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A FRAMEWORK FOR THE FARM PROBLEM

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The farm problem is highly complex, and I am limiting my discussion to one particular aspect of it: the *income* problem of *commercial* farmers. Income is not necessarily the most important part of the farm problem, and the lowest incomes are not found among commercial farmers (by which I mean those who operate, approximately, the most productive 40 percent of all Census farms). But the income problem of commercial agriculture is the issue that has most aroused farmers in the past 35 years, has captured the attention of the general public, and has motivated most farm legislation.

For purposes of definition, I assume that the income problem would be considered solved if the farm operator's income in commercial farming provided returns on family labor and investment comparable with rates prevailing in industry (subject to necessary qualifications about measuring incomes on a comparable basis). But I think that the effectiveness of approaches to solving the income problem should be appraised in terms of how close they come to this norm rather than whether they fully reach it.

I am going to narrow the topic even further by centering attention upon the average level of income in commercial farming as an aggregate. Such matters as instability of income over time, inter-commodity differences, and organizational problems of individual farm businesses are ignored. I do not mean to imply that these are unimportant or unrelated to the main question; we just do not have time to consider them.

The setting for the income problem is extremely important for any discussion about its solution. I am assuming that low returns for family labor and investment in commercial farming are largely the result of two basic conditions. The first is a high level of aggregate output. The second is an excessive number of people trying to make a living in commercial agriculture. The two are closely related but are not the same.

It is especially important that the setting for the farm problem be considered in dynamic rather than static terms. If general economic conditions remain good, both demand for farm products and output will expand over time, but the farm labor force will decrease. The challenge is to achieve a proper mutual adjustment of these rates of change,

not to arrive at certain levels of output and labor force and then hold them there forever.

APPROACHES TO SOLVING THE INCOME PROBLEM

The number of proposals that have been made or might be made for solving the income problem is virtually infinite. But there are only a few general ways to meet the farm income problem, and specific proposals are variations or combinations of a few main approaches. I shall outline the approaches and then say a few words about the relation of specific programs to them.

A. Let the Problem Work Itself Out in the Open Market

Complete adherence to this approach would mean dropping all price supports, acreage controls, export programs, marketing agreements and orders, etc. To avoid utter chaos, the government would assume responsibility for insulating its present stocks from the market. We could expect a strong initial tendency for land use to return approximately to the 1953 pattern and for most yield-increasing practices adopted in recent years to be retained. Though total crop production would not be much affected, market supplies of all crops collectively would be increased by discontinuance of diversion-from-market programs. The supply of concentrates to be fed to livestock would increase, and, after some lag, so would livestock production. Prices of most farm products would decline, wheat and tobacco perhaps most spectacularly. Net farm income might decline by one-fourth or more, but the decline would be spread very unevenly over producers of different commodities.

The effects over subsequent years are the most important ones to consider. I would expect the rate of increase in total farm production to slacken for a few years and income gradually to improve from its initial low point. But under the twin pressures of advancing technological knowledge and a persistent surplus of people seeking a living in agriculture, farm income probably would find an uneasy equilibrium at too low a level for the farm problem to be considered solved. But farm resources would be used more efficiently than now, and costs and other difficulties of government programs would be avoided.

One qualification should be made about dropping all programs. Would concern about international relations permit us to let prices of wheat and other export crops drop freely? Perhaps not. One possible alternative would be to impose export restrictions on ourselves in much the same way that Japan now voluntarily limits textile exports to us.

B. Change Market Demand

Demand for most farm products is inelastic, and demand for farm products in the aggregate is highly inelastic. Thus, reducing output will generally increase income. I would not be too confident of this in all cases—especially for cotton, which is an important export crop and competes more with synthetic fibers than with other farm products. Increasing the demand for farm products will, of course, increase gross income. The operation of markets may be modified by operating on either the demand or the supply side.

