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Effects of Alternative Public Policies on the Small Farm Problem

By Charles E. Bishop

Much dissatisfaction has been expressed during the last decade over the failure of existing farm programs to increase the incomes of a large percentage of the farm families. This criticism has resulted in a review of existing programs and demands for new programs to increase the income of families on small farms. The Rural Development Program, for example, was designed specifically to aid families in low-income areas.

Since most of the discussion of the small farm has been directed to the incomes of farm families, I shall concentrate my comments on this aspect rather than the size of farms. Most of the discussion about small farms has been concerned with the problem of poverty; that is, the ownership of relatively few assets. In its broadest sense, an asset problem exists when families own too little wealth to be able to purchase those goods and services considered necessary for a minimum level of living.

The asset problem, however, is only one of three types of low-income problems. Another major type of problem is making efficient use of resources. A resource use problem exists when people could increase their welfare by changing the use of their resources. However, the uses which an individual prefers for his resources may conflict with the uses which society prefers. In this case, we say that a preference problem exists. We see, therefore, that we have not one, but three distinct types of low-income problems, namely, the asset problem, the resource use adjustment problem, and the preference problem.

THE ASSET PROBLEM

Nature and Source of the Problem

The word *poverty* suggests the control of little or no assets. Families are said to be poor if they control relatively few assets. Some people own too few resources to be able to attain a minimum level of living even when their resources are employed in the most productive uses. This situation is real poverty. The level of living of the families is lower than is generally regarded as socially desirable. This problem is not unique to agriculture; it exists in all sectors of the economy. It is frequently referred to as the welfare problem.

Now, what evidence do we have that an asset problem exists? Many people look upon the kinds and amounts of goods and services consumed by families as evidence of their poverty. This accounts for the willingness of many people to accept some index of level of living as a measure of poverty. A level-of-living index, however, is based upon the consumption of particular goods and services. Acceptance of such an index as a measure of poverty, therefore, implicitly assumes that people should consume specified goods and services.

Many persons object to taking a position of telling others what they should consume. These people prefer to define poverty in terms of the control of sufficient wealth by a family to purchase particular goods and services irrespective of whether these goods and services are actually purchased and consumed. In current welfare programs, for example, most payments to individuals are based on the amount of wealth which they control rather than on the consumption of particular goods and services.

Defining the standard which is to be regarded as a minimum level of living is a difficult problem. What is a minimum consumption pattern in one area is quite different from what is regarded as the minimum in another area. Despite this difficulty in defining a minimum level of living, all social groups abhor poverty. Furthermore, the fact that a family's income is regarded as high or low in relation to the incomes of others in the community enables those in the community to identify readily those who are considered poor.

Policies Appropriate to a Solution

Since the asset problem arises out of the fact that people control too few resources, the obvious solution is to transfer adequate assets to the poor. The solution must provide for a transfer of assets from high-income people to low-income people. Furthermore, the transfer must be in the form of an outright grant. It may be a grant from private sources or from government sources. The size of the grant may or may not be related to the amount of resources that the families concerned own. If the objective is to bring the income of families up to a particular minimum level, the transfer payments can be based upon the wealth owned by the receiving families. Such a provision, however, discourages the accumulation of wealth by families eligible to receive transfer payments.

The ultimate effects of an income transfer will depend on the size of the transfer and how it is accomplished. Some people actually hold the position that poverty should be abolished by distributing the wealth of the nation equally among the people. This is a dangerous argument. Very little is known, for example, about what would happen to the size of the national income if the income were equally divided among people. The size of the income which will be available for distribution among the people unquestionably depends upon the manner in which the income is distributed. In particular, the amount of capital which is accumulated and invested may be greater with an unequal distribution of income than with an equal distribution. Hence, over time the amount of income which is available for distribution may be greater if the shares going to individuals differ.

Extreme differences in the incomes of families, however, are a cause of concern to the community and to the nation. The large amount of money donated each year to charitable causes is evidence of people's concern for the welfare of those living in poverty. Also, the large number of public programs which have been created to increase the welfare of those who control few assets is evidence of national concern over the asset problem. In addition, it has long been recognized that the future productivity of land and labor resources controlled by low-income families depends upon the amount of investment in these resources. In recognition of this fact, the government has made provisions for certain kinds of transfer payments for soil conservation and labor training.

