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FUNDAMENTAL ADJUSTMENTS NEEDED IN U. S. AGRICULTURE

Mervin G. Smith, Chairman

*Department of Agricultural Economics and Rural Sociology
Ohio State University*

We have always prided ourselves in the United States on having a very dynamic economy—this has been a source of our great strength and income improvement. Under our relatively free economy we have thought that production resources, especially labor, would shift to areas and lines of work where they could be most productive and beneficial to society. Perhaps our economy is still the most flexible in the world, but in this period of rapid technological advancement, the shift within the agricultural sector of the economy has been so slow that farm people have continued under chronic economic pressure for nearly their entire lives. Therefore, the main problems of agriculture are how to correct rapidly the maladjustments existing within it today and how to gear adjustments closely with the rapid adoption of new technology in the future, thereby enabling agriculture to continue contributing significantly to progress in our country and in the world.

We economists have used the term adjustment frequently for the past thirty or forty years. Perhaps the time has come for us to be a little more specific about what we mean. I had difficulty in deciding what fundamental adjustments in agriculture are. I expect though that most of us think first about adjustment of farm production resources—land, labor, capital, and management. In this area we should consider the adjustments within the individual farm and the adjustments within the whole farm industry. Another area of adjustment which I call fundamental is economic and social aspects of the community. Some would include as fundamental the adjustment of demand for farm products. We might also include the adjustment of all the supply, processing, and marketing firms related to farming.

After we identify what the adjustments are in agriculture, then we need to be more specific about the amount of each type of adjustment to be made now and likely to be needed in the future. The third aspect we must consider is how to make the adjustments. Perhaps we have jumped too soon to this aspect—especially in farm policy programs—before we obtained clear understanding of the type and amount of adjustments needed.

Most of my discussion will be a projection of needed adjustments for the next ten years, or the sixties, based on what has happened in the last ten years, or the fifties.

FARM INCOME ADJUSTMENT

In this discussion we shall assume the object of most adjustments is to improve incomes and satisfactions of people—farm people, agriculture related business workers, and nonfarm people.

Average farm income per person from all sources was about 43 percent as much as average nonfarm income in 1959. Average per capita purchasing power of farm people in 1959 was 2 percent less than in 1950, while for nonfarm people it had increased about 19 percent.

Generally, incomes per person are expected to continue to increase about the same amount in the sixties as during the fifties. If farmers' incomes in 1970 are to regain even the same relationship with other incomes as they were in 1950, they will need to be increased about 50 percent in actual dollars above the present level. About 35 percent would represent actual increase in purchasing power, and 15 percent would be offset by the increase in the general price level (inflation). Most people hope for much more improvement than this in farmers' incomes relative to nonfarm incomes. Even the 50 percent higher farm incomes would need to be doubled to equal nonfarm income by 1970.

In other words, the disparity between farm and nonfarm incomes has increased and is likely to become worse. The size of the income adjustment problem facing us in the sixties is enormous. The extent of farm income adjustments reflects the need for fundamental adjustments in farm resources and perhaps other aspects of agriculture.

DEMAND CHANGES

The consumption of farm products increased nearly 2 percent per year, or a total of nearly 20 percent during the fifties. Consumption is likely to increase 20 to 27 percent by 1970. Most optimistic estimates with demand expanding programs are 2.25 to 2.5 percent increase per year. About 19 percent of the increase for the ten years will result from about a 1.7 percent annual increase in population. If actual incomes increase in the sixties as much as they did in the fifties, total food expenditures could increase about 3 to 4 percent. Special subsidy programs to increase food consumption domestically might increase total consumption

1 or 2 percent. Whether new uses for farm products or increased exports over present levels can be obtained is questionable, but at most only a 1 or 2 percent increase could be expected in either of these categories. Increased expenditures for food other than the increase for population and exports will be in the form of shifts in quality of food and services provided with food rather than in quantity.

PRODUCTION ADJUSTMENT

Farm production during the fifties increased at a rate of about 2.3 percent per year or a total of about 25 percent. Expert opinion is that total production will increase about the same amount percentagewise during the next ten years. James T. Bonnen, Michigan State University, estimates that if U. S. farmers use the same amount of resources (land, capital, livestock), farm production could be increased 15 percent by 1965 over 1959.