SUBSIDIZE CONSUMPTION AT HOME OR ABROAD. An important version of this approach is subsidizing food consumption of low-income families. Food expenditures of both low-income and other families would rise. Initially, farm income might be increased by more than the subsidy. But if production rose in response, some income benefits to farmers would disappear. This approach is less attractive when non-farm incomes are high than during depression, and it has little to offer for such problem commodities as wheat, cotton, and tobacco under any circumstances. Even the most carefully thought out proposals present serious administrative difficulties.

FIND NEW USES FOR FARM PRODUCTS. This suggestion is perennially attractive. But when we note the development of synthetic fibers, the upgrading of vegetable fats to equal the quality of animal fats, and homogenization of tobacco, we must conclude that to date chemical science has operated more to reduce demands for agricultural resources than to increase them.

CHANGE CONSUMER PREFERENCES BY PROMOTION AND ADVERTISING. Increasing demand for some farm products at the expense of others or increasing demand for marketing services seems quite possible. But neither of these is a solution to the over-all income problem in farming. The best argument for advertising and promotion is advanced in connection with the “animal agriculture” idea: Use more of our farm resources for producing animal products and in this way bring production within the range of human consumption capacity; then by advertising and promotion persuade people to buy more animal products at higher prices. Are the potentials of advertising and promotion this good? I am skeptical.

REDUCE MARKETING COSTS. Demand at the farm level of marketing is a derived demand and depends in part on the cost of performing the intervening marketing and processing services between the farmer and the consumer. We are very apt to think that anything that costs as much as marketing does must be grossly inefficient or highly exploitative. But these are oversimplified notions. Though important and valuable gains may be made, reducing marketing costs does not promise to

solve the farm income problem. Indeed, if we are in a cost-push inflation the strong tendency for marketing costs to rise may be a serious problem for farmers.

PRACTICE MULTIPLE PRICING IN THE MARKET. This approach takes demand as given but attempts to divide the total market into segments in which different prices can be charged. Under appropriate conditions of elasticity of demand in the different market segments, total income can be increased. A familiar version is the two-price plan for wheat, under which a high price would be charged in the domestic food market, where demand is highly inelastic, while as low a price as necessary to move the rest of production would be accepted for exports. Or three markets might be distinguished, as by adding feed wheat to the two-price plan. Other examples are distinctions between fresh and processing uses for fruits or between ordinary and oil uses for peanuts. The approach has been most widely used and refined in classified pricing of fluid milk.

This approach requires that the different market segments be administratively distinguishable. It works best where a highly inelastic market now takes a large part of production and where another market is available that will absorb considerable quantities without great price sacrifices. Use of the approach means that cheap products are being dumped in other people's markets, and they can be expected to object. For example, foreign wheat growers and domestic feed grain producers are likely to resent three-way pricing of wheat.

C. Change Market Supply

Here the usual effort is to restrict marketings. The question is sometimes asked, why must restraints be imposed if reducing farmers' production will raise their income? The answer, of course, is that each farmer's output is so small a fraction of the total that it has no discernible effect on price. Thus, the farmer is not restrained by considerations about the relation of total output to price; instead, the higher prices are raised, the greater the incentive for him to increase production. Hence, achieving compliance with restrictions is a foremost difficulty. Two general methods are available: inducements in the form of payments or eligibility for price supports, and compulsion in the form of fines and imprisonment.

RESTRICT INPUTS. The first input to be considered is *land* since current programs rely mainly on acreage limitations. Two main problems have arisen: substitution of other inputs for land, and diversion of acreage to other crops. The Soil Bank is an attack on the diverted acres problem but does nothing about the substitution difficulty. A high

level of participation appears necessary if production is to be materially reduced; and the more successful the program is, the higher are the per-acre payments necessary to obtain continued participation.

Even a successful restriction on land has an important drawback. It makes land the scarce factor of production; additional income tends to be imputed to land; and land costs are raised for subsequent owners of farms. In the long run, restricting the land factor may have little effect on rates of return earned by farm families for their labor and investment.

