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Methods of Supporting Farm Prices and Income

By Arthur Mauch

When the level of support has been decided, the cost of the program has pretty well been determined. The second major decision involves how payments are to be made. This has a great bearing on how the benefits are distributed and who pays the bill.

The farmers who first take advantage of an innovation increase their income. In the long run the consumer benefits by getting more for less money.

Since price supports help stabilize farm income, the farmer will feel safe in modernizing his milk house and liming his fields in expectation of adequate future income to cover his costs. Again the consumer will benefit from a better quality and cheaper product.

The real purpose of a price support is to benefit farmers, but doubling the price of cotton is of little help to a farmer who produces only one bale. The big farmer is in a better position to take advantage of most farm programs. He can cut his acreage by eliminating the poor land and compensate by closer planting and more fertilizer on the better land. But all producers of the supported crop benefit some because the market price is bolstered when the government withholds part of the crop from the market.

The original landowner benefits more than a new owner—government subsidies, at least in part, are capitalized into the price of the land.

The crop producer has benefited more than the livestock producer; the Great Plains and Southern farmers more than the Corn-Belt farmers. High supports have been available on corn, wheat, cotton, rice, peanuts, and tobacco which account for only about a fourth of the farmers' cash receipts. Although acres have been reduced, more fertilizer and technical knowledge have been applied to increase yields. Diverted acres have been used to produce surpluses of feed and livestock, which has shifted some of the burden to the livestock producer.

Short-run benefits often create long-run headaches. The current surpluses may depress market prices for some time to come. This accumulation of stocks is a result of our price-support program, including government purchase or loan and storage.

STORAGE PROGRAM

If the product is storable and is eligible for a support price, the government will lend the farmer an amount equal to the support price. If the price rises above the support price the farmer may sell the product and repay the loan. If the price is below the support price, he may deliver to the government. Since the government accepts the commodity in full payment and has no recourse to other assets, this is called a "non-recourse" loan.

A variation is the "purchase agreement." The government advances no money, but if the market price is less than the support price, the government agrees to buy at the support level.

With these methods the support price is not automatic. It applies only to the portion of the crop that meets quality specifications and has been properly stored and sealed in a contract with the Agricultural Stabilization and Conservation Committee. However, the market price of the entire crop is bolstered as long as the government withholds a part of the supply from the regular market channels.

In this method of implementing price supports, the government competes in the market place with the consumer. Since low-income farmers spend a large portion of their income for food, they bear a heavier burden. The taxpayer, of course, pays the cost of storage and of losses from disposal at less than cost and from deterioration of quality.

The farmer is not immune, either. The cotton farmer has lost part of his domestic market to synthetic fibers and much of his export market to producers in other countries. The dairy farmer has lost some of his butter market to margarine. But for the export subsidy under the wheat agreement, little wheat would be sold abroad. The shift to feed crops on diverted acres has resulted in lower prices to the feed and livestock farmer.

Perishables cannot be supported by storage loans. They must be purchased and disposed of—usually at a substantial loss.

Of course, storage programs have advantages or they would not be a major part of our current farm program. Storage and purchase operations contribute to the welfare of the economy by storing products which can be used in times of national emergency and short supply, and by making purchased products available to school children, disaster areas, and needy foreign countries. They are politically acceptable and are easy to administer. The cost to the public has not proved to be too high in times of full employment and a rising price level, and they do temporarily raise the farmer's income.

DIRECT PAYMENTS

Direct income payments are paid directly from the United States Treasury to the producer to compensate him for the difference between the free market price and the support price. The farmer sells in the regular market channels. The government does not support the market. For example, if the support price of butter were 70 cents per pound and the free market price averaged 50 cents for the marketing period, the producer would receive 20 cents per pound as a direct or "compensatory" payment.

During World War II milk producers received direct payments—but not to support a weak market. Low ceiling prices were imposed to benefit consumers, and direct payments were made to farmers to encourage production. Farmers actually would have made more money if the price had been allowed to rise in a free market. Currently wool prices are being supported by direct payments.