BALANCING SUPPLY AND DEMAND

The balancing of production with consumption of farm products is expected to continue as a serious problem. Best estimates are that production has exceeded demand by 8 percent per year in recent years. Under special programs of domestic and foreign subsidies and grants, utilization has been increased about 5 percent. Therefore, surpluses have accumulated under support programs of the government at a rate of 3 or 4 percent per year.

If production increases 14 or 15 percent by 1965 and if consumption increases only 9 or 10 percent, production could exceed demand as much as 13 or 14 percent by 1965 as compared with the 8 or 9 percent now. Therefore, the production-consumption adjustment problem in the next five or ten years may be more severe than in the last ten years.

In most cases the yields of large crops, such as wheat, cotton, and corn, are expected to increase in the next few years as rapidly or faster than population. Yields increased nearly one-third in the fifties. Livestock production in the sixties is likely to increase slightly faster than population. However, the yields of feed grains are likely to increase enough to meet the needs for increased livestock production without expanding acreage of feed crops. In addition, improved efficiency in production of livestock and livestock products may mean that total farm resources used for livestock need not be increased or can even be decreased. During the fifties production of meat and livestock products was increased without additional resources.

The pressure of excess production capacity is not expected to lessen for any of the major farm commodities by 1965. Prospects for lessening this pressure by 1975 are only slightly better. Thus, only major shifts in public policy or development of emergency situations, such as war or unusual weather, will bring about a balance between production and consumption of farm products in the next five to fifteen years. With this maladjustment between production and consumption, economic pressure will be to withdraw some farm production resources, particularly land and labor making low relative returns.

NUMBER OF FARM WORKERS

The number of farm workers declined nearly 3 million during the fifties, a total reduction of about 30 percent or about 2 to 3 percent per year. This reduction is likely to continue at about the same rate during the sixties. Presently, about 8 or 9 percent of the U. S. labor force are farm workers. This is expected to decline at least to 6 or 7 percent by 1970.

About 7.2 million people (net) moved from the farm during the fifties. In this period, however, the birth rate on the farm was higher than in the nonfarm sector, and the excess of births over deaths was 3.3 million. This means that the total farm population decreased by 3.9 million during the fifties.

About 11 or 12 percent of the population is listed as farm population, but with the new definition of farms in the 1959 census, the farm population presently will likely be about 9 percent, only about half as large as it was twenty years ago.

In the absence of special programs to change it, the decline in farm population is likely to continue at about the same percentage during the next ten years as in the last ten years, but the actual numbers leaving the farm may be less because we are starting with a much lower total number on the farm.

The number of children born on farms is about two-thirds greater than is required to keep the farm population stable. With the likely decline in number of farms in the future, only 15 percent of the children born on farms can be expected to find opportunities in farming.

In spite of the reduction in farm population in the last few years, the main surplus farm resource is labor. Farmers on the average are underemployed although they put in more hours of work than most laborers. The point is that they could be more

productive working at something else. In 1955, according to the census definition used then, about 30 percent of our less productive farms produced only 2 percent of the market sales of farm products, while about 27 percent of the more efficient farms produced nearly four-fifths of all market sales. I think we need to be less hesitant about explaining this fact about adjustment and the farm problem even though farm people may react unfavorably to it.

NUMBER AND SIZE OF FARMS

The number of farms in the U. S. declined about 10 percent during the forties and 16 percent during the fifties. However, the 1960 census will show a greater decline than these figures because the new definition of farms excludes more small holdings. The decline in number of farms is expected to continue but not as fast as might be desirable.

General corn-livestock farms in the central part of the country need to be 50 to 100 percent larger than they are now and generally about 300 to 600 acres in size in order to earn satisfactory farm incomes. An Ohio study shows that 35 years ago about 17 hours of man labor were required per acre of grain and hay harvested compared with about 5 hours per acre today. The sizes of these farms have gradually increased but because new technology has increased faster, they have failed to achieve the most economic scale of operation. Perhaps one of the best opportunities for improving farm income in the sixties lies in speeding up the adjustment of family farms to the most profitable size, although this will be difficult.