Restrictions might be applied to *capital*, such as machinery or livestock. This seems even remotely feasible only in special instances, however. Cow numbers might be restricted in an effort to raise dairymen's income. One result would be a rapid upgrading of the quality of dairy cows. Or *purchased current nonfarm inputs*, such as fertilizer or gasoline, might be restricted. Curtailing fertilizer could have an important effect on production of such crops as cotton, tobacco, and vegetables but would be difficult to administer. Both production and prices would have to be controlled, and the government would have to allocate all fertilizer to individual farmers. Application on individual crops could not be controlled, and black markets for fertilizer would develop.

The remaining factor, *labor*, has a double significance for this discussion. We are interested in restricting labor inputs not only because of possible effects on prices of farm products but also because of the effect on family labor earnings. We cannot consider the farm income problem solved as long as these earnings are low. Family labor earnings cannot reach and remain at high levels if many families willing to accept low returns are seeking a place in agriculture.

Licensing farmers is sometimes seriously suggested. I do not think this proposal is either acceptable to most people or potentially effective in achieving desired results. The only way to accomplish this important adjustment job under present circumstances is to enable people born in agriculture to make the best use of their abilities wherever opportunities lie, which may not be in farming. An important approach to the income problem even in commercial agriculture is to improve the labor market in the sense I have just indicated.

REDUCE THE EFFICIENCY WITH WHICH INPUTS ARE TRANSFORMED INTO PRODUCTS FOR THE MARKET. In general, this rather obscure statement calls for eliminating past technological advances or retarding future improvements. Eliminating certain technological advances would be comparatively easy. For example, the government might outlaw all production of hybrid seed corn. The effects on farm production and prices would be far reaching. Retarding future technological advance

might be attempted by withdrawing public support from agricultural research and extension, but this strikes close to home for most of us.

IMPOSE DIRECT RESTRAINTS ON MARKETINGS. This was the original intent of marketing quotas on cotton and tobacco. Direct controls are potentially more effective than input controls, and they permit farmers to combine resources as they see fit. But direct controls are more difficult to administer than acreage allotments, and marketing controls cannot be applied to crops largely fed to livestock. Variable yields resulting from weather may create special difficulties.

PRACTICE MULTIPLE PRICING TO THE PRODUCER. This approach closely but not exactly parallels the multiple pricing proposal on the demand side. The purpose here is to reduce the marginal value of output without correspondingly reducing the value of all production. Marketing allotments must be assigned to producers, probably on a historical basis. Some means must be devised to pay producers less for above-allotment marketings than for within-allotment marketings. One such means would be to assess a fee on all marketings of a particular commodity and to return the proceeds to producers on the basis of their allotments. If no farmer changed his production, this would only shuffle money around without affecting anyone's income. But if the low marginal value of production tended to restrict future marketings, producers' income would be increased.

D. Change the Competitive Structure of Agriculture

Farmers sell their products under conditions of pure competition when government programs are not operating. Output is not restricted by administrative restraints in an attempt to influence price. The situation would be different, though perhaps not sufficiently to have much effect on the farm income problem, if the competitive structure of agriculture were changed either spontaneously or by intent. The competitive structure could be changed either by vertical integration with industry or by horizontal combination of farm businesses.

Conceivably, vertical integration could lead to a situation in which practically all individual farms were affiliated with one or another of a few giant processors or retailers. Then oligopolistic price and production decisions made by these firms would become binding upon farmers. The behavior of prices and production under the impact of changing demands and technology might be much different than in open markets today. In a more extreme case, all farms might be owned by corporations also involved in processing and retailing; in this event, farm income would lose its identity in consolidated profit and loss statements. The farm income problem might not be solved, but it would disappear.

Farms might increase in size to the point that oligopoly rather than pure competition characterized agriculture. This is perhaps conceivable for some minor products but not for most of agriculture for a long, long time.

