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TOWARD POSITIVE POLICIES FOR AMERICAN AGRICULTURE*

How a society deals with its agriculture can be crucial to its economic progress and political structure. Nineteenth century England, in choosing the route of cheap food imports, and Denmark, in subordinating domestic food grains to imported feedstuffs, made decisions affecting the entire course of their future economic development. Despite widespread emphasis on industrialization at the present time, the success of economic programs currently being undertaken in underdeveloped countries will depend in large measure on their handling of the farm sector: their ability to squeeze capital out of agriculture to finance off-farm activities; the extent to which labor can be released from farming for employment in other enterprises; the development of a rural market for the products of local industry; and a high rate of expansion in domestic food supply as a prime offset to domestic inflationary pressures or balance-of-payment difficulties. The Communists exploit legitimate aspirations for land reform, but their longer-term strategy is to destroy an independent peasantry in order to assert political control over the countryside and economic control over the cities. Indeed, Khrushchev has described "the shift of the peasantry to co-operation" as "the crucial problem of socialist development" (6, p. 81).

At home, there are comparable references to the American "farm problem" as the major domestic issue of the day, and it is not at all surprising that the independent farm operator and his counterpart in small business enterprise should enjoy favored treatment in societies that place a high value on private proprietorship. But economic change continually involves advantage to some economic groups and disadvantage to others. Whereas the newly independent countries typically give undue political influence to the town, historical systems of representation in the older democracies seriously overweigh the interests of the countryside. One of the less pleasant manifestations of countervailing power in any democratic society is that an important group whose economic status is deteriorating may exact excessive political conditions as the price of progress. In periods of rapid change, the social challenge is twofold: on the one hand, to resist extravagant claims made in the name of any vested interest, and on the other, to invent instrumentalities that ease the impact of necessary adjustment

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on injured parties without serious damage to the efficiency of the economic system. This is essentially an issue in social justice, and the challenge confronts not only farm policy but also public action in such fields as minerals, tariffs, and depressed areas, to mention only a few.

Artificial market support for individual commodities, which is a distinguishing feature of American farm programs, is the typical means of aiding groups adversely affected by economic change. This commodity emphasis is in line with comparative endowments of economic data, the structure of Congressional committees, and the organization of special interest groups. The commodity approach is in favor among political liberals and conservatives alike. On the one hand, a higher price for wheat or cotton is defended by those whose natural inclination is to favor the disadvantaged. By contrast, among those whose allegiance to private business enterprise is most vociferous, intervention in or even elimination of commodity markets[1] is somehow more respectable than direct income transfers that interfere less arbitrarily with the price system. Similarly, many can argue strongly for states rights and restraint on federal power while endorsing commodity devices for redistributing income among the states. The same people who condemn foreign aid as "giveaways" can vote heavy expenditures for foreign disposal of surplus farm products. It is not too much to say that Congress speaks the language of free enterprise but interferes more extensively with the price system than would be appropriate in a completely socialist state.

Programs for raising farm income by artificially supporting the prices of major crops have relied heavily upon a particular rationale: the apparent unresponsiveness of market demand to changes in prices of agricultural commodities; the short-term inflexibility of agricultural supplies, and particularly the difficulty of reducing total farm output when market prices fall; the vulnerability of primary producers in times of economic depression; and the assumption that federally-organized restriction of farm output would be advantageous to agricultural producers. Respectable econometric investigations can be enlisted in defense of these propositions. The marked contrast between the high professional competence of the agricultural economist and the sordid state of present farm policy does nevertheless lead one to ask whether the failure is entirely one of implementing unchallengeable economic findings, or whether there may also have been serious shortcomings in analysis and prescription. There are certainly other fields of public policy in which the recasting of our economic knowledge, the adaptation of public attitudes, and the adjustment of liberal institutions lag seriously behind the rapid pace at which the structure of modern economic life is changing.

If one is impressed by the malfunctioning of commodity programs, conscious of economic realities that have contributed to recent difficulties, and cool to the merits of policy proposals most widely discussed, he is under some obligation to devise alternative arrangements. May I presume to restate here a different and much more modest approach for protecting the income of farm operators (*11*). The measure attempts to apply standard principles of social insurance, along the following lines:

[1] For a defense of futures trading in onions, see *16*.

1. As with unemployment insurance, benefits would be related to the income experience of the individual farm operator during the recent past.

