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FUNDAMENTAL ELEMENTS IN THE CURRENT
AGRICULTURAL SITUATION

John D. Black

Henry Lee Professor of Economics, Harvard University

The day and the hour seems to call for analysis in terms of broad fundamentals. This is no occasion for the refinements of theory and their application. Such analysis must mean over-simplification and over-emphasis on a few vital elements. Something of accuracy will be lost in consequence; but this will not be relatively important in the emergency that confronts us. There are wild horses loose in the world and the first task is to bring them to leash. Later we can break them to the plow and the cart.

Remarkable to note, much of this statement of the fundamental elements in the situation is largely a new formulation; that is, neither I nor any of my fellow economists would have made it in this way ten years ago. This year I have had a student at Harvard who was with me nine years ago. He is now facing the task of getting ready for his general examination in theory, money and banking and the like, for the doctorate. He came to me at the end of the first month with deep wrinkles over his forehead. "Tell me", he said, "what is wrong with me in my theory. Have I forgotten everything that I learned nine years ago? Or is what I am getting now something different? Anyway, I don't seem to recognize much of it."

I had to tell him that the latter explanation was more nearly the right one. John Maynard Keynes had not yet really come within our ten years ago. And the competition theories of Joan Robinson and Edward Chamberlain were just beginning to be discussed.

The theories advanced by these recent economists are of course not wholly, or even largely, new. Keynes pieced his system of thought together out of the thinking of numerous progenitors and contemporaries. Very little of what Robinson and Chamberlain wrote was not to be found somewhere in the economic pigeonholes of the minds of their contemporaries. But the ideas which they assembled and welded together had not been receiving much attention before. The important thing is that they built these into new systems of thought and new explanations of current phenomena.

Furthermore, it is highly important to recognize that this new orientation essentially came out of the post-war environment, and not out of the minds of these economists. If, perchance, any one of them had written the same things earlier, he would have received scant attention. His fellow economists would not have sensed their significance.

As it is, I expect that many in this room have not sensed them halfway even yet. They are still thinking in terms of the system of economics written in such textbooks as Ely's "Outlines", and Moulton's "Financial Organization". The new editions of these books - even the new edition of Fairchild, Furniss and Buck - - almost wholly fail to include the new orientations.

The post-war world needed a new kind of economics. The old kind was not suited to it. This does not mean that the economics in the old textbooks was largely wrong, or even that it does not still have important applications. It does mean, however, that the economic and political world has so changed that some parts of the old system of economic thought have become more or less obsolete, at least for the time being, and other parts in turn much more pertinent and applicable than before. These parts have needed to be brought forth into the full light, examined, expanded and reformulated. The reformulation has added considerable that is new, and that is important at this time.

The economics of the pre-war era assumed a world functioning, or about to function, in terms of an automatically adjusting international gold standard and balance of payments. The textbooks, in fact, wrote of such a system as if actually in operation. They rarely even hinted that sterling exchange was in appreciable measure a managed exchange. No doubt, however, the system was near enough to automatically working, so that the textbook assumption was reasonably safe so far as the United States and Europe were concerned. In the post-war years, in contrast, so large a part of the world has been deliberately manipulating its internal price structure and foreign exchange, that the rest of it has been forced sooner or later to follow suit in self-defense. These manipulations have in turn been geared in with national fiscal policies with a view to providing more employment, and guiding and directing internal economic activity. A largely new system of monetary and fiscal theory has been called for, and it has been provided.

Still more significant, the pre-war world assumed an economy of full employment, of an expanding volume of economic activity and consumption that would give nearly everybody a job who wanted one. It was realized that periods of economic recession were recurring when men were thrown out of work; but we chose to regard these as sick leaves. The post-war period has brought us an understanding of these as the normal condition of our present so-called capitalistic economic system, and that only in very temporary periods of wild financiering and production will we have something approaching full employment. Now this was really implicit in our economic order of the pre-war years; but it was so overlaid by the stimulating effects of a still rapidly expanding population and exploitation of natural resources that it was largely concealed. Now it begins to stand forth in its full meaning. Since the World War the normal condition in this country has been one of true unemployment of around five million of workers. This will continue to be the situation unless we change the functioning of our present economy.