The manner in which a minimum income payment should be made to individuals, however, will be determined by the objective of the payments. If the purpose of the payment is to increase the welfare of the individual and each individual is to be given the right of determining how to spend his income or what to consume, then the appropriate means of transferring income is a cash payment. This enables the recipients to buy those goods and services to which they assign highest priorities. On the other hand, if those responsible for the program are willing to assert that they know more about how low-income families should spend their income than the families do, the appropriate means of transferring income is in kind; that is, the income grant would be made only if the recipients agreed to consume particular goods and services.

THE PREFERENCE PROBLEM

Nature and Source of the Problem

Some people have low incomes by choice; that is, they are not motivated by money income. They do not attempt to employ their resources in the most productive uses. Rather, they choose to employ their resources in lower paying uses, or in leisure. Clearly there is no income problem from their viewpoint. If there is a problem, therefore, it must be in a conflict between the use that the individual makes of his resources and the use which others think he should make of them.

National income is usually taken as an index of social welfare. Using this indicator of welfare, only goods and services which are sold through the market count as contributing to individual welfare. Individuals who prefer nonmonetary to monetary returns, therefore, are frequently accused of using their resources inefficiently. This represents a conflict of values between the individual and the group.

The market values resources through the supply and demand for resources. Therefore, an individual cannot arbitrarily choose the use which he will make of his resources and at the same time specify the money income which he will receive from their use. No family, however, uses money income as the sole criterion of welfare. All families sacrifice income to some extent in favor of other objectives. The preference problem is not unique to farm families. Neither is it unique to low-income families. Actually, the difference between the income potential and the actual income may be greater for a high-income family than for a low-income family.

Policies Appropriate to a Solution

From a policy viewpoint, the major concern over the preference problem is the extent to which national income is decreased by cultural impediments to resource transfers. That is, the situation becomes a public policy matter when desires of people to use their resources in non-income generating uses reduces the national income to such an extent that it is a cause for concern to the public.

Two major types of action can be taken to combat the preference problem. Given the preferences of individuals, the preference problem can be reconciled by arbitration or by law. That is, some arbitrator or policy-making body must restrict the choices to individuals in the uses of their resources. This type of situation is illustrated by the drafting of labor for military service in time of war or national emergency. The individuals who are drafted presumably prefer other uses of their resources; otherwise, they would volunteer for military service. The conflict is reconciled by passing laws requiring particular uses of resources.

Over the long run, preferences of individuals need not be taken as given. Hence, conflicts in preferences can be reduced by changing the preferences of individuals. This can be accomplished through education, by providing information about alternative uses of resources, and through subjecting individuals to new experiences. Positive action to change the values of people, however, rests on willingness to take the position that certain sets of values are superior and that particular environments are consistent with the acquisition of these superior values. This is dangerous ground on which to tread. When a particular set of values is accepted as superior to others, the sovereignty of the individual is denied. When carried to an extreme, the very foundations of democracy are challenged.

THE RESOURCE ADJUSTMENT PROBLEM

Nature and Source of the Problem

As was indicated above, rationality implies that the individual will use his resources in such a way as to maximize his welfare. Given the conditions with which he is faced, the individual employs his resources in such a manner as to reap the greatest rewards he is seeking. Hence, given his objectives and his knowledge, inefficiency in resource use is inconsistent with rationality of the individual. Insofar as inefficiency exists, therefore, it arises out of the individual's incomplete knowledge when deciding where to employ his resources or out of institutional barriers existing in the market which prohibit the individual from transferring his resources to the most preferred uses.

Given one or both of these conditions, any of a large number of conditions can create differences in the rates of income growth among areas and can create opportunities for improvement in resource use. For example, such conditions as differences in the rates of industrial development, in the production of commodities particularly suited to each geographic region, in birth rates, in consumption and investment patterns, and a host of other factors can contribute to differences in the rates of income growth among regions, if there are barriers to the transfer of resources among uses.

