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LAND RETIREMENT ALTERNATIVES

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A modern democratic society such as ours is not likely to accept either a completely controlled or a completely free agriculture. Our society is not a fully free capitalistic society. It is a modified capitalistic society. We have modified the distribution of income by the federal income tax. We have put certain regulations on industry and socialized certain sections of the economy. Nevertheless, free enterprise remains as the foundation of our system. Many would argue that we have gone too far with our modifications, but only a few would argue for the removal of all modifications. Therefore, while the requirements and the consequences of either a completely controlled or a completely free agriculture need to be studied, these concepts are not likely to be accepted in meeting the present situation.

The general direction in which we move is extremely important from the standpoint of both the long-run consequences and how we shape our current policies. We need to consider what programs are politically as well as economically realistic. It seems appropriate to re-examine the land retirement proposals which I would characterize as something of a middle course.

AREAS OF GENERAL AGREEMENT

There is general agreement as to the nature and the cause of the farm problem. This is true even among those who advocate different solutions.

There is general agreement that we should attempt to expand the outlets for farm products by all reasonable means. This includes policies which will increase exports, increase industrial use of farm products, and increase consumption at home. Coupled with this agreement is the general agreement that outlets cannot be expanded sufficiently to entirely solve the farm problem in the immediate period ahead.

There is general agreement that putting commodities into storage or making direct payments which bring farm incomes to satisfactory levels without controls on output are not solutions. Such measures may be justified at times, but they are not a solution to the farm problem.

Agreement is growing concerning another group of economic and political factors.

There is fuller recognition of the income raising limitations of any of the proposed supply reducing programs whether it be quotas, free prices, mandatory or voluntary land retirement. The use of any of the four approaches reduces both the manpower and the cultivated land used in agricultural production. If quotas are imposed on part of the commodities, then the surplus producing resources are shifted to other commodities, and quotas will have to be imposed on these other commodities. If quotas are imposed on all commodities and production is reduced, less human resources and less land will be used in crop production. If agricultural prices are allowed to operate freely, then they will fall to the point where the marginal land and the marginal producer will be attracted out of agriculture, thereby reducing the use of these resources. If compulsory or mandatory cropland controls are used, less land will be under cultivation and less human resources will be needed. Even if the land is taken out of each farm, recombination of farms will be speeded up, and both land and human resources will be reduced. Voluntary land retirement or shifts to more extensive crops, either on a partial or whole farm basis, will also reduce the land under cultivation and the amount of human resources needed in agriculture. None of the supply adjustment programs seriously proposed avoids the reduction of land and human resources. The problem, therefore, is finding the most sensible means of reducing these resources.

As long as a sizable number of people in agriculture are willing to sell their services at a relatively low price to remain in agriculture, the gains from any of the farm programs, if prices are pushed above the long-run competitive levels, are lost to the producers. These gains are either capitalized into land or the rights to produce, or they hold more people in agriculture than otherwise would remain, resulting in division of the income among more people. I am not saying this is good or bad; I am simply stating it as a fact that we must face. This does not mean that these programs cannot result in windfall gains, such as maintained or higher land prices to owners, valuable rights to producers, or an opportunity for more people to stay in agriculture at the same income. It does mean that the current per capita farm income cannot be raised beyond a certain point, without adjustment in acreage or human resources used.

While the movement of people out of agriculture at the rate suggested in the Committee for Economic Development report might well bring about the adjustment needed, the suggested rate of outmigration is improbable. Adjustments of this nature just do not occur that fast.

There is growing recognition that producers want to avoid controls on livestock. They do not see the necessity of such controls if grain

crops are controlled. This is somewhat true around the world. Many countries have controls on crops, but not on livestock.

There is acceptance of the fact that agricultural production can be reduced the necessary amount by a voluntary program. Feed grains were reduced last year below current use and feed grains, wheat, and total agricultural output will be reduced this year below current use. This is no longer a speculation, it is a fact.

Approximately 53.5 million acres of land were retired in 1961, including 24.8 million acres under the feed grain program and 28.7 million acres under the Conservation Reserve Program. These 53.5 million acres were retired at a cost of approximately 1.1 billion dollars. Estimates are that feed grain supplies will be reduced by about the equivalent of 300 million bushels of corn on October 1, 1962. With approximately 70 million acres retired this year, feed grains, wheat, and total agricultural output will be brought below current use. The cost will be between 1.25 and 1.5 billion dollars.

ALTERNATIVE PROGRAMS

With growing recognition of the foregoing factors, the farm program issue has settled down for the moment to one largely of whether we shall have a mandatory or a voluntary land retirement program.

The retirement of between 50 and 80 million acres would be required to maintain the present capital structure of agriculture. If the better land with higher producing crops is retired, the required reduction will be nearer 50 million. If the below-average land with average crops is retired, the requirement will be nearer 80 million. If the land is retired through a voluntary program, the cost will be between 1 and 1.5 billion dollars. If the program is mandatory, the cost will be only the administrative cost. If the program combines mandatory and voluntary procedures, the cost will be somewhere in between.