CAPITAL IN FARMING

Total investment in farming increased about 48 percent during the fifties. The investment in real estate increased 71 percent and nonreal estate increased 19 percent in this period. The increase in total U. S. farm investment is not as striking as the increase in investment per farm. According to a preliminary USDA study, during the twenty-year period from 1939 to 1959, working capital on dairy farms in eastern Wisconsin increased 69 percent, on hog-beef fattening Corn Belt farms 46 percent, on wheat-grain-sorghum southern plain farms 95 percent, and on cattle ranches (intermountain) over 30 percent.¹

The investment required presently for a labor income of \$5,000 in Ohio is estimated to be nearly \$100,000 for a general livestock

¹Unpublished data, Costs, Income and Efficiency Research Branch, Farm Economics Research Division, Agricultural Research Service, U. S. Dept. of Agriculture.

farm or a corn-hog farm and about \$60,000 for a dairy farm. For some specialized crop farms the investment might be less than this but on western cattle ranches it is as much as \$350,000. Only a small portion of our farms would have close to this size of investment. The average investment per farm in the United States presently is estimated at about \$40,000, and it would be about the same in Ohio. In other words, our farms on the average are only about half as large in terms of investment as they should be to produce adequate incomes.

Some economists believe that total investment in farming will not increase substantially during the sixties but that investment per farm will increase about as rapidly as the number of farms decline. Others feel that total investment will continue to increase at about the same rate as during the last ten or twenty years because of the continuous adoption of new technology and the substitution of more and more capital for labor on farms. Some studies indicate that if the farms were reduced in number and reorganized into sizes to take advantage of the economies of scale, total investment would not need to increase to any extent although the investment per farm might be doubled. The big question would be availability of management and the rapid adoption of new technology over time.

Other studies indicate that as compared with 1955, the dollar capital requirements in farming would be doubled by 1975, taking into account the increased food needs. Some of this increased requirement would be the result of inflation but most of it would be increased capital resources compared with labor. A substantial part of the increase in capital resources may be in the form of higher land values if use of land is restricted.

TOTAL LAND USED IN FARMING

The total number of acres of land in cultivation in the United States has changed very little in the last ten or twenty years. We are harvesting about 330 million acres of cultivated crops per year as compared with 345 million acres ten years ago. Besides this, we have about 28 million acres of land in the Conservation Reserve.

According to some studies about 30 to 45 million acres of land now in crops are not well suited for crop production. On the other hand, about 110 million acres of grassland and 105 million acres of woodland are fairly well adapted for use as cropland.² In addi-

² "A 50 Year Look Ahead at U. S. Agriculture," U. S. Dept. of Agriculture, 1959; and "Water Resources Activities in the U. S.," Select Committee on National Water Resources, U. S. Senate Committee Print No. 12, 1959.

tion, some land can be used for crop production if it is cleared and leveled and water is available for irrigation. Opinions vary about the possibilities of bringing a great amount of this land into cultivation as irrigation methods are improved and become less costly. We have a larger supply of land now than we have had during the last hundred years in terms of production potential relative to our needs.

Estimates are that under a voluntary land retirement program we would have to take 2 or 3 percent of cultivated land out of production in order to reduce production 1 percent. The less productive land would be most likely to be removed. This would mean retirement of something like 60 to 80 million acres (15 to 25 percent of the total) in order to reduce production 6 or 8 percent. This is borne out by studies made at Purdue University and Iowa State University. This means that our present crop needs could probably be produced on about 280 million acres of cultivated land. According to the projection of yields of crops, we might need even less than this by 1965 and perhaps not much more by 1970 or 1975.

An important factor to consider in land reduction is that most reduction should take place in the cultivation of some of the major crops which are in greatest surplus. Feed grains, wheat, and cotton need to be reduced most. Of course, if the cultivation is less intensive on the same land, total production could be reduced too. However, economies and new technology seem to point toward more intensive rather than less intensive cultivation of crops. A good example is the current trend toward continuous corn production on the same land. Since corn is a more intensive crop than most of the other feed and grain crops, this increases production per acre of cultivated crop.

TENURE OF FARMS

The family type farm has persisted as the dominant form of farm tenure in the United States and is likely to continue strong in the sixties. Most of the economies of scale are realized within the size limit of the family farm.

We are defining the family farm here as any farm on which most of the labor and managerial activities are carried out by the same individual or family.