E. Transfer Income From Non-Farmers to Farmers by Means Outside the Market

USE TRANSFER PAYMENTS. The government would disburse money to farmers in order to supplement income received in the market. "Income payments" is a term often used to refer to payments geared to the level of recipients' income rather than to prices. The farmer receives compensatory price payments, which represent the difference between the market price and some higher, intended price. Subsidies for purchases of inputs fall into this category, though they are highly dubious means of solving the income problem. Overpriced rewards to farmers for performing certain acts are another possibility.

Payments of this type do not interfere with disposal of products in the market, and this, on balance, is a distinct advantage. But they may affect production and the price of inputs considerably. Use of ordinary compensatory price payments on a large enough scale to be a substantial solution to the farm problem would expand production greatly, and the relationship among the "intended prices" adopted as targets might make the expansion very unbalanced. Income payments or compensatory price payments made on base quantities of production would avoid the price incentive to expand production but would put farmers in a better financial position to expand if they chose. I favor this approach over others, however. Transfer payments, like any other means of increasing gross farm income, may not have much long-run effect on family labor earnings in commercial farming if there is a persistent surplus of would-be farmers.

USE NON-MONEY SUPPLEMENTS TO INCOME. This means provision of social services that in a sense supplement farm income. Government-supported hospitals in rural areas, for example, would provide farmers with a service that they might otherwise purchase if they had the money. This approach seems more suitable for providing certain minimum essentials for farmers than as a means of solving the farm problem.

GENERAL APPROACHES AND SPECIFIC PROPOSALS

Specific proposals for solving the farm problem have color, variety, and subtlety not suggested by my outline of general approaches. One reason is that approaches can be combined. For example, a proposal for a wheat program might combine multiple pricing in the market with some form of restriction of output. Current foreign disposal

programs are, in effect, a complex combination of multiple pricing and subsidies to foreign purchasers. The flexible price proposal is an attempt to use Type B approaches to simulate Type A as closely as possible, and gradually to depend more upon A and less upon B.

Another reason for variation is the fixing of administrative responsibility. Self-help proposals put some administration in the hands of producer or producer-industry committees. "Self-help" implies no cost to the Treasury, an important consideration these days. It also suggests that continuation of the program will not depend on the whim of government. Almost always, some delegation of government power, or backstopping by government, is necessary to make the proposals work. Marketing agreements are long-standing examples of self-help programs.

The particular means used to effectuate a general approach may be highly important in distinguishing one program from another. An example is the acceptance of local currencies in payment for certain foreign sales of farm products.

Proposals are not necessarily confined to dealing with the income problem, though that may be the most important purpose. For example, devices to give preferred treatment to family farms or to promote recreational uses of land may be included in income programs. Finally, political salability is important for any proposal, and more attention may be paid to provisions designed to sell a program than to ways of making it work after it is sold.

GENERAL APPROACHES TO SOLVING THE INCOME PROBLEM OF COMMERCIAL AGRICULTURE

(Two or more of these approaches may be combined in specific programs.)

- A. Let the problem work itself out in the open market.
- B. Change market demand.
 - 1. Subsidize consumption at home or abroad.
 - 2. Find new uses for farm products.
 - 3. Change consumer preferences by promotion and advertising.
 - 4. Reduce marketing costs.
 - 5. Practice multiple pricing in the market.
- C. Change market supply.
 - 1. Restrict inputs.
 - a. Land
 - b. Capital

- c. Purchased current nonfarm inputs
 - d. Labor
2. Reduce the efficiency with which inputs are transformed into products for the market.
 3. Impose direct restraints on marketings.
 4. Practice multiple pricing to the producer.
- D. Change the competitive structure of agriculture.
1. Vertical integration with industry.
 2. Horizontal combination of farms.
- E. Transfer income from non-farmers by means outside the market.
1. Transfer payments.
 2. Non-money supplements to income.