I am discussing a program to maintain present land values. I do not see the desirability, from the long-run standpoint of agriculture, of carrying the program to the point where the gains are bid into land. I do see the value of maintaining land prices, the capital structure of agriculture, and farm incomes once we have reached a given level for a period of time.

Proponents of both the mandatory and the voluntary approach accept the concept that livestock production can be limited by limiting the feed supply. This assumption I believe is valid—livestock cannot be produced without feed. Control of livestock production is not required to bring the total agricultural industry into better adjustment.

COST OF PROGRAMS

The cost to the public of either the mandatory or voluntary program is approximately the same. Let us say the goal is to obtain a net demand for agriculture of 13 billion dollars. Under the mandatory approach the public makes the full payment in the market place. Under the voluntary approach the public pays 1.5 billion through the Treasury Department and 11.5 billion in the market place. Collection of taxes and payment through the Treasury has distinct disadvantages as compared with making the entire payment in the market place. However, we have felt that the advantages consistently justified this procedure in other sectors of the economy. The real issue is what is best for agriculture and for society.

In any event, whether the income is obtained in the market place or through the Treasury, the cost for any given income for agriculture is approximately the same. Congress has been more willing to appropriate the necessary funds for farm programs than to subject the farmers to the rigors of free prices or the rigors of complete contracts.

FLEXIBILITY

Under a mandatory approach all farmers covered by the program must meet the same general requirements. A percentage of a crop or a percentage of a group of crops or a percentage of whole farms may be retired under the mandatory approach. Under the voluntary approach land may be retired on the same basis as under the mandatory approach, but in addition, whole farms may be retired. Likewise, a voluntary program may be geared to retire the below-average grades of land and to retire more land in one area than another.

Under the voluntary program each farmer is free to decide whether he participates in the program. Under the mandatory, of course, he must participate, whether the program catches him in a favorable or unfavorable situation.

If a percentage of a given crop or a group of crops is to be retired, a historical base must be used. This is particularly objectionable to farmers. It is more objectionable under the mandatory program because under the voluntary program farmers who have an unfavorable base may stay out of the program.

A voluntary program has considerably more flexibility than a nonvoluntary program. It also offers more possibilities of getting the land into other uses.

LONG-RUN ADJUSTMENT POSSIBILITIES

Under a mandatory program where a part of the land on each farm is retired, the tendency is to return this land to production whenever the program is discontinued. A voluntary program can be more easily directed toward removal of land that should, from the economic standpoint, be retired or shifted into other uses. The whole farm approach offers this opportunity. Once the land is converted into grass, timber, recreation, and other uses, it is less likely to be placed back in agriculture.

It seems to me over a period of time we will gradually work into a program of shifting our retired cropland into other uses and not allowing it to remain idle. With the demands for increased amounts of forest products, recreation, watershed development, and grass that can be used by game animals and for increased beef production, we will have an opportunity to employ this land. We need a positive long-run land policy for the United States.

FOREIGN COMPETITIVE POSITION

Under a mandatory program the output of each farmer is decreased. Therefore, he must receive a correspondingly higher price for each unit of production sold to fare as well as when the program was initiated. Under a voluntary program he is paid for retiring the land and, therefore, is as well off with the same prices as before the land was retired. Thus, under a mandatory land retirement program farmers must receive slightly higher prices than under a voluntary program. To the degree that prices must be higher, we will be less competitive in world markets.

FURTHER STEPS THAT MIGHT BE TAKEN IN LAND RETIREMENT

With our voluntary 1962 program we have reduced output below present use. Such a program as we now have does not, however, tend to bring about the long-run adjustments needed. We also face the problem that conservation reserve contracts will be expiring. If we could add to the present program the whole farm approach and gradually shift some of the land retirement to a whole farm basis and to areas to where the adjustments in land use should take place, we could start getting some long-run adjustments. Our studies likewise show that from the standpoint of the Treasury, such a program can be the lowest cost program. Reduction of production on the lower producing land costs less per unit of crop than on the higher producing land.

Our land retirement program can take either the mandatory or voluntary approach. Each approach has advantages and disadvantages. However, society in making its decision about land retirement or any other farm program, should not overlook the fact that to date restrictions have not seriously interfered with freedom of production for the major food items. Society has been getting its food supply at a comparatively low cost even when funds transferred by government to farmers are included, because we have maintained a free and progressive agricultural industry. For proof of this, look at the situation during the past decade, in the rate of adoption of new technology in agriculture, the hours worked per day by the average farmer, the increase in output per man, and the rate of return to labor and to capital in agriculture. If changes are instituted which greatly interfere with the magic of managerial freedom of the individual family farm, all the land we have in the country will not be enough to meet our needs, and the real cost of food to consumers will be higher. This is being amply demonstrated around the world today.