MAJOR AGRICULTURAL POLICY QUESTIONS OF THE NEXT FIFTEEN YEARS

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BASIC THEORY

Francois Quesnay, founder of the Physiocratic school of economists in France 200 years ago, was the original agricultural policy economist. His *Tableau Economique* or his conception of desirable national agricultural policy, published in 1758, is still the point of view of many American farmers who complain that the middlemen, manufacturers, and urban residents take so much from their product that they cannot keep up the improvements and fertility of their soil and must eventually abandon their farms and move to the cities.

To him, only agriculture was productive, and all other occupations were sterile. Money was not real wealth. The true value of a commodity was not its power to command money in exchange, but its power to command other commodities in exchange. In effect, therefore, he was the first advocate of a farm parity concept.

He believed, however, that one bushel of wheat had just as much value in exchange for other commodities as any other bushel of wheat regardless of the total supply available. In this, he confused use value with exchange value. His view in this respect was no different from that of many people today who argue that there is not and never was such a thing as agricultural overproduction.

Eventually, Quesnay saw his error. In eliminating the mercantilist fallacy of a foreign balance of trade designed to increase the nation's supply of precious metals, he had fallen victim to another fallacy of assuming that a nation could continue increasing its supply of agricultural commodities without reducing their exchange value in terms of other commodities. His eventual recognition of this fallacy led him in 1765 to a practical abandonment of his earlier distinction between productive and sterile classes. Thus, Quesnay and his followers performed a great service to economic theory by getting behind the common-sense notions of use value and showing that the scarcity or market value of a commodity is its power to command other commodities in exchange. The changing exchange value of farm commodities gives rise to modern agricultural policy issues, and will certainly continue to do so in the future.

PAST AND PRESENT ISSUES

Just fifteen years ago the major agricultural policy questions of the nation involved rationing, price ceilings, production goals, and how to deal with wartime shortages of agricultural products. But behind these questions was an abiding concern about how we might make the transition from war to peace without the customary farm price collapse. We had already passed the Steagall Amendment to provide price-support incentives for an expanded production, and to provide a cushion against possible price declines for two years after the war.

No one at that time fully anticipated the 26 percent growth in population that occurred between 1944 and 1958. Much less did anyone foresee the even greater increase in agricultural production that took place during the same period. Having emerged from the depression period with its mass unemployment, all of us were convinced that our farm problem would be solved if we could only create an economy of "full employment." Yet, during much of the past fifteen years we have actually had a continuing farm problem in the face of at least "high level" employment.

Only ten years ago we were in the midst of a debate about how we could stem the then sharp decline of farm income. A short five years ago we were getting ready for the soil bank–the acreage reserve feature of which is already history. The major questions today are the issues of how to get rid of surpluses already produced, how to avoid continuous production of new surpluses, and how to help farmers at reasonable cost to the government.

The past fifteen years have brought major changes in the main policy questions concerning agriculture. We can safely predict that the next fifteen will do likewise, though none of us can know precisely what the changes will be.

Even so, the major agricultural policy questions of the next fifteen years will all stem partly from past action or inaction–they will represent in part the consequences of past policies as they unfold in action. The record of the past shows clearly that what we generally regard as major agricultural policy questions are politico-economic questions –not what the economists are prone to call purely economic questions, i.e., those concerning optimum allocation of resources. Especially since 1920, the major politico-economic questions in peacetime have been generally concerned with: (1) farm income and prices, (2) the identification and definition of agricultural surpluses, and (3) politico-economic decisions regarding what should be done about problems in these areas.

MAJOR FUTURE ISSUES

We are practitioners in the field of economics—not politics. Therefore, we speak primarily of the economic side of our future problems. And if we are allowed to "pull the teeth" of the real major uncertainties such as war and peace, and to assume nothing worse than small "brush-fire" wars, along with continuing high-level employment and expanding economic activity, we may be able to foresee some of the likely over-all agricultural policy problems of the next fifteen years. These appear to me to be as follows:

1. The continuing imbalance between farm and nonfarm income, both per person and in total.
2. The rural poverty issues concerning mainly low-income farmers.
3. Stabilizing incomes of producers of livestock products at reasonable levels.
4. Disposing of surpluses. This problem will be more and more influenced by questions of how, in the interest of national defense and free world stability, we can use our great agricultural productivity more effectively.
5. Avoiding continuous production of surpluses. The problem of the future will be how to shape and trim production to the levels needed by society—within the democratic framework of maximum freedom for decision making by farmers.