To understand the functioning of this economy, we need an

economics of unemployment of men and of resources and of plant and equipment. Some writers have said what we need is to shift to an economics of abundance and plenty rather than one of scarcity. This is altogether the wrong way of putting it. We have very far from enough of a long list of goods to satisfy really important needs of our own people, to say nothing of the peoples in other lands. I need only refer to the need for better rural housing to make my point clear.

Another point that must be forced in on our consciousness as professional economists is that we have not finished our task when we have provided an explanation of continuing unemployment in the midst of great and continuing needs. We must also include in our system of economic thought a clear statement as to how to convert such an economy into one of full employment of men and resources. We must furnish the world of men and affairs with a chart showing the steps to be taken.

Probably it is unreasonable to expect all economists to contribute to this second part of the assignment. Some of them are constitutionally unfitted for the second part. Their minds really refuse to function upon it. They may try hard to conceive of good forward steps to take; but in the end find themselves acting mainly as critics of proposals offered by others, and almost invariably concluding that they will not work. But somewhere in our group there must be "working economists" who can tell us what we must do from here on to get where we need to be, and do it realistically in terms of people and groups and institutions and organizations as they are.

The most important single idea that has evolved out of the thinking of economists since the World War is that our so-called competitive system does not generally work in such a way as to lower prices of products with lowering cost and labor inputs, and thus in such a way as to enable consumers to buy the increasing volume of output that should naturally result. There are two general situations in which this is true. The first is the lowering of costs and labor inputs with improvements in technology, either of the secular or of the innovation type. These may affect only single products here and there, but there is a tendency for them to be grouped in certain periods of general innovation.

The second situation is that arising from the general lowering of unit costs with increasing output in periods of general recovery from a depression or recession. I need not tell you that unit costs of industrial products, of transportation, of distribution, and of many services, decline greatly at such periods. In practice, prices are more likely to rise than to fall at such times. Just as they are doing now! Who has yet heard of a manufacturer bidding on a government defense contract that has said: Now that my volume of output is being increased, I can make you this remarkably low bid of so and so? The rise in prices was so rapid in 1935 and 1936 that it killed off prematurely the business recovery of those years and gave us the tail-spin of 1937. Business as a whole seems to reason: For several years now, profits have been low or non-existent. This will have to be the

for making up for these lean years. What business as a whole must instead is to say: We seem to have a little pickup in volume of sales; let's do our best to nurse it along and expand it. The more we sell, the more men we can employ, and the more general buying power there will be.

The major difficulty with such a procedure, of course, is that one manufacturer of a product can ordinarily afford to do this, in either the short run or long run, unless his competitors will also. Only his immediate competitors may be involved, but also the manufacturers of supplementary goods. Thus the lumber manufacturers are to point out truly that keeping the prices of their product down by lowering them will not stimulate enough new building to give them their earnings unless the prices of steel, plumbing, cement, paint, and above all, the prices of labor are also kept down or reduced. The steel industry takes a similar position, and rightly so.

The Brookings Institution has been doing much writing and talking of late years that seems in part to disagree with what I have just said. Dr. Moulton has been exhorting business leaders to keep the prices down so as to promote recovery. So far very good. But then he goes on to say that in the long run it will pay them to do so --- that of them individually is the implication.

Nourse and Drury of the same Institution wrote a book showing that a few firms or small groups of firms had made money by following a program over the years. The ones they selected were pioneering industries in which at the time these firms led the way and supplied most of the product - automobiles and tires, for example. I need not say you this situation no longer prevails in the automobile field nor any but a very few others. Aluminum could now be a case such as automobiles once were. The general effect of the N.R.A. episode seems to have been to make conditions worse in this respect. Mr. Thurman would be able to discourage certain overt kinds of conspiracy to raise prices in line, but in the main our business men will merely learn from him that these overt activities are not needed, that price leadership and other forms of monopolistic competitions will obtain the ends they seek without getting them into the toils of any law at least now under the statute books.

