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FARM PRICE AND INCOME ISSUES, 1965

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For more than thirty years the federal government has taken deliberate action to influence the incomes of many farmers. Action during the 1930's included marketing quotas, acreage controls, conservation and diversion payments, marketing agreements and orders, price supports, and government storage programs. In spite of this array of programs, excessive stocks of some farm commodities accumulated. However, World War II depleted these stocks. By the late 1940's, except for the South, earnings for resources used in farming were approximately equal to the earnings of comparable resources in other sectors of the economy. Farmers were in good financial condition, and they were eager to reorganize production and to increase productivity.

Few, if any, anticipated the unprecedented increases in yields per acre or the amazing increase in output per worker which was to occur on United States farms during the 1950's. Neither did we anticipate the remarkable recovery of agriculture which was made in Western Europe nor the greatly increased productivity of Japanese agriculture.

Consequently, the continuing drive on the part of farmers to increase output per farm, coupled with the readily available technologies for increasing farm output and the slowly expanding demand for farm products resulted in an excess of farm products during the 1950's except for the brief period of the Korean War.

As early as 1954 prices of many agricultural commodities had fallen sharply, and farm incomes had declined accordingly. Farm surpluses began to pile up once more.

THE SHIFT TOWARD DEMAND EXPANSION

In 1954 there was a definite shift in the direction of our farm policy. Agricultural policy turned toward greater freedom in production decisions. We moved away from heavy dependence upon price supports and controls and toward more emphasis upon building markets. Such was not the case in most other nations, but many nations with food shortages had a shortage of dollars with which to purchase our products. Consequently, the Agricultural Trade and Development

Act, P. L. 480, was passed in 1954. Domestic food distribution programs also were expanded.

In spite of these efforts to expand demand stocks continued to mount, and in 1956 the Soil Bank was created in an effort to reduce the supply of farm products by retiring land. Also, the Rural Development Program was initiated in the hope that this program would expand economic opportunities in rural areas.

In summary, during the 1950's the Administration in the Department of Agriculture made a concerted effort to move farming in the direction of less government controls toward a freer market. Emphasis was placed upon expanding the demand for farm products, removal of production controls, greater freedom in making production decisions, and rural development. But the Congress refused to abandon high price supports. In the meantime, therefore, stocks of feed grain and wheat accumulated in unprecedented quantities.

THE RETURN TO SUPPLY CONTROLS

In 1961 the new Administration proposed a two-pronged attack to meet the problems of rural America: (1) the Rural Areas Development Program and (2) supply management. Primary emphasis was to be placed upon strict marketing controls and assignment of quotas to farmers. Changes in the number of persons employed on farms were to be brought about largely through the Rural Areas Development Program and through a reduction of land devoted to major crops. Migration off farms, therefore, would be entirely voluntary.

Key proposals contained in the Administration's programs were soundly defeated. The Agricultural Act of 1961, placing emphasis upon marketing controls and marketing orders, was defeated in the Congress. A turkey marketing order was defeated by farmers and handlers in a referendum. Strong feed grain controls were defeated in the Congress. The 1962 wheat program emphasizing marketing quotas was passed by the Congress but defeated in a referendum by farmers. In each case, the Administration has had to settle for supply adjustment alternatives with more flexibility.

WHICH RESOURCES ARE TO BE RELEASED?

Although virtually all proposals to improve the farm situation would entail a removal of resources from agriculture, the proposals differ radically in which resources will be removed and in how this will be accomplished.

During the 1950's and early 1960's the Secretaries of the Department of Agriculture placed emphasis upon the retirement of land as

a means of withdrawing resources from agriculture. *Land withdrawal has been, is, and must be expected to continue to be a major policy variable for the United States Department of Agriculture.*

The Department of Agriculture continues to place emphasis upon land retirement even though we now find ourselves in a period when the relative importance of land in farm production declines annually as new technology makes its easier for farmers to substitute other resources for land. Under these conditions withdrawal of land is a weak and expensive means of reducing farm production.

Pursuing a conscious policy of training, retraining, and transfer of labor from farm to nonfarm employment may be expected as a policy variable from the Departments of Labor and of Health, Education, and Welfare. However, such a policy is not expected to constitute a major position in the Department of Agriculture. In the Committee for Economic Development proposal,[1] emphasis was placed upon achieving and maintaining a high level of employment, providing better education, training, and skills for farm youth to enable them to enter nonfarm occupations; increasing labor mobility through improved job information services; and granting loans to cover the cost of moving families from farms to nonfarm locations. The proposal received little more than ridicule from the agricultural committees in the Congress.

In summary, during the past decade and a half numerous proposals have been made for coping with farm problems in the United States. The policy directions have shifted from one extreme to another. Proposals have ranged from free market operations with no government interference, regulation, or support of farm prices to complete and rigid controls which determine the amount of each commodity an individual is entitled to market. The proposals which have been submitted by the Department of Agriculture have approximated these extremes. When the decisions have been made by the Congress and the people, however, it has become clear that neither is ready to move to either extreme. Consequently, compromises have been effected resulting in policies different from those advocated by the Administration or any major farm organization. We appear to be in such a stalemate at present.

