Farm Income Support Based on Good Land Use

By H. C. M. Case

The justification for presenting a new approach to farm income-support legislation is that our present legislation either has failed or will fail to achieve its objectives. Some major weaknesses in the legislation are already apparent, and it is still too early to completely appraise the 1954 act. Among the weaknesses, part of which apply to 1954 as well as to prior legislation, I want to mention eight in particular:

1. THE PRESENT LEGISLATION IS SO COMPLEX THAT THE PUBLIC CANNOT UNDERSTAND IT OR ITS INTENT. This fact was brought out by the "grass-roots report" on farm programs at the township level. The general public does not understand how parity prices are determined nor whether the method of determination is fair. Not only the public, but most farmers as well, fail to understand the distinction between an agricultural income support and a price support or the implications involved in the difference.

2. THE EXISTING LEGISLATION CANNOT BE EXTENDED TO OTHER PRODUCTS, ESPECIALLY PERISHABLE COMMODITIES, WITHOUT MATERIALLY COMPLICATING THE ADMINISTRATION OF THE PROGRAM. Much of our agricultural income comes from products that are not under support programs. In fact, the basic grain crops and cotton represent only 20 percent of the agricultural income. Many farmers growing other products feel that they should be included under the legislation. Yet the present program cannot easily be adjusted to include such products, especially perishable commodities.

3. SINCE THE EMPHASIS IS ON ACREAGE RATHER THAN ON TOTAL PRODUCTION, THE PRESENT LEGISLATION CAN BE CIRCUMVENTED BY INTENSIVE FARMING. For example, in some areas yields of 700 to 1,000 pounds of peanuts an acre were formerly considered quite normal. Since acreage controls have been put into effect, use of fertilizer and other improved techniques have made yields of 3,000 to 4,000 pounds an acre common. Similar, though not so striking, examples might be given of corn, wheat, cotton, and tobacco.

4. UNDER OUR PRESENT LEGISLATION, SURPLUSES ACCUMULATE THAT ARE INJURIOUS TO THE PROPER FUNCTIONING OF FREE MARKETS. We need not dwell on the effect of actual or potential surpluses in depressing market prices.

5. PRODUCTION IS CONTINUALLY GETTING MORE OUT OF BALANCE

WITH CONSUMPTION. No illustration is more pertinent than the mounting surpluses in butter, wheat, and cotton.

6. THE PRESENT PROGRAM INVOLVES HEAVY EXPENDITURES FOR BUYING AND STORING THE SURPLUSES. Storage costs alone now amount to $700,000 a day; this is a heavy tax on consumers for which they receive little in return.

7. THE INTENT OF A PROGRAM CAN BE CIRCUMVENTED BY INCREASING THE BASE FOR A CROP JUST BEFORE CONTROLS ARE PUT INTO EFFECT. A farmer could take unfair advantage of the program by increasing the acreage of crops that he expects to be brought under control. Rice now affords a good example.

8. THE LEGISLATION HAS BEEN MANIPULATED TO GAIN A PRICE ADVANTAGE FOR CERTAIN SECTIONS OF THE COUNTRY OR FOR CERTAIN PRODUCTS. Such manipulation tends to defeat the intent of agricultural legislation. Although this point merits further consideration, I will briefly mention a few of the effects:

a. If the original intent in "equality for agriculture" was to support total farm income, we must admit that emphasis on price supports for individual commodities has not achieved this purpose, because it has brought favoritism for those commodities that are capable of winning Congressional support.

b. The intent of the 1948 and 1949 revisions of agricultural price-support legislation, with flexible supports geared inversely to the supply, was to help clear the market of surpluses under a free market system. High rigid supports and the use of the old parity prices or new ones, whichever were higher, have hindered free market operations. The use of old parity in place of the new or modernized parity, which attempts to take account directly of market demand and indirectly of relative changes in cost of production, amounts to 33 cents a bushel for wheat, 19 cents for corn, 1.9 cents a pound for peanuts, and about 5 percent for the different grades of cotton. These four commodities represent over 73 percent of the more than 6.5 billion dollars now invested in farm commodities or loans on commodities.

c. Changing the base period for computing parity price for more than half of the agricultural commodities, or grades of commodities, appears to give certain commodities distinct advantages because of their relatively high price in the new base period.

In general, instead of merchandising surplus farm commodities by adjusting prices inversely to supply, we have tended, by using high price supports, to price them out of the market and to encourage the introduction of substitutes. For example, high prices for feed have discouraged livestock feeding operations, high prices for cotton have encouraged the substitution of synthetic fibers and plastics, and high prices for peanuts have caused soybeans to replace them in certain confections.