2. Social security practices would be followed in establishing an upper limit on the amount of insured income, and there would accordingly be a modest ceiling on the total benefits enjoyed by a particular individual.

3. Benefits would accrue only to growers who suffer an abnormal reduction in income, not to prosperous and distressed individuals indiscriminately.

4. Specifically, a grower would draw benefits if his farm earnings in a given year fell more than, say, 25 per cent below the average of the preceding 5 years. The maximum base income would be set at $4,800 net, equivalent to some $15,000 gross.

5. The right to benefits would attach to the person, not to farm land or to the farm enterprise, and would accordingly not be transferable.

6. Benefits would not be conditional upon the production of particular commodities or even upon continued employment in agriculture.

7. Benefits would be scaled downward as off-farm sources of income rose, but at the same time contingent protection would be afforded to persons shifting from farming to other occupations.

8. The plan would be contributory and compulsory, but the federal government would subsidize the program by making premium payments on some matching basis.

The merits and the deficiencies of this particular proposal warrant careful exploration,[2] and this audience is well qualified to evaluate them. But the presentation has the broader purpose of highlighting criteria that any agricultural reform should satisfy under present-day conditions. Let us explore some of the issues the proposal raises.

THE INCOME TARGET

To be sure, the degree of protection afforded would be considerably less generous than is aimed at under present statutory standards. But much frustration has hitherto arisen from the attempt to attain the unattainable. Pursuit of purchasing power parity for agricultural commodities ignores real gains in productive efficiency and human well-being. The goal of an historically-based fair share of the national income for a conglomerate agriculture defies the inevitable decline in that sector's relative position in a progressing economy. Efforts are made to remove the disparity between the absolute level of per-capita income on and off the farm despite the evidence that such differentials are well-nigh universal (*1*), and their meaning is far from clear. Those who stress market development for particular field crops can find little satisfaction in falling per-capita consumption of wheat or potatoes, well demonstrated indicators of dietary improvement. An American Secretary of Agriculture can hardly seek to promote a heavy in-migration to agriculture, an increase in farm population as a percentage of the total, or a steady decline in the average size of farm, but neither can he point with unmitigated pride to trends in a contrary but more appropriate direction.

[2] A recent textbook classifies the proposal among measures for reducing risk and uncertainty (*15*, pp. 489–90). It might equally appropriately be regarded as a direct-payment plan, in which subsidies are paid to offset shortfalls below the farmer's previous earnings rather than upon some alternative basis. (Footnote added 9-26-60.)

Outside agriculture, income-maintenance programs have typically been guided by the principle of a social minimum or have sought to pool risks in order to soften the distress caused by adverse economic developments beyond any individual's control. In this spirit Congress has enacted minimum wage, unemployment insurance, and social-security legislation. Remember that the urban labor force does well if unemployment insurance covers half a man's earnings for a 26-week period, and recall also the considerable number of farm people who now enjoy this degree of protection on the off-farm portion of their earnings. By standards of social insurance, 75 per cent of base represents a generous level of income support, but even higher figures would avoid adverse side-effects that result from corresponding percentages of statutory parity.

THE RELIEF OF REAL DISABILITIES

Confusion and misunderstanding arise from the failure to consider certain alleged disabilities of farm people in proper perspective. The plight of the small-scale farmer is exaggerated if we ignore evidence that rising off-farm earnings appear to have more than offset his reduced earnings from agriculture[3] (7). Mechanization and new technology ought not to be considered as merely independent sources of disturbance, for they have helped agriculture adjust to the drain of labor into the cities (2, p. 272) and have placed a larger scale of enterprise within the competence of a single farm family. Recent trends in farm indebtedness need to be interpreted against the low level of overhead charges attained during the past two decades. The farmer's satisfaction with his current cash position is seriously underestimated unless account is taken both of the rising volume of depreciation charges built into official estimates of net farm income, and also of concurrent changes in the value of his assets.

A more careful identification of the special disadvantages to which farm people are subject and the special disabilities from which they suffer is necessary if we are to specify appropriate fields for public policy. Only a few decades ago, the isolation of the rural hinterland, the immobility of rural people, and the arduousness of farm life and work took high places on the list. Merely to identify the traditional items is to call attention to the considerable degree of success in overcoming them. Electrification and mechanization, much of it internally financed out of farm earnings, have eased hard chores in homestead and fields. The rural electrification program was widely supported, on the principle that a public interest attached to extending transmission lines to sparsely settled rural areas. Farm-to-market roads and an extensive highway network are at least as important for having increased the mobility of farm people, including their access to town jobs and city medical facilities, as they are for having eased the shipment of farm produce. The sweeping changes involved in these improvements in the manner of living are little reflected in official indexes of level of living calculated for farm-operator families.