Agriculture, it was recognized long before, operates mainly according to a different set of dynamics. The late Henry L. Moore of Columbia University really had discovered this in part, although he failed to see the import of his findings, when he concluded that the demand for farm products has a downward sloping curve, such as asseverated in the textbooks for all products, whereas that for steel and other products seems to have an upward sloping curve. He was, you will remember, dealing with historical series, and what he concluded in fact an historical summary of the respective orders of price-quantity events in industry and in agriculture. In the case of industry, the volume of production and prices had usually come together; in the case of agriculture more often the reverse of this. Although ag-

agriculture as a form of production is supposed to be affected by increasing costs, historically the arts of agricultural production, and the exploitation of new agricultural resources, have proceeded so rapidly as to give us lower prices with increasing output most of the time since the 1880's. The major exception to this general trend was a stretch of 15 years beginning about 1896 when prices of farm products were indeed rising faster than those of industrial products. But a counter development was already under way by 1910-12, and would have given us relatively low prices for farm products from 1920 on, even if there had been no world war. ^{1/} (I think this statement is consistent with Dr. Canning's analysis, but I am not sure.)

To complete the picture for agriculture, it needs to be pointed out that in the situation in hand it has been affected by two other developments that together figure as largely in the total as the price-output relationship difference. Both of these evolved out of the inflation movement of the World War years. The first of these was the boom in farm real estate values that followed, and the subsequent decline; the second, the very great rise in urban wages, and subsequent failure to decline.

As many of you in this room know, I have never been willing to accept the relationship between food prices and urban wages in 1910-14 (the so-called "parity" years) as being a reasonable guide to policy and program. My judgment is that urban wages were unconscionably low in these years and needed to rise. But the rise that followed came altogether too sudden for agriculture to absorb without grave losses. If the same amount of wage increase had spread itself over 20 years in place of two or three, agriculture could have adjusted itself to it in large measure.

It is rather futile to discuss the question as to whether or not urban wages are too high now. They surely are relative to agricultural incomes. They may also have been too high in the sense of stimulating industrialists to substitute power and machinery for labor and thus producing unemployment. The major point in this set of relationships to keep in mind is that the higher wages have been paid out of the prices of industrial products that failed to come down as needed in order to expand volume and consumption. If we could know that lower wages really would have meant correspondingly lower prices, and fuller employment in consequence, then the answer would be easy. I find myself doubting that this would have occurred in our capitalistic system as now functioning. Instead we are increasingly experiencing what is in effect a sort of conspiracy between employer and employee groups, the net effect of which is the paying of higher wages and the passing of these to the consumers in higher prices, this aiding still further to pro-

^{1/} In the shorter run of the so-called business cycle, it is true that prices of farm products have risen with general recovery; but it would be difficult to show any characteristic co-occurrence of rising volume and prices as in industry. Neither Moore's nor the National Bureau Studies find such a relationship. Instances of such co-occurrence usually are associated with wars and the like.

ing unemployment. Employers are finding it easier to stick the con-
sider than to fight their employees. Few of them have adopted the pro-
cedure which would be more rational if generally followed, that of
lowering their prices so that there would be smaller immediate net
losses to fight over.

Mal-distribution of real income, of course figures in an import-
ant way in the total situation. The largest factor in this has already
been introduced - the unemployment of the wholly or partly employed.
Even given full employment, the earnings of many families in this
country would not afford an acceptable content of living. In the rural
areas, partial unemployment takes the form mainly of not having enough
land and equipment to work with effectively.

The general formulation to take care of this phase of the sit-
uation runs like this: There are some men and women congenitally so
able in mind and body and moral energy that they could not now be
producing the means for a minimum standard of adequate living even if
they had been given an equal chance with others at health, education
and a job. The great majority of them, however, would now be providing
for themselves if they had been given the equal chance described.