While current legislation holds the limits for flexible price supports to between 82.5 and 90 percent of parity for basic commodities, it does recognize the soundness of the principle of flexibility. These narrow limits will, however, jeopardize the effectiveness of its operation, especially in view of the currently large carryover stocks of major farm products.

Pointing out some of the weaknesses in current agricultural programs does not mean that they have accomplished no good. They have done much to increase farm income. But there is evidence that we have gradually gotton into a more unstable position with regard to farm surpluses. It is to be hoped that the 1954 agricultural legislation will prove more workable, but doubt that it will meet the needs makes it desirable to explore new approaches to income stabilization for agriculture.

During the 1948 hearings held by the Senate Committee on Agriculture and Forestry, there was strong sentiment for tying any long-time plan for agriculture closely to soil conservation. Some interest was also shown in a direct-payment plan that would guarantee farmers a parity income or a certain percentage of a parity income. But another important point to consider is that a program should apply with equal justice to all parts of the country and should be effective for all products insofar as possible, and not for a chosen few. A sound program would also give farmers latitude to develop their own system of farming on as economic a basis as possible and to introduce improved production techniques that would lower production costs.

A PROPOSED PROGRAM

The thesis upon which this proposed program is based is that a satisfactory agricultural program should harmonize these three objectives: (1) stabilize agricultural income on an acceptable basis in relation to national income, (2) provide a more equitable distribution of income to farmers, and (3) achieve good land use for both present and future production needs.

The plan of tying individual support payments to good land use is not a new one. I was one of a small group who discussed this type of program during the AFEA meeting held in Cincinnati in 1932. The central suggestion was to reimburse farmers for taxes and seed on land they left in grass and legumes—small recompense in terms of current thinking. After the new legislation was passed in 1933, members of the same group pointed out that this legislation would have been more acceptable to the public if farmers had been paid for making good use of their land rather than for not doing certain things that seemed to add to surpluses.

During the hearings of the Senate Committee on Agriculture and Forestry in 1947, a group of farmers from Piatt County, Illinois, presented the Piatt County Plan to the Senate Committee at Peoria, Illinois. This plan would have withheld payments to any farmer unless he submitted and adopted a sound farm plan.

More recently, at the 1953 hearings of the Agricultural Committee of the House at Bloomington, Illinois, M. P. Gehlbach presented a plan designed to pay farmers for good land use out of a fund created by levying a tax on the production of farm grains. An object of this proposal was to make the plan self-supporting. The constitutionality of such a plan would need to be established. Furthermore, it would be difficult to sell the plan to farmers, who would have to contribute the tax funds to be redistributed by county committees.

The plan submitted herewith is a refinement of a plan that was originally proposed on April 19, 1950. It was introduced with this statement:

> The flexible price support feature of the 1948 Hope-Aiken Act, which was also retained in the 1949 Anderson Act, will not become fully operative until 1952. This three-year delay in putting the flexible price support feature into effect is contributing to the accumulation of excessive supplies. Locking up ever-increasing supplies of staple farm products is not a satisfactory answer. The government's stockpile of corn, wheat, cotton, dried milk, butter, eggs, and potatoes, which represents about 4 billion dollars in loans and purchases, has not solved the farm problem. The existence of these supplies has a depressing effect upon the market. As troublesome supplies accumulate, it will become more difficult for any sound program of price supports to operate successfully.

A central thought in the plan here described is to avoid clashes between different sections of the country in seeking special advantages for a specific product and to develop a plan that would have as nearly nationwide acceptability as is possible.

In the development of a sound plan, it does not seem realistic to me to try to keep tobacco and cotton in the same price-support plan that is used for feed and food crops. I am willing to let the cotton and tobacco growers write their own ticket for the 5 percent of the cultivated land required to grow their product. I know that wool and synthetic fibers will meet most of my needs if cotton producers become too unreasonable in their demands. Furthermore, I am willing to let those who have a personal interest in tobacco pay the cost of the program for that commodity. In fact, because of its revenue producing qualities, it may be just as well not to change the tobacco program too much. Eliminating these two crops, which are not primarily feed or food crops, from the major farm price-support program would greatly facilitate agreement on farm programs.

The essential feature of the plan here presented is a system of payments to farmers to stabilize farm income and to encourage them to divert land from cultivated crops not needed for domestic consumption and export demand to grass, legumes, or fallow. The total payment to farmers in any year would be an amount sufficient to raise farm income to a given level in relation to the national income. If cotton and tobacco are left out of the plan, the normal income from these two products should be deducted from the national farm income in determining the base income.

Because of the large surplus of some products now on hand, in a shift to the proposed plan the basic crops should be protected by placing under them a floor, such as 70 or 75 percent of revised parity. Furthermore, there should be a place for a conservative ever-normal granary plan, developed on a basis that would insure the replacement of stored products by new crops at frequent enough intervals to maintain quality.