Income variability—whether the result of natural hazards, changing market circumstances, or special commodity cycles—does remain a real hazard of commercial agriculture, and public policy can reasonably seek to moderate its impact

[3] Operators' combined expenditures for family living and production purposes in 1955 are estimated at $40 billion (*14*), one-third higher than that year's cash receipts from farm marketings and government payments.

upon the individual farmer. Commodity price supports have been discredited in part because they superimposed upon this appropriate objective an excessive income target.

THE CONCERN FOR SOCIAL JUSTICE

The proposal disavows any social responsibility for protecting the market fortunes of higher-income farmers. Clearly the traditional practice of allocating public benefits in strict proportion to volume of marketings does not follow equitable principles of income distribution. Congressional and Administration actions accordingly reflect an increasing inclination to limit total benefits to individual growers. Such ceilings are restraints upon privilege, not upon opportunity. Indeed, under present tax structures and with the high proportion of federal nonmilitary expenditures now absorbed by agricultural programs, it seems likely that price supports involve an essentially regressive redistribution of income. In other respects as well, past programs and present proposals fall short of what social justice would dictate. More attention is paid to bargaining weakness in the markets where farm products are sold than to bargaining strength in the markets where farm labor is hired. Rising wages of farm workers, reflecting improvement in the real well-being of a significant component of the farm labor force, enter the statutory parity ratio as a distinct increase in costs and suggest only deterioration in average farm conditions. Gains to operating farmers are highly transitory if programs defended on grounds of higher income for an underprivileged group serve instead to bid up the price of land and burden succeeding generations of farmers with a higher cost structure. There is a real danger of accentuating this tendency if acreage allotments become freely negotiable or we move to an overt system of marketing certificates. Rights attached to the person are not open to the same criticism.

The relatively large number of low-income farm people has hitherto served to depress per-capita estimates of farm income and has afforded a statistical justification for commodity programs ill-suited to relieving agricultural poverty. Relating benefits to the individual's income experience would be similarly ineffective as an aid for the poor in agriculture; nor can unemployment insurance eliminate urban slums. Yet the insurance route improves the orientation of public policy in two dimensions. In the first place, there can be a frontal attack on the real problems of low-income farm areas, with full recognition of the demographic, regional, and racial factors involved. Secondly, many low-income folk of rural origin are now themselves confronted with unwholesome living conditions in the cities. The public interest in relieving their serious disadvantages of health, training, and community facilities has hardly terminated merely because they have moved to new constituencies. The enormous internal migration of recent decades warrants far more public attention than it has received. Slum clearance can well stand larger public expenditures and commodity programs less if we are to face up to genuine social problems of low-income farm families.

CYCLICAL CONSIDERATIONS

Price supports are commonly regarded as part of our battery of built-in economic stabilizers (*4*), but that view is not entirely justified. The long time lags that separate announcement of support levels from date of crop harvest, resort to support loans, actual federal expenditures, and subsequent federal receipts from disposal operations are far too long to allow nice adjustment to the requirements of contra-cyclical policy. Study of these processes in the recent past indicates that the consequent pattern of federal spending is as likely to accentuate general economic fluctuations as it is to moderate them (*10*). Heavier call on the agricultural loan programs of the Federal Government during periods of general credit restraint have similarly perverse effects.

The behavior of agriculture, and not just of program instrumentalities, has differed during recent cycles from what we have customarily expected. Consumer spending has been sufficiently maintained that industrial recessions appear to have affected rural America as much by drying up opportunities for off-farm employment as by effects on commodity markets. The traditional view that economic recessions are transmitted in magnified fashion from the general economy to the agricultural sector certainly requires serious reconsideration. With the 1958 demonstration that farm income can rise sharply in the face of industrial weakness, indicators other than the level of general economic activity can best guide the timing of financial aid to farm people. Granted the diversity of income experience within farming during conditions short of major commodity inflation or serious recession, the behavior of the actual earnings of the individual farm operator affords a more serviceable guide for action. Moreover, with production charges now absorbing so large a share of marketing receipts, commodity programs are a particularly expensive method of supporting farm income, and the alternative of overt transfer payments becomes increasingly attractive.[4]