Until our economic system operates in such a way as to afford
people this equal chance, our political system is highly unsafe.
Our republic was founded by a people who were much concerned over civil
political rights. They fought for these against their mother country.
They wrote them into the "bill of rights" in our Constitution. Given
these rights, they felt fully able to look out for themselves. There
were new areas of land to turn to, new shops that could be opened, if
they did not like their present jobs. This is no longer true. For
a million or more of them, the job is working as one of many for a
large employer. These millions have become more interested in this job
than anything in the world. This interest necessarily extends to the
industry and to the particular plant in which they are employed. They
want to have something important to say about how this plant is run.
They are more concerned over this than were ever our forefathers
about "taxation without representation".

What is still more important, they have learned out of the ex-
perience of the last several decades, but particularly out of that
since 1933, that they can use their ballots to protect their interests
in their jobs. They can support political parties and candidates that
give them protecting laws and sympathetic administration of the same.
They can also support labor organizations that wield much power in
Congress and in state legislatures, as well as in collective bargaining
with employers.

So firmly convinced are these millions of workers of the possi-
bilities of using their political power, and their right to organize,
in these several ways, that nothing short of some sort of political
coup, or a war or its equivalent, can change the situation.

Given this new power, how is labor going to use it? Not wisely, the whole, in the near future, I think we can expect. Programs will be short-sighted, in the interests of entrenched labor and not labor, and often not in the national interest. There will be much emphasis on wages at the expense of employment. In time, labor leadership will become much wiser. But will it be become wise soon enough, that is the question.

It was with the passage of the Agricultural Marketing Act in 1929 agriculture got its first real taste of blood. That act put up and of \$500,000,000 to be used to sustain prices and underwrite farmers' cooperatives. The Agricultural Adjustment Act has distributed more generously and generally and even more directly. Each successive revision of the Adjustment Act has taken more nearly the form of distributing federal funds between different commodity groups. There is of course, some other important elements in the AAA program; but the great bulk of farmers receiving payments look upon them as their share in a total sum of money being handed out to farmers because prices for farm products are too low relative to wages and profits. The distribution of this bonus is taking on increasingly the character of the battles over tariff duties. The hands of the contestants in the present session of Congress must surely smell of pork. Just as the labor leaders over-emphasize wages, so they over-emphasize prices. They are equally short-sighted and opportunistic. Will they too become wise enough to avert calamity for themselves and the nation?

Nevertheless one has difficulty in thinking harshly of the roles taken by either labor or agriculture. In making use of political power as an instrument of crude economic advantage, labor and agriculture are only following a pattern set by industry and trade and finance very early in any national history, and still followed by them intently. It is fairly safe to say that these interests largely dominated our public policy most of the time until very recently. The early battles were over the tariff duties and special privileges to exploit our national resources. So venal had the business of writing a tariff act become by 1900 that the Congress had become totally unable to write such an act in the public interest. A pure accident of political history set up the present trade agreement procedure to take the place of the old system which had failed. Wise administration of the Act has saved it for us to this time. For how much longer, I would hesitate to predict. The labor and agricultural lobbies in Washington may be potent; but their efforts look a bit pale at times when set in comparison with those of groups that have been looking after the interests of the national manufacturers, the public utilities, the sugar refiners, the chain-store monopolists and protagonists and the like.

Go out into the state arena and one readily thinks of whole administrations or departments of government now or recently in the saddle because of support from strong private interest groups - power groups, mineral resource groups, trade groups, etc.

The farm organization group seems to have reverted back to the

sition of the Equity group in the early 1900's, as stated in J. A. Prett's book, "The Third Power". Capital was then looked upon as organized, and labor as organized. Agriculture needed to organize as the third power. The main difference is that Everett looked to agriculture to win its battles in the market place, whereas the present organization group is looking to Congress and the State legislatures.

This setup immediately raises the question as to whether a "negotiation" process between these three powers will provide a safe and workable national and local public program - whether the outcome of their higgling in the market place, and trading favors in legislative halls, will be programs and procedures and price policies that will reasonably well serve the general body politic.

A considerable school of thinkers in the field of political science now take the position that the so-called "public interest" is a myth; that in effect such an interest can consist only of what comes out of some sort of a negotiation between the power groups. I have never been willing to accept this position fully, but have insisted that unless there is weighed into the balance, along with the selfish interests of the several power groups, a considerable measure of thought in terms of the general good, then popular government will fail, and presently go to ruin - as it has done recently in much of Europe.

