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UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS

THE FARMER'S INTEREST IN *Wages* AND *Earnings*

By JOHN D. BLACK. *A noted economist considers a frequently asked question: "What about these figures on how factory wages and farm prices go up and down perfectly together?"*

THE NORMALLY reacting farmer does not applaud when someone proposes a general wage increase. He knows even without thinking that a wage increase will make him pay more for a job of carpentering the next time he repairs his barn or builds a silo, and that presently it will step up his truck and tractor repair bills and raise the price of farm machinery.

If he stops to think about it, he realizes that it will also raise his tax bill and widen the margin taken by the middleman agencies, processors, and railroads from what he sells as well as from what he buys. Finally, he understands that the cost of his own supply of hired labor is more or less tied in with the wages paid in cities roundabout him.

In recent years, however, a good many folk of one description or another have been trying to tell him that his normal reaction is wrong. Even government agencies have taken a hand in it. Several of them, for example, have had a hand in circulating among farmers one version or another of the now familiar *Parable of the Billions,* a recent statement of which is:

"In 1929, when pay rolls were $12,000,000,000 a year, farmers' incomes also totaled about $12,000,000,000. During the depression, farm incomes and pay rolls went down together, until in 1932 both stood at about $5,000,000,000 for the year. By the end of 1939, both had climbed back to a level of between $8,000,000,000 and $9,000,000,000. Farmers' incomes and industrial pay rolls rise and fall together!"

In the course of a 9 months' absence from academic cloisters last winter, spring, and summer, the writer talked individually to several hundred farmers and public servants of agriculture, and to several thousand in meetings and discussion groups. In all that time, in whichever of the 35 States he was in, no question was asked more often than this: "What about these figures on how factory wages and farm prices go up and down perfectly together? Can you give us the low-down on that?"

Obviously it is not an easy question to answer. It is as hard to figure out a way of stating the answer as it is to find the answer. Finally, the accompanying chart was devised. The solid line shows the movement of agricultural income—the "total revenue" curve the economists talk

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about. Then, there is a dotted line that shows how much of the changes in this total revenue are associated with changes in price level. The association is pretty close except in four periods: First, in the 4 pre-war years; second, at the peak of the last post-war secondary inflation; third, in the short depression afterwards; and, fourth, in the big depression and slow recovery from it since.

In two of these periods, most of the differences between the two lines are associated with a second factor, namely, *real income of the nonfarm population*. This is the cross-hatched part of the chart. The solid black parts of it represent periods when this real income factor helped in the wrong direction in explaining changes in farm incomes. They are not important and can be ignored for all practical purposes.

This chart makes very certain that the income of the nonfarm population is important in maintaining farm income in periods of general depression. All the available data on shares of the national income show that labor income holds up better than capital or agricultural income during depressions, and agriculture manages to get a slice of this because laborers' families keep up their food purchases.

There is nothing startling about this. It's exactly what one would expect. One always feels a little foolish when his statistical analyses reveal the obvious, but one who knows the vagaries of official statistics as well as the writer also gets a thrill out of it at times.

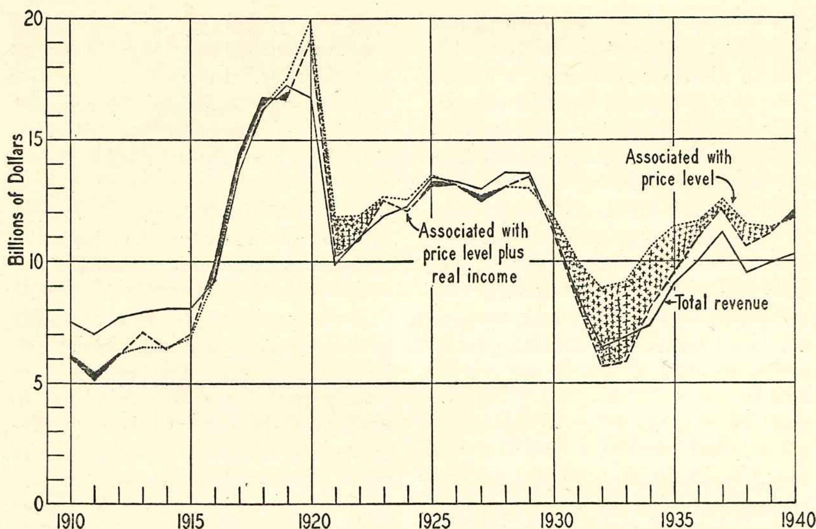
Relative Importance

The relative importance of price-level changes and real nonfarm income changes as influences on agricultural income can be stated as follows: In the decline in 1921–22 of $7,000,000,000 in agricultural revenue, $1,500,000,000 was associated with decline in real nonfarm income and $5,500,000,000 with a decline in general price level. Of the decline in 1929–32 of $7,200,-000,000 of revenue, one-third, or $2,400,000,000, was associated with decline in real income. Of the $2,500,000,000 which agricultural revenue in 1937 was still short of the 1929 level, half was associated with lower price levels, a fourth with lower real income, and another fourth with something else.

