these changes may simply provide a new context in which to explain population patterns that are insufficiently accounted for either side of the Atlantic.

Do we have objective indexes of levels-of-living for various nonmetropolitan communities and descriptions of typical lifestyles of families at various income levels? Certainly not. On what basis, then, are migrants evaluating alternative living and job possibilities? What are the implications for rural and national development? Sundquist aptly illustrates the needed broad context for such evaluations.

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## THE ECONOMIC VALUE OF HUMAN TIME OVER TIME

Over the years, the price of human time has risen greatly relative to that of the services of natural resources. Real hourly wages in the United States were more than five times as high in 1972 as they were in 1900, whereas the real price of the commodities most dependent on natural resources tended not to rise.

Why have real wages risen so much despite the more than tripling of the size of the labor force? Why has Ricardian Rent lost its economic sting? Over the past several decades, Ricardian Rent has been large, relative to wages, in low-income countries. But it has been comparatively small in countries where high incomes have been achieved. As a social, political, and economic class, landlords, in Ricardo's sense, fade away as countries attain a high level of personal income. Economic theory does not tell us why. Additionally, in low-income countries, the economic value of human time is low. But in high-income countries, wages are high.

The explanation of the rapid rise in value of human time compared with prices of natural resources is well concealed in our economic history. It is not to be found in the theory of Ricardo-Malthus, nor in Marx, nor in Keynes. Events and human behavior alter values and the stock of all types of capital. Advances in knowledge develop (1) substitutes for land (natural resources) and complements for human capital.

We know more about the supply of human capital than we do about demand for it. Complementarity between human and producer capital appears to be the key to upward shifts in demand for human capital.

Economic theory, while short on explanation of the rise in the value of human time, can help us derive implications that can be tested. Three such implications and supportive data follow:

The share of national income accruing to property assets should decline. It has declined from about 45 to 25 percent or less.

Weekly hours worked should decline with the rise in real wages, but the combined effects of hours worked and wages per hour on income are more difficult to determine. Weekly hours worked did decline one-third from 1900 to the early 1930's. Their leveling off at 40 hours since the 1930's is a puzzle.

The stock of human capital should increase relative to the stock of physical capital. Human capital in constant dollars increased annually at about 4 percent for education and a strong 5 percent for on-the-job training from 1929 to 1957. These compare with a 2-percent annual rate of growth in reproducible tangible wealth.

We can draw specific implications for human capital. People invest in themselves for future earnings and satisfactions. By doing so, they become capitalists. These investments in human capital, moreover, increase the economic efficiency of each person.

Professor Theodore W. Schultz of the University of Chicago presented the first lecture in the ERS Bicentennial Year Lecture Series on March 23, 1976. The above notes summarize his remarks.

## PRICE SPREADS FOR FOOD: QUALITY OF THE DATA

Quality of agricultural data has been a concern for several years. One of the groups of agricultural economists that has focused on this subject is the Economic Statistics Committee of the American Agricultural Economics Association. Its most recent study, conducted by a task force that was sponsored jointly with the Economic Research Service, is available in a report entitled "Review and Evaluation of Price Spread Data for Foods."

This group studied four closely related economic data series produced by the Economic Research Service. These are the farm-retail price spreads for the food market basket, price spreads for individual foods, cost and profit components of the price spreads for individual foods, and the food marketing bill. The task force report provides a very useful guide to the methods used in constructing these data series, the proper uses and interpretations of the data, suggestions for changes and improvements in the data, and recommendations for additional types of information needed on the processing-wholesaling-retailing sector of the food industry.

Many important questions about the economic situation and performance of the food industry have been in the limelight since 1972. Some of these questions are answered or monitored well by these four data series:

- Are prices for farm products changing at the same time and by the same amount at all levels of sale from farmer to consumer?
- What share of the consumer's food dollar goes to the farming function at any point in time?
- How much of the annual consumer food expenditure for U.S. farm-produced food pays for different inputs or different processing and distribution functions?