But even though the theory of negotiation between power groups is sound and workable, surely a fourth power group must be included, which for the want of a better term is commonly called the consumer interest. Otherwise the three other powers will generally come out of their negotiations with higher prices for the producers, higher margins for the dealers and processors, and higher wages for the laborers. This would be all right if the particular groups of producers and dealers and workers were the sole consumers of the product. Actually they pass on the higher prices to a much larger body of consumers, most of whom are in no position to recoup their losses.

The process is well illustrated in the milk markets of today. Where the government has been made the fourth party in milk market agreements, it commonly proves to be a tool or cat's paw of one or more of the three powers. In the New York market this last winter, however, we had an example of the federal government really acting as a fourth power in behalf of a broader public viewpoint. Much of the time since the marketing agreement and order program was set up in 1933, the federal and state government agencies have been too much dependent on political support in Congress, or upon administrative support in local markets, to be free to represent the general interest. Nevertheless, these marketing agreements in which some government agency is made more than an arbiter, is made an actual fourth power, able if need be to exercise the deciding vote in matters of volume of output and prices, must in my judgment serve as one of the patterns for future developments. Such a setup has considerable in common with the old NRA type of industry organization - the so-called code authority. But its objective and lines of action must be vastly different. It must make the main-

tenance, and expansion if need be, of volume of output and sales, and accompanying full employment of workers, its almost sole guide to conduct. Obviously one cannot establish such code authorities by mass creation as Hugh Johnson attempted it. But a half dozen major industries could be set going in six months.

In this connection, I call your attention to the fact that Mr. Knudsen of O.P.M. has just set up 28 industry committees. O.P.M. has been playing around with other procedures for several months without anything like satisfactory results. The change to the new type of organization has evolved out of this experience. The objects of such organizations during defense and war are clear enough - they must get a large increase in output at no increase in prices in most cases. In some cases, there should be an actual lowering.

These same industry organizations, and as many more as needed, should be carried over into the post-war or defense period. No doubt they will need revising somewhat at this stage. Their objective in these years must be to keep up the volume of production, sales and consumption in all those industries that are producing goods needed in peace time, and in the others to shift the output to peace-time types of products as promptly as possible. The general guiding principle for such industry organizations is clear enough: They must establish and maintain such a relationship between prices and production of the various products, and wages and incomes of workers engaged in their production, as will result in approximately full and continuous employment of men, equipment and resources. They must not allow our capitalistic system to return to its old practice of holding up or raising prices as a means to higher profit for the individual firm or industry.

Here is the place where our new orientations in economic theory become the basis for actual working programs. Let the economists of this new day put themselves at work by industries and develop for them the production, price and wage programs that will attain the ends required.

I do not wish to be understood to say that the programs for the different industries need not be coordinated, that no economists need to be concerning themselves with the over-all aspect, and with inter-industry relations. But an internal analysis by industries is required as a basis for this latter.

The Keynesian type of theory also fits into this picture. In spite of the best that can be done in shifting production to peace-time lines of goods at the end of the war or the defense preparation period, we will have temporary cessation of employment of considerable numbers. Something in the nature of public works will be required for a time. But we should keep this at a minimum by promoting the production and sale at low prices of goods that can be sold in the regular market. The financial power of the government should mainly be devoted to underwriting such production. It should by no means be wholly of direct and immediate consumption goods. There must be production of goods that will

liquidate themselves over several years, and even over 20 to 40 years.

Taxation must play an important role in this, partly as a means of raising the funds required for this underwriting of the program. But more largely because a considerable part of the goods and services which an expanding economy wants are of kinds that we are now paying for out of public moneys - education, public health, parks, roads and the like. Another part of the activity of these years may well be of types that will never liquidate themselves wholly in the direct sense. I have in mind as an example the rehabilitation of our forests and our eroded and denuded lands. We get our returns from such public investments through building up the tax base itself, or through general social betterment.