Members of the Senate Committee on Agriculture and Forestry in 1948 recognized that it would be possible to stabilize agricultural income through direct payments and at the same time give the market a considerable amount of freedom to operate on a supply-and-demand basis. The problem was how to make equitable payments on an economic basis. This analysis is intended to present a possible basis for such payments.

In presenting the plan, let us assume that the parity income for agriculture is 30 billion dollars in a given year and that farmers are guaranteed payments of 90 percent of parity, or 27 billion dollars. But in that year agricultural income may be only 26 billion. Under these conditions, with the guarantee of 90 percent, they would be entitled to 1 billion dollars more.

The problem is how to distribute this money to farmers on an equitable basis and in a way that will promote the economic use of land. For example, let us say that we have about 400 million acres of tillable land and 1 billion dollars is to be distributed. It would then be possible to make an average payment of $2.50 an acre for all tillable land. But the rate of payment would need to be adjusted to the quality of the soil on a particular farm or in a particular area.

The equitable portion of the 1 billion dollars that should be paid to each state and to each county would be calculated on the basis of estimated income in past years. Payments to farmers within a county would be allocated by local committees operating under general rules. The plan would be to base payments to individual farmers on the percentage of tillable land in grass, legumes, or fallow. In growing grass or legumes or leaving their land fallow, they would generally follow recommended soil conservation practices. Payments could be conditioned to acceptable standards of conservation performance for the community. To secure farmer cooperation, this plan would require a reasonably high payment per acre to compensate the farmer for the difference in return per acre of land in grass, legume, or fallow use, and other uses.

To help make the program effective it is recommended that a farmer receive no payment unless his performance in seeding cropland to grass or legumes or fallowing land exceeds the historical average for his county (or perhaps 75 percent of the county average). This plan assumes that soil conditions in a county are quite uniform. Where soil conditions vary greatly, the county committee might be instructed to establish bases, by townships or other areas, that will represent good land use. An equal per acre payment throughout a county, however, would encourage greater acceptance of the plan on low-producing land, where conservation practices are most needed.

After local committies have had time to classify the land on the basis of good land use, bases should be established for individual farms, and the farmer should receive no payments until he has exceeded 50 percent of the acreage of grass, legumes, or fallow established as the goal for his farm. It would probably be desirable, however, to limit the percentage of land on which payment is made to an individual to twice the historic average percentage of tillable land in grass or legumes or fallow in the area. Unless such a limit were set, some farmers might tend to put all of their low-producing land into grass and legumes in order to collect the maximum payment. In marginal areas this procedure might be desirable. In fact, in areas that are devoted to grazing, payment might be made for pasture improvement when land is taken entirely out of grazing use for a year or longer. Such practices should be subject to control by the county committee.

If the total available for distribution amounted to $3.00 an acre for all tillable land in a particular county, but payments were made only on the acreage in grass, legumes, and fallow in excess of the average acreage in such uses in the county, a relatively large payment per acre could be made. If in complying with the program, farmers increased the land in such uses by 10 acres in every 100 acres of tillable land above the historic average, a total payment of $300 would be available. The payment for an acre of qualifying land would then be $300 divided by 10, or $30. This net payment, plus the value from the grass and legume crops, should induce farmers to accept the plan. In the better land areas, the per acre payment would be proportionately higher; and in the lower producing areas, proportionately less.

It is believed that this plan would be most effective if, in years of low farm income, the amount of payment due farmers were computed for that year but payments were allocated on the basis of the succeeding year's crops. This would be regarded as a delayed payment. The purpose would be to insure payment for effort to comply with the program and, more important, to let the farmer know in advance whether funds would be available for him to receive payment for making adjustments in the use of his land. This arrangement should make it possible to initiate the proposed program without delay when the legislation is passed and to secure prompt compliance by farmers.

After the program is initiated, payment should be calculated in such a way as to prevent a farmer from following a heavily depleting cropping plan one year and yet qualifying for a large payment because of his plan for the succeeding year. This can be accomplished by making payment on the basis of the average of two or three years' records of tillable land left in grass, legumes, forage crops, and fallow as soon as the program has been in operation for that long a time.

Some advantages that may be claimed for the plan are presented briefly:

1. It would stabilize farm income.

2. Consumers should be able to recover through lower food prices what the program costs them in taxes.

3. The fact that farmers as a group receive no more than a parity income should reduce demands for higher wages based on higher food costs.

4. Certain farm products would not be priced out of the market because of artificially high market prices.

5. The plan would encourage good land use and the development of economic systems of farming. Prices determined on the basis of competition would be the guide in developing systems of farming.

6. Fertility would be stored up for future production needs.

7. Supply and demand would again become the major basis for determining relative prices of farm products. In years of high production, prices would decline, making it easier to feed surplus grains or sell them on the world market.