Even with technological advances the sequence of doing the different farm jobs has not changed greatly. In most cases the laborer performs all the different sequential jobs throughout the

seasons on the farm. This is different from most manufacturing industries where the sequential pattern of carrying out the work is changed with new technology and where labor can specialize in doing one job.

A few farms in the United States have become parts of much larger integrated firms. In this case the incomes of the farm people involved are dependent on incomes of the whole integrated firm. If the farm segment is held down to make income for the total integrated farm, it is doubtful under this system that the farm would remain just a family business. This could also put severe competition on other independent family farms and even squeeze them out by lowering their incomes.

One of the important problems which has arisen in recent years and which is likely to intensify during the sixties, is the inability of farmers to own sufficient land and capital to obtain an adequate farm income. Unless the farmer has outside sources of capital or inherits some of it, he can acquire ownership only by saving enough from his labor, management, and capital earnings. A smaller and smaller proportion of farmers will be able to amass enough capital from their own savings and earnings. External capital needs are increasing. In other words, people who own land and capital for farming will increasingly be separated from those who use it.

The number and proportion of farmers classified as tenants has declined, but the proportion of farm land under lease has been relatively constant. Trends point to a possible increase in tenancy of some types of farms, and tenancy might acquire a new status as compared with the old inferior status. Today more land is rented in the high farm income areas than in the low income areas. The potential for increasing farm size through leasing is considerable. Multiple leasing from more than one owner is likely to increase as a means of expanding size. Improvements in tenure structure and leasing arrangements are needed.

Considering the size of the farming industry in the United States, we have a surprisingly low number of corporations in farming. John Brewster, U. S. Department of Agriculture, has estimated that we have less than 5,000 corporations in farming in the United States. Revision of the federal income tax law has made incorporation of some family farms more desirable and has stimulated a trend toward more corporations in farming. Large corporations in farming have not had special advantages

because farming is effectively conducted with relatively small, widely dispersed farms.

A slightly increasing advantage is obtainable by combining a number of farms under one central management. The reason for this is the increased amount of supplies purchased by each farm, the possibility in recent years of renting equipment, the need for higher quality management, expanding transportation and storage needs, and direct selling of products in large uniform lots. Gradually we may see more of this type of organization although it might not completely destroy the so-called family farm. Each farm could be operated separately by a family performing most of the labor and management. Also, this type of central control might be under a cooperative or an association owned by farmers.

All of the resources or the farm business could be owned by someone other than the farmer, and management still could be controlled by the farmer himself. Even under vertical integration through contracts the farm operator could be responsible for most of the management. The important factor is the nature of the contract regarding the determination of ownership, resource use, management, and returns in the farm business. In general, however, usually with transfer of ownership goes transfer of management control. A serious problem is how to adjust ownership of farm resources and still leave the managerial control with the farmer. This all means that tenure arrangements will undergo considerable change in the sixties.

FARM SUPPLY INDUSTRIES

The amount of farm supplies purchased by farmers has been increasing and will likely increase considerably in the sixties. The total expenditure for farm supplies in the last ten years has increased nearly 50 percent. Perhaps the purchase of supplies by farmers will increase another 50 percent in the next ten or fifteen years. The decline in number of workers on farms has been accompanied by almost an equal increase in the number of workers employed in the farm supply industry.

Perhaps the most rapidly expanding farm supply item is mixed feed. Rapid adjustments are taking place and will need to take place in the feed industry in the future. Manufacturing the feed is becoming more and more centralized and the location of plants is shifting as the production areas shift. Generally, the number of feed companies or plants has not changed much in

recent years but the volume of business per company or plant has increased rapidly.

The farm machinery industry has been facing, and will continue to face, problems of each unit developing large enough volume of business, carrying large inventories, meeting seasonal demands for machinery, and obtaining the increasing amount of capital and credit required, both for their own operation and for supplying credit to farmers.

The main trends in the farm machinery business are the increasing number of machinery dealers, the expanding size of business, and diversification of products handled. More attention is expected to be given to the sale and rental of farm machinery in packages or units for an entire farm or enterprise on the farm.

New technology in farm machinery has developed rapidly and this trend is likely to continue. Machinery may be developed which will combine some farm operations such as land preparation and planting. Some of these changes affect the machinery industry itself as well as the farm business.