A still further need for tax funds comes from another source. The programs thus far outlined must be supplemented more fully than now by arrangements that provide much more nearly equal opportunities for all social groups and areas and individual families. At the New Orleans meeting of the Farm Economic Association, Professor T. W. Schultz, emphasized a distinction between allocation of resources and of income, and strongly espoused the former. I would go along with him, provided the resources allocated take the form of education and training of the low-income youth, provision of better health facilities and better nutrition for this group, and provision of land or equipment for competent young men and women who do not inherit the means to acquire these. Even this, there would need to be allocation of income only for the weak of mind and body and morals.

This latter needs a well organized and scientifically conceived work program of the sort that the W.P.A. is not now, but should be - a W.P.A. wholly taken out of politics, that develops types of work suited to the individual and that can be paid for on a going piece-work basis so that the workers will not suffer the degenerating effect of overpayment for their efforts, and so that the rest of our economy will not be able to object to the competition of such employment. Of course, there will still be the need for supplemental direct public charity.

I see no difficulty in raising the tax funds required for by the foregoing, provided we keep our economy going in the manner outlined. They will be far easier to obtain than what we are raising now from a crippled economy.

What is the immediate application of this to agriculture? First, the provision of full employment for urban workers, supplemented by adequate provision of food for proper nutrition of the low-income group, will give utilization for many of our idle and undeveloped acres in the production of the protective types of foods. Second, the maintenance of full employment in industry, and expansion in due order, will provide livelihoods in urban or local non-agricultural pursuits for the millions of excess population of our congested farm areas, and permit a shift toward more extensive forage and livestock forms of production. Third, the type of public work program outlined will furnish employment in

forest and other land improvement activities in the interim period while the nation is making the transition from war-time to peace-time production and consumption.

If agriculture is to fit into all of this, it will need to have imposed upon its present manifold and complex system of state and federal agencies a type of over-all federal, state and county agricultural defense organization, of a nature somewhat suggested by the food administration of the last war, but more direct in its operations; and this organization will need to carry over into the post-defense period.

I shall conclude by some remarks that should lay a foundation for the forum discussion of tomorrow morning. The activities of the defense and/or war years will draw off much of the excess of workers now on farms. It will not cause all of the wide-scale shift of land to forest use, or combined forest and agricultural use, that is called for in many parts of the country, especially in the Appalachians. But it will make definite progress in that direction. I do not expect to see a sufficient realization of the program outlined above to take care of all of these workers in non-agricultural pursuits when the war years end. But I expect to see enough of it so that a large proportion of them will be provided with jobs, or at least will not return to farms. In the longer run, I do not look to see, like O. E. Baker, seven or eight million bona fide farmers because the cities do not provide jobs for them, but instead some four million of them. There will be, in addition, a larger number than now of residential farm families who do a little farming on the side, and of part-time farmers who fit together some farming with part employment in industry and trade. But the total will add up to less agricultural employment than now, the difference being made up by more machinery and power, and more labor-extensive systems of farming. Technological intensity, in the sense of fuller culture of the land, I expect to see increase; and of course total volume of agricultural output.

On the whole, I expect to see more production for home use in most parts of the country - in the South because under the cotton and tobacco economy as until recently practiced, a premium has been placed on not engaging in such production; in the Appalachians through improving the technology of such production; in many parts of the West, through making more available the water needed for it. But we must not confuse this trend toward more production for the family with a prospect for more and smaller farms. It is true that it contributes to the possibility of the latter; but it will not produce it except in limited areas and temporarily.

My final remark is that even though we stagger out of the present defense preparation years into a heavy recession, recover from it haltingly as after 1920, and then pass into another decade or two of prolonged stagnation, we shall still see a general mechanization of farming, and painful absorption of displaced farm workers in cities. I did not think this six months ago. Since then I have spent my time mostly in interviews and observations in the very regions where such a change will

the most painful - - in the cotton and tobacco South and in the Appalacheians.

I need in self-protection to reiterate in conclusion that I fully realize that I have over-simplified the broad problems with which I have dealt; nevertheless, I believe it was called for on this occasion.