With direct payments the consumer gets a break. He is allowed to consume all of the product and at the market price. Consumption would increase both at home and abroad. Burdensome surpluses do not accumulate in the hands of the government. The taxpayers pick up the check. Since all producers would be eligible, it would involve much accounting and red tape. If the support level were high, production would be stimulated. To avoid undue cost to the taxpayer, production controls would still be necessary. If this is done, some of the burden would be shifted to the consumer in higher prices and to the producer in smaller volume.

CONSUMPTION PROGRAMS

The 1956 Act indicates the importance attached to stimulating consumption of farm products. The Secretary is authorized to appoint an Agricultural Surplus Disposal Administrator. In order to facilitate a program of orderly liquidation, the Secretary is required to submit to Congress a detailed program for: (1) disposal of all Commodity Credit Corporation stocks, (2) a food stamp or similar plan, and (3) strategic stockpiling of agricultural products.

An annual appropriation of 500 million dollars was authorized for Section 32, with a limitation of 50 percent of this for any one commodity. Section 32 has to do with the use of import fees to buy surplus farm products for domestic and foreign relief. Emphasis here is on supporting the price of perishable products that are not protected by mandatory supports.

A five-member bi-partisan commission is to be appointed by the

President to make recommendations for increased industrial use of agricultural commodities.

The CCC is authorized to donate commodities to federal penal and correctional institutions, and to state correctional institutions for minors.

The school lunch and special milk program is popular and on the increase.

A National Food Allotment Program has been proposed for low-income families. This plan would allow a family to buy food to meet minimum standards for health with a nominal portion of its income. Assuming that a minimum diet for a family could be purchased for \$20 a week, anyone could purchase the weekly allotments of food stamps for 40 percent of his income. If the income were \$40 per week, the stamps would cost \$16. The subsidy would be \$4.

Consumption programs would be acceptable to farmers, who like to get their income in the market place. Farmers would have greater income stability. Increased certainty would increase efficiency and output in agriculture and benefit all of society.

The health and productivity of low-income families in the United States would be improved. They, in turn, would contribute more to the well-being and defense of this country.

The cost of the program would fall most heavily on those who could best afford to pay, since federal taxes are levied according to income, and the government payments would be largest in depression periods, which should aid in bolstering the entire economy if accompanied by deficit spending.

It is doubtful that even a consumption program could remove surpluses of some crops (such as wheat and cotton) and raise prices to a very high level. Because demand is inelastic, a drop in farm prices does little to increase consumption.

A subsidy to all consumers would probably not be politically acceptable because of its high cost. This is especially true if foreign consumers were included in a permanent program.

Such proposals as a National Food Allotment Program would be difficult to administer. Another problem would be preventing adverse effects on regular market demand.

As the program continued, farmers would increase production, and receive less of the benefits.

TWO-PRICE PLAN

Some people advocate a "two-price" or "domestic parity" plan for such crops as wheat, cotton, and rice. In fact, Congress has authorized such a plan for rice if the Secretary of Agriculture regards it as feasible. Here, a price support would be guaranteed only on the portion of the crop used in the United States. This would not increase the tax burden. The domestic consumer would pay the cost. The foreign consumer would buy the excess at world price levels.

The main objection to this proposal is the importance of maintaining good foreign relations. Our foreign friends would protest dumping our surpluses to undersell their producers. Retaliation would result.

If applied to wheat, our own feed grain producers would suffer from subsidized competition as more wheat is sold for feed. Here again strict controls might become necessary.

SOIL BANK

Now the soil bank has captured the public's fancy. The taxpayer's hope is that eventually the surplus problem will disappear, and a positive soil bank program will supplant the price-support program. Consumers may accept the program because they prefer to have production stored in the soil for future needs rather than to pay farmers to produce such things as wheat and cotton far beyond their current needs and demands.

The *acreage reserve program* is a temporary program to reduce production of wheat, cotton, corn, rice, peanuts, and tobacco. Present authorization carries through 1959, and 750 million dollars per year was appropriated.

