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# TODAY'S PROBLEMS, TOMORROW'S PUZZLES

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“Increasing understanding of public problems and policies” is not an easy task.

This is true not only because of the complex nature of the problems and the conflicts which sometimes exist between immediate individual desires and the longer-run public interest but also because of some rather simple factors having to do with the arts of communication and economic analysis as well as the increasing expectation of the public regarding possibilities of economic management at the public level.

Each of these special limitations deserves some brief comment.

First, with respect to the arts of communication, we always tend to simplify our discussions since we well know that people are not going to carry away any large number of ideas from any single speech or pamphlet. I will follow the custom and start by saying that the structure of my argument is very simple, that I shall only outline three major sets of problems with which it seems to me American farmers are vitally concerned.

I well know, of course, that American farmers are seriously concerned with more than three sets of problems. For example, your own choices of today's problems and tomorrow's puzzles are indicated by your nine work group assignments and your programs of previous years.

The second observation I want to make has to do with the nature of economic analysis. Most economic theory and many of our economic analyses start with what we call “static analysis”—that is, analysis of the way in which the economy, or that part of it in which we are immediately interested, might be expected to operate if the state of the arts and the social structure generally were both held constant. This often tends to abstract the most difficult problems out of the particular analysis, which only tells us the general nature of the economic equilibrium that would result if natural economic forces were allowed to work unfettered. However, changes, often unpredictable, in the state of the arts, in consumer preferences, in legislative arrangements, and in foreign influences are outstanding characteristics of the actual world in which we live. Static analysis is useful in telling us something about some of the main tendencies at work in such a society, but it also becomes necessary to introduce a whole series of considerations having to do with change—what economists call dynamics.

Over our lifetime at least, we have been faced with a continuous flow

of changing technical processes, new or changing consumer preferences, and shifting foreign pressures. So we find ourselves concerned not so much with the character of the happy society which might exist in a problemless economy but rather with the actions or adjustments needed to ease the stresses and strains of an economy in transition, which will at the same time facilitate the movement toward our goal of a free enterprise, essentially competitive, expanding economy.

However difficult the problem may be, increased attention to economic management at the public level (another way of saying public problems and policies) is essential. Increasingly, Americans are asking that their colleges, their business organizations, and their government endeavor to find the ways and means not only of warding off distress but even more important of encouraging growth—growth in terms of a rising standard of living for all elements of an increasing population. This is the third of the supplemental factors which color or condition our discussions of public policies and programs. That is, we are now firmly committed to the belief that what happens is in large part subject to our own or someone else's conscious control.

After briefly considering the current farm price situation, I shall outline three major sets of problems with which American farmers are vitally concerned. These are: (1) the problems of the "inflationary creep," (2) the problems associated with "economies of scale," and (3) the problem of "surplus farm products."

The attached table summarizes selected data relating to farm prices and incomes, 1939, and 1946 into 1958.

### THE CURRENT FARM PRICE SITUATION

Farm prices for the first 8 months of this year averaged 6 percent above a year earlier, despite the fact that volume of marketing was also up 4 percent. Several factors account for this: First, despite the much talked about recession, U. S. personal or disposable income for the first two quarters of this year was actually a little above that realized during the opening six months of 1957. Second, agriculture is about the only sector of the American economy which has been substantially deflated since the end of World War II. Farm prices fell 29 percent, February 1951 through December 1955, while realized net incomes of farm operators for the last four years have been running about 20 percent below incomes realized in 1951 and 1952. Third, a turn in the cattle cycle, together with a shortening of hog slaughter, reduced per capita supplies of red meat for the first several months of this year, while the southern freezes this last winter substantially shortened the supplies of spring vegetables and citrus fruits. Also, prices for some of the surplus farm commodities such as corn, cotton, and wheat have been aided by price supports or special arrangements of one kind or

another, including sales for nonconvertible foreign currencies under Title I, Public Law 480.

All this means that agriculture was not an immediate contributor to the recession in economic activity which ran from sometime last summer or fall into early this summer and that farm buying power has actually increased. But the recent strength of farm prices does not mean that agriculture is depression-proof nor does it mean that all the agricultural problems are solved.

### INFLATIONARY CREEP

A first pressing problem is achieving what Arthur Burns has termed "prosperity without inflation"—that is, the problem of keeping the economy going full scale without recourse to successive doses of inflation, small though any one dose may seem.

What I mean by "creeping inflation" is well illustrated by two recent news items. For example, under date of August 22, 1958, *U. S. News and World Report* contains an outlook story with a summary head that starts:

Prospect now is for a period of stability—no runaway inflation, no deflation.

This means the cost of living will rise more slowly than it has in the past.