1. Farmers' Prices and Incomes

A central—and enormously important—fact of agricultural life is that the output of American farms is continuing to increase more rapidly than our markets are expanding. This is a long-range phenomenon, not one of just two or three years' duration. It is at the root of many of our price and income problems today. And it suggests most strongly that prices and incomes will continue as major policy problems in agriculture for many years ahead.

The economics of the basic problem here are relatively simple: A price below the equilibrium level, *ceteris paribus*, will discourage production; a price above the level, in the absence of effective controls, will produce a surplus which depresses prices and incomes. In purely economic terms, the problems involved are quite capable of academic solution. This is the core of what economists, as economists, have to offer. But the really tough part of these problems lies in the area of public policy—in achieving sufficient focus of public agreement on policies to be followed, and in the development of sufficiently acceptable means of putting them into effect. These are policy problems in the broadest sense of that term. They are problems of education, persuasion, compromise, organization, and power.

The economist, of course, must be aware of the importance of achieving such focus in the non-economic area, as prerequisite to decision and action by a free society. At the same time, he is justified in hoping that the public's decisions and actions will be in line with economic logic in the interest of *both* the farmer and the general public.

The imperative of this is nowhere more clearly demonstrated than in our current situation with respect to some of the so-called "basic" crops—crops that are storable and are produced substantially in excess of domestic requirements, under the impetus of price supports which encourage overproduction. In this case, economic logic has been ignored, excessive stocks have accumulated, and the federal agricultural budget has risen above what appears to be a political equilibrium level.

This reflects the difficulties of achieving workable agreement by the public on practical means of dealing with the problems before us. Agriculture itself is not united in such agreement, which means the agricultural point of view is blurred to the relative advantage of the nonagricultural point of view. It almost seems that unity in agriculture has to come from pain. If this is true, a case can be made that the present disunity in agriculture is evidence that not enough farmers are "hurting" enough on the price and income front to submerge their differences and make common cause of their problems.

2. Rural Poverty

As the American economy becomes ever more productive, abysmal and abject poverty will become increasingly a blemish to be eradicated from any sector of the economy in the name of "respectability" if for no other reason. Over the years we have done a lot of talking and too little acting about the problems of farm labor and our really poor farmers. Our most significant acting has generally come in areas of national policy not ordinarily thought of as "agricultural." It has come in the fields of federal and state aid to schools, roads, and nutrition, and in social security, as well as in labor legislation. More recently, the rural development program has provided a means for better focusing attention on the agricultural aspects of such problems, especially in the selected pilot counties.

But greater attention to these matters will still leave unsolved another most difficult problem—how to protect the small farmer who is not at the very bottom of the economic pyramid but is nevertheless in a difficult position because he operates a so-called "uneconomic unit," a farm too small to provide an acceptable income even when farm prices are at reasonable levels nationally. Should these farms be left unaided to adjust their size under competitive pressures? This is a really tough question that will continue to be raised as part of the general problem of protecting the family farm.

3. Growing Importance of Livestock Issues

The spotlight in agricultural policy can be expected to shift more to the feed grain-livestock complex and away from commodities with which we have historically been preoccupied—wheat, cotton, rice, and tobacco. This will happen for two reasons: (1) All but one of the really important issues concerning these four "basics," given more time, can and will be resolved by the usual processes of negotiation and economic necessity, and (2) the programs for wheat and cotton have contributed to the feed grain-livestock problem which will yield more slowly to treatment. By diverting wheat and cotton acreage to feed and forage crops, the wheat and cotton programs are creating a feeling of loneliness among free-competition livestock producers who are finding themselves increasingly isolated in a sea of economic stabilization.

Producers of tobacco, rice, cotton, and wheat now have a program that gives them 70 percent of parity or better on *all they can grow on substantial acreage allotments*. This program is intended to meet their needs for reasonable stability of prices and incomes. From the taxpayers' point of view, the practical problem is how to persuade these particular farmers to accept something that costs taxpayers less than at present, but without returning the farmers completely to the free world market. Somewhere between these two alternatives a compromise will be reached, and it cannot wait fifteen years. A myriad of possibilities are available for reaching a compromise, and I am convinced that some of these actions will be taken.