The intended benefits are: (1) raise farmers' incomes by direct payments for placing acres in the reserve and by increasing price through a reduction of surpluses and market supplies, (2) provide protection against crop failures by basing payments on normal yields regardless of growing conditions, and (3) increase the productivity of idle land for future use. Hopes are that 25 million acres will be placed in reserve. This would be about 7 percent of the total cropland.

A farmer participates by signing an agreement with his ASC (Agricultural Stabilization and Conservation) Committee and removing some part of his acreage allotment or corn base acreage from production. Land placed in the reserve may not be grazed, cut for hay, or cropped. It will be left idle or soil or water conservation practices applied to it. Noxious weeds must be controlled.

Through the *conservation reserve*, farmers have an opportunity to receive government assistance for long-term conservation work on their farms. The administration's goal of 25 million acres in conservation reserve, or about 7 percent of the cropland, would be marginal cropland compared with the acreage reserve.

A farmer may participate by signing a contract with his county committee in which he agrees to remove land from production of crops and devote it exclusively to conservation practices. Land producing tame hay or pasture in regular rotation is also eligible. A farmer must also be in compliance with his allotments or corn base acreage.

With respect to use of land, a farmer who signs a contract will agree:

1. To establish and maintain protective cover (grasses, legumes, trees or shrubs), water storage, or some other approved conservation practice on designated acres.
2. To maintain normal acreage of conserving and idle land on his farm.
3. Not to harvest any crop from these acres, except timber, in keeping with good forestry management.
4. Not to pasture these acres before January 1, 1959, or a later date cited in the contract, unless the Secretary of Agriculture finds a need for grazing before this date.
5. Not to use any practice defeating the purpose of the contract; for example, divert land now in conservation or woods to a use prohibited by the Secretary.

A farmer will receive about 80 percent of his cost of establishing his conservation practice. For establishing grasses and legumes, these costs could include land preparation, seed and seedlings, inoculation, liming and fertilizing. For establishing trees, costs could include land preparation, tree seedlings, seed, cuttings and shrubs. Other material and labor used in conservation, including water storage, are also eligible for cost sharing. These payments do not bar ACP payments for additional protection and improvements on land in the conservation reserve.

In addition to the practice payment, a farmer will receive payments each year for the length of the contract to compensate him for taking land out of crop and livestock production. The payments will vary with the value of the land for producing crops, rates of land rent in the area, and the necessary incentive to encourage wide participation.

Congress set 450 million dollars per year as an over-all limit, for payments for the conservation reserve program.

The minimum conservation reserve contract is for 3 years; the maximum is for 10 years, except for tree cover which may extend for 15 years.

According to J. C. Bottum, in the summer issue of *Farm Policy Forum*, no material decline in production will result from the first 15 million acres shifted into the soil bank if grassland is pastured, and only a little if it is not pastured. In fact, he says that incentives must be high enough to get participation of a 30 to 50 million acre magnitude to shrink significantly the supply of farm products.

Bottum adds:

The soil bank approach leaves the balance of the agricultural economy free of controls except for adjustment brought about by soil bank payments, which can be on a voluntary basis. Prices are allowed to go free. It avoids the complications in international trade that arise from production controls and high supported prices.

The soil bank approach moves the agricultural production pattern in the direction of soil conservation. It moves the food supply pattern in the direction of more beef per capita and less pork and chicken. It requires substantial payments out of the Federal Treasury. In total, it appears in line with more of our accepted American goals than does the production control approach.

CONCLUSION

None of these programs will really solve the farm problem. In the long run the best way to make the business of farming return a living equal to comparable nonagricultural pursuits is to increase the volume and efficiency for each farm. This means a continuation and even speeding up of the channeling of our farm population into nonfarm production.

In the short run we will continue to need programs to prevent or cushion the effects of violent reductions in farm prices which are beyond the control of the farmer.

Our efforts should be directed toward formulating programs that do not impede progress, nor interfere with the freedom of the farmers. At the same time, they should encourage production of the kind and quality of agricultural products consumers desire and without an undue burden on society.

PART III

*Balancing Supply and Demand—
A Look Ahead*