And *Time* for August 25, 1958, starts its discussion of the state of business under the title, "Inflation: Unlikely":

To hear the growls of the economic bears, the U. S., having just turned the recession around, now stands tottering on the brink of something disastrous called "inflation." But does it? The U. S. could indeed have serious inflation if fiscal irresponsibility at Government levels piled up national debts heavier than the economy can absorb. It might also have inflation if the wage spiral got out of hand, or if capacity to produce fell so far short of demand that prices suddenly shot up by 10 percent or 20 percent. It will not have "inflation" by any sensible definition of the word so long as the U. S. can manage its debts and prices rise by 1 percent or 2 percent each year, for as economists now know, such gently rising prices are expectable—and even necessary—in a growing economy.

In short, here are two suggestions that the current idea of *stability* is a slowly rising price level—that this may in fact be desirable. Most economists would certainly seriously question this. But my concern here is not so much with the broad national problem, important as it is to all of us, but rather with the effect of inflation on the cost of producing farm products and distributing food.

Persistent inflation over the last decade has had a far more basic effect on farmers' costs than on prices of products sold by farmers. In 1957, for example, production expenses accounted for 2 out of every 3 dollars of realized gross farm income as compared with a ratio of only about 1 out of every 2 dollars over the years prior to 1949. Meanwhile, prices and cost rates paid by farmers so far in 1958 have not

only averaged some 3 percent higher than a year earlier but are also at an all-time record level.

The continuing increases in the nation's general cost structure, which accounts for most of the increase in prices paid by farmers, actually has a two-way effect over the whole farm and food field. Farmers must increasingly use purchased rather than farm-produced resources—gasoline, motor vehicles, fertilizer, insecticides, etc., instead of grain, hay, and horses. Higher per-unit cost rates must be paid for increasing quantities of goods and services.

At the same time, the cost of handling, processing, and selling food and textile items is also climbing, which of course means increased consumer costs and sales resistance. Retail food prices, for example, have also been at a record high this year, averaging about 5 percent above a year earlier for the first six months, and over 20 percent above 1947-49. But when we analyze these increases, our market basket estimates for U. S. produced foods indicate that about 37 percent of the increase can be traced to increased handling margins (with about 63 percent accounted for by farm price increases).

#### **ECONOMIES OF SCALE**

We are all acquainted with the speeding up in agricultural technology since 1940. Significant economies in costs of production are possible not only in commercial farming but also in the assembling, processing, and selling industries handling farm products. In many, perhaps in most, cases full realization of lower per-unit costs of production is possible only as the size of the farm, of the processing unit, or the selling operation is increased.

Increasing the size or scale of operations also leads into such arrangements as contract farming, agri-business integration, and business mergers. Farm production also increases as a result of this new technology and the fact that alternative opportunities for the use of farmland and farm equipment are relatively limited.

#### **SURPLUS FARM PRODUCTS**

A series of questions relating to farm surpluses and ways of handling them apparently will continue to be of importance in the farm picture for several years even though the chances now are that our surplus problems should be more manageable during the years ahead than during the immediate past.

The situation which arises from farm surpluses may be eased through four obvious approaches: (1) Farmers may shift the mix of the commodities they are producing in an effort to produce more of those things which consumers most want, less of those things which consumers least want. (2) Farmers may shift to other occupations which under current conditions often means that their farmland is simply incorporated into other commercial farming units. (3) Efforts

may be made to reduce or control production through the use of acreage allotments, marketing quotas, or leasing arrangements such as those provided under the soil bank program. (4) Efforts may be made to sell or otherwise use additional farm commodities both at home and abroad.

The effort of farmers to shift the commodity mix of their production to maximize returns is continuous, and actually they usually seem to do a good job. From 1947-49 into 1957, for example, the increase in crop production was only 6 percent, while the increase in production of livestock and livestock products was 21 percent. Despite this shift, we still have surpluses, and I want to call attention to the tendency now to look not only at possible ways of controlling production, an approach that has often not worked too well, but also to look at possible ways of constructively using the surpluses themselves. In many cases the costs of actually using or disposing of the commodity may not be any greater than the costs of limiting production, while constructive use of the commodity contributes far more to maintaining farm markets and increasing nonfarm income and well-being than if it were not produced.

Finally, attention is again called to the main underlying characteristic of the American economy as a whole—economic growth. We do live in an expanding economy and our farm problem is essentially balancing rates of growth—that is, trying to see that the rates of increase in farm output are about in line with the rates of increase in demand. I admit this is not simple.