INCENTIVES ON THE FARM

One need not be oversold on the normative virtues of competitive equilibrium and yet be impressed by the usefulness of the price system for coaxing rather than coercing appropriate adjustments. A great failure of the inherited farm program is the perverse inducements it sets before the individual farm operator. Federal aid has been attached to the continued production of unneeded commodities, with heavy emphasis on field crops least associated with a high-consumption society. Marginal incentives to produce have remained high, whereas marginal public returns from surplus output have been exceedingly low. Growers have felt impelled to plant unneeded acreages of surplus crops in order to maintain a production history and insure entitlement to future allotments. High price supports, capitalized into the high value of allotments, required high payments in order to idle land under the acreage reserve program, with the public treasury in effect bidding against itself. The vote by corn farmers to abandon acreage allotments on the 1959 crop was widely advertised as a decision favoring lower prices with more freedom to plant; but a price structure combining higher *average* supports for corn and a 10-point cut in supports on minor feed grains had predictable consequences. Indeed, a price-support structure reflecting the application of various statutory formulas and freezes, percentages of average market price, and sundry lesser criteria, verges on the chaotic.

[4] A curious by-product of present procedures is that the value of agricultural production and accordingly Gross National Product tend to be overstated in the national economic accounts, and a significant transfer payment is completely hidden.

As an instrument of social control, does the resultant price system really serve as well as prices more free to reflect changes in market demand and in real costs? Or could one hope for anything better if various commodity groups were given fuller autonomy in handling their own affairs? One can answer both those questions in the negative without placing farmers' income entirely at the mercy of the free market. Subsidy payments that do not vary directly with output are less likely to distort desirable price signals. An income-insurance plan avoids marginal incentives to expand output, and the contingent assistance it provides ought to have little effect on the grower's decision to plant.

MATTERS OF AGRICULTURAL INPUTS

It is of course widely recognized that farm productivity is increasingly responsive to inputs purchased from outside agriculture. But neither public policy nor economic analysis seems to have taken the implications of this situation into proper account. Public measures for restricting output continue to concentrate on limiting acreage alone; the alternative of limiting use of such highly productive inputs as fertilizer and irrigation water is not seriously considered; and practices that evoke prompt increases in yields are subsidized under cover of legitimate conservation practices. While land-use adjustments as reflected in the Great Plains program may be desirable for their own sake, even a massive program of land retirement does not by itself promise to be an effective route toward production control under present technological conditions.

On the other hand, technical explanations of the "farm problem" in terms of excess labor supply (*5*, p. 47) do not always make it clear that labor outflow cannot reduce surplus capacity if overcompensated by capital inflow. Earlier notions of "capital rationing" were popular during a period of massive capital investment in agriculture (*9*, p. 306). More recent studies of capital intensity in various sectors of the American economy indicate that, if account is taken of factors directly and indirectly employed, a dollar's worth of field crops now absorbs *more* capital relative to labor than do major products of the iron and steel industry (*8*).

Because farmers' propensity to invest is high, programs intended to improve farm levels of living can and do lead instead to higher production expenditures and enlarged surplus capacity. There is certainly evidence that soil bank payments have had precisely that effect.[5] With capital as well as land and labor being devoted to agriculture in excessive amounts, subsidized agricultural credit needs to be disbursed sparingly and judiciously. The legacy of unwarranted investment is of various undesirable sorts: the operator becomes committed to a higher level of cash expenditures in subsequent periods; computed depreciation charges rise, with adverse effects on subsequent estimates of net farm income; and problems of excess capacity are transmitted to agricultural supply industries. Excessive capital formation in agriculture will lead to low returns on farm capital just as surely as high birth rates in rural areas will depress returns to farm labor.

Considerations such as these speak strongly for public measures more likely to have their impact directly on farm consumption and the conditions of family living, including access to medical services, educational facilities, and community

[5] Contrast the behavior of net farm income with that of the monthly index of value of shipments of farm machinery, equipment, and wheel-type tractors (*13*).

services generally. Income payments that offset shortfalls in earnings seem far less likely to be dissipated in production expenditures than are the windfall gains, unrestricted in total amount, that frequently accrue under existing programs.