Policies Appropriate to a Solution

The very nature of the resource adjustment problem requires transfer of resources from one use to another to overcome the problem. Furthermore, this transfer of resources must be geographic as well as occupational. Hendrix and Glasgow have shown that in 1950 the median incomes of farm families in 51 economic areas in the United States were less than $1,000. Forty-seven of these areas were located in the South and two were located in southeastern Missouri.[1] The fact that a large proportion of the low-income farm families is concentrated in one geographic region would seem to indicate that a geographic transfer of resources will be necessary in order to obtain most efficient use of resources.

[1]*Farm Policy Forum*, Spring 1956.

Migration of labor from one use to another, however, frequently involves long-run considerations. Short-run instability in employment in the nonfarm sectors of the economy impedes the transfer of resources from one use to another. Much of the population of the United States is still depression oriented in its thinking. Obviously, therefore, one of the major responsibilities of the federal government in promoting efficient resource use is to assure the people that policies adopted will maintain reasonably stable economic conditions; that is, extreme inflation and deflation will be prevented. Once the people can be convinced that the government will try to maintain a reasonably stable price level and an expanding opportunity for employment, the major problem is to provide information to people in regard to alternative uses for resources.

Laborers need to be provided with information regarding job opportunities and potential labor earnings in agriculture and in nonfarm employment. This is not being done to the extent that it could be. The channels of communication in regard to employment opportunities in distant centers are particularly poor. Most of the migration takes place as a result of information passed on by friends and relatives. In order to increase efficiency in resource use, migration must be guided by economic opportunity. Employment agencies should be encouraged to provide information relative to employment opportunities in other states. In some instances the activities of employment agencies have been restricted to local job opportunities in an effort to impede the migration of people from one state or location to others.

Information must also be supplied to employers regarding the advantages of various industrial sites if plants are to be situated in the most economical location. The high degree of competition among states in seeking new industries has caused them to advertise the advantages of particular locations, and this has provided a great deal of useful information to potential industrialists. However, this proclaiming of local advantages without regard to the most economical location for particular industries may be carried to extremes and may be costly in the long run. An over-all look at the advantages of particular locations from a national viewpoint is needed to assure most efficient resource use. At present, no real guidance is being given in this area.

Once farm people have become convinced that nonfarm jobs are available which will pay a greater rate of return over the long pull for the use of their labor, they will want to migrate. Capital grants or outright subsidies may be necessary in some cases, however, in order to finance the migration to nonfarm employment. Such a program would be quite different from anything undertaken by the public to date. The cost, however, may be small in terms of the long-run benefits.

Actually, the soil bank provisions can be viewed as a means of attaining capital for transferring resources to more productive uses. For example, the provision for placing the whole farm in the soil bank may enable many people to go into full-time, nonfarm work who otherwise might remain in agriculture. Also, current provisions of the Soil Bank Act should encourage part-time farming.

Within agriculture, major steps can be taken to combat the resource adjustment problem. Action taken to reduce the risk and uncertainty as to prices and yields may encourage efficiency in production. Price supports to guide resource allocation may be a major factor in removing or reducing uncertainty if the prices are not above long-term free market levels. Price supports at levels above which the market will be cleared, however, have no place in a program designed to encourage efficient resource use. Whether a program of forward pricing or some other similar scheme will result in a net gain to the nation depends upon the ability of economists to estimate the needs of the market. If producers are provided with more accurate information about market demands and if capital is made available to meet these demands, resource use may be improved.

Over the long pull, however, it is my belief that over-all economic development will be necessary in order to realize the economic potential of resources owned by families on small farms. Sound agricultural programs will provide encouragement for expansion of farms and for more efficient resource use within agriculture, but an expansion in production of individual farms means that fewer farm families will be required to supply the food and fiber needs of the nation. Hence, over-all economic development must provide a means whereby the large reservoir of labor in agriculture can be drained off and employed in the nonfarm sectors if the low-income problem in agriculture is to be removed.