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THE AGRICULTURAL ADJUSTMENT PROGRAM

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The adoption of the agricultural adjustment program authorized by the farm act passed in May, 1933, followed years of talk about the agricultural surplus and its effect upon the economic status of the farmer. The expressed objective of the act is that of restoring price parity for agriculture, that is to re-establish a relationship between the prices of farm products and the prices of commodities bought by farmers, corresponding to that existing during the pre-war period, 1909-14. The act recognizes that prices for farm products result from supply and demand relationships and aims to adjust the supply so that prices will rise.

Farmers often have been criticised for failing to curtail production of their own accord in line with demand conditions existing at home and abroad. Such criticisms reveal a lack of understanding of the agricultural industry. Farming is characterized by a relatively small producing unit, the individual farm. A large proportion of the farm costs consists of relatively fixed items which continue even though production is reduced. For example, taxes and interest, which represent an important part of the cash outlay, go on whether or not production is curtailed. The farmer and his family furnish most if not all of the labor, so there is little inducement to curtail operations in order to save labor expense. The farmer has his fields and herds to maintain. The output of the individual farm is too small a fraction of the market supply to have any noticeable effect on price so the farmer lacks inducement to curtail output in order to raise or maintain prices. If the individual cuts production, he lacks assurance that other farmers will do likewise to the extent needed to raise prices. The one who curtails may find himself in the situation of merely having less to sell at the same low price.

Most other industries curtail output when prices are unsatisfactory. By so doing, they maintain prices at relatively better levels than would be the case were production continued in full. Of course, income is not maintained because the volume is less. The adjustment program aims to help the farmer do what these other lines are able to do for themselves. Market outlets at home have been curtailed by the depression and outlets for farm products abroad have been reduced markedly by trade restrictions. There is no particular purpose served in producing more than the market is willing to absorb hence the curtailment program. Benefit and rental payments are the inducements provided to make it worth while for farmers to reduce production. Funds for these payments are obtained mainly from processing taxes collected from the processors of the farm commodities included.

The program was adopted as a temporary expedient rather than as a long-time agricultural plan. It is impossible to forecast with any assurance at this

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particular stage just what permanent or long-time plans, if any, will develop out of the present program. There is, undoubtedly, much more general willingness to accept the program as a temporary expedient than to regard it as suitable for permanent adoption. This does not mean that there is not some opposition to it even as a temporary plan nor that there is not some support for the idea of making it permanent.

It is worthwhile to consider some problems which agriculture is facing. The idea of overproduction probably has been emphasized too much and the need for reasonable recovery of markets too little. If industry is not to recover, if the purchasing power of consumers is not to be restored, and if reasonable reestablishment of export trade does not take place, agricultural prices will continue at low levels unless output is reduced permanently. To the extent market restoration takes place, to that extent general curtailment will not be needed altho there still may be some need for adjustments in the case of certain products.

Domestic per capita consumption of some farm products, such as pork and lard, has been well maintained and this has been pointed to as an indication that the effects of domestic recovery may be overestimated. It is important to distinguish carefully between consumption and demand. Consumption refers to the quantity used. Demand includes price as well as quantity. Thus, an increase in consumers' buying power may be reflected in an increase in demand which will provide outlets for a larger quantity at existing prices or will make it possible to dispose of the same amount of product at higher prices. Per capita consumption of pork and lard has been maintained at the cost of very low prices. Recovery of purchasing power should make it possible to maintain consumption at higher prices.

Industrial recovery is of primary importance to permanent agricultural improvement. While the thing for agriculture to do temporarily is to adjust its production to the situation, the long run hope must lie in the recovery of activity. Due consideration must therefore be given to methods of achieving industrial recovery. Attention, likewise, must be given to ways and means of recovering some of the foreign outlets for farm products which have dried up during the depression. For the time being, the adjustment program accepts the existing situation because it can do nothing else. However, it is not true that nothing can be done about it for the future. To the extent we give up foreign markets for agricultural products we will have to curtail production permanently. To the extent these markets are recovered the curtailment problem will be simplified. Their recovery depends largely on our own trade policies. It is not maintained that we can recover these markets without cost. It should be clear, however, that we can not give them up except at the tremendous cost involved in a permanent and extensive agricultural curtailment. No one seriously contemplates a total loss of export markets. Nor does anyone conceive of a situation of their sudden and complete recovery. The choice is not between the two extremes but rather in how far we are to retreat towards self-sufficiency or how far we are to regain lost ground. There is some trace in the adjustment program of an apparent acceptance of the loss of these markets as beyond control. This attitude is unfortunate.

If one is to hazard a guess for the future, it seems reasonable to assume that neither the farmers nor the consumers of farm products are likely to accept as permanent the present program of making adjustment payments to farmers to withhold some of their acreage from use or to reduce their livestock operations. Such a program is not the most effective utilization of resources. A long time program should permit the most efficient production by the most efficient farmers on the best lands available. It needs to be sufficiently flexible so that shifts in production can be made among areas in accordance with changing conditions and technic.