EFFICIENCY OF ADMINISTRATIVE CONTROL

Present programs frequently make impossible claims upon the administrative capabilities of the responsible agencies. This occurs when major activities must be initiated too quickly, like the acreage reserve program in 1956; or when enforcement regulations are deemed too onerous, as in the fight against cross-compliance; or when there are few standards that can be unequivocally applied, as in various disaster relief measures. Considering the vested interests already built into the purchasing, lending, storage, exporting, and importing functions of the Commodity Credit Corporation, and the enormous volume of its business, the surprise is that outright administrative bungles are so infrequent. Program minutiae involving individual agricultural commodities continue to absorb an exhausting amount of Congressional energy, long after experience has dictated a less intimate role in such fields as tariff-making and public-utility regulation. The time pattern of Congressional action is at odds with biological lags in agricultural production, and the farm operator cannot know what rules of the game are to be enforced in the period ahead. Whatever reduction may have been made in the degree of economic uncertainty confronting farmers has been offset, in part if not entirely, by rising political uncertainties.

Whether a system of tight marketing controls could be effectively administered remains seriously in doubt, and the higher the price target, the larger will enforcement problems loom. Marketing agreements have hitherto succeeded where the pattern of supply closely approximated conditions of natural monopoly, which is hardly the case for major field crops. The sugar program, frequently cited as a prototype, is facilitated by special relationships between individual growers and a limited number of processors, and the administrative record would be far less satisfactory if foreign sugar supplies did not provide a buffer for the entire control system.[6] Even a strong advocate of marketing controls is impressed by the difficulty of regulating the feed-grain sector (*3*, p. 353).

Before the extension of social security to farm operators, it would have been quite impractical to suggest initiating a system of income reporting for purposes outlined in this paper. But with comprehensive administrative machinery now in existence, new alternatives are open. Administrative standards are certainly more solidly established for social insurance than for price supports, and income insurance has features that provide a high degree of self-policing against possible abuse. There is good reason to believe that scales of premiums and benefits could be devised that would be quite as defensible as those now in use for purposes of unemployment insurance and social security itself.

INTERNATIONAL COMMODITY POLICY

An incidental gain from going the income-insurance route is that here is one approach that may be applied also to the international instability problems of

[6] Deteriorating Cuban-American relations have now seriously undermined, if they have not completely eroded, the basic arrangements upon which an efficient sugar program has been built. (Footnote added 10-18-60.)

primary-producing countries (*12*, p. 128). Consistency between our foreign and domestic practice would be a welcome change from the present state of affairs. Parity between prices paid and received by farmers remains the domestic standard, but at the water's edge we renounce the terms-of-trade approach to stabilizing price relationships between primary products and manufactured goods. We are prepared to dispose of surplus stocks of imported rubber on an announced schedule, but there is little inclination to do likewise with domestic corn or wheat. We endorse historical share of world markets as a rule applicable to cotton but would be considerably embarrassed if it were extended to American exports of soybeans, corn, or inedible animal fats. Stocks of wheat and corn on hand are to some degree justified as contingency reserves, but official concern does not extend to the size of mainland stocks of sugar or coffee, the two major foodstuffs shipped in by ocean-going vessels. International commodity agreements are resisted for imported commodities subject to cyclical instability in industrial demand, but are endorsed for an export commodity like wheat and also for an imported one like sugar, lest lower world-market prices embarrass our domestic control programs. Commodity measures make for difficulties in our trade relations with countries whose political values and economic institutions most closely resemble our own. Here are further good reasons for aiding farm people otherwise than by the commodity route.

CONCLUDING REMARKS

A few concluding comments are in order. The professional economist concerned with agriculture, like his colleague in the monetary field, is fortunate in the abundance of empirical data at his disposal, and society enjoys a certain corresponding immunity from irrelevant flights of academic fantasy. It is upon close observation of economic events, rather than upon the customary expertise of the agricultural economist, that many of the judgments in this paper are based. The discussion does not lead to a full-scale prescription for public policy, an agenda for the research worker, or a program for the extension service, and perhaps the path of advocacy has been pursued beyond the limits of good scholarship.

Whatever the defects of the precise mechanism here outlined, it does meet the challenge to devise institutional arrangements appropriate to present-day circumstances. The exercise of ingenuity is far more respectable in fields like mathematics and technology than in the area of social institutions; and it is easier to prescribe institutional reforms for the agriculture of underdeveloped lands abroad than to cast off discredited agricultural policies at home. Upon America's capacity to adapt domestic social arrangements in keeping with contemporary needs and in the spirit of Western liberalism, much depends.

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