When this happens, the problems of most of the "basics" will be nearer solution than those for livestock and livestock products. In saying this, I am aware of another view that a bipartisan urban opposition is likely to throw the wheat and cotton operators on the mercy of the world market. This I doubt. I see little ground for supposing that the producers of these crops will ever be returned wholly to the so-called free world market. To believe this is to ignore the history of this type of system. Also, our foreign friends and allies, many of whom now have farm price stabilization programs of one kind or another of their own, would be the first to object. We now live in an age of intergovernmental negotiation of trade, not "free" trade.

Even if producers of wheat and cotton are unable to retain all the price advantage they have had in the past, the worst they have to fear would be some form of "disaster" supports; and they may be able to get something much better. But even this would represent "success" rather than "failure" as compared with no program at all. The most important unresolved issue left would be the tendency toward surplus production of feed grains.

We are now rapidly accumulating surplus inventories of feed grains. If we decide to produce wheat for feed and lower feed grain price supports to reduce government costs, and at the same time fail to adjust livestock production to needed levels or to dispose of surplus production on a large scale, feed will be cheaper and livestock products generally will be cheaper—especially at the farm.

The general level of livestock production and prices is affected by the supply and prices of feed grains. The problems of livestock producers is compounded by the cyclical nature of livestock production and prices. Though the technological and organizational revolution in agriculture is well advanced for the producers of field crops (true agriculture or "field" culture), the conversion of feed into livestock products has been rapidly taking on characteristics of assembly-line manufacturing. It has periodically put the broiler producers in a state of shock and crisis, and in some quarters it is feared that they will be relegated to something like piece-worker hired hands. Between the farm producer of feed grains and the farm producer of livestock and livestock products stands the feed mixing and manufacturing industry. Costs of feed to livestock producers who buy ready-mixed, branded feed are much more stable than to those who buy feed grains from farmers and mix their own. Smoothing out price and production cycles for livestock products is another problem in addition to that of maintaining the general level of livestock product prices. The latter problem is especially related to the supply and price of farm feed grains.

The supply and price of hogs is most closely related to the supply and price of feed grains because most corn is fed on the farms where it is grown. Farmers are now on the downside of the hog price cycle. Based on the past, this can be expected to happen at least twice more during the next fifteen years, and hog producers will not like it. On the same basis, cattle producers will read at least one more chapter in their economic lesson. An earlier one was read in 1952. Before the next fifteen years pass, they can expect to see the price "trough" of still another cycle.

The chronic complaints of producers of manufacturing milk stem partly from the competition of soybean, cotton, and corn oil, often grown on the same farms as those producing butterfat. This competition will continue. But milk producers have already stabilized their prices, partly through marketing orders and partly through price support for manufacturing milk. Even so, the number of farms keeping milk cows is continuing to shrink, and the average size of herds and production per cow is continuing to increase. As meat animal prices sag during the peaks of their production cycles, milk production will tend to expand at current price-support levels. Thus, the feed grain-livestock problems will continue to be the most difficult problems to solve and will attract relatively more public attention.

4. Expansion of Welfare and National Security Programs

Experience demonstrates that the disposal of surpluses seems to be a more acceptable alternative than tighter production controls. This is because a majority of us still hold Quesnay's original concept of use value instead of his other concept of exchange value. This is due to the fact that somewhere are people who *need* even if they cannot *demand* all that is being produced. We have, therefore, literally "backed" into certain public programs and policies which are gaining supporters for reasons of their own, quite unrelated to the problem of surplus disposal. Public authority is deciding that the improvement of nutrition among school children is a worthy public purpose regardless of whether farmers are producing a surplus of any one healthful food such as milk.

Similarly, national security as well as humanity demands that we use our great productivity as much as possible to help narrow the gap between the well-being of people in advanced economies and that of people in lesser developed nations. For this reason we are hearing more and more about "Food for Peace" and other such programs. In the absence of a hot war we shall hear still more about this question in the next fifteen years, and our words may even be more and more translated into deeds.

5. Better Balance Between Supply and Demand

But after allowing for the expansion in demand from these uses of food and other agricultural raw materials as well as for the expected expansion in domestic private demand, it seems probable that our burgeoning technology will still cause supplies to press against demand—at least periodically and for individual commodities.

Since the early twenties, the peacetime national farm problem has been that the American commercial farm plant has produced more than could be sold on the free market at prices considered fair by farmers. Ever since the passage of the Agricultural Marketing Act of 1929, this diagnosis has been at least tactily accepted by the public generally. The passage of that act marked a turn in national agricultural policy which I think is permanent. In making that turn, the federal government has veered away from a strict "laissez-faire" policy in agriculture in favor of a "reasonable" capitalism.