On the one hand our land resources are limited while on the other our population is increasing. So in addition to taking into account short-run problems we must also have policies which will assure, or at least are not inconsistent with assuring, adequate food for the American people as our population grows, recognizing that the rate of population growth may vary materially from time to time in the years ahead. Certainly this calls for continuing emphasis on research and education in order that farmers may continue to substitute science, capital, and management skill for land and labor. In one way the introduction of these longer-run considerations further complicates the farm adjustment problem. But the shorter-run problems are much more amenable to sensible management in an expanding economy, where the population and per capita standard of living are both increasing, than if this were not the case. Economic growth not only increases markets for most products but also opens up new employment opportunities for both capital and labor which greatly facilitate the adjustment process.

We now recognize that we are faced with a difficult, continuing problem, that we are not likely to find any single painless, costless, final solution within a few months or during the next year. This itself is progress for it means we are now in a much better frame of mind to consider what should be done.

SELECTED DATA RELATING TO FARM PRICES AND INCOMES, UNITED STATES, 1939 AND 1946-58

Year	Prices Received and Paid				Food Market Baskets <sup>3</sup>			Food Consumption per Capita		Sales, Expenses, and Realized Income of Farm Operators from Farming				Income to Persons on Farms		Index of Farm Land Values
	Prices Received by Farmers Index <sup>1</sup>	Parity Ratio <sup>2</sup>	Parity Ratio <sup>2</sup>	Parity Ratio <sup>2</sup>	Farm Value	Marketing Margin	Total Farm Output	Food Consumption per Capita	Agricultural Exports	Cash Receipts from Sales <sup>4</sup>	Production Expenses <sup>4</sup>	Realized Net Income <sup>4</sup>	From Farming	From All Sources	1912-14=100	
1939	95	123	77	77	172 <sup>3</sup>	279 <sup>3</sup>	80	94	655	7.9	6.2	4.4	5.2	7.7	82	
1946	236	208	113	113	3	3	98	104	3,173	24.8	14.5	15.2	17.1	21.4	141	
1947	276	240	115	115	467	444	95	102	3,957	29.6	17.0	17.3	17.5	22.4	157	
1948	287	260	110	110	497	485	104	99	3,472	30.2	18.9	16.1	19.8	24.9	170	
1949	250	251	100	100	435	493	101	99	3,578	27.8	18.0	13.8	14.7	19.9	177	
1950	258	256	101	101	432	488	100	100	2,873	28.5	19.3	13.1	15.7	21.0	174	
1951	302	282	107	107	497	527	103	98	4,040	33.0	22.2	15.2	18.1	23.7	200	
1952	288	287	100	100	482	552	107	100	3,431	32.6	22.6	14.4	17.3	23.4	221	
1953	258	279	92	92	445	558	108	101	2,847	31.1	21.4	13.9	15.1	21.1	221	
1954	249	281	89	89	421	565	108	101	3,054	30.0	21.7	12.2	14.4	20.2	216	
1955	236	281	84	84	395	574	112	102	3,199	29.6	21.9	11.5	13.5	19.8	224	
1956	235	285	82	82	390	582	113	103	4,167	30.5	22.5	12.1	13.4	20.1	232	
1957 <sup>5</sup>	242	296	82	82	402	605	113	102	4,508	29.8	23.5	10.8	13.4	19.7	247	
1957 <sup>5</sup>																
1st Qu.	237	293	81	81	385	597	6	6	1,283	30.0	23.4	11.0	6	6	247 <sup>7</sup>	
2nd Qu.	242	296	82	82	396	606	6	6	1,129	29.7	23.6	10.7	6	6	—	
3rd Qu.	246	295	83	83	414	616	6	6	962	29.6	23.4	10.9	6	6	253 <sup>8</sup>	
4th Qu.	242	298	81	81	408	607	6	6	1,135	29.7	23.6	10.7	6	6	258 <sup>9</sup>	
1958 <sup>5</sup>																
1st Qu.	254	302	84	84	436	620	6	6	925	32.4	24.2	12.8	6	6	262 <sup>7</sup>	
2nd Qu.	264	306	85	85	444	641	6	6	988	33.6	24.5	13.8	6	6	—	
Jul.-Aug.	252	304	83	83	419	655	121 <sup>10</sup>	101 <sup>10</sup>	—	—	—	—	—	—	—	

- 1 Prices paid by farmers for goods used in farm family living and production including allowances for taxes and mortgage interest paid per acre of farm real estate and for hired labor.
- 2 Index of prices received expressed as a percentage of the index of prices paid.
- 3 The market basket includes estimated quantities of U. S. grown foods purchased per urban worker family in 1952; 1939 estimates based on same market basket as for 1947 to date; comparable data for 1946 not available.
- 4 Quarterly data are seasonally adjusted annual rates.
- 5 Preliminary.
- 6 Quarterly data not available.
- 7 March 1.
- 8 July 1.
- 9 November 1.
- 10 Estimate for 1958 based on data as of September 1958.

Compiled from Agricultural Marketing Service, Agricultural Research Service, and Foreign Agricultural Service data.