SOME EMERGING AREAS OF AGREEMENT AND SOME POLICY PROBLEMS FOR 1965

Farm policy discussion has given rise to broad areas of agreement

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[1] *An Adaptive Program for Agriculture,* Committee for Economic Development, New York, 1962.

as well as to sharp differences of opinion. Too often the areas of disagreement are emphasized while the broad areas of general agreement which seem to be emerging fail to be recognized. Some areas of general agreement and some of the emerging issues of importance are:

First, there is a growing appreciation among farm and other people of the importance of obtaining a high level of nonfarm employment in the solution of farm problems. The major point of argument here concerns the extent to which a substantial reduction in unemployment per se would improve the incomes of people now living on farms. A reduction in unemployment would increase the demand for farm products but, more importantly, would create additional jobs for farm people. Clearly, the attainment of full employment in a long-run classical economic view would solve the resource allocation problems. The issues concern the short-run and intermediate-term transitional problems and the ensuing distribution of income.

Second, there is a growing public understanding of the fact that agriculture has more resources, both land and labor, than can profitably be employed in the industry. There is far less agreement, however, concerning the amount of land and labor which can profitably be employed in agriculture over the long run, which land and labor will be used, and how it will be organized and controlled. Questions of location and of structure are receiving little analysis. In the future they will receive more attention in the United States, as in other countries.

Third, there is an increased appreciation of the necessity for facilitating occupational and geographic mobility as means of obtaining more equitable incomes for persons now living on farms. There is a growing recognition that increased emphasis must be placed upon education and training as means of enabling rural youth to enter those occupations where opportunities are greatest. Depopulation of many rural areas has been so extensive that decadence of social institutions is obvious. Each year tens of thousands of nomads wander over the country seeking jobs for which they have no skills. Yet we have been unwilling to develop an explicit policy on migration. Where are people in the United States to live and work in the future? Will rural people have the same educational opportunities and social amenities as other people? What constitutes an economically and socially viable community? What types of structural changes are necessary to achieve such viability? Our knowledge in this area is woefully lacking.

Fourth, there is general agreement that the nation will continue

to need some form of welfare program for its underprivileged citizens. The major issues which are emerging here concern not whether we should have such a program but what the content of the program should be. For example, a direct food distribution program is now operating in some counties, and a food stamp program is operating in other counties. One of the basic questions involved in these two programs concerns whether we shall have a welfare program built around the objective of disposing of agricultural surpluses or whether we should orient such a program to the needs of underprivileged citizens. If the needs of the underprivileged are given priority, the distribution of benefits among farmers may be altered sharply. Emphasis, for example, would be placed upon fruits, vegetables, and meats.

Fifth, there is a growing concern in the United States about the potential contribution that agriculture can make to United States foreign policy. The gap between the have and have not nations continues to increase. In the meantime, the programs for disposal of United States agricultural commodities through P. L. 480 have been greatly expanded. These programs emphasize the movement of surplus commodities. In effect, therefore, we have permitted the producers of surplus commodities to determine what foreign policy should be. It would seem more logical to determine what our foreign policy is to be and then to gear our vast agricultural potential to our foreign policy needs. This is a continuing problem that will become more important over the long run, when Western Europe and possibly other regions join us in the game of dumping surpluses.

Sixth, the Kennedy Round of trade negotiations has focused increased attention upon the importance of international trade in farm products. There is a growing concern over tariffs and trade barriers and the need to exploit to the fullest the potential commercial market for United States agricultural products. It has become increasingly apparent that we can no longer afford to take foreign markets for granted. The policy issues here are largely international in scope and are to a considerable extent beyond our control. International market sharing schemes are likely to become more important. Also, at issue is the question of whether we can continue to have conflicting domestic and international farm policies.

Seventh, there is rather general agreement that the nation should maintain an adequate reserve of food and fiber for contingency purposes. Storage policy is being determined by default and is determined largely by the producers of a few commodities. The main policy questions here turn on the size of the reserve to be maintained, the form in which it it to be held, and whether the reserve should be used for

contingencies or as a means of supporting farm product prices. Obviously, the distribution of the benefits will be affected greatly by the decisions made concerning these issues.

The big bone of contention in agricultural policy remains that of determining the distribution of income between the farm and nonfarm sectors of the economy and the distribution of income within agriculture. In short, how much of the gains from increased resource productivity and economic development and the benefits from public programs will society permit farmers to retain? How shall these benefits be distributed among farmers and between farmers and the agricultural industries? I have purposely placed these questions at the end of this discussion because I believe they must be developed in relation to the decisions reached with respect to the policy areas outlined above. If we can decide upon the kind of domestic food distribution programs which are to be employed for the needy, upon the foreign policy objectives to be used in the marketing of our farm products abroad, and upon the policy of the nation in maintaining a reserve for contingencies, we should be able to derive realistic estimates of potential demand for United States products. Only after this has been done can we arrive at reasonable judgments concerning the quantities of resources that will be needed to produce these products, how these resources can be attracted to agriculture, and how they can be organized.

At best, however, we will find that in the short run the productive capacity of United States agriculture far exceeds the potential markets for our products. The issues of types of control programs and government costs, therefore, will continue to occupy a prominent place in the public dialogue on farm policy. We should not expect quick, easy solutions. Our farm problems are not short-run problems. They will not be solved by short-run policies. The problems involved are fundamental problems which have been generated over decades by changes in the underlying structure of our economy. The adjustments which are implied in these changes will require decades before they can be successfully completed.