Except in these depression periods, real nonfarm income and price levels have changed so nearly in parallel that it is not possible to separate the influences of the two.

The blank space on the chart represents changes in agricultural revenue that are not explained by either price level or nonfarm income changes. If space permitted, it could be shown that these gaps are closely associated with our foreign trade in agricultural products. In 1910–14, the United States had large exports which added significantly to agricultural income; in 1934–40, these exports have been far below the 1910–40 average. Introducing agricultural exports as another variable largely closes the remaining gaps.

Closer study of the variations in real nonfarm income reveals that they are associated very closely with employment and unemployment and less with hourly earnings of industrial labor. It is true that real nonfarm income can be increased by higher wage rates, as well as by more employment. But there is al-



ways danger that a rise in wage rates may prolong unemployment and reduce total nonfarm real income.

Two supplementary considerations reinforce the foregoing conclusions. One is that agriculture is more interested in better earnings for the poorest paid urban workers than for the better paid. It is the former group that expands its food purchases most with higher earnings. For the same reason it is interested in jobs for everybody.

The other reason is that full urban employment means an outlet in cities for the surplus population of the farms. The failure of industry to expand as it should since 1933 has been a very great burden upon the farm populations of many sections of the country. Any wage increases that retard industrial expansion are very hard upon agriculture.

Conclusive

The foregoing analysis seems clear-cut and conclusive. That is a way of writing that all of us fall back upon when we are aiming at the general reader. When we write as scientists, we qualify our statements until sometimes it seems as if nothing definite is left. In this case, it is at least necessary to say that when two factors are as closely intercorrelated as price-level changes and real non-farm-income changes, one cannot make a separation of these two "effects" that is absolute. Nevertheless, the analysis was made according to all the rules and approved practices.

Perhaps it is necessary to explain one or two details of procedure. The real nonfarm income used is money income adjusted for changes in the cost of living. The Bureau of Labor Statistics index numbers of wholesale prices were taken as a measure of general price level. The analysis takes account of the fact that farm prices move through a wider range than wholesale prices, dropping far-

ther in depressions and rising more rapidly in the boom periods.

It is admitted that using a wholesale price index as a measure of price level for this purpose is not satisfactory. The writer would gladly substitute a better one if it were available. But he insists that some kind of separation of price-level and real-income influences must be made. We have had in recent years enough construction of demand and revenue curves in terms of misleading dollar terms to lead a whole generation astray.

Agriculture's Gain

If space allowed, it would be interesting to analyze chronologically from 1918 to date the concurrent changes in agricultural revenue, price level, real nonfarm income, employment, and urban wages. Such an analysis would show that in only two brief periods has agriculture possibly gained from improved hourly earnings in addition to increasing employment These are 1922–25 and 1933–37. In 1918–21, 1925–28, 1930–32, and 1938–40, the relationship seems clearly to run the other way, very strongly so in 1918–21 and 1930–32.

The conclusion from the historical part of the analysis can be stated about as follows: Wages should rise when price level and/or real income or labor productivity rises, and only to the extent indicated by such rises. Furthermore, the gains from greater productivity must be passed on to agriculture in some measure as lower prices for industrial goods. Under these circumstances, agriculture will gain from wage increases. Under other circumstances, agriculture is very likely to lose from wage increases. Historically since the last war, most of the time agriculture has lost from wage increases, but has gained from increased urban employment.

Unity

I mean a sense of earth and skies and trees and rivers, not as a thing thought about but as a thing in me. I wanted earth in me and skies and fields and rivers and people. I wanted these things to come out of me, as song, as singing prose, as poetry, even. What else have I ever cared for as I have cared to have this happen, what woman, what possessions, what promise of life after death, all that? I have wanted this unity of things, this song, this earth, this sky, this human brotherhood.

—SHERWOOD ANDERSON