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## Federal Reserve Bank of Chicago --

May 16, 1958

"WE AGREE on the long-run solution to most efficient use of agricultural resources and to more satisfactory incomes for farm people. The answer is to be found in fewer labor resources in agriculture and in a smaller number of farms, such as would be achieved by a continued decline in the number of farms at a rate of 10 to 15 per cent every 4 or 5 years for 15 or 20 years." So spoke one of the nation's leading agricultural economists when summarizing the discussions of a two-day conference on agricultural adjustment problems in Chicago a year ago.

The conference participants included researchers and teachers from the nation's leading colleges and universities. These doctors' diagnoses of agriculture's ailments and their estimates of the kinds and amounts of adjustments that would effect a cure were published recently by Iowa State College Press under the title, "Agricultural Adjustment Problems in a Growing Economy." Hence, they are now generally available for study, reflection and future evaluation. (Whether the printed word be true or false, it is nonetheless permanent.)

Total demand for food by 1975 is estimated to increase 40 to 50 per cent over the 1955 level. Population, the analysts agreed, is the major factor determining the amount of food that will be required in future years. And it is expected that population will continue to increase. But at what rate? Population projections in past years have often been wide of the mark, and there is little basis for believing that the present ones will prove to be more reliable.

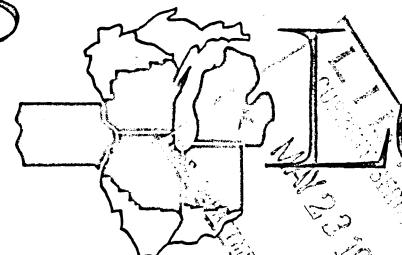
Income, too, affects the demand for food, but it possibly is becoming less important than in the past. As a larger proportion of the population achieves income levels which permit them to "eat as they please," further additions to income result in little or no additional purchases of food.

It is estimated, for example, that a doubling of income would result in only a 15 to 20 per cent increase in demand for food products at U. S. farms. This doesn't mean that consumers wouldn't boost their food expenditures by a larger amount. Instead, it means that most of the increased outlay would be for additional services associated with food, not for the raw materials sold by farmers.

For example, the average U. S. consumer increased his consumption of farm food products about 16 per cent between 1935 and 1946 (largely by increasing the proportion of livestock products in his diet), but he increased his consumption of nonfarm food services by about 50 per cent.

While the average consumer has a low "elasticity" of demand for food, he has a highly elastic demand for food services. In other words, while he increases his expenditures for food itself only modestly as his income

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rises, he increases his purchases of food services proportionately, or even more than proportionately, to his income increase. Hence, these "experts" hold forth little hope that farm surpluses will disappear via increased per capita consumption.

But population growth alone could boost U. S. food needs by as much as 38 per cent by 1975, it is estimated. How does this stack up alongside prospective output?

One detailed study of output trends concluded that total agricultural production, with farm prices at the 1955 level (they recently have been more than 10 per cent above that level), could easily increase 30 per cent between 1955 and 1965. This is considerably greater than the indicated increase in requirements likely to result from the growth in population (15 per cent) and per capita consumption (4 per cent) during that period. Hence, the annual surplus of production over consumption is indicated to rise—unless prices are lower, output is controlled effectively, or demand increases much more than can be foreseen.

What does it add up to? Here's a portion of the book's concluding paragraph: "If agriculture becomes fully adjusted to the technological possibilities of this age, the number of farms in 1970 will probably be about half the number existing in 1940. Production per man will be three or four times as large. Capital used per man in constant dollars (at stable prices) will probably be at least double and in some cases three or four times as much as was used in 1940."

Impossible? Hardly! Here's how far we've come already:

	1940	1957	Indicated for 1970
Number of farms (Millions) . . .	6.3	4.9	3.2
Output per farm worker (Index; 1940=100) . . . . .	100	203	300+
Capital invested per man* . . .	\$9,300	\$16,800	\$18,600+

\* At stable (1957) prices.

These kinds of adjustments are not peculiar to agriculture alone. Rather, they are indicative of the changes which are always taking place in most sectors of a growing economy. Might it be said that ours is an Alice in Wonderland economy, where one must run as fast as he can merely to stand still?