Throughout all the years of efforts to deal with surpluses the nation has been confronted with two principal alternatives or some combination thereof: (1) It could try to control supply so that a surplus would either not be produced or not be marketed, and (2) it could try to dispose of the surplus either by distribution in noncommercial channels or by creating a government demand for it and distributing it through commercial channels. At no time has the alternative of *evading* the whole problem by returning producers of "basics" completely to the free world market been available. Price supports have been lowered but not enough to prevent the accumulation of surpluses. We have moved by various measures to control output and to dispose of surpluses after they were produced, but as of today both types of action are falling short of what is needed at the legislated support-price levels.

No doubt support levels in the future will be changed in response to technological and other economic changes. Questions will still remain, however, regarding how to do a better job of both disposing of surpluses and of avoiding their recurrence. As John Brewster has already told you, widely held "value judgments" are in conflict with "controls," especially controls by government. These "value judgments" guide our lives, and in large measure they govern our agricultural programs. However, they do change over time. Apparently, in cases where controls are being used successfully, the critical test of their acceptability is whether they "work." This attitude might be expected to grow as the size of farm enterprises grows, the number of farms shrinks, and farmers become more "business-minded."

We have already had substantial experience with efforts to control supply through acreage allotments and marketing quotas. Almost always, however, these have been types of controls based on the assumption that the problem was temporary and would disappear once the "emergency" had passed. We have already had substantial experience with the migration of large numbers of farm people to the city, while total agricultural production increases faster than market outlets. Thus, the primary unsolved peacetime policy problem for the future remains: How can we balance farm supplies with demand at reasonable prices and absorb the prospective further great advances in agricultural technology? Thus far, we have shown little promise of doing so by reducing acres in cultivation or by attracting farm people to the cities. The people who remain on the land merely operate bigger and more productive farms without eliminating the continuing threat of overproduction, a threat Quesnay once thought to be a logical impossibility.

RELATED QUESTIONS

The technological causes of these changes are creating other related, if not major, agricultural policy questions. An expanding urban population is being dispersed to the countryside and suburban areas by the automobile and fine highways; and, together with the inflationary threat powered by defense expenditures and other causes, it is changing the farmer's position as landlord and as participant in local governmental affairs.

The landowning farmer has seen his real estate value per acre more than double since World War II. But in all suburban areas, a part of the price he is paying for this increase in his asset position is the stresses and strains of adjusting local tax, zoning, educational, and other governmental policies to the needs of nonfarm people who are increasingly outnumbering him.

IN RETROSPECT

If we view the long sweep of national agricultural policy during the nearly sixty years of the 20th century, we will see that it falls into three distinct periods of about twenty years each. Prior to 1920 it was concerned primarily with the improvement of agricultural technology through research and education. We viewed prospective demand as practically unlimited; hence, the agricultural problem was essentially one of improving the efficiency ratio on individual farms, measured as output per unit of input.

From 1920 to 1940 we were primarily concerned with prices, or the scarcity ratio of supply to demand measured in dollars. Whereas before 1920 we were preoccupied with improving producing power, in the twenties and thirties bargaining power was the primary object of our attention. Although we had already participated in one world war, we remained isolationist during most of the latter period, secure in the conviction that the greatest welfare of each individual and each nation was to be found in following self-interest in a freely competitive world.

The forties and fifties were decades of successive world-wide revolutions, and whether we liked it or not we have had to join the rest of the world and become international minded. No industry of the size and diversity of American agriculture can boast of increasing its productivity more than enough since 1940 to release one-third of its manpower to other occupations. This progress was made possible partly by the agricultural policies followed in the previous forty years. In no small degree it is the climax of the joint research and educational efforts of the Department of Agriculture and the land-grant colleges—a system still active and promising still greater future accomplishments.

Nor have many countries, if any, done more since 1940 to protect its farmers' incomes from the vicissitudes of the "free market" than the United States.

AGRICULTURAL POLICY EDUCATION

Caught between the upper and nether millstones of political neutrality and orthodox economic doctrine, the extension economist, as economist, has undertaken the difficult task of educating farmers on what they ought to do about agricultural policy.

In educational work in the field of natural science, public employees do not hesitate to tell a farmer what he ought to do individually or collectively, but in the field of agricultural policy (social science) they are under strong pressure to stop short of prescription and confine their efforts to presenting what is called "the probable consequences of alternative courses of action." This is one very significant application of the meaning of the term "institutional economics." More power to you in your difficult job.