Some questions are not answered by the four series. Efficiency of the food processing and distribution industries, and the "fairness" of profits earned by firms in these industries, are examples. One of the more frequent incorrect uses of the data is the attempt to draw precise inferences from them about the size and equity of profits earned by food processing and distribution firms. Several recommendations made by the task force consider this improper use of price spread data and the need for more information on industry performance:

1. Every attempt should be made to keep data users informed about the correct and incorrect uses of the data series. Conceptual differences between price spreads and marketing margins represent one important area, the understanding of which should be stressed to all users.

2. The degree to which detailed cost and profit components are calculated and published on individual foods should be reduced. The conceptual differences between price spreads and market margins make the component calculations a rough approximation at best. The task force felt that many users of these data improperly took this information to provide the answers to their questions on size and equity of industry profits.

3. ERS should seek industry cooperation in constructing new data series on actual marketing margins and related cost components.

4. Profit data from more firms in the industry should be included in information now compiled on industry profits. Additional measures of profit performance, such as the relationship of profits to total assets, would also be useful.

5. Additional research studies by economists to shed more light on the relationships between price spread and market margin data would be very useful. These studies might examine the importance of inventory handling and accounting methods, price specializing and other pricing behavior, seasonality of some food products, and the different concepts and measures of profits used in the industry.

6. Other research studies by economists are needed on the productivity and performance of the industry. These studies should focus on the efficiency and food price impacts of product handling, and labor practices in the industry.

Other conceptual and measurement questions are addressed in the task force report. Important conceptual problems include the increasing conglomeration of economic functions into the same agency or firm, the disappearance of the farm gate as a pricing point for some products, and the meaning of "farmer's share" in the

price spread data. Measurement problems discussed include calculations of physical conversion factors, use of lags in price spread calculations, problems with the retail food price data available from the Bureau of Labor Statistics (BLS) and calculation of a new market basket corresponding to new Consumer Price Indices to be available from the BLS in 1977.

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## OFFBEAT READING FOR ECONOMIC INSIGHT

Economists have several reasons for reading. In common with other scientists they must read to keep up with professional progress. They must also read to improve their own thinking, and, perhaps, their writing as well.

This paper is mainly concerned with the kind of general reading that is good for economists, but which lies off the routine beat of the working day. Much of it may not seem to have any practical application. But it is the kind that results in the mind stretching, wrenching, and jolting that fires the imagination and brings forth new ideas. It is that which opens up new avenues and sends thought beyond the usual horizon. As Shackle recently put it: "Our lives are lived on the edge of the known world. For only that world is known which has already emerged into the past . . . all thoughts are in the present . . . we have to invent, to imagine . . . [to fill] the void of future time . . . (7, p. 37)." Imagination is the key.

## THE WISDOM OF READING WIDELY

Economists need to read widely even more than other scientists because they are in greater danger of viewing the world as a well-ordered system of cycles and trends all ultimately reducible to mathematical formulas. But the real world refuses to be so neatly tamed. It is full of sudden shocks and surprises, many quite unpredictable. Keynes understood this when he wrote:

The theory of economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking, which helps its possessor to draw correct conclusions (2).

Those who do not take positive steps to break away are all too likely to stay safely within the confines to which they are accustomed. Reading beyond the call of professional duty is one way out. Almost any reading can help open new vistas, improve your thinking, suggest new methods of analysis, and add interest and appeal to your writing. Even dull reading may lead to a firm resolution not to write dully. A vivid, lively style may rub off and improve your own next manuscript. Some of

this comes about by unconscious absorption and some by careful effort. From time to time, we need to shake up our prejudices to keep them from hardening into fixed patterns. As I once wrote:

All of us need to be on guard to avoid seeing current events through the windows of yesterday. It is as though we carried about with us mental television screens equipped with sets of colorful old films, and, when we think we are seeing the world as it is, some psychological circuit closes and we are merely rerunning well-worn films out of the past. Our preconceived ideas of things prevent us from seeing them as they actually are. The familiar mental picture comes between us and the actual object, character, or event (3).

On a very basic level, such offbeat reading may help in understanding broad philosophical questions related to research methods and procedures. To illustrate, let us look now at three quite different references, a short story, a short novel, and a guidebook to a more perfect society. The first was written more than a century ago, the second in the 1920's, and the third in between. Every economist has probably read at least one of them. But if they were read in high school or early on, much may have been missed. Each is worth reading again.