A point of some importance in connection with a longer time price raising program is that of distinguishing between raising the purchasing power of a unit of commodity, such as of a bushel of wheat or 100 pounds of hogs, and raising the purchasing power of farmers. The reduction in output offsets part of any increase in unit prices which may result and to the extent this takes place, the benefits are limited, particularly in view of the fact that reduction in output does not mean a corresponding reduction in costs of farm operation.

The adjustment payments have been referred to as crop insurance. In view of the fact that they represent a minor rather than a major part of the farm income, their insurance features are a by-product and do not justify continuing the plan merely to obtain this benefit. The value of the present program in an emergency such as that caused by the drouth also has been stressed. The administrative set-up and authority under the act are very helpful in handling the livestock problem in drouth stricken areas. The permanency of the adjustment program, however, will depend upon its value under more normal production conditions rather than upon its adaptability to the exceptional emergency.

The adjustment program is making definite place for land planning activities. Here is a field in which there is unquestioned room for planning and this phase of the program seems reasonbly assured of permanence. Present plans include a program of purchase of some submarginal farm lands. This is a long time program which should not be confused with the emergency adjustment program. While federal purchase of submarginal agricultural lands for the purpose of reducing output has been urged, such an undertaking is not feasible. Submarginal land is not an important factor in total farm production. If enough were purchased to reduce production to any significant degree, a very difficult problem of population relocation would have to be faced. The present plans for land purchase are designed to foster desirable population relocation and improved land use. Scattered settlers in the areas selected for purchase operations will be aided in moving to other lands better suited for farm development and better located with regard to existing settlement. The situation of the settlers will be improved by the move; the cost of providing needed public services will be reduced, and greater opportunity for public utilization of solid blocks of land for forestry or other purposes will follow. While being developed in connection with the adjustment administration, this is not a matter of production adjustment but one of adjustment in land use.

The production adjustment program has been referred to above as a temporary expedient. This is no disparagement of its value. It does emphasize the importance of laying long run plans. The time to do that is now, not some time in the distant future. This is a matter which warrants the attention of farmers generally and of everyone connected with or interested in the welfare of the agricultural industry. In giving it consideration, it is important that all angles be weighed fully and that decisions not be unduly influenced by interest in or antagonism towards the emergency program. Features of the present program which may be employed advantageously for a longer period should be retained; those not so adapted, should be discarded.

MINNESOTA FARM PRICES FOR JULY 1934

Prepared by Adena E. Terras

The index number of Minnesota farm prices for the month of July 1934 was 55.7. When the average of farm prices of the three Julys 1924-25-26 is represented by 100, the indexes for July of each year from 1924 to date are as follows:

July 1924	84.8	July 1930	82.2
" 1925	107.3	" 1931	57.4
" 1926	107.4	" 1932	44.7
" 1927	97.8	" 1933	55.8*
" 1928	110.3	" 1934	55.7*
" 1929	109.5		

*Preliminary

The price index of July for the past month is the net result of increases and decreases in the prices of farm products in July 1934 over the average of July 1924-25-26 weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, July 15, 1934, with Comparisons*

	July 15, 1934	June 15, 1934	July 15, 1933	Av. July 1924-25-26	% July 15, 1934 is of June 15, 1934	% July 15, 1934 is of July 15, 1933	% July 15, 1934 is of July 15, 1924-25-26
Wheat	$.88	$.87	$.95	$1.39	101	93	63
Corn	.49	.47	.48	.80	104	102	61
Oats	.38	.37	.38	.39	97	100	97
Barley	.61	.62	.51	.64	98	120	95
Rye	.59	.59	.84	.72	100	70	82
Flax	1.71	1.72	1.92	2.21	99	89	77
Potatoes	.55	.50	.50	.97	110	110	57
Hogs	3.85	3.45	3.90	9.99	112	99	39
Cattle	3.70	3.80	3.95	6.17	97	94	60
Calves	4.45	4.60	4.40	9.10	97	101	49
Lambs-sheep	5.82	6.39	5.47	11.33	91	106	51
Chickens	.091	.089	.082	.181	102	111	50
Eggs	.11	.11	.11	.24	100	100	46
Butterfat	.24	.24	.24	.41	100	100	59
Hay	11.90	11.32	7.33	11.70	105	162	102
Milk	1.39	1.36	1.21	2.01	102	115	69

*Except for milk, these are the average prices for Minnesota as reported by the United States Department of Agriculture.

Indexes and Ratios of Minnesota Agriculture*

	July 1934	June 1934	July 1933	Av. July 1924-26
U.S. farm price index	57.6	55.4	54.7	100.0
Minnesota farm price index	55.7	56.1	55.8	100.0
U.S. purchasing power of farm products	72.3	69.5	78.6	100.0
Minnesota purchasing power of farm products	69.9	70.4	79.7	100.0
U.S. hog-corn ratio	6.7	6.3	7.2	12.0
Minnesota hog-corn ratio	7.9	7.3	8.1	13.2
Minnesota egg-grain ratio	9.3	9.5	9.0	14.0
Minnesota butterfat-farm grain ratio	21.2	21.6	22.4	32.0

*Explanations of the computation of these data are given in Farm Business Notes No. 126.