Rapid changes have been taking place in the fertilizer industry and further changes are expected in the sixties. These changes are affecting the size and location of manufacturing and distributing plants. The industry is still increasing rapidly in volume, but perhaps not in number of firms or plants.

—The growing interdependence and complexity of farming is causing changes in the credit and loan supply agencies for agriculture. Particularly evident is a trend toward more specialization within these agencies. More and more commercial banks are employing agriculturally trained personnel to service farm loans. More emphasis is being given to the management factor.

MARKETING AND PROCESSING INDUSTRIES

Nearly 15 percent of the labor force in our country is directly employed in the processing or marketing of farm products. In addition, a number of people are employed in other industries which provide services, equipment, and supplies to these firms. The number of people employed in marketing of food products in the United States increased about 40 percent from 1939 to 1959. This was a more rapid increase than was the reduction in number of farm workers during the same period.

Some people think that changes are occurring faster in the

marketing of farm products than in production. New product forms, new processes for preserving quality, changes in transporting and handling of farm products, changes in size and location of population, and many other factors cause marketing firms constantly to be adjusting their business.

The growth of supermarkets has caused changes in agricultural market organization, marketing channels, and buying practices for farm products. The main characteristics of these supermarkets are large-scale retailing and mass merchandising. The expected trends in the sixties is toward still fewer retail stores and larger supermarkets with more items and greater diversification into nonfood lines. However, a different type of small retailer may be developing to serve special locations, to furnish special services and conveniences, and to sell special products.

The trends in retailing may not be so different from the trend on a very small scale in farming toward centralized management. The large chains and independent cooperative associations have central purchasing, wholesaling, and processing plants which service their retail outlets and buy directly from large manufacturing establishments and even from farm cooperatives.

Direct buying by retail food stores is likely to increase. The number of independent wholesalers seem to be declining, and they are getting a smaller share of the total business. The number of terminal markets and the volume of business going through terminal markets is declining. Products are moving through fewer and fewer buyers and sellers. The reduction in terminal markets may cause an adjustment problem with respect to adequate farm price and market news.

Although many changes have occurred in processing operations, definite trends are not easily discernible. Large processing firms seem to have developed in some cases, yet many small establishments continue to be successful. Many of these firms are faced with problems of adjusting their location and type of business according to shifts in production as well as problems of adjusting their business to new technological developments.

The number of so-called first buyers or assemblers of farm products from the farm is declining. The larger retail and processing firms have been able to cut costs by integrating the assembling activities with the other processing and marketing phases of their business.

Quite likely more and more farm supply firms as well as proc-

essors and marketing firms will do some contracting or integrating of their activities with farm production. This trend developed rapidly with broilers and is moving rapidly with turkey production and egg production. Experimentation is continuing and production contracts are increasing somewhat in other farm commodities such as hogs. Of course, for a long time special crops like vegetable seeds have been produced under contract.

The adjustments being made in the farm processing and marketing firms are in turn bringing about needed adjustments on farms. The methods used in buying farm commodities require some farmers to adjust their methods, procedures, timing, and type of products produced.

The purchases in large quantity of uniform quality products by an increasing number of retailing and processing firms may put pressure on farmers to cooperate in assembling production in large, uniform lots. Some people are enthusiastic about the possibility of regulating farm production in line with market demand through associations, cooperatives, and contracts with processing and marketing firms. Undoubtedly, more of this will slowly develop, especially with specialty commodities. Specification buying directly from some farmers and from organized farm groups will increase in the sixties.

The location of the processing and marketing facilities for a commodity may even be an important factor in determining the most advantageous regions and places for farm production. Contracting in the poultry and hog business has encouraged the movement of production of these items from one region to another.

COMMUNITY, TAXATION, AND GOVERNMENT

The reduction in the number of farmers and the influx of nonfarm people into rural areas have caused important adjustment problems. As a result of population shifts, many of our communities are behind in adjusting such facilities as schools, health and welfare services, churches, local government, police protection, fire protection, recreation services, sanitation services, and social organizations.

All types of communities have adjustment problems, whether the population is declining, increasing, or is stable. Technology in all economic fields, such as transportation, equipment in the home, and changes in wants of people, bring about need for adjustments in even a stable community. New community adjustment problems will arise and perhaps will even intensify during

the sixties as our population expands, as our level of living rises, and as our society becomes more interdependent.