#### THE PURLOINED LETTER (6)

Most of Edgar Allan Poe's stories stimulate imagination. Every boy or girl who reads *The Gold Bug*, without quite knowing it, receives an elementary lesson in statistics in the process of decoding a secret message about buried treasure. But *The Purloined Letter* is a tale that no economist should miss. It sets up two sharply contrasting ways for solving a problem. One is statistical, the other logical. In this instance, the problem is the mysterious hiding place of a compromising letter.

The Parisian police who conduct the search are exceedingly able in their way. "They are persevering, ingenious, cunning, and thoroughly versed in the knowledge which their duties seem chiefly to demand." They do their work carefully, examining every square inch of the palace in which the missing letter is known to be hidden. They probe the walls and the furniture, search for secret drawers, and in the end find nothing. The Prefect of Police seeks counsel and advice from M. Dupin, the detective hero, who finds the letter almost immediately. It lies in the open, thrown carelessly on a card rack along with several calling cards and other miscellaneous trivia. It is so obvious that the zealous searchers have missed it entirely.

M. Dupin's method is a form of game theory, one of reading the mind of the politician who stole the letter, and reasoning about how he would act. The stark contrast of the two methods may be unfair to the meticulous procedures which are certainly necessary on many occasions, but it points up the need for combining logic and statistics. How often in recent years have we seen a model superbly constructed and internally consistent, which failed utterly because its basic assumptions did not allow for certain contingencies? So much for the short story. Now for the short novel.

#### THE BRIDGE OF SAN LUIS REY (8)

*The Bridge of San Luis Rey* by Thornton Wilder appeared in 1927 and won a Pulitzer prize. It has little to do with economics, but every economist should have something to do with it. Wilder provides an interesting excursion into the realm of the unknowable. The book carries more than one message and one is aimed at social scientists in general. Though serious, the story also has elements of satire.

The plot turns around "the finest bridge in all Peru," the Bridge of San Luis Rey, woven of osiers more than a century before by the Incas and named for St. Louis of France. "The bridge seemed to be among the things that last forever; it was unthinkable that it should break." Yet one hot summer day in 1714 it did break just at noon and five people who were crossing fell to their deaths in the chasm beneath.

By coincidence the accident was witnessed by Brother Juniper, a Franciscan engaged in converting the Indians in remote villages. He was a man of inquiring mind who in the course of his journeys about the country had developed various hypotheses to explain the workings of Providence. It sometimes seemed to him that the good were often called from this life earlier than the not so good. Several times he had developed and tested schedules of questions in an effort to get behind the mystery but always some unexpected circumstance interfered with a clear demonstration of the principle that he was searching for. Here might be a less complicated case, in which it would be possible to discern why these particular five were chosen out of all the others who had passed that way. By investigating their lives, he might find the hidden reason for their sudden taking off. Here was his hypothesis, here his providential laboratory. He drew up an open-ended schedule and busied himself for 6 years knocking on the doors of all those in Lima who had known the victims, asking thousands of questions about their past lives. All this activity resulted in an enormous volume which was later burned publicly by the Inquisition along with Brother Juniper himself. Only chance preserved a second copy that was hidden away and saved for posterity.

Wilder's novel is concerned with the differences between what Brother Juniper's investigation elicited and what really happened in the lives of each of the five individuals. For all his diligence, he never learned the central passions that moved each character's life. Despite the thousands of detailed facts and testimonies, he never got to the bottom of things. Moreover, he was never even aware that he had failed in his mission and came to the end firmly believing he had made a significant contribution to the faith.

When I first read this novel in 1929, its full meaning did not reach me. Some years later, another reading hit me more forcefully. By then I had had more experience with questionnaires and was more aware of what can and what cannot be accomplished in personal interviews. Reading Oskar Morgenstern's classic, *On The Accuracy of Economic Observations* (5), recently reminded me again of some of the limits of such sources of information. Data are not always what they seem. You must know their history, how they were gathered, put together, used and misused.