8. The livestock feeder would be freed from artificially high feed prices, and price competition would be restored as a guide to production.

9. Farmers would not greatly expand livestock numbers in one year except to buy short-term feeder stock, as they would have no assurance that their farm income in the succeeding year would be low enough to assure payment.

10. The plan should encourage shifting low-producing land to grazing use on a permanent basis.

11. It would not encourage growing crops in areas that are not best adapted to their production as do some of the present programs.

12. It would prevent the possibility of increasing production to get an artificially high price and high income through excessive and uneconomic use of fertilizers and other measures designed to increase production.

13. The plan would not discriminate against producers of any particular product, such as vegetable growers, as all farmers would be eligible to participate in the program.

14. It should appeal most to the farmer on low-producing land when a uniform payment is made per acre on a county basis.

15. It could be readily applied where land types are uniform, or it could be adapted to individual farms by classifying the land on the basis of soil type, topography, and desirable rotation practice.

16. It would insure the greatest reward to the man making the greatest contribution.

17. It would require a minimum amount of inquiry into the private life of the individual, as it would not require any information concerning either individual income or marketings.

18. Insofar as an aim of farm programs is to secure wider distribution of income, this plan would provide a more acceptable basis than present programs.

19. Payment would be based on positive action.

20. The plan could be easily understood.

21. It would be simple to administer; when the amount of available funds has been determined and the base for a farm established, it would be necessary only to calculate the acres of tillable land in grass, legumes, and fallow in order to determine the payment due.

EXCESSIVE SUPPLIES PRESENT A SEPARATE PROBLEM

This plan does not provide for the liquidation of excessive stocks of farm products on hand. It should, however, help to prevent the excessive accumulation of future stocks. At present we should take advantage of foreign demand and high domestic purchasing power to liquidate stocks in excess of normal carryover. A reasonable carryover is insurance against an unfavorable crop year, but too large a carryover is depressing to prices and adds to administrative costs.

The orderly disposal of excessive supplies will require careful planning and due recognition of certain economic conditions. For example, about 85 percent of the corn crop is normally fed to livestock, and the price relation between corn and livestock products needs to be such that it will encourage livestock production. There is nothing in the proposed plan to interfere with orderly liquidation of excess supplies while the new plan is being established. The new minimum of 82.5 percent of parity price for corn will induce farmers to feed more grain than do the present minimum supports.

INCOME SUPPORT LEVEL REQUIRED

One may well raise the question whether, in subsidizing farm income, the farmer needs to be reimbursed for the entire displacement of normal gross income or only for the net income which he did not realize. When land is taken from tillable high-cost crops and put into roughage crops or left fallow, the cost of land use is usually reduced. The difference in cost, however, is difficult to establish. Recognizing that some inducement is needed in order to get a prompt response on the part of farmers, I believe it desirable to determine payment on gross rather than net income, or at least to reimburse farmers on the basis of a relatively high percentage of gross income. It is assumed that this plan would replace price-support programs for feed and food crops, except for price floors at a modest level. I believe that price floors are needed primarily because of the accumulated surpluses now on hand, but they would also serve as safeguards for the plan.

Much of the political discussion over price supports has concerned five products—wheat, corn, cotton, rice, and peanuts—which represent only 20 percent of total farm income. An effective price-support, production-regulating program would conceivably reduce the income from these products by 15 percent but would reduce total agricultural income by only 3 percent and in the long run give agriculture the advantage of a free market and a better and healthier market for other products. With the drought threat we have had to the corn crop, farmers with corn to sell in the coming year would undoubtedly receive higher prices if there were no excessive supply on hand. This excessive carryover of old corn was accumulated at the rate of less than 3 percent a year over a six-year period. Under a reasonably flexible price-support program, it should have been consumed by livestock at rewarding prices to farmers. Because of relatively high prices for meat, many people in most walks of life have, during the past five years, eaten more potatoes and bread and less meat. In 1953 the consumption of beef was 77 pounds per capita, and in 1954 it will probably reach 79-80 pounds per capita, an increase of about 17 pounds over average 1947-52 consumption. The change in relative prices has contributed largely to this shift in consumption.

This plan has been evolved with the thought that the current programs have not attained their objectives. A plan is needed that will avoid competition between special-commodity interests. A plan is needed that will have nation-wide support and that will be effective for any farmer regardless of the products he sells. It should be simple enough to be readily understood by all. It should not tax consumers for benefits they do not receive. It should stabilize farm income in relation to national income and encourage reduction of farm output as surpluses accumulate.

A major argument for the support of this plan by Congress is that, once established, although it would require federal appropriations, there would be offsetting economies, such as reductions in losses on Commodity Credit Corporation stocks, in agricultural conservation payments, in storage costs, and other operating expenses.