The trend at present is a decline in the single, well-defined, self-sufficient community and an increase in a larger network of specialized rural communities, each serving as a center for one service such as education, shopping, medical services, church, recreation, etc.

Not only are we specializing in community services but the trend is toward larger units of operation and administration. The one-teacher school, the one-doctor community, the part-time minister and church, the township welfare agency, are all giving way to larger units. However, this process is slow and in many areas little has been done, leaving us much to do in the sixties.

Rural schools have undergone considerable consolidation, moving away to a great extent from the one-teacher school. Perhaps, however, we still face significant adjustments in the sixties, particularly the consolidation of smaller schools into larger ones to obtain more efficient administration, more adequate tax support, improved quality of instruction, and more specialized services.

Rural churches need to be two or three times as large in membership as they are now if they are to be financed adequately and are to serve the needs of increasingly heterogeneous groups of people in rural communities.

Farmers still are buying much less medical service than either rural nonfarm people or urban people. Rural people need increased medical services, more coordinated hospital and other medical facilities, and more specialized services.

The opportunities and needs for increased recreational facilities in the sixties, especially for rural people, should be examined carefully. This area is closely related to land use adjustments and community adjustments.

The pressure for additional revenue to finance our growing needs for public services has made our local and state tax situation critical. The taxation structure needs examination, especially in regard to property tax versus other forms of tax.

Modern needs are causing some of the old government boundaries to disappear. Some governmental units are fragmenting with certain functions being combined into larger county, regional, and state units, but this process of adjustment has not been fast enough to meet the needs of the day.

An important adjustment in our society is developing systems by which communities and the general public take active interest in planning, developing, and zoning programs for communities. We need to look farther ahead and exercise public control to bring about orderly development.

A stepped up public affairs program is needed to make much faster adjustments in government and community development.

EDUCATIONAL AND RESEARCH INSTITUTIONS

In my opinion, our agricultural colleges, experiment stations, extension services, United States Department of Agriculture, and agricultural education in public schools are being pressed more than ever before to adjust their programs to meet the present and future needs of agriculture and rural society. These institutions traditionally change slowly. I believe that during the next ten years these institutions are likely to face the greatest continual transitional period they have ever experienced. Only a beginning has been made. The emphasis will necessarily be on social and economic changes in agriculture and how to manage and facilitate these changes to implement the development of our country and of foreign countries. Can our educational and research institutions meet the challenge?

CONCLUSIONS

1. The agricultural adjustment problems ahead in the 1960's appear to be even greater than in the 1950's.

2. In spite of the effort so far in agricultural policies, we still have the big job ahead of us to obtain a clear-cut understanding of the nature of the farm problem and the interrelations among farmers, agricultural related businesses, public leaders, and the general public.

3. Much research is required on the need for, extent of, and ways of achieving adjustments in the agricultural sector of our economy.

4. More emphasis in farm policy will be given to adjustments in the 1960's, as the economic and social pressure becomes more severe and as more understanding is obtained about the importance of adjustment in improving farm incomes and rural living.

5. Labor will move out of farming with or without government programs during the 1960's—the present number of workers can-

not be maintained in farming. The type of farm programs used will only influence the rate of labor reduction.

6. An ideal economic situation in farming would be enough workers in farming to: (a) produce enough for our needs, (b) at low cost, but (c) with earnings to farmers for their labor and capital comparable with those of other people.

7. With the present know-how we need only about one-half as many farm workers and one-half as many farms as we have today.

8. The greatest improvement in income per farm person can be obtained by reducing the underemployed farm labor and recombining the remaining farm labor with other farm resources under improved management. Agricultural economists have been too reluctant to say this.

9. Great problems exist in designing policies for making land use adjustments in the 1960's. We need to develop plans—with public understanding—regarding the amount and location of land used for farming, forestry, recreation, industry, housing, communications, etc.

10. The question of whether the farmer can exercise managerial control over the use of farm resources in the future will depend on the training and ability of farmers to perform and compete as managers more than whether they own the resources.

11. The internal adjustments of the resources within the individual farm business are still most important in determining individual income and need to be given even more attention in research, education, and farm programs.

12. Renewed and expanded interest and participation is needed in public affairs because people in rural communities are more interdependent and more of their well-being is determined in the public arena. More public problems must be solved